

## Stock Market Review



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# Will Middlesea cease to be a publicly traded company?

**I**n the coming days, all 4,677 shareholders of Middlesea Insurance plc will be receiving an Offer Document from Mapfre Internacional SA accompanied by an Acceptance Form.

The communication to all MSI shareholders results from a further milestone in the company's history as the Spanish insurance giant Mapfre acquired a majority shareholding in Malta's longest established insurance company.

An initial announcement had been made on April 29 notifying the market that an agreement had been reached between two of Middlesea's largest shareholders, i.e. Mapfre and Munich Re, wherein Mapfre had agreed to acquire Munich Re's 19.9 per cent shareholding in Middlesea (at an undisclosed price) subject to the necessary approvals from the regulatory authorities. Mapfre had already held an equity stake of 31.08 per cent in Middlesea and the agreed transaction would place Mapfre as the majority shareholder with 50.98 per cent bringing into play a number of obligations imposed by the Listing Rules of the Malta Financial Services Authority.

In fact, Chapter 11 of the Listing Rules states that upon the acquisition of a controlling interest in a listed company, the acquirer is required to make a Mandatory Bid for the remaining shares in the company whereby all other shareholders are entitled (but not obliged) to sell their shareholding to the acquirer at an established bid price calculated in accordance with the Listing Rules.

Middlesea's share price which was at €0.85 per share at the time of the April 29 announcement, climbed above the €1.00 level within two weeks of the announcement presumably as the market speculated on the price of the transaction and the ultimate long-term benefits of a large international insurance company holding majority control of Middlesea.

However, when a second announcement was made on June 20, informing the market that the MFSA had approved the transaction, the agreed price at which the shares were changing hands was again not made public. It was not until the transaction was completed five weeks later on 29 July that the Malta Stock Exchange trading platform mechanism published the actual trade price of €0.63 per share for the sale of Munich Re's 19.9 per cent shareholding in Middlesea to Mapfre.

Yet again, in the official announcement posted by Middle-



## Middlesea Insurance p.l.c.

sea through the Malta Stock Exchange, the price of the transaction was not disclosed. Oddly, the actual trade price is also omitted from the Mandatory Offer Document published by Mapfre as well as from the statement of the board of directors of Middlesea published on August 21 and the report prepared by Charts Investment Management Service Ltd as the expert appointed by Middlesea's board to evaluate the bid price made to all shareholders.

One would have expected the agreed price of such a material transaction to have been formally communicated to the market as well as to all shareholders in a more transparent manner for the benefit of all investors in terms of Listing Rule 5.16 to "maintain a fair market".

As a result, the actual trade price of €0.63 per share and the mandatory bid price of €0.965 per share have taken shareholders by surprise. A number of shareholders are questioning why Munich Re would sell their shares to Mapfre at €0.63 and Mapfre is offering all shareholders in Middlesea a much higher price of €0.965.

Shareholders will probably never get to know the reasons why Munich Re disposed of their shares at close to net asset value. On the other hand, the reason why the mandatory bid price was set at €0.965 per share is because it has to be established according to a formula in Chapter 11 of the Listing Rules.

This is better explained in Section 4 (page 12) of Mapfre's offer document, which indicates that among other parameters, the mandatory bid must take place at a price which is the highest of (i) the six month trade-weighted average price and (ii) the price paid by acquirer when exceeding the 50 per cent threshold.

Interestingly, Mapfre states at the beginning of the offer document that "The Offeror (itself) wishes to point out that the present Offer is a mandatory bid pursuant to Chapter 11 of the Listing Rules. It is not taking place voluntarily. Rather, the Offeror is, under the Rules, subject to a legal obligation to make this

offer as a result of having increased its stake in Middlesea to 50.98 per cent of the ordinary shares and voting rights in Middlesea on the July 29, 2011".

The eventual result of this mandatory bid obligation may add further pressure on the regulators to insist with Middlesea that they de-list their shares from the Official List of the Malta Stock Exchange rendering the shares even more illiquid. In fact, in the offer document it is clearly explained that although Mapfre and BoV, as the 'institutional shareholders' in Middlesea, intend to maintain the listing of Middlesea shares on the Malta Stock Exchange, in the event that a substantial number of shareholders accept the offer, the shares may have to be de-listed to conform with the listing requirements.

It is worth recalling that even before this development, the percentage of Middlesea shares held in public hands is below the minimum required threshold of 25 per cent and reducing it further may be unacceptable to the regulators.

De-listing of the Middlesea shares would constitute a further blow to shareholders not willing to accept the offer. As is the norm, some shareholders will not respond to the offer and such shareholders may find themselves holding shares in an unlisted equity without a future exit route and more onerous tax obligations.

Chapter 11 of the Listing Rules also allows an Offeror to 'squeeze out' the remaining shareholders if its shareholding exceeds the 90 per cent level. However, such an eventuality in this case is not possible since Bank of Valletta plc (holding 31.08 per cent) have publicly stated that they will be refusing the offer and as such Mapfre's shareholding cannot exceed the 90 per cent threshold.

This latest corporate action comes shortly after the most turbulent period for Middlesea since the company's formation way back in 1981. The serious difficulties faced by the company in Italy culminated in the €40 million rights issue in Novem-

ber 2009 for the purpose of injecting €26 million into the Italian subsidiary Progress Assicurazioni S.p.A and replenishing the share capital of both Middlesea Insurance plc and MSV Life plc by €10 million and €3.7 million respectively.

Although the rights issue was successful, the €26 million that went towards the Italian company was wiped out in a matter of weeks as the Italian company was declared bankrupt on February 11, 2010.

Shareholders frequently question the lack of a recovery in Middlesea's share price which had slumped in recent years after it had touched a high of €6.289 in May 2006. The sharp downturn in the share price reflects the actual loss of shareholder value resulting from the huge losses incurred in Italy. In fact, total shareholder funds dropped from €78.6 million to €55.3 million despite the additional capital injection of €40 million in November 2009 through the rights issue. This represents a loss of value of €63.3 million over the past few years. With 92 million shares in issue and net assets of €55.3 million, the net asset value per share works out at €0.601.

Charts Investment Management Service Ltd as the expert appointed by Middlesea's Board to evaluate the bid price made to all shareholders by Mapfre conclude their report by stating that the "offer price of €0.965 being offered by Mapfre to the Company's shareholders does not reflect the full underlying value of the company".

It would be helpful to all shareholders should further information be made known in this respect. On what basis is this statement being made? What is the full underlying value of the MSI Group?

In such circumstances, a detailed valuation report of the MSI Group explaining the full underlying value (including the future benefits to be derived from its 50 per cent stake in MSV Life plc) should be made available through Middlesea to guide their shareholders when deliberating whether they should accept Mapfre's offer or otherwise.

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