Stock Market Review

Interim statements helping to improve communication flow

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The obligation for local companies that have their equity listed on the Malta Stock Exchange to publish interim directors' statements twice a year is proving to be an important means of communication for the market.

When this requirement was first introduced through a change to the MFSA Listing Rules in March 2007, the information provided by companies was very limited as most companies generally tended to release little additional information to the market disclosing only what was necessary according to the rules.

However, in recent months, the interim directors' statements by a number of companies have proved to be an important source of communication for shareholders and the overall market in general. Since most local companies have a December year-end, the majority of interim statements are published in May and November.

Over the past few weeks, 15 companies issued their November interim statement updating the market on their financial performance since the publication of their half-year results.

Most interim statements help to update the market with a general overview of the trends being observed within a particular company and any strategic developments that are important for shareholders. However, some companies have also gone into further detail providing actual financial figures for the period being reviewed. These companies ought to be commended for providing such important information to the market.

IT company Crimsonwing plc provided revenue figures as well as the overall level of earnings before interest, tax, depreciation and amortisation (EBITDA). This is an important indicator for shareholders and companies should take advantage of the obligation to issue the Interim Statements and provide key performance indicators (KPIs) on a more regular basis for the market to obtain a better understanding of the company.

This improved method of communication was also adopted by Grand Harbour Marina plc. In its interim statement of November 11, 2011, the company went into specific details on trends and occupancy levels at both the Malta and Turkish marinas and also provided revenue figures for the first nine months of their financial year.

Another company that has improved the level of communication through the interim statements is Lombard Bank Malta plc. The announcement made on November 9 by Lombard made specific reference to the fact that the Bank has no credit exposure to countries affected by the sovereign debt problems in the euro zone. Lombard also stated that this represents the best safeguard for the Bank to ensure that it can continue to operate through the prevailing crisis whilst maintaining a sound financial position.

This statement was probably necessary in view of the developments currently taking place at Lombard's largest shareholder – Marfin Popular Bank Co Ltd of Cyprus. Marfin holds a 49 per cent equity stake in Lombard Bank and was recently downgraded by three notches to 'B2' by the international credit rating agency Moody's. A rating of 'B2' by Moody's is equivalent to a 'B' rating of Fitch and S&P, implying that the Cypriot bank is now ranked below investment grade.

This sharp downgrade is probably due to Marfin's large exposure to Greek debt and also as a result of the significant increase in additional capital required in line with the new measures approved at the recent EU summit. It was reported in the international press last week that based on preliminary estimates conducted by the European Banking Authority, Marfin needs an estimated capital buffer of €2.1 billion to reach a core tier 1 ratio of nine per cent by June 2012.

> **Companies should make best use of these interim statements and provide additional information to help shareholders and prospective investors**

Although Lombard did not disclose their overall level of profitability, the Bank announced that "profitability levels are so far similar to those registered during the corresponding period last year". In this respect, it is worth recalling that during the year ended December 31, 2010, the Lombard Bank Group reported pre-tax profits of €13.9 million (+7.8 per cent) while during the six months ended June 30, 2011, group profitability edged 3.6 per cent higher to €7 million.

The most detailed of the interim directors' statements was undoubtedly that of HSBC Bank Malta plc. HSBC's three page interim statement provided very useful information to the market. HSBC confirmed that during the second half of the year it continued to de-risk its investment portfolio and it now has no exposure to sovereign debt of Southern Europe. Moreover, HSBC reported that in view of the expectation of a more challenging year in 2012, it approved a plan to deliver sustainable cost savings. The most surprising piece of information was that these cost saving initiatives are expected to negatively impact this year's financial performance by circa €10 million mainly related to early retirement schemes.

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On the other hand, one of the most disappointing statements was made by Go plc at a time when the market is in dire need of information from this company. The lack of communication between Go and the market on extremely important matters affecting the company has in turn reflected in the significant downturn in the company's share price to all-time lows. Although Go provided some useful information on its performance in Malta, there was very scant information on the more important Greek market which is the main concern of shareholders since developments in Greece have been draining Go from its substantial financial reserves.

In the interim statement published on November 11, Go explained that during the first nine months of 2011 it continued to grow its customer connections in Malta and maintained a robust operating performance from its local operations resulting in a healthy level of profitability and cash generation despite the current challenging economic climate and an increasingly competitive market.

However, with respect to the more important and worrying developments in Greece, Go only made reference to the €22.2 million loss incurred in the first six months of 2011 from its indirect investment in the Greek telecommunications company Forthnet. Shareholders had already been aware of this through the half-year financial results published on August 31. Go shareholders are more interested in knowing key trends since the half-year end following the continuing political and economic crisis in Greece. Although Forthnet published its Q3 financial statements on November 17, Go shareholders expect more clarity on the situation.

The announcement also failed to provide any indications on another material development at Forthnet, which has so far never been officially mentioned by Go. The Greek company had convened an extraordinary general meeting for October 27 but this had been postponed to December 15. The EGM was required to perform a number of changes and also approve an important €30 million rights issue for the Greek company. The local market has been expecting official statements from Go and further guidance as to whether it intends to add further to its investment in Greece.

Companies need to understand that one of their overriding responsibilities is to maintain regular communication with their shareholders informing them and all market participants on the underlying trends within their business on a regular basis as well as the main key performance ratios. After all, more regular news flow is what provides the basis for a more liquid market in a company's shares. In order to try and make the daily market more liquid, companies should make best use of these interim statements and provide additional information to help shareholders and prospective investors obtain a deeper understanding of the company's performance and its future potential.