Stock Market Review

Maltapost takes on debt to fund property acquisitions

Edward Rizzo

Mr Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

The preliminary set of financial statements for the year ended September 30, 2011 published by Maltapost plc on December 1 revealed that pre-tax profits edged 4.8 per cent lower to €3.05 million mainly as a result of a positive movement in foreign exchange during the previous financial year which was not repeated during the last 12 months.

However, the more notable development was the acquisition of two properties during the year – one in Valletta to house a postal museum and the property in Qormi which Maltapost has been utilising as its head office for a number of years. The balance sheet as at September 30, 2011 shows a value of €9.16 million attributed to property, plant and equipment – an increase of €6.5 million from the value of €2.7 million in September 2010. As such, it is likely that the €6.5 million increase in the value of property within the balance sheet is mostly attributable to the acquisition costs of the two properties during the year.

At the time of the publication of the interim results as at March 31, 2011, Maltapost had explained that during the first half of their financial year, it concluded the acquisition of the Valletta property. Although no definite value was attributed to this transaction, the increase in the property element in the balance sheet of €1.1 million during the first six months is possibly mostly related to this Valletta property although Maltapost had indicated that it also carried out improvements to the branch network and the head office building which also increases the value of the property.

While the intention to acquire these two properties had been mentioned by Maltapost chairman Joseph Said in the 2010 Annual Report, the values of these acquisitions have not yet been officially disclosed. In view of the size of the property acquisitions (particularly that related to the Qormi head office), an official company announcement informing shareholders that the deal was finalised coupled with the amount of the property acquisition and the way it was funded would seem to have been appropriate.

The preliminary financial statements just published indicate that the property acquisitions were partly financed by bank borrowings. In fact, the balance sheet shows that as at September 30, 2011, total borrowings amounted to €4 million. This is the first time that Maltapost leveraged its balance sheet as it was totally debt free since the Initial Public Offering in 2008. Despite the new debt of €4 million, the overall gearing level remains low given the amount of shareholders' equity of €14.5 million.

For the fourth successive year, the full-year dividend remains unchanged at €0.04 net per share. However, it is worth highlighting that although the absolute dividend per share remained flat, shareholders who had taken up new shares in previous years (in lieu of a cash dividend) have actually experienced an increase in their overall return.

As in previous years, shareholders are again being offered the option of receiving the dividend either in cash or through the issuance of new shares. This year's attribution price, i.e. the price at which shareholders can opt to take new shares rather than a cash dividend, has been established at €0.98 per share compared to €0.92 last year.

Maltapost's balance sheet also reveals that €536,000 from the overall borrowings of €4 million are classified as "current liabilities" and are therefore repayable within the next 12 months. It would be useful for shareholders to know the term of the bank loan as this will enable them to gauge the annual capital repayment amount and whether the current dividend is sustainable in the coming years given this new financial commitment. In this respect, the company should clarify this at the next Annual General Meeting.

> **Maltapost needs to communicate more effectively with its shareholders and the market at large**

Furthermore, since Maltapost's pre-tax profits have now hovered around the level of €3 million for the past four years and in view of full liberalisaton that will take place in January 2013, shareholders ought to be informed in more detail as to how the company aims to achieve increased profitability levels in future years apart from ongoing cost rationalisation efforts.

In this respect, in a wide ranging interview published on April 21 in conjunction with the rebranding exercise that took place, CEO Joseph Gafa had touched upon various service offerings which Maltapost aimed to embark upon in order to seek further profitability growth. These included (i) mail handling and document management procedures; (ii) document storage and archiving; and (iii) an insurance product for local and international mail.

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In addition to these initiatives, a future growth driver could be the continuing rise in the handling of international parcels as a result of a higher number of e-commerce transactions. In fact, this has been one of the reasons for the increased revenue during the past financial year. In view of further growth potential in this area of activity, Maltapost had embarked on an extension to the parcel post office area within the premises of the head office. Additionally in the 2010 Annual Report, the CEO had indicated the "development of strategic alliances with other postal administrators to create faster, more reliable and efficient solutions for online trading and shopping". This offering was intended to enable the purchase of goods from overseas companies which do not allow direct delivery to Malta. This could prove to be an interesting solution to generate increased e-commerce transactions given the high amount of internet shopping by the Maltese. The CEO also made reference to this initiative in the media interview of April 21and at the time Mr Gafa indicated that "Maltapost was negotiating with solutions providers".

Ever since the Initial Public Offering of shares that took place almost four years ago Maltapost had repeatedly indicated that one of its future strategic objectives was that of providing low-cost financial services. The postal operator had in fact started offering the service of social security cheques encashment in selected branches some years ago, however progress on the company's wider plans in this area possibly also related to an offering of some savings products to the public is not evident. The last announcement in this respect was again made in the interview published on April 21 when the CEO had stated that the roll-out of these products and services were "at an advanced stage from all aspects". As such, a further update on the additional low-cost financial services would seem appropriate at this point in time.

Another initiative that helped boost Maltapost's revenues in recent years was the range of philately products which at times also included some numismatic issues with Lombard Bank Malta plc. During the past 12 months a number of such initiatives were launched ranging from the "Malta Buses", "Maritime Malta", the "Malta – Iceland Joint Issue" and various others.

Furthermore, as from July 29, 2011, new postal tariffs came into force and the benefit of this will show up during the current financial year to September 30, 2012.

Clearly, Maltapost needs to communicate more effectively with its shareholders and the market at large explaining its strategy going forward and the timeframes of the initiatives it plans to undertake to grow shareholder value. The reports by the directors published in conjunction with the semi-annual financial statements together with the Interim Directors' Statement could prove to be the right channels to improve such communications with shareholders and other market participants.