Stock Market Review

Equity volumes tumble in Q2

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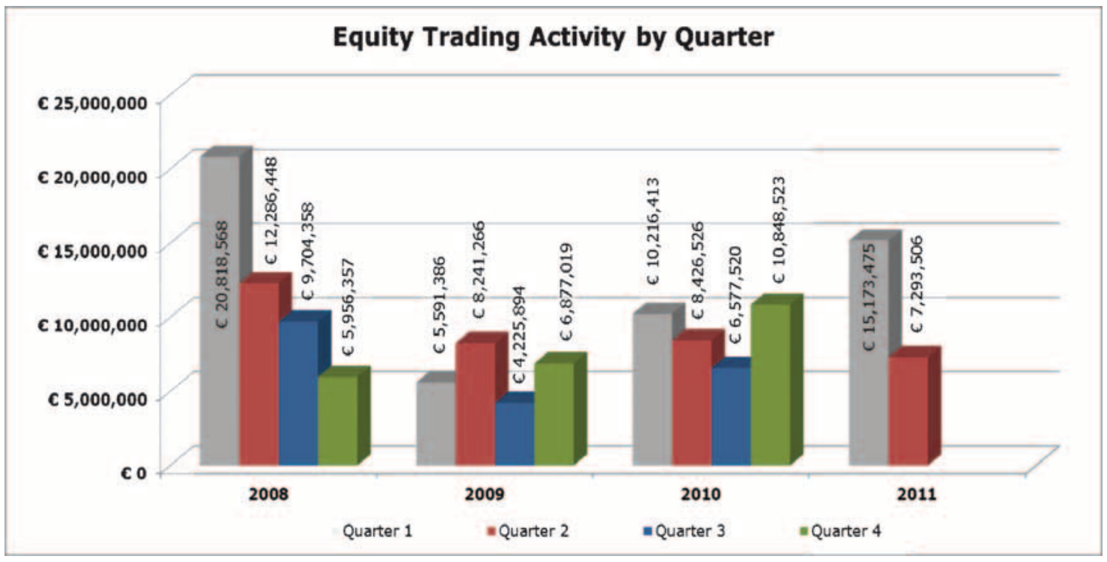
During the second quarter of the year which came to an end on June 30, the local equity market continued to be characterised by declining volumes. Trading activity across all listed equities on the Malta Stock Exchange averaged just over €2 million in each of the past three months. The overall total value of deals on the equity market during the second quarter of 2011 amounted to €7.3 million representing a decline of 52 per cent over the previous quarter and 13.4 per cent below the trading activity in the second quarter of 2010.



Factors negatively affecting investor sentiment included the ongoing Libya crisis and the unfolding saga of the La Valette Multi Manager Property Fund. The offer made by Bank of Valletta plc on May 26 to all shareholders in this fund is estimated to cost the bank a maximum of €14.5 million prior to any recoveries from third parties. On June 30 BoV announced that it received acceptances totalling 95.2 per cent of the shares in issue of the La Valette Multi Manager Property Fund.

Meanwhile, the eurozone sovereign debt crisis took centre stage across the international equity markets. Global equities declined steadily in June wiping out most of the gains registered in the previous five months. However, the larger developed markets across the world staged a relief rally in the final week of June (with gains in excess of four per cent) after the Greek Parliament voted in favour of the austerity measures on June 29. Although the outcome of this vote was widely expected, it was met with enthusiasm in the market enabling Greece to receive further funding from the EU and the IMF and thus avoiding a default on its sovereign debt. The Maltese equity market failed to participate in last week's international rally. This continuing underperformance of local shares compared to the indices of the larger countries again shows the lack of responsiveness of the local Borza to macroeconomic conditions and is very likely the result of investors' concern at the lack of progress on the introduction of measures to help increase trading volumes in the market.

During the second quarter of 2011, the MSE Share Index lost a further 3.9 per cent bringing the decline since the start of the year to 12 per cent. On the other hand, the indices of the larger stockmarkets are still positive year-to-date despite the sharp setback experienced during most of June. The Dow Jones Index in the US edged 0.8 per cent higher during the past three months (+7.2 per cent year-to-date) helped by the rally during the final week of June. Likewise, the UK's FTSE 100 rose by 0.6 per cent during Q2 while Germany's DAX climbed 4.8 per cent during the past quarter with the gain over the past six months now at 6.7 per cent.

The only positive performers on the MSE during the last three months were RS2 Software plc and Middlesea Insurance plc. RS2's equity had been one of the worst performers during the first quarter of the year. However, the share price staged a swift recovery in Q2 as the company announced a sharp increase in profits to €2.9 million and dividends to shareholders rose by 45.5 per cent to €1.2 million. Despite the 51 per cent rally in RS2's share price over the past three months, this equity still has the lowest price to earnings multiple and the highest dividend yield.

Middlesea's share price also reacted to an important corporate action initially announced on April 29 when Mapfre Internacional stated that it agreed to acquire the 19.9 per cent shareholding in Middlesea currently in the hands of the German insurance giant Munich Re (without mentioning the price at which the deal was agreed). In terms of the Listing Rules, as Mapfre exceeds the 50 per cent threshold, it is obliged to launch a mandatory offer to all remaining shareholders of Middlesea. The share price which had touched a low of €0.80 this year climbed by 25 per cent to surpass the €1 level following the announcement. Approval from the MFSA to this trade was only granted on June 20, however the price at which the shares were sold has not yet been communicated to the market by way of an announcement to maintain a fair market.

Another corporate action during the past three months was the rights issue undertaken by 6pm Holdings plc. The IT company 6pm conducted an issue of 10,788,000 new ordinary shares at the price of £0.25 per share (shareholders were entitled to subscribe to 1.4384 new shares for every share held). The three founders (Ivan Bartolo, Alan West-Robinson and Stephen Wightman) did not fully take up their rights entitlement and their ownership in the company was diluted accordingly. On the other hand, Vassallo Builders Group Ltd acquired substantial shares from the unsubscribed rights issue and became the largest shareholder of 6pm together with Ivan Bartolo with stakes of 18.59 per cent each.

Subsequent to the rights issue, the acquisition of Compunet was completed and shortly afterwards 6pm announced that it subscribed to 25 per cent of a new company called emCare360 Limited. The other shareholder in emCare360 is Care Malta Group Limited which forms part of the Vassallo Builders Group.

The bond market also suffered from a low level of activity during recent months. On the primary market, apart from the Malta Government, the only issue was a €5 million placing by Mediterranean Bank plc available through two financial intermediaries. However, Bank of Valletta plc did announce that it obtained approval for a €125 million Medium Term Note programme which will be offered in stages during a 12-month period. It is now almost 10 months without a non-financial corporate bond issue coming on offer in the primary market.

The publication of Listing Policies on August 16 2010 requiring corporate issuers (other than financial institutions) to additionally have a financial soundness report prepared by a third party and to adhere to more stringent regulations on the setting up and the functioning of a sinking fund, contributed to the halt in new corporate bond issues coming to the market. This situation has deprived corporate issuers of an alternative source of funding which has helped many businesses achieve their investment and expansion objectives in recent years, whilst providing the general public with much needed fixed interest investment opportunities.

On the secondary market the main highlight was a sharp recovery in the bond prices of Corinthia Finance plc and International Hotel Investments plc as the Corinthia parent company and IHI both detailed plans to dispose of non-core assets. On the other hand, the prices of the bonds issued by Mediterranean Investments Holding plc remained well below par due to the ongoing dispute in Libya, although they have come off their lows.

Yields on sovereign paper were volatile in line with the developments across the eurozone as well as the news from the European Central Bank on the future direction of interest rates. The ECB was the only major central bank to begin its tightening policy measures following the sharp drop in interest rates in response to the most severe economic and financial crisis since the 1930s. In fact, on April 7, the ECB announced a 25 basis point increase to 1.25 per cent and there are clear indications of a further 25 bp hike at their July meeting being held today. The overall performance of Malta Government Stock prices as measured by the Rizzo Farrugia MGS Index was flat over the past three months. The Index is however 1.9 per cent below its value at the start of the year.

Although the summer months are normally characterised by low trading and new issuance activity, this year may be different. In the coming weeks, the Treasury is expected to announce a fresh Malta Government Stock issue and BoV may decide to offer a first tranche from its Medium Term Note programme. More importantly for equity investors is the interim reporting season, which will commence in the coming weeks and will come to an end on August 30. This will provide important information to the market on the financial performance of most of the companies listed on the MSE.

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