

## Stock Market Review

# The four positive performers of 2011



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The 18.2 per cent decline in the MSE Share Index during 2011 mainly represents the negative trend in the share prices of the larger capitalised companies, i.e. HSBC Bank Malta plc, Bank of Valletta plc and International Hotel Investments plc.

However, despite the downturn evident throughout the year, there were four positive performers among the 20 equities listed on the Malta Stock Exchange. These were RS2 Software plc (+25 per cent), Plaza Centres plc (+6.51 per cent), Simonds Farsons Cisk plc (+5.88 per cent) and Malta International Airport plc (+1.81 per cent).

This week's article aims to provide some of the main highlights and the reasons behind the out-performance of these four equities.

The star performer on the Malta Stock Exchange during 2011 was RS2 Software plc as its share price advanced by 25 per cent. However, RS2's equity started off 2011 on a negative note as the share price declined by 37.5 per cent and touched an all-time low of €0.30 during the trading session of March 18, 2011. The share price recovered strongly immediately after the publication of the 2010 financial statements on April 12, 2011.

RS2 Software reported that it generated a profit of €2.86 million during 2010, representing a significant increase from the €1 million profit in 2009. More importantly, however, the company declared a 45.5 per cent increase in dividends to shareholders amounting to a net dividend of €0.032 per share. During the trading session immediately following this announcement, RS2's share price climbed by 42.9 per cent to €0.50 and maintained this level until mid-June with encouraging trading activity taking place.

The equity continued to edge higher in the summer months as it became evident both from the interim statement published in May and the interventions made by the chairman and the CEO at the June annual general meeting, that the 2010 performance was being sustained during 2011 following the successful conclusion of new licences with new clients. In fact, the half-year 2011 financials published on August 30 revealed a profit of €1.4 million mainly due to the new licences concluded during the first six months of the year which are immediately recognised in the financial statements.

This strong half-year performance continued to support the equity as it advanced to close the year at its 2011 high of €0.60. Although RS2's equity climbed by 25 per cent over the past 12 months and doubled from its March 2011 all-time low, the share price is still 25 per cent below the May 2008 IPO level of €0.80 per share. Moreover, the equity is trading on the lowest price to earnings multiple of below eight times and the highest net dividend yield of 5.33 per cent per annum among local equities.

The second best performing equity during the past 12 months was Plaza Centres plc. The occupancy level within "The Plaza" remained strong and consistent in recent years despite the increased competition from the larger shopping complex "The Point" as the Sliema area is becoming the preferred place for shopping and entertainment. The high occupancy level at "The Plaza" helped the company register a 3.1 per cent increase in revenue during 2010 to a record figure of €2.1 million. The main development in 2011 was the third extension to the property in its 17-year history. This was completed in March 2011.

The financial benefit of this latest development will become more evident in the 2011 financial statements due to be published in the coming months but the full impact will be seen in the 2012 financials once the rental income from the new wing will be taken for a full 12-month period. In view of the capital expenditure required to finance the construction of the additional rentable area, Plaza's dividend decreased by 10.5 per cent for the 2010 year-end as the dividend payout ratio was reduced from 95 per cent to

85 per cent. Despite this slight decrease in dividends, Plaza's equity remains among the local companies offering the highest dividend yield with a historic net yield of 4.18 per cent per annum at the current share price of €1.80.

Although the share price increased slightly in 2011, Plaza's equity remains below its all-time high of €2.259 of August 2000 shortly after the IPO which took place in June 2000 at a price of €2.05 per share. The last property valuation of The Plaza took place in 2008 with the value increasing by €1.5 million to €25.5 million. In the 2010 Annual Report, it was stated that the property is revalued at least every three years. As such, an update to the property valuation should be revealed once the company also publishes its 2011 financial statements in the coming months.

The share price of Simonds Farsons Cisk plc gained 5.9 per cent during 2011 valuing the entire Group at €54 million. The financial performance of Farsons has been gradually improving in recent years and the latest full-year results as at January 31, 2011 revealed a record performance from core operations. During the first half of their 2011/12 financial year which is coming to an end on January 31, the financial performance of the Farsons Group continued to improve. Despite the increased profitability from core operations, the share price has dropped by over 25 per cent since July 2008 when the equity had traded up to an all-time high of €2.426 shortly after the company revalued its property portfolio which increased the Group net asset value by €44.4 million. In fact, as the profitability improved and the share price declined, the equity is now trading on a historically low price to earnings multiple.

At the time of the property valuation, Farsons had indicated that its ultimate objective is to develop the property being vacated in Mriehel into a business centre and other commercial outlets to provide rental income to the Group. By June 2012, Farsons is expected to complete its investment in the new brewhouse and water treatment facility which will enable the company to proceed with its further plans for the large tract of land being vacated along the Mriehel frontage. Farsons had also indicated that it will look into

the possibility of creating a separate stock exchange listing for its property holding company. Further information is likely to hit the market this year once the brewhouse is completed.

Malta International Airport plc is the fourth largest company on the local market and its equity edged 1.8 per cent higher during 2011 to end the year at a price of €1.69. Despite the mildly positive performance through the past 12 months, the equity had a volatile year trading up to a high of €1.85 on February 11 (slightly below its all-time high of €1.875 of November 2005) and dropping to a low of €1.50 in August. Moreover, the slight gain in MIA's equity must also be viewed in the context of the substantial increase in the share price during 2010 when MIA's equity was the second best performer in Malta with a rise of 38.3 per cent.

The further increase in the share price during 2011 mirrors another record number of passenger movements for the year as the airport operator periodically improved its outlook for 2011 as the year progressed. Last week it confirmed that it registered a 6.5 per cent increase in passengers during 2011 and this achievement should enable the company to maintain a strong dividend to shareholders. During the first quarter of 2012, MIA is expected to complete the investment in the SkyParks Business Centre. This will enable the company to continue diversifying its revenue streams.

It may not be a coincidence that the four companies that produced share price rises during 2011 are among the highest yielding equities in Malta. The positive performances in these equities is also possibly due to the fact that the market views these dividends as being sustainable going forward given the business characteristics and stable financial performances of each of these companies.

Dividends will always remain a requirement for local investors and share price movements are bound to be influenced by the extent of the company's return to shareholders. If companies want to maintain shareholder loyalty and wish their equity to provide a better reflection of the true underlying value of their company, regular communication with the market coupled with a strong and sustainable dividend policy is indispensable.

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