

## Stock Market Review

# Medserv plc in expansion mode after traumatic year



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In an interview with Medserv's executive directors Anthony Diacono and Anthony Duncan, 2011 was referred to as a "traumatic year" when asked to describe the effect of the Libyan political uprising on Medserv's business.

"January was a very busy month for Medserv in both Malta and Misurata as equipment and chemicals were being received at the company's facilities ahead of new exploration activities by some of the major oil companies". However, the Libyan political uprising in February "brought Misurata to a standstill" according to Medserv's chairman Anthony Diacono.

This significant development changed business dynamics and Medserv responded by taking immediate aggressive action. Mr Diacono explained that "working hours were reduced, cost structures were analysed and all employees including directors and top management accepted a 20 per cent pay cut". Mr Duncan heaped praise on the company's workforce highlighting the very good young management team in place and the philosophy of maximizing each and every business opportunity with a detailed focus on profitability and cost rationalisation.

Meanwhile, Mr Duncan added "during the downtime, Medserv invested heavily in the upgrading of its mud plant facilities ahead of the expected commencement of exploration activities".

Despite the serious challenges following the start of the Libyan revolution, Medserv still managed to register a pre-tax profit of €141,000 during the first half of 2011. When asked to explain the reasons for the profitable outcome, Mr Duncan commented that "the Malta base was involved in a number of services related to the Libya crisis as it was seen as a reliable and safe haven for the relocation of oil field equipment and for facilitating the repatriation of staff employed by companies situated on the oil platforms offshore Libya".

Mr Duncan then went on to explain the vital role of the Malta base due to Malta's stable political and economic environment and its strategic positioning in the Mediterranean. When asked about the impact on Medserv's operations following the end of the Libyan revolution, Medserv's chairman explained that in September "Medserv was involved in helping to get existing oil and gas facilities back to good working order". Mr Diacono confirmed that "Medserv won a lot



**The mud mixing operation at the Malta base which was recently completed for a leading American company operating in Tanzania.**

of business to enable three oil platforms to restart operations as Libya's National Oil Corporation sought to restore oil production as quickly as possible following the end of hostilities".

Meanwhile, Mr Duncan added that the company's performance in October and November 2011 was "back to the very best months" due to the exceptional work required to the three offshore platforms and other work involving "a mud mixing operation at the Malta base for a leading American company operating in Tanzania confirming Medserv's good reputation in the industry".

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The renewed air of optimism is evident when discussing with both executive directors the current business climate and the future opportunities in the Mediterranean. This undoubtedly forms the basis of the surprise interim dividend declared on November 16, 2011. Medserv had skipped a 2010 final dividend in May 2011 due to the challenges at the time in the midst of the Libyan revolution. However, an interim dividend of €300,000 will be paid to shareholders on December 29, 2011. The chairman explained that the decision to approve the interim dividend was discussed at length by the board of directors and reflects the board's optimism.

When asked on whether a similar dividend will also be paid in the first half of 2012, Mr Duncan said that no commitment can be made at this stage but "it is Medserv's philosophy to pay dividends when it was sound and reasonable to do so". On his part, Medserv's chairman explained that the performance and cash flow during the first half of 2012 would greatly influence the decision on a further dividend in 2012.

Mr Diacono noted that the major oil companies including BP, Petrobras and Gazprom are all seeking to re-enter Libya and the commitment by Libya's National Oil Corporation that all contracts will be honoured is an important development for the global oil and gas industry and Medserv in particular. Moreover, the chairman referred to a major activity offshore Libya by Mellitah Oil & Gas (ENI's subsidiary) which could start in the second half of 2012.

Although the Misurata subsidiary is not expected to once again become a major contributor to group operations in the immediate term (in 2009 the Misurata base

accounted for 35 per cent of overall group revenues), Misurata is expected to break even in 2012. Mr Duncan remarked that the recent record profits generated in 2009 (pre-tax profits of €2.9 million) were achieved without any work that is normally required following a successful oil or gas find.

2011 was characterised by significant challenges for overall group activities, however, this did not deter the executive directors from their overall vision of expanding to other key geographic locations to "leverage on Medserv's goodwill in the industry".

During the year, Medserv formed a new company called Medserv (Cyprus) Limited with new partners Ecofuel Cyprus. Ecofuel was chosen since it is a well-established company and is mainly involved in the treatment of waste including oil field waste. Medserv have a 55 per cent shareholding in the new company and both executive directors believe that the Cypriot partner will add value to the new venture.

When questioned on the reasons for targeting a new operation in Cyprus, Mr Duncan claimed that "Cyprus could become a regional centre for the Eastern Mediterranean". Mr Duncan explained that there are large concessions in the territorial waters surrounding Cyprus and in those offshore Lebanon. In addition, a base in Cyprus would enable Medserv to target the Egyptian offshore market where some of the company's existing clients are already operating. Other parties are also discussing the possibility of a sizeable gas processing plant being constructed in Cyprus following a substantial gas find offshore Israel.

The chairman added that the Cypriot government is also shortly expected to issue tenders for oil exploration activities and a number of major oil companies are expected to compete for the new concessions. Mr Diacono is confident that Medserv Cyprus will commence operations in 2012 as the location of the company's facilities have already been identified and the subsidiary is close to finalizing its plans with the local port authorities.

Medserv had also started the necessary works to replicate a similar operation in Sicily in response to a request from one of Medserv's major clients to provide services ahead of works which are soon expected to start on a sizeable gas field in the vicinity. However Mr Diacono confirmed that "there has been slow progress in Sicily and no major work is expected to be carried out in 2012".

Despite the new ventures in overseas markets, Mr Diacono is of the view that "the Malta base is of vital importance for companies operating offshore Libya" and he claims that the value of this strategic base will be evident once again when exploration activities in Libya re-commence. On his part, Mr Duncan is optimistic on the overall group prospects for 2012 and beyond, given that "Libya represents the last treasure box for the oil and gas industry" while the new initiatives being undertaken especially in Cyprus could have interesting potential also in later years.

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