Stock Market Review

What is behind the surge in Go plc's share price?

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The share price of the telecommunications company Go plc has experienced a significant surge in recent weeks helping the equity to become the top performer during the first six months of 2012. After sliding steadily during the first four months of the year touching fresh all-time lows on a regular basis, the equity rebounded by 67.9 per cent from the all-time low of €0.70 of May 14 resulting in a year-to-date gain of 19.9 per cent. Despite this strong recovery, many shareholders would rightly point out that they are still nursing significant losses over the years.

Even going back to the time of the hugely successful IPO in June 1998, shareholders are carrying a loss on their capital. The loss resulted as a consequence of the ill-timed investment in Greece and the ensuing significant impairments of the past two years almost writing off the entire investment of over €120 million.

However, without delving into this once again since it has been well-documented it would be interesting to identify the reasons for the recent strong share price upturn. This took place shortly after the 2012 annual general meeting held on May 9. This is surprising given shareholder animosity in the run-up to the meeting. The Go AGM held last month was a historic one in the sense that a number of minority shareholders who together held more than five per cent equity in the company presented a number of resolutions for discussion during the meeting.

The six special resolutions presented for discussion included an assessment of the investment in the Greek company Forthnet, a request for a detailed account of the developments that led to the exchange of properties between Go and the government of Malta, a proposal to amend the Memorandum & Articles of Association of the company such that further investments in the Greek company will require a 75 per cent approval by shareholders during a general meeting. Although none of these resolutions were carried which is not surprising given the 60 per cent stake held by Emirates International in Go plc, the motions were successful in the sense that they placed pressure on the directors and management to delve into some contentious matters in greater detail.

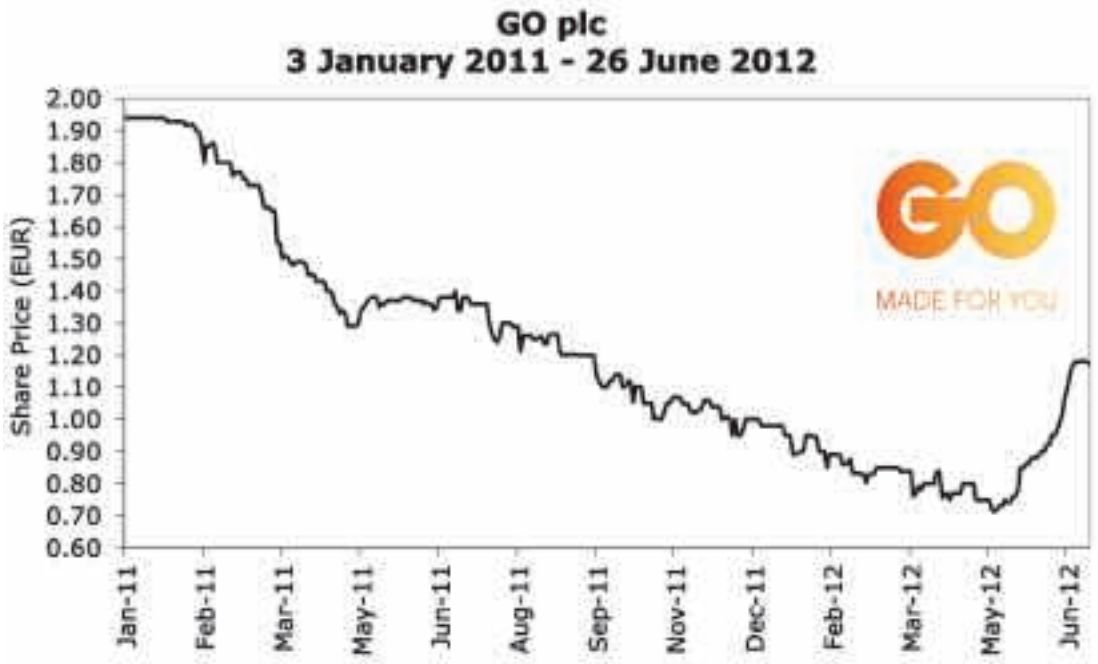
In fact, some excellent presentations were delivered by the CFO and other directors dealing with the present circumstances in Greece and also the strategy behind the transfer of properties between the government and the company which included the famous plot of land in Qawra.

During the four hour AGM, Deepak Padmanabhan, who is the chairman of both Go and Forthnet, indicated that following the €62.3 million impairments taken in 2011 related to the investment in Greece, the value of Forthnet on Go's balance sheet has been reduced to just €3.6 million and therefore any future impairments that may be required is limited to this amount.

During the meeting, it was revealed that a new property holding company called Malta Properties Company Limited was set up to hold the group's properties and to facilitate and seek ways to extract value from these properties. The company has a total property portfolio valued at €50 million. The 2011 annual report revealed that Go will recognise a gain of €11.4 million on these properties in the income statement for the 2012 financial year as a result of the recent exchange of the properties with the government.

The possible limited future negative impact from Greece given the fact that the carrying cost of the investment has now been reduced to just €3.6 million coupled with the book gain of €11.4 million in property should result in a significant reversal of recent trends in the 2012 interim financial statements of Go. These should be published by the end of August.

The change in sentiment in Go plc is also very likely to be attributable to the detailed information released during the AGM which enabled investors to obtain a better understanding on two very significant issues that had been among the key items on investors' minds. Undoubtedly, if there was any further proof that the release of information is a key ingredient for an equity to be active, this would be a perfect example. The upturn in the share price which took place on higher trading activity also indicated the appetite by investors generally to participate in companies which can offer upside potential. The market reaction following the AGM was a very clear message to Go's top executives that shareholder communication had not been adequate.



Although this was a good wake-up call for Go it should also be a very important signal for other companies – not only equity issuers but also those companies that have so far only tapped the bond market.

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Unfortunately, very often, company executives place the blame for lack of activity in a company's shares or for a price which in their view does not correctly reflect the fundamentals of the company, squarely on financial analysts and investors at large. However, companies need to understand that the market thrives on regular information being supplied to it by themselves.

While a culture of investor relations is well ingrained internationally, this is generally very lacking with local companies who continue to operate as though they are still private companies and not realising the importance of disclosing certain information. Some companies continue to think that the release of information is detrimental to them because it helps their competitors and because of the small size of the local market.

In recent weeks, a change in culture seems to have started to take place with companies also providing forward looking information. This was evident in the AGM of International Hotel Investments plc, when managing director Joseph Fenech presented the Q1 figures for the three properties that are spearheading the recovery in the operational performance of the group. Moreover, in replies from questions by a number of shareholders, Alfred Pisani also provided an indicative figure of the EBITDA generation across the group. This is expected to surge to over €40 million in 2012 from €22 million in 2011.

This positive change within the Corinthia Group who now recognise the importance for more communication with the market was also evident in the bondholders meeting of the Corinthia associate company Mediterranean Investments Holding plc.

Chairman Alfred Pisani committed that an annual meeting will take place for MIH stakeholders who will be provided with updated information on Palm City and other investment initiatives being undertaken by the company as well as on the overall general developments in Libya.

Admittedly, much effort has been made in recent years to encourage companies to disclose more information even by having a dedicated section on their website with certain minimum requirements of information that needs to be available. However, more awareness should be raised by the regulators, the Malta Stock Exchange and also by all market participants on the need for more public disclosure and more frequent communication with shareholders and bondholders.

A more consistent flow of information should help to improve sentiment and activity in the market. Furthermore, notwithstanding the fact that the market remains small despite being in operation for 20 years, additional initiatives need to be undertaken by the MSE and possibly also the authorities to encourage public share and bond ownership since this will support the economy going forward.