Go plc and Farsons best performers in first half

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The MSE Share Index, which tracks the performance of the equities listed on the Malta Stock Exchange, dropped by 2.35 per cent during the first half of 2012. However, while the index declined during each of the first three months of the year leading to a five per cent drop during the first quarter, the equity market closed in positive territory in April and May but eased 0.2 per cent in June, mainly as a result of a 0.9 per cent drop during the final trading day of the month held last Thursday. The equity benchmark had dropped to a low of 2,922.377 points on April 20 but recovered by 3.4 per cent since then to close June at 3,022.168 points.

The indices of the main international equity markets (including the Nasdaq in the US, the German DAX, the Japanese Nikkei225, the S&P 500 and the Dow Jones in the US, the French CAC40 and the British FTSE100) all produced positive performances during H1 2012 despite the sharp downturn in May. On the other hand, Spain's IBEX25 and Italy's FTSE MIB closed lower during H1 2012.

The recovery in the MSE Share Index during the second quarter of the year was mainly brought about by a rebound in the share price of Go plc (+40 per cent during Q2) followed by smaller gains in Simonds Farsons Cisk (+25 per cent) and International Hotel Investments (+14.9 per cent). However, the best performer during the second quarter of the year was IT company Crimsonwing plc with a 44 per cent increase in its share price after it was revealed on May 25 that Crimsonwing entered into a share purchase agreement for the acquisition of the remaining issued share capital of Netherlands-based company Promentum Holding BV.

This will be partly funded by the issuance of new Crimsonwing plc shares at a price of €0.30 but in view of the small size of the company, this had a marginal impact on the MSE Share Index.

The strong upturn in Go's equity in recent weeks helped the share price close H1 2012 as the top performer with a rise of 19.9 per cent closely followed by Simonds Farsons Cisk plc with a year-to-date gain of 19.4 per cent following the strong rebound in the share price from the 2012 low of €1.72 registered in March.

The positive run in Farsons' equity followed the publication on April 25 of the January 2012 year-end financial statements. Farsons Group registered a 5.2 per cent increase in turnover to a record €70.9 million which also contributed to record profitability and dividends to shareholders. The reaction in the market was positive with encouraging trading activity helping the share price rally to a 42-month high of €2.15.

In earlier years, Farsons' financial performance was rather volatile and erratic from one year to the next but the market seems to be understanding that the consistent recovery in profitability since 2009 is sustainable. This can continue to result in attractive dividends to shareholders.

The Q1 performance of the group's financial year seems to be indicating this as an improvement was reported over the comparative period last year. Apart from the consistency in the company's financial performance, the Farsons Group retains a large property portfolio which it aims to develop in future years to supplement its revenue streams.

The other equity that recorded a double-digit gain during the first half of 2012 was Fimbank plc (+14.8 per cent). The upturn in Fimbank's share price is mainly due to the announcement issued on March 13 that Burgan Bank of Kuwait expressed its intention to acquire the 38.8 per cent shareholding of Masaleh Investments K.S.C.C. in FimBank.

The announcement also confirmed that Burgan Bank intends to inject additional capital into the bank, following approval by Fimbank's board of directors, bringing Burgan's eventual stake in Fimbank to at least a 50 per cent holding.

Such a transaction would automatically trigger a mandatory bid for any other outstanding shares in view of Chapter 11 of the Listing Rules issued by the Malta Financial Services Authority. The share price rallied in the aftermath of this possible takeover. Meanwhile, apart from this important announcement, the group's financial performance during 2011 was encouraging with a 33 per cent growth in pre-tax profits to $8.33 million.

While Go, Farsons and Fimbank strongly outperformed during the first half of the year, the gains registered by these equities were not enough to outweigh the losses registered in the two largest capitalised companies coupled with double-digit declines in five other equities.

The share prices of HSBC Bank Malta plc and Bank of Valletta plc eased by 2.7 per cent and 7.3 per cent respectively during the past six months. The equities remained volatile from one week to the next despite the continued encouraging financial performance and regular dividends to shareholders. The international market developments coupled with the weakening performance in some sectors of the local economy contributed to an erratic performance for the two most liquid local equities.

> **The interim reporting season should provide information to gauge developments**

2012 Performance	Quarter 1	Quarter 2	Year to Date
MSE Share Index	-5.04%	2.83%	-2.35%
Top Performers			
GO plc	-14.39%	40.05%	19.90%
Simonds Farsons Cisk plc	-4.44%	25.00%	19.44%
FIMBank plc	10.39%	4.00%	14.81%
Malta International Airport plc	0.59%	4.71%	5.33%
Crimsonwing plc	-28.00%	44.44%	4.00%
Worst Performers			
RS2 Software plc	-8.33%	-3.03%	-11.11%
MIDI plc	2.63%	-15.38%	-13.16%
GlobalCapital plc	-6.00%	-11.70%	-17.00%
Lombard Bank Malta plc	-9.26%	-10.20%	-18.52%
Middlesea Insurance plc	-12.50%	-8.57%	-20.00%

One equity in particular which is worth highlighting is RS2 Software plc. The share price of this IT company dropped by 11.1 per cent during the first six months of the year despite the 46.8 per cent increase in pre-tax profits to €2.4 million and the announcement of a bonus share issue to shareholders. The decline in the share price clearly reflects the importance given to dividends by investors.

In view of the company's short-term investment requirements, no dividend was declared for the first time since the 2008 IPO and this led to some renewed selling pressure coupled with weakening demand for the company's equity. However, during the recent annual general meeting, chairman Mario Schembri hinted that shareholders may not need to await the next AGM to receive a dividend. This could be one of the interesting developments that investors should look out for during the second half of the year.

The worst performers in the first half of 2012 were Middlesea Insurance plc and Lombard Bank Malta plc. The equity of the local banking institution slumped by 18.5 per cent to a seven year low of €2.20 while the share price of the insurance company declined by 20 per cent.

The factors leading to the declines in these equities are very different. The downturn in Lombard's share price is possibly a reflection of the overriding concerns of the slowdown in the local economy and the weakness across the property market coupled with the sharp decline in profits at Maltapost during the first half of the financial year. Additionally, the serious difficulties being faced by its largest shareholder Cyprus Popular Bank (previously Marfin) which very recently led to a bailout by the Cypriot government is likely to have led to negative sentiment towards this equity despite Lombard's continued announcements that it has no exposure to this bank despite it being the largest single shareholder in Lombard.

Meanwhile, the drop in the share price of Middlesea occurred despite the re-instatement of a dividend to shareholders after three years. However, the insurance company remains very dependent on stock market fluctuations and the recent volatility must have contributed to the downturn in this equity. The current share price of €0.64 must be placed in the context of last year's mandatory offer by Mapfre Internacional.

The Spanish company offered to acquire the shares of all minority shareholders at €0.965 despite purchasing 18.3 million Middlesea shares from Munich Re at €0.63 per share. Notwithstanding the generous terms of the mandatory offer, only a small number of shareholders accepted and the share price has since dropped towards the price of the large trade which represented a slight premium to the net asset value per share.

The first half of the year again proved that despite the overall economic situation and volatility across financial markets, the share prices of individual companies generally reflect their specific financial performance and overall strategic developments and material corporate actions taking place. This was very evident in the movements of the share prices of Go, Farsons and FimBank.

So what's in store for the second half? The interim reporting season which starts in a few weeks is always an important event as announcements should provide the necessary information to gauge developments across the individual companies.

The market remains keen to receive further insight into the conclusion of the due diligence exercise conducted by Burgan Bank on FimBank. In the coming months, this should come to a head and depending on current negotiations, FimBank's shareholders may be asked to attend an extraordinary general meeting to vote on the proposed transaction which could eventually lead to a takeover offer.

Other important developments may take place across some other companies. These could lead to significant movements across individual equities as was evident in recent months.