Stock Market Review

MIA announces record profits and upgrades passenger forecast

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Malta International Airport plc kicked off the interim reporting season last week when on Tuesday it published its June 2012 half-year results showing a record financial performance. Although overall revenue only increased marginally to €22.7 million during the first six months of the year, profit after tax climbed by 13 per cent to €4.48 million, mainly on the back of a decline in operating costs and lower charges for depreciation and net finance costs.

MIA organised a meeting with the financial community last week to provide a more meaningful analysis of the first half performance and an update on the current initiatives being undertaken as part of the company's overall strategy.

MIA's chief financial officer Austin Calleja explained that revenue from the airport segment, mainly comprising aviation fees and ground handling charges, eased marginally lower to €16.3 million notwithstanding the higher passenger movements.

This decline was both a result of the incentives provided to airlines by MIA to assist the growth in passenger volumes and of last year's revision of the ground handling contract with the fuel provider effective April 1, 2011, which distorted the comparative figures.

Income from the retail and property segment grew by 5.2 per cent to €6.1 million, mainly on the back of a 7.9 per cent increase in revenue from the concessionaires operating the various outlets within the air terminal. These outlets benefited from the higher passenger volumes during the first six months and from the resumption of flights to Libya.

MIA's chief executive Markus Klaushofer again noted that passengers destined for Libya and Russia tend to be regarded as important revenue-generating customers of some of the outlets within the Departures Lounge and this filters into improved income for the airport operator.

Mr Calleja indicated that a decrease in costs was one of the major reasons for the improved performance in the first half of the year. The CFO explained that the company is consistently seeking to reduce costs and the early retirement schemes adopted in the past two years, coupled with the revised contract for security services, were the main reasons for the improved cost structures.

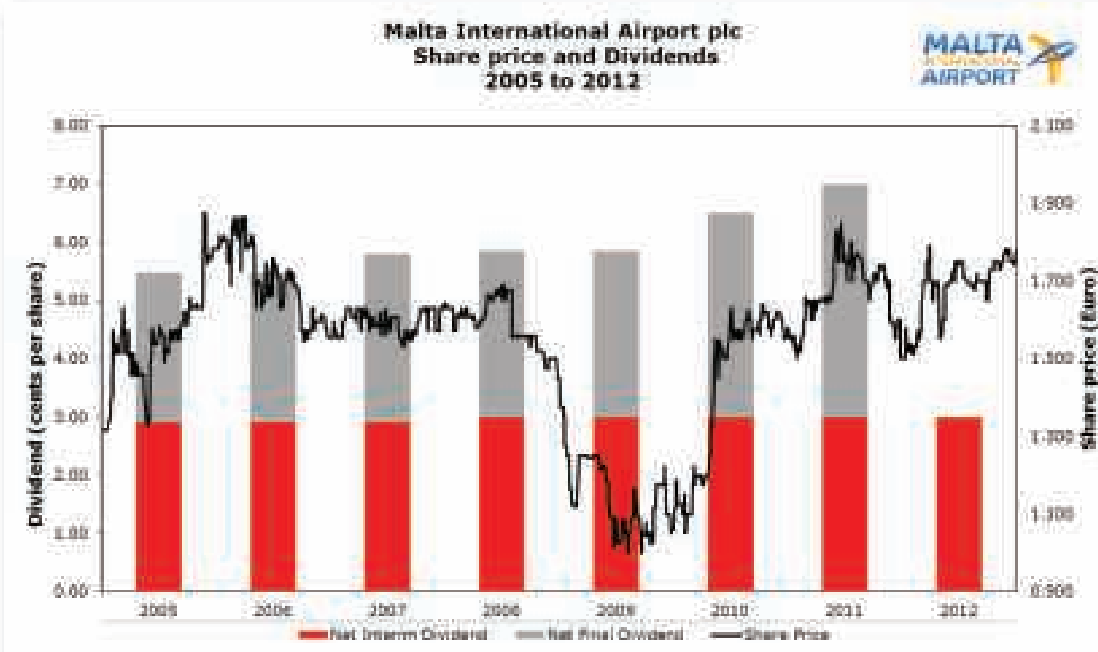
Apart from the record financial performance, equally important was the announcement by the airport operator of an upward revision of its 2012 passenger forecast. At the start of the year, MIA initially expected that overall passenger movements would decline by 2.8 per cent from last year's record figure to a total of 3.4 million.

However, following the 1.6 per cent growth registered in the first half of the year, the airport operator now expects an overall growth of 1.5 per cent in passengers to a new record of 3.56 million movements – this would represent a third successive year of record passengers which should be considered a major feat given the adversities over the years and the ongoing eurozone crisis which ought to have dampened the demand for travel.

MIA's newly-appointed chief commercial officer Alan Borg gave a detailed explanation of the traffic statistics and the company's strategy. Mr Borg noted that total passenger movements improved by 25,000 (1.6 per cent) during the first half of the year despite the lower seat capacity as the seat load factor improved yet again to 74.1 per cent compared to 70.6 per cent during the first six months of 2011. The CCO confirmed that the seat load factor increased for the 15th consecutive month. Meanwhile, he attributed the substantial improved passenger volumes in May and June to the seven additional routes by Ryanair and also the commencement of operations by Air France from Toulouse. Mr Borg replicated the comments made earlier this year by MIA's chief executive on the importance of the Air France development for the overall network offering by the airport.

When analysing the airline traffic results for the first half of 2012, it is evident that the major contributor to the increased traffic was Ryanair. Passenger movements via Ryanair increased by 36,450 (10 per cent) offsetting the declines in Air Malta and Easyjet.

Mr Borg explained that the drop in passengers from Easyjet is solely attributable to the route cancellations of Rome and Milan but the two per cent decline from Air Malta is negligible in the context of the reduced airline capacity. The CCO noted that Air Malta also registered



improved seat load factors in recent months which is an important development for the airline.

Ryanair's market share has now surpassed the 25 per cent level and the low-cost carrier is currently operating from a total of 28 destinations. Ryanair carried just under 790,000 passengers in 2011 and during the launch of the seven new routes which commenced in April 2012, a spokesperson for Ryanair claimed that these additional routes should contribute to a further 25 per cent growth in volumes from the 2011 figures of the low-cost carrier to a total of one million passengers in 2013.

Four of the new routes which just started are from Scandinavia and Eastern Europe which are core markets for the future strategy of the airport. The CCO reiterated that MIA's strategy for the airport segment is that of improving airline capacity and traffic volumes during the shoulder months. The incentives provided to airlines during the winter period are specifically aimed at attracting airlines on new routes and supporting their operations to Malta. MIA has not yet confirmed whether the airline incentives will again be repeated next winter.

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Mr Klaushofer referred to SkyParks Business Centre which is one of the major recent initiatives of MIA in its overall diversification strategy in the retail and property segment. While acknowledging the delays encountered to finalise the project, the CEO confirmed that the building is now operational with office tenants expected to relocate during September.

On his part, the CFO provided guidance on the financial impact from this investment by clearly indicating that the property should not provide a major positive contribution during the current financial year. Mr Calleja explained that the €16 million SkyParks project is a long-term property investment which will translate into significant financial benefits in later years.

Mr Klaushofer also made reference to Air Malta and explained that MIA was satisfied that the European Commission approved the airline's restructuring plan indicating the feasibility of the proposals submitted to the Commission.

The CEO argued that the approval of the restructuring process bodes well for the future prospects of generating additional traffic to Malta, given that the national carrier remains the airport's largest client despite the significant inroads made by low-cost carriers in recent years.

Although MIA registered a 13 per cent growth in profitability and announced an improved passenger forecast, the net interim dividend was unchanged at €0.03 per share for the fifth consecutive year. The dividend announcement and record financial results generated sizable demand for MIA shares at the €1.75 level and, as a result, the share price edged marginally higher to €1.78 in recent days – just shy of the 2012 high of €1.79 and only five per cent below the all-time high of €1.875 of November 2005.

A comparison of the share price between November 2005 and current levels should take into account the company's financial performance over the years. Suffice to say that MIA's financials have improved considerably since 2005 with pre-tax profits rising from €12 million that year to €19 million in 2011.

This year marks the 20th anniversary of the terminal building and the 10th of the company's privatisation. The company's track record over the years and the share price performance since the initial public offering in 2002 clearly indicate that this was one of the most successful privatisations to date.

MIA carried out major investment programmes involving the extension and upgrade of the air terminal and sought new areas to capture increased business and traffic flow to Malta. Moreover, the general public shareholders who acquired shares over the years have benefited through semi-annual dividends and capital growth despite the unavoidable volatility in the share price reflecting the changing business dynamics and economic environment.