Stock Market Review

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The 2011 dividend league table

Almost one year ago to the day, on April 29, 2010, my weekly column entitled "The importance of dividends" provided a dividend league table of the 19 companies listed on the Malta Stock Exchange. With the 2010 full-year reporting season now almost complete following last week's announcement by Simonds Farsons Cisk plc, an updated dividend league table provides some important findings of the developments that occurred in recent months.

The league table indicates the dividend yield on a net basis (after tax) in order to make a proper comparison with those companies which distribute tax-exempt dividends such as Simonds Farsons Cisk plc and RS2 Software plc.

In the April 2010 league table, six of the 19 listed companies failed to pay a dividend for FY2009. These six companies (namely International Hotel Investments plc, Middlesea Insurance plc, GlobalCapital plc, Crimsonwing plc, 6pm Holdings plc and Loqus Holdings plc) in fact did not declare a dividend also for FY2010. However, the number of companies not paying a dividend for FY2010 increased to nine as Island Hotels Group Holdings plc, Grand Harbour Marina plc and Medserv plc skipped their dividend.

Midi plc has only recently been added to the companies listed on the Malta Stock Exchange and while the company is included among those not distributing a dividend, the prospectus published by Midi plc at the time of last year's IPO clearly stated that the company will be adopting a policy to ensure the payment of consistent and regular dividends during the coming years. Midi plc is due to publish its 2010 financial statements following a board meeting being held today and shareholders will be eagerly awaiting an update on the timing of the commencement of dividends to shareholders.

In summary, from 20 companies listed on the Malta Stock Exchange, half provide a dividend to shareholders while the other 10 companies failed to announce a dividend payment in respect of their last financial year. It is interesting to note that while three companies skipped their dividend, six of the companies improved their dividend distribution to shareholders. Meanwhile, two companies maintained their dividend (HSBC Bank Malta plc and Maltapost plc) and another two companies declared lower dividends (Go plc and Plaza Centres plc).

In last year's article I had explained that apart from identifying companies that are paying high dividends, investors should endeavour to select those companies that can maintain or even grow their dividend distributions in future years.

	Equity	Net Dividend Yield
1)	RS2 Software plc	6.17%
2)	Plaza Centres plc	4.42%
3)	Bank of Valletta plc	4.40%
4)	Malta International Airport plc	3.82%
5)	Simonds Farsons Cisk plc	3.70%
6)	MaltaPost plc	3.70%
7)	GO plc	3.57%
8)	HSBC Bank Malta plc	3.47%
9)	FIMBank plc	2.82%
10)	Lombard Bank Malta plc	2.53%
11)	Grand Harbour Marina plc	0.00%
12)	Medserv plc	0.00%
13)	Island Hotels Group Holdings plc	0.00%
14)	Loqus Holdings plc	0.00%
15)	MIDI plc	0.00%
16)	Middlesea Insurance plc	0.00%
17)	Crimsonwing plc	0.00%
18)	6pm Holdings plc	0.00%
19)	International Hotel Investments plc	0.00%
20)	GlobalCapital plc	0.00%

Data as at 25 April 2011

The sustainability of the dividend is a characteristic which at times may be overlooked by investors. The market movements this year indicate the importance of identifying such companies since it can have a material effect on the performance of an equity.

Perhaps the two most positive and unexpected developments were the recent financial results announcements and high dividend declarations by RS2 Software plc and Simonds Farsons Cisk plc which have helped both companies move up the rankings of the dividend league table.

RS2 is a very good example of a company which not only managed to sustain its dividend but also to increase it despite some scepticism in the market about this company's ability to do so. This was evidenced by the sharp fall in the share price in the months preceding their results announcement and its subsequent recovery following the recent announcement. Since RS2 generates a substantial amount of retainer income and the company's profitability was also boosted by tax credits, it surprised the market by declaring a 45.5 per cent increase on last year's dividend.

The company gave a clear indication of the sustainability of such a dividend by stating that as at December 31, 2010 it had a further outstanding level of €2.69 million in tax credits. Moreover, the company's directors indicated that they aim to maintain and improve on the dividend distribution in future years. Despite the sharp upturn in the share price of RS2 following the recent announcement, this equity still tops the league table with a net yield of 6.2 per cent per annum based on the recent share price of €0.519.

Also, last week Simonds Farsons Cisk plc published its results for the 12 months ended January 31, 2011. Profits of the Farsons Group grew by 36 per cent to €3.7 million and this enabled the directors to recommend the payment of a final net dividend of €0.053 per share which brings the total dividend for the year to €0.0667. This is the highest dividend ever distributed by Farsons and represents an increase of 11 per cent from last year's record payment. This increased dividend by Farsons enabled the equity to gain three positions in the table and currently ranks as the fifth highest together with Maltapost plc.

The share price of the postal operator dropped a couple of positions on the league table. However, it is important to highlight that this was not due to a lower dividend payment but solely due to the strong share price upturn. Maltapost's equity ranked as the top performer in 2010 (+42 per cent) and also ranks as the most positive mover this year with a further gain of 8.9 per cent. Maltapost has recently undergone a rebranding exercise and in a wide ranging newspaper interview by the company's CEO last week, it is evident that the postal operator is seeking to improve awareness of its service offerings through increased marketing as it aims to unveil a variety of innovative solutions to support its customers mail and e-commerce activities.

One such service involves providing local internet users with the ability of purchasing goods from overseas companies which do not allow direct delivery to Malta. Maltapost is reported to be currently in negotiations with solutions providers to enable online shopping facilities from companies by providing such shipment facilities. These new services should also be complemented by the long-awaited introduction of financial services through its retail branch network together with the company's majority shareholder Lombard Bank Malta plc. Unfortunately, the postal operator has so far remained very tightlipped with the financial community on the new services it intends to roll out. Hopefully, further details will be provided in the upcoming company announcements by Maltapost commencing with the publication of the interim results due in the coming weeks.

While RS2 and Farsons may have surprised the market positively, the biggest disappointment was surely the announcement by Go plc. The telecoms provider announced a 50 per cent reduction in its dividend to shareholders. The net yield from Go's equity dropped from 4.62 per cent last year to 3.50 per cent despite the severe downturn in the share price in recent weeks (a lower price leads to a higher yield and vice versa).

Incidentally, the share price of Go dropped back to its all-time low of €1.40 last Monday 25 April 2011 – it had previously traded at this level in March 2009. Go's equity dropped by over 27 per cent in the past four months and is a clear reaction by the market to the lower dividend. While Go's cash flow generation seems to indicate that a high dividend is easily sustainable, the Group's management team indicated that the lower distribution is due to the upcoming local investment requirements and Go's intention to seek majority control of the Greek company Forthnet.

The importance of dividend distributions to shareholders was also very evident in the recent announcements by Middlesea Insurance plc. The insurance company was unable to distribute a dividend in respect of the 2010 financial year despite registering a profit of €6.4 million. However, with a view to place the company in a position to re-instate the payment of a dividend in the future, Middlesea is asking its shareholders to approve a resolution at the upcoming annual general meeting to enable them to offset the accumulated losses as at December 31, 2010 amounting to €37.4 million against the share capital and share premium of the company through a reduction in the nominal value from €0.60 to €0.21 per share.

With official interest rates in the eurozone area now starting to rise from the historically low levels of the past two years, investors should consider reviewing their investment portfolios to determine whether they have an over-exposure to bonds and a low allocation to equities. Historically, over the longer-term, equities have outperformed bonds and in a rising interest rate environment, a greater allocation towards those companies providing sustainable and growing dividends could go a long way in achieving a superior investment performance.

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