Stock Market Review

The worst performers of 2011

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While last week's article dealt with the four positive performers among the 20 equities listed on the Malta Stock Exchange, this week I will briefly explain the main developments that led to the significant declines in the share prices of GlobalCapital plc, Crimsonwing plc, 6pm Holdings plc and Go plc. These were the four worst performing equities on the MSE during 2011 with losses ranging between -33.3 per cent for GlobalCapital plc and -49.4 per cent for Go plc.

GlobalCapital plc

GlobalCapital's share price declined by 33.3 per cent in the past 12 months reflecting the sustained drop in shareholders' funds as the group continued to register disappointing financial performances. Following the loss of €8.2 million registered in 2010, GlobalCapital incurred a loss of a further €1.6 million in the first six months of 2011. The overall level of shareholders' funds declined to just €11.4 million as at June 30, 2011 from a level of almost €30 million in 2006. The interim statement published in November 2011 confirmed that the loss-making situation continued during the second half of 2011 due to the "depressed investment markets and the aggressive competitive environment".

In view of the overall impact on the financial position of the group from the continued losses and especially in view of the regulatory obligations to maintain adequate levels of capital and liquidity, GlobalCapital indicated in November that its board of directors is actively monitoring the balance sheet position and further specific action was intended to be announced by the year-end. In fact, on December 30, 2011, GlobalCapital issued a further announcement stating that the required additional capital needed to maintain appropriate capital and liquidity levels for regulatory as well as operational requirements will be dealt with during the first half of 2012.

GlobalCapital's share price has been on a steep downward trend since peaking at a level of €5.602 on 27 December 2007. The equity sustained double-digit losses in three of the past four years with the share price closing 2011 at €1.00 after touching an all-time low of €0.50 in June 2011. GlobalCapital had also tapped the bond market in May 2006 with a €17 million issue and the bond price also reflects the market's concerns on the disappointing performance of the Group and the possibility of the need for a further capital injection. In fact, the 5.6 per cent GlobalCapital bonds have consistently traded below their par value since 27 July 2007. At the last traded price of 81 per cent, the bonds give a yield to maturity of 11.3 per cent per annum.

Crimsonwing plc

Crimsonwing's shares made their debut on the Malta Stock Exchange on January 8, 2008 shortly after their successful Initial Public Offering. The equity traded above its IPO price of €0.50 for most of 2008 on encouraging volumes of over one million shares with the share price touching a high of €0.62. However, the share price closed its first year of trading minimally below the €0.50 level and performed negatively for a further three consecutive years. During 2011, the share price dropped by 34.2 per cent closing the year at its all-time low of €0.25.

Crimsonwing had a very disappointing financial performance in the financial year to March 31, 2009 when the group suffered both from the challenging trading conditions in its key markets of the UK and the Netherlands as well as from the significant decline in the value of sterling and the various write-offs and provisions as a result of financial difficulties faced by a number of its clients. The performance improved in the following two financial years on higher revenue figures although Crimsonwing continued to suffer from a number of challenges faced by the business in the Netherlands which was acquired in 2008.

In fact, the financial results in the Netherlands offset the increased revenue figures and the positive contributions of the Group's business in the UK and Malta. In recent months, Crimsonwing made a number of investments which are necessary to grow overall revenue and achieve the scaleability required to tender for more international business and larger contracts as it aims to achieve its three year plan of generating annual revenue of €20 million. The group's performance should improve in the immediate future from cost savings initiatives mainly in the Netherlands, less investment in employee training, and new projects coming on-stream.

6pm Holdings plc

The IT company 6pm went through radical changes during 2011. Early on during the year, 6pm acquired 70 per cent of Softweb Ltd through the capitalisation of a debt balance owed by Softweb to 6pm amounting to £89,250 (equivalent to circa €108,200 at current exchange rates). The acquisition enabled 6pm to gain access to over 180 corporate clients providing opportunities for cross-selling existing IT solutions and services. In April 2011, 6pm Holdings launched a £2.6 million rights issue at a price of £0.25 per share with Vassallo Builders Group Ltd becoming the largest shareholder of the company together with one of the initial founders of 6pm Ivan Bartolo who was then appointed as the new CEO.

The additional capital from the rights issue were required for the following purposes: (i) to fund the acquisition of Compunet Operations Limited and Compunet Agencies Limited; (ii) to repay a bank loan facility with Banif Bank (Malta) plc; (iii) for working capital purposes and (iv) to fund future acquisitions. At the time of the rights issue, CEO Ivan Bartolo explained that 6pm's new strategy for the local market revolves around the consolidation of the highly fragmented IT industry through an ambitious acquisition programme. No further acquisitions have been announced since then although 6pm's CEO revealed in his most recent media interview of December 4 that 6pm is in discussions to acquire a group of companies. Moreover, 6pm also subscribed for a 25 per cent equity stake in a new company emCare 360 Limited whose main aim is to provide health services to private and public entities as well as to individuals both in Malta and overseas.

In the newsletter sent to all shareholders in November 2011, the CEO also indicated that emCare 360 Ltd will also be seeking to tap the African market. Another major development during the year was the setting up of a development centre in Skopje (Macedonia) as the Group sought to create cost effective measures to its operations. The financial performance of the Group during 2011 reflected the overall challenging conditions especially in the National Health Service market in the UK which remains the core business of the Group. During the first half of the year, the 6pm Group registered a loss of £343,314 million and in the recent shareholders' newsletter, Ivan Bartolo confirmed that the group incurred losses between January and August 2011 but started to register profits since September 2011. The CEO indicated in a recent media interview that 6pm will face another challenging year in 2012 but he expressed optimism on the future direction being taken.

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Go plc

Go plc's share price was the worst performer this year with a decline of 49.4 per cent. After edging lower during the first few weeks of the year, the equity declined rapidly following the surprise announcement by Go's directors in March 2011 to slash the dividend to shareholders by 50 per cent. The equity continued to trade lower in the summer months and consistently dropped to fresh lows since then on increasing concerns regarding the macro-economic developments in Greece and more importantly the specific issues at Forthnet which undertook a restructuring of its bank borrowings and announced its intentions of a €30 million rights issue in September. However, after the Forthnet extraordinary general meeting was postponed twice in the fourth quarter of 2011, shareholders rejected all the resolutions during the EGM held last Friday, January 13.

Although Go's company announcement early last Friday indicated that the company will be voting against a capital increase in Forthnet, Go did not explain the effect of this on the future of the Greek company since according to the agreement with their bankers, the fresh capital injection of €30 million had to take place by end of January 2012. On the other hand, the financial performance of Go from its local operations has been improving as a result of various initiatives and especially following the successful acquisition of the data centre provider Bell Med. Go's share price closed the year at €0.98 after touching an all-time low of €0.95 on December 2, 2011. The share price has since dropped to a fresh low of €0.89 last week.

Go's equity performance has been among the most disappointing for local investors and reflects the significant decline in the balance sheet value over recent years. The overall value of shareholders' funds declined from €201.4 million in December 2007 to €121.5 million as at June 30, 2011. The reduction of €80 million in shareholder value mirrors the impairments that were required on the significant investment in the Greek company. The value of the investment in Greece in the balance sheet of €41.1 million (from the original investment of €119.7 million) will be tested for impairments once again ahead of the publication of Go's 2011 full-year financial statements.

Investors are likely to pay special attention to these companies following the significant declines registered in their share prices and the challenges they face. Such companies are expected to communicate more effectively with the market to ensure that their minority shareholders and other investors have sufficient information on developments and plans going forward.