

Stock Market Review



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MIA registers record profitability

The 12.8 per cent increase in passenger numbers passing through the airport terminal during 2010 boosted the financial performance of Malta International Airport plc. The airport operator recently announced a 20 per cent increase in pre-tax profits to €17 million – the highest profitability level ever registered by MIA.

As had been announced earlier on this year when MIA provided a deep insight into the passenger and airline movements in 2010, the two major low-cost carriers Ryanair and Easyjet contributed the lion's share of the increase in passenger volumes. The market share of low-cost carriers (LCCs) climbed to 32 per cent of total passenger traffic in 2010 following the 58 per cent growth registered during the 12-month period.

Meanwhile, the market share of 'legacy carriers' such as Air Malta, Lufthansa, Emirates and Alitalia dropped to 62.1 per cent. However, overall volumes registered by these legacy carriers remained in excess of two million passengers. Air Malta remains the largest client of MIA (51 per cent market share) and it is interesting to note that despite the strong increase in traffic via LCCs, the total number of passengers by Air Malta grew by 2.6 per cent during 2010.

Easyjet recorded the strongest rate of growth in 2010 following the introduction of popular routes to Milan, Rome and Liverpool. This low-cost carrier registered a 66 per cent increase in passenger movements to a total of 303,000 passengers during 2010 representing a market share of 9.2 per cent (the third largest airline operating to Malta). Meanwhile, passenger movements on Ryanair grew by 52 per cent to 676,000 passengers helping the carrier's market share to grow to 20.5 per cent.

The addition of six new routes to Malta as from May was the major driver for the performance of this carrier in 2010. At the time of the launch of the airline's base in Malta, Ryanair had indicated the potential to register 800,000 passenger movements in 2011. This was re-iterated at last week's press conference by Ryanair and if achieved, would represent a further growth of 18.3 per cent during the current year. Ryanair's deputy CEO also reported that he held a meeting with the Malta Tourism Authority to discuss the possibility of basing a second aircraft in Malta and to operate a further 17 routes over and above the 21 routes presently being serviced.

Apart from the direct contribution to MIA's profitability from the increased passenger numbers, other areas of revenue such as the income from the retail outlets as well as the car parking fees also grew. Income from the various retail outlets rose by 9.3 per cent to €6.5 million with

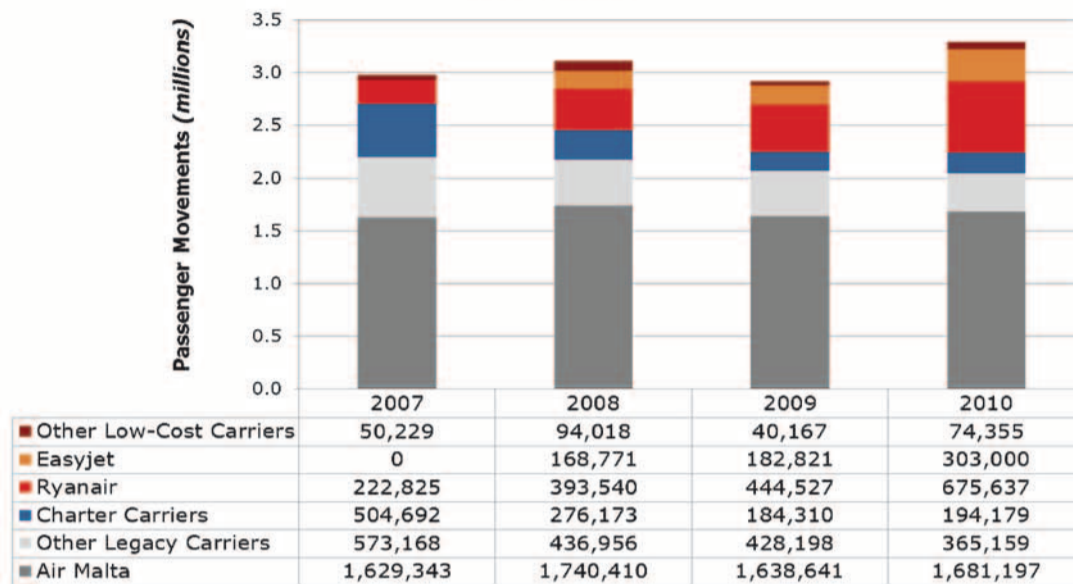
car parking fees growing by 17.6 per cent to €1.4 million. Total revenue generated by MIA increased by 10.5 per cent to €51.3 million.

Revenue from the retail and property segment of €12.5 million accounted for 24 per cent of total income. The recent investments made in certain areas of the terminal building contributed to the growth in this sector. One of the major initiatives was the significantly enhanced retail area following the extension of the air terminal. Moreover, MIA had taken over the running of the car park and also constructed a new parking area for their employees thereby freeing up space in the public car park. This was one of the reasons for the 17.6 per cent increase in revenue from this activity.

Contributions from the retail and property segments are expected to be enhanced by the rental income arising from the Sky Parks Business Centre which is expected to be completed by the fourth quarter of this year. This should help the company to reach the target set by MIA's CEO some years ago to achieve an overall revenue contribution of 30 per cent from the retail and property sectors. Vodafone Malta Ltd is the anchor tenant after reaching an agreement to take up 30 per cent of the area available.

MIA is seeking to tap into the demand for office space mainly from a number of international companies relocating to Malta. During a recent meeting with the financial community, MIA's CEO Julian Jaeger acknowledged that there is a shortage of large office space in Malta and MIA is seeking to benefit from this current demand. Mr Jaeger anticipates that the company can achieve an occupancy rate of between 50 per cent and 70 per cent by the time of the official launch in the coming months as discussions with potential tenants are ongoing.

Passenger movements by carrier 2007 - 2010



MIA reviewed certain areas of its operations for cost containment and managed to decrease costs related to repairs and maintenance and cleaning and insurance. However, the airport operator was hit by the higher utility charges. As had been indicated by MIA's CEO in previous meetings with the financial community, water and electricity costs surged by €1.1 million (+60 per cent) to €2.9 million. Moreover, MIA also recognised costs of €0.7 million related to an early retirement scheme during which 12 employees opted for the scheme. MIA explained that the company will benefit from this initiative through lower wages and salaries in the coming years.

With 2010 being an absolute record year for the tourism industry, MIA still believes that it can retain these levels of passenger volumes also in 2011. MIA's CEO expects the company to continue reporting strong growth in passenger numbers during the first five months of this year, in part aided by the recent boost to traffic as a result of the Libyan evacuation exercise. In fact, during the first two months of 2011, MIA reported a 16.9 per cent growth in passengers. These included a total of 5,500 resulting from the Libyan crisis.

Moreover, TUI Cruises will commence a Cruise and Fly operation from May, while four new routes will be operated by Easyjet, Lufthansa and Air Berlin. The airline capacity during the summer period is expected to remain at the high levels available last year but MIA's CEO presently remains cautious on growth during the coming summer months following the very high levels achieved in July and August 2010 which may be difficult to sustain. In view of the high volumes during the summer months which normally account for 25 per cent of the total yearly passenger

traffic, MIA's CEO feels that the company ought to revisit the current 2011 forecast in July when the traffic flow for the summer months becomes clearer.

By then, the plans for the restructuring of Air Malta plc may also be more widely available providing further details on the capacity of the home carrier during the rest of 2011 and beyond. When questioned on the potential risk of Air Malta discontinuing some of the present routes being served, Mr Jaeger expressed his confidence that any routes becoming vacant are likely to be filled by other airlines within a reasonable timeframe.

MIA continues in its efforts to increase airline capacity to Malta especially from those areas which are presently underserved and offer scope for growth.

Mr Jaeger believes that more potential is available from the German market which has underperformed in recent years. Moreover the CEO views the Scandinavian, Russian and Eastern European countries as offering scope for additional traffic in the coming years.

Shareholders of MIA ought to be pleased with the various initiatives undertaken by the company over the past few years.

The air terminal extension, increased airline capacity and other strategic initiatives helped the company to report record profitability levels in 2010. This enabled the Directors to recommend an 11 per cent increase in dividends for the year. The positive investor sentiment towards MIA over the past 15 months has helped the company's shares to rank among the best performers during 2010 and despite the strong upturn in the share price since early 2009, the full-year gross dividend of 5.71 per cent per annum places MIA's equity in fourth position in the local dividend league table.

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