Stock Market Review

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Go's losses widen on Greek impairment

The August 31 publication of Go's half-year financial statements to June 30 attracted limited media coverage despite the deteriorating loss situation experienced by the telecoms operator, resulting from its ill-timed investment in Greece.

The company did not issue its customary press release to the media and so far also refrained from organising a meeting for the financial community. This is normally done soon after the publication of the twice yearly financial information. However, the company held a press conference a few days after the publication of the financial statements unveiling a new large investment in its mobile network. At this event, no reference was made to Go's overall financial performance and the worrying developments in Greece.

Go shareholders are understandably very concerned on the situation in Greece and the resultant effect on Forthnet and this is reflected in the share prices of both Go and Forthnet which are languishing around their all-time lows of €1.20 and €0.29 respectively.

The lack of communication with the financial community by Go is of concern given the impairment related to its investment in Greece and the strong warning made by the company's auditors PricewaterhouseCoopers on the possible inability of Forthnet to continue operating due to the large amount of bank borrowings that are up for repayment.

Forthnet reported that its overall EBITDA generation (earnings before interest, tax, depreciation and amortisation) improved by 15 per cent to €40 million but due to the current economic environment in Greece and the weaker-than-expected performance from its TV unit, an impairment of goodwill amounting to €38.2 million was recognised. This led to a total loss of almost €60 million at Forthnet during the first half of 2011.

Of major concern are notes 2 and 8 of the Go plc half-year report explaining the investment in Greece and the debt renegotiation process undertaken by Forthnet with its bankers due to the sizeable amount of debts that are due for repayment during the current financial year. In fact, the notes reveal that Forthnet's current liabilities exceed its current assets by €364.4 million and the failure as yet to agree renewed terms with the banks "indicate the existence of a material uncertainty that may cast significant doubt on the entity's [Forthnet] ability to continue as a going concern".

Go plc's interim financial report also makes reference to the fact that Go originally invested a total of €119.7 million in Forthnet (via Forgendo) and the current value of this investment has since shrunk to €41.1 million, equivalent to a loss of €78.6 million in shareholder value. This fact alone may explain the collapse of Go's share price which is 42 per cent below the 1998 IPO price of €2.10 (then equivalent to Lm0.90).

In international markets, large institutional as well as individual and corporate shareholders are very pro-active raising concerns and making representations to directors as well as top management. A case in point is that of Research In Motion Ltd (the manufacturer of Blackberry smart phones). A merchant bank which owns less than five per cent of the company placed huge pressure on the directors to consider selling the struggling BlackBerry business or spinning off its patent portfolio. Another case earlier on this year involved oil giant BP plc with shareholders pressuring the company to consider splitting it up in order to improve shareholder value.

The lack of communication between Go and the market was also evident when Go recently acquired full control of the data operations subsidiary Bell Med. On July 5, Go simply issued a three line company announcement informing the market that it acquired the remaining 40 per cent of the Bell Med Group (incorporating three companies, namely BM IT Limited, BM Support Services Ltd and Bellnet Ltd) for €8 million.

In overseas markets, when companies undertake acquisitions of a material nature (and the acquisition by Go should have been considered material in the circumstances), meetings are organised by such companies to explain the reasons for the acquisition and to provide data on the recent financial performance of the company being acquired or targeted. In this respect, it may interest readers to know that Go initially purchased a 60 per cent shareholding in the Bell Med Group for €9.5 million on April 24, 2009. From the financial statements published by Go since the acquisition of this majority stake, a rough estimate of the financial performance of the Bell Med group of companies can be calculated. This is possible due to the consolidation of Bell Med's financial statements with those of Go.

The 2010 financial statements of Go reveal an adjustment of €987,000 with reference to the profits of the minority shareholding not held by Go at the time. This implies that the Bell Med Group generated a profit of circa €2.5 million during 2010. Consequently, the total investment of Go amounting to €17.5 million for the 100 per cent shareholding of the Bell Med Group was made at a price to earnings multiple of circa seven times, which could be considered as attractive. Why was this not explained to shareholders and the market at large?

Go should have also provided the market with an overview of the synergies that may be expected from this acquisition and the strategy that will be adopted as well as the business risks going forward. Such information would have helped those market followers wishing to take a view on whether the price paid by Go of seven times 2010 earnings is indeed an attractive entry point for the company and its shareholders.

According to the 2011 interim financial statements of Go, the performance of Bell Med improved in the first half of the year, with profits rising by a further 18 per cent. This is very encouraging and should have also been communicated to the market.

It is heartening to note that once again, Go registered a 12.9 per cent increase in normalised EBITDA from their local operations to €26.1 million during the first half of 2011 despite the lower income from the mobile unit due to the intensified competition and its negative effect on average user rates. On the other hand, Go registered increased revenue from its broadband, data and TV services while costs savings were made on payroll and other discretionary items. Go also reported that it continued to reduce its headcount and as at June 30, the total number of employees dropped below 1,000. This is good news.

However, Go shareholders are understandably very concerned on the situation in Greece and the resultant effect on Forthnet and this is reflected in the share prices of both Go and Forthnet which are languishing around their all-time lows of €1.20 and €0.29 respectively.

As such, shareholders, members of the financial community and the market expect further guidance from the company on what seems to be an alarming situation at the Go Group as a result of their 2008 Greek investment. If the company is unwilling to provide guidance in a more timely and detailed fashion, the independent members on the board who actively seek re-election at the annual general meeting should insist that the company improves its communications with investors.

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