

Stock Market Review

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Reassuring results from Farsons

Pre-tax profits up 28% on improved efficiencies and cost-cutting measures

The July 2009 interim results published by Simonds Farsons Cisk plc on September 30 reveal that while total group revenue declined by four per cent, pre-tax profits climbed 28 per cent to €2 million. The lower revenue figures in the first half of this year must be seen in the light of the strong tourism season in the comparative period last year and the high volumes of beer consumed during the many political activities leading up to the March 2008 general election. In fact these two factors had helped the Farsons Group record a 4.6 per cent growth in revenue in the first half of last year.

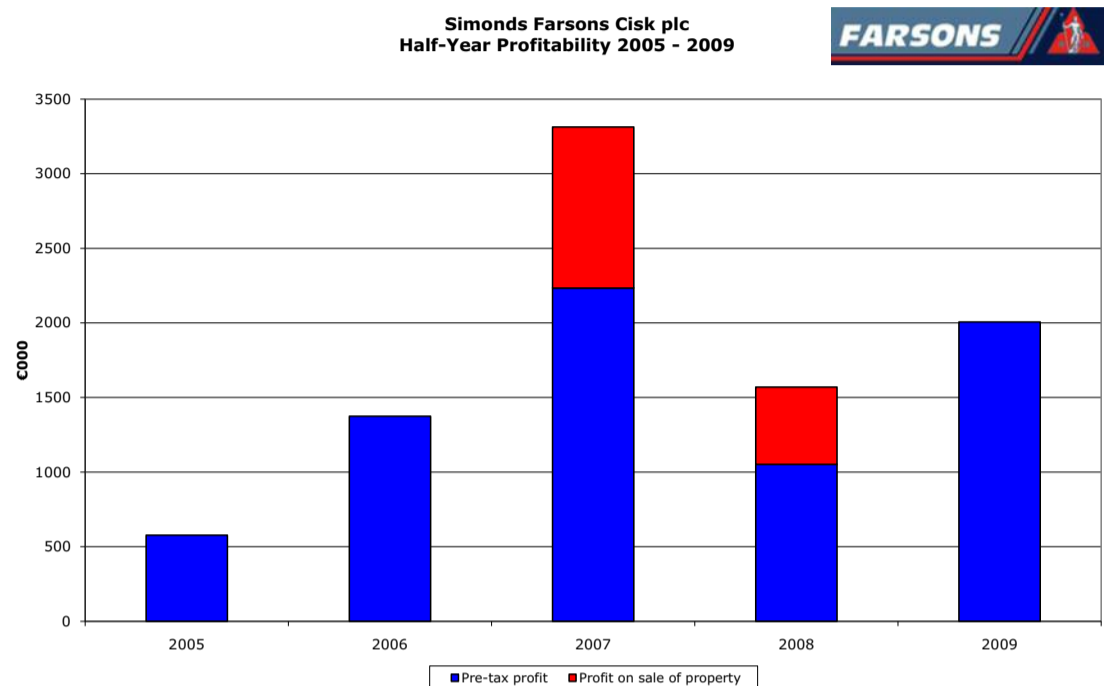
As such, these factors should be taken into consideration when comparing the 2009 half year results to those of 2008. Moreover the past six months were also characterised by a sharp downturn in tourism arrivals (-9.8 per cent) and a recessionary economic environment. The Farsons Group's total revenue amounted to €33.5 million for the six months ended July 31, 2009, just €0.2 million below the 2007 record figures.

The largest business segment of the Farsons Group, namely "brewing, production and sale of beer and beverages" experienced a €0.85 million decline in revenue as a result of the above-mentioned factors.

However, the operating profit from this segment climbed from €1.7 million last year to €2.5 million as a result of the improved efficiencies at the new soft drinks packaging hall and logistics centre, the lower expenditure incurred due to the reduced headcount as well as a decline in the cost of some of the raw materials used in beer production.

The Farsons Group had shed a number of employees through voluntary early retirement as well as through natural attrition and under the helm of CEO-designate Norman Aquilina, a thorough restructuring is currently being undertaken as Farsons seeks to continue to reduce overheads.

In the "food and beverage importation segment", revenue declined by almost €0.7 million but this was mostly due to the reduction of excise duty on spirits which is included in the selling price thereby boosting overall revenue in previous periods. In fact Group CEO Louis Farrugia



pointed out that volumes remained substantially unchanged while further growth was recorded from the food importation business of Quintano Foods.

With respect to the fast food outlets, total revenue at €4.34 million was marginally higher than the previous year but profitability fell sharply from €0.34 million to €0.18 million. In this area of activity, while all outlets were mainly impacted by the lower tourism numbers (especially in the student segment), in certain locations the impact was more pronounced such as at the Burger King restaurant in Paceville.

The past six months was also characterised by the opening of two new outlets at the food court of Malta International Airport. The Burger King outlet was opened last December followed by KFC last June. Mr Farrugia revealed that the results from both outlets are encouraging and these two new openings should help generate higher profit contributions during the second half of their financial year.

The sale of property is another factor which impacted the group's results in recent years. During the first half of this year no property was sold, whereas in the first six months of 2008, the contribution from sale of property amounted to €0.5 million.

Moreover, in the 2007 interim results, the record pre-tax profits of the Farsons Group were positively impacted by a profit of €1.0 million from sale of property.

Therefore, excluding this property contribution from the 2007 record, profits of €3.3 million reveals that the 2009 half-year pre-tax profits of €2 million are only €0.3 million lower than the 2007 figures.

The last Annual Report published last May reveals that the Farsons board of directors has been reviewing its plans for the construction of a new brewhouse at a cost exceeding €10 million.

The financing of this new project may also involve a wider refinancing of the Group's overall debt with the possible early redemption of the €9.3 million 6.6 per cent bond in November 2010 coupled with a fresh bond being issued carrying a longer redemption date.

The construction of the new brewhouse in the coming years will impinge on the timescales for the overall property restructuring exercise that is to be undertaken by the Farsons Group.

The operations of the Quintano business will shortly be transferred to the ex-Wands site for the coming years rather than releasing this property for development or resale.

Therefore, the focus in the coming years will instead be shifted towards the substantial parcel of land at the frontage of the Mriehel property.

This will be vacated in about three years time once the new brewhouse is constructed. The Farsons directors are currently seeking advice how to make best use and maximise the value of this prestigious tract of land. In the 2008 Annual Report, the directors had indicated that the ultimate objective is for the property arm of the group, Trident Developments Ltd, to be hived off from the Farsons Group and obtain a separate listing on the Malta Stock Exchange. While this may not materialise for some years, shareholders should not overlook the fact that the current share price of Farsons is at a 39 per cent discount to the July 31, 2009 net asset value per share of €2.77.

Meanwhile, from the latest set of financial results, shareholders ought to be pleased with the immediate return to more meaningful profitability levels despite the challenging economic environment.

The initial teething problems of the new soft drinks packaging hall and logistics centre seem to have been overcome quickly as had been promised by Farsons' outgoing CEO Louis Farrugia during the recent Annual General Meeting.

“Shareholders ought to be pleased with the immediate return to more meaningful profitability levels despite the challenging economic environment.”

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