Stock Market Review

The 2012 dividend league table

Edward Rizzo

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

	Equity	Net Dividend Yield
1)	Plaza Centres plc	4.31%
2)	MaltaPost plc	4.20%
3)	Malta International Airport plc	4.05%
4)	HSBC Bank Malta plc	3.88%
5)	Bank of Valletta plc	3.88%
6)	Simonds Farsons Cisk plc	3.83%
7)	Lombard Bank Malta plc	3.11%
8)	FIMBank plc	2.47%
9)	Medserv plc	1.52%
10)	Middlesea Insurance plc	0.94%
11)	RS2 Software plc	0.00%
12)	GO plc	0.00%
13)	Island Hotels Group Holdings plc	0.00%
14)	Loqus Holdings plc	0.00%
15)	MIDI plc	0.00%
16)	Grand Harbour Marina plc	0.00%
17)	Crimsonwing plc	0.00%
18)	6pm Holdings plc	0.00%
19)	International Hotel Investments plc	0.00%
20)	GlobalCapital plc	0.00%

Data as at 7 May 2012

Following the recent publication of the full-year results by Simonds Farsons Cisk plc and Midi plc which brought the reporting season to an end, an updated dividend league table provides investors with an indication of the companies that are giving a return to shareholders and others which are not rewarding shareholders by way of dividends. A comparison with the 2011 dividend league table also provides a good analysis of which companies continue to provide strong and sustainable dividends and those that have been more erratic in terms of cash dividends.

The dividend yield is an important financial metric comparing the current share price to the cash distribution to shareholders by way of dividends. Most websites and reports normally refer to the gross dividend yield or gross dividend per share. However, in view of the fact that shareholders receive dividends net of tax and some companies distribute tax exempt dividends (Simonds Farsons Cisk and Medserv), a comparison of the net dividend to shareholders provides a more meaningful comparison across the various companies. The calculation of the net dividend also assists investors to compare returns from equities to the fixed interest returns provided by bonds.

Similar to last year, only half of the companies listed on the MSE are actually paying dividends to shareholders. Moreover, eight companies continued to feature on the list proving to be consistent dividend-paying companies with attributes to continue rewarding shareholders with further cash dividends also in future years. These are the four banks together with Plaza Centres plc, Malta International Airport plc, Maltapost plc and Simonds Farsons Cisk plc.

There were some notable changes in the composition of the dividend league table with the inclusion of Medserv plc and Middlesea Insurance plc once again in the list of companies paying dividends during 2012 although these both rank as the lowest yielders. Meanwhile, for the first time ever, shareholders of Go plc and RS2 Software plc will not be receiving a cash dividend this year. The reasons for the lack of a dividend distribution by Go and RS2 are very different. On the one hand, Go plc failed to declare a dividend for the first time since privatisation in 1998 due to the depletion in reserves arising from the growing losses suffered from the investment made in the Greek company. Despite the continued stable performance from the local business and strong cash flow generation, the reduction in the overall amount of shareholders' funds prohibited the company from a dividend distribution. This naturally led to a sharp decline in the share price as the equity dropped a further 27 per cent in 2012 touching a low of €0.712 last Friday.

On the other hand, RS2 Software plc registered a 46.8 per cent increase in pre-tax profits to €2.4 million. However, despite this improved operational performance, no dividend was declared for the first time since their IPO 4 years ago. The directors explained that the company requires funds to finance the planned investment in transaction processing and managed services. Although the company recommended a bonus share issue, the lack of a dividend distribution negatively affected activity in the equity with a marked slowdown in the number of shares changing hands on the market since the announcement on April 13.

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Incidentally, RS2's equity had ranked as the top yielding equity last year. The top spot is now occupied by Plaza Centres plc with a yield of 4.31 per cent per annum. This is just below the yield last year as the slight increase in the dividend for Plaza shareholders was offset by the increase in the share price from €1.70 to €1.75. Plaza has been a consistent dividend distributor ever since the company listed on the MSE in June 2000. Since 2001, dividends to shareholders increased by 56 per cent in line with the higher profitability achieved by the company.

Two other companies that have also consistently distributed cash dividends to shareholders are Malta International Airport plc and Maltapost plc. Both companies proved to be a success story for private investors since their privatisation and subsequent IPO's in recent years. Compared to last year's league table, the dividend yields of both companies are higher. However, while the increased yield of the postal operator is due to the 11.8 per cent decline in the share price over the past 12 months from €1.089 to €0.96, the equity of MIA is providing a higher yield as a result of the eight per cent increase in dividends following the record financial performance during 2011.

Simonds Farsons Cisk is not normally regarded as a company offering a good dividend to investors. However, following the strong increase in profitability in recent years which was reflected in a hike in dividends to shareholders, the net yield of 3.83 per cent per annum places the equity in sixth position. Given the low level of borrowings, the company could possibly maintain such dividends also in future years. However, the company is very dependent on the overall local economic performance and that of the tourism sector and Farsons could also face pressure from higher raw material costs.

One of the additions to the league table is 2012 is Middlesea Insurance plc after an absence of three years. Dividends had been suspended due to the serious challenges faced by the company from its investment in Italy. Once the company closed off the Italian subsidiary and refocused its efforts on the local operations, Middlesea provided a clear signal at last year's AGM that it is moving towards reinstating the dividend when it passed a resolution to offset the accumulated losses through a reduction in the nominal value of the shares. Although the dividend being distributed on 20 May gives a very low yield of less than one per cent, this measure provides a clear signal that the company aims to maintain an annual distribution to its shareholders.

The other newcomer for 2012 was Medserv. The dividend had been skipped in 2011 following the weak financial performance in 2010 and probably more to do with the challenging outlook for the business in view of the political developments in Libya which had commenced shortly before the approval of the 2010 financial statements. However, Medserv also provided an important signal to the market in December 2011 when it distributed an interim dividend following the end of hostilities in Libya and a more positive outlook to the commencement of exploration activities by the major oil companies offshore Libya. A further dividend was recommended by the Board on March 21, 2012 providing further evidence of the increased business potential in the immediate future.

On the other hand, Midi remains one of those companies which is not providing a dividend to shareholders. In my article published on April 28, 2011 publishing the 2011 dividend table, I had explained that at the time of the December IPO, the company had indicated that it aims to adopt a policy to ensure the payment of consistent and regular dividends to shareholders. Although Midi has successfully sold a large number of the properties ready for sale and the operational assets are performing strongly as evidenced by the pre-tax profits of €3 million during 2011, no dividend was declared.

This could possibly be in view of the delay in the approval of the development permits for the remaining phases of Tigne Point. These were only approved by Mepa in January 2012 and in last week's announcement, the directors indicated that the company is reviewing its funding strategy in the context of the timing of the different development stages of the project in view of the general uncertain financial and economic conditions and the tighter availability of credit. Further details in this respect will probably be given at the upcoming annual general meeting due to be held by the end of June.

With the prospect of higher rates of inflation in the years ahead which could erode part of the fixed return provided on bonds, some investors may consider allocating a part of their overall portfolio to companies offering attractive but sustainable dividends to shareholders which could grow in future years offsetting the negative inflationary pressures. A careful analysis of a company's financial statements and future prospects is important to select those companies that can offer such returns.