Stock Market Review

Listed companies issue their interim statements

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The majority of the companies that have their equity listed on the Malta Stock Exchange have a December year-end. Therefore, according to the Listing Rules of the MFSA, they are required to publish their interim directors' statement by mid-November, i.e. six weeks before the end of their financial year.

There were no major surprises among the various announcements although some positive developments were announced by Grand Harbour Marina plc and RS2 Software plc. GHM was the last company to issue its interim statement on Monday evening. The company reported that it continued to generate growth in its recurring revenue from berthing and rental income both at GHM in Malta and the marina in Turkey.

More importantly, was the announcement that GHM entered into a Memorandum of Understanding for the sale of a super-yacht berth valued at €3.1 million which is expected to be concluded by year-end. The company also revealed that the prospective buyer has an option on the purchase of a further berth for €1.8 million.

Last Friday afternoon, RS2 Software plc announced that in addition to the €5 million licence and service agreement concluded in September with a major service provider in Latin America, the company was awarded another similar agreement this time worth €1.5 million with a major European services provider.

Moreover, RS2 revealed that it is in advanced negotiations over another licence agreement and is close to concluding the first three-year deal with respect to the new managed services offering. RS2's directors also confirmed that they expect the results for 2012 to be better than those registered in 2011 when the company registered a profit for the year of €2.4 million. This announcement was well received by the market and helped the equity rise by five per cent on Monday to a 40-month high of €0.63.

Announcements by the larger companies are always more closely followed by the market in view of the larger shareholder base and their overall impact on market sentiment compared to the smaller cap companies. The recent interim statement by HSBC Bank Malta plc was important to gauge the performance of the bank and that of the economy. In its interim statement, the bank revealed that since June 30, it registered an improved performance mainly reflecting the higher profitability in the life insurance business following the upward movements across international financial markets.

Also of importance was the reference to impairments on the bank's loan book. Despite the current economic conditions, HSBC Malta again noted that loan impairments were slightly higher than last year but below expectations. Shareholders also ought to be comforted by comments made by the directors that it continued to maintain a strong liquidity position, a stable loans-to-deposits ratio and capital ratios above minimum regulatory requirements which are also sufficient to meet future challenges.

> **"Last week IHI's equity ranked as the worst performer for the second successive week"**

The third largest company listed on the Malta Stock Exchange is International Hotel Investments plc. In its announcement on November 9, IHI explained that the performance of its hotels generally continued to improve in a similar manner to that seen in the first half of 2012 when EBITDA climbed by 37.7 per cent to €13.5 million. Directors expect an improved EBITDA for 2012 over that registered in 2011 when IHI still managed to register a group EBITDA of €22.4 million despite the significant reduction in revenue from the hotel in Tripoli.

Although IHI claimed that it is registering an improved operating performance, last week IHI's equity ranked as the worst performer for the second successive week as it tumbled a further 6.1 per cent to €0.75 (close to a seven-month low).

This renewed downturn in the share price is possibly in view of the lack of further information on any progress made with respect to negotiations on the sale of the London apartments. Although this was lacking in the announcement, shareholders ought to take note of the information in a prospectus published earlier this week. Since IHI's new bond issue is the first one for retail investors falling under the Listing Policies of August 2010, a financial analysis summary was drawn up and annexed to the prospectus.

This lengthy report indicates that IHI's EBITDA is expected to reach €28.8 million in 2012 (+28.6 per cent) and projected to grow by a further 42.8 per cent in 2013 to €41.1 million. The report indicates that IHI is expected to benefit from a significant cash inflow from the sale of the 12 luxury apartments adjacent to the London flagship hotel. The sale is expected to take place early next year. The document also refers to the intended use of the expected cash inflow. Shareholders should be pleased to note that a cash dividend is expected to be declared on completion of this transaction.

Possibly, the two most awaited announcements were from Fimbank plc and Go plc. However, in their recent statements both companies failed to provide the market with the news which shareholders have been eagerly awaiting. Fimbank's announcement gave a very detailed account of the operational developments experienced by the various subsidiaries around the world. Fimbank stated that revenue and profitability levels in the second half of the year followed the same trend of the first half when the group reported an 11.4 per cent increase in net profit to $4.5 million.

With respect to the long-awaited deal with Burgan Bank, Fimbank merely reported that in recent weeks, discussions and negotiations have been taking place aimed at bringing the transaction to a more advanced stage and further announcements will be made as soon as there are developments.

Similarly, Go plc's announcement on November 2 simply provided an update on the operational performance in Malta. With respect to developments in Greece, Go explained that Forthnet is expected to publish its third quarter results by the end of November and the company is progressing with its plans to increase its capital as it aims to raise €30 million. Go's directors again mentioned that they are still awaiting the publication of the rights issue prospectus to be able to determine whether or not to participate in this further capital raising exercise. A decision is long-overdue and is likely to impact sentiment (one way or the other) towards the company once it is announced.

RS2's directors also confirmed that they expect the results for 2012 to be better than those registered in 2011.

In its first major announcement since the company's listing in summer, Malita Investments plc explained that during 2012 it acquired the real rights over the sites of the Malta International Airport and the Valletta Cruise Port and it also acquired a 65-year temporary emphyteusis over the new Parliament building and the open air theatre. Malita also confirmed that it managed to conclude a €40 million loan from the European Investment Bank and that the financial results for the first nine months of 2012 are in line with expectations.

Surprisingly, Malita also announced that it plans to shortly publish its nine-month results which will be the first financial results publication for Malita as a publicly listed company.

Since Malta International Airport plc issues monthly announcements on traffic statistics, the interim statement by the airport operator simply reiterated the 3.7 per cent growth in passenger numbers during the first 10 months of the year and the company's expectations for a third consecutive year of record passenger traffic.

On November 8, MIA had upgraded its outlook for 2012 and now forecasts a growth of circa three per cent in passenger numbers to over 3.6 million. Given this forecast, it was not a major surprise that MIA's directors confirmed that they are expecting the 2012 financial figures to be better those reported in 2011 when the company registered a pretax profit of €18.9 million.

The interim statement published by Lombard Bank Malta plc indicated that until mid-November, pretax profits were below those registered in the previous comparable period and the bank expects this trend to be maintained up till the year end as profits will continue to be impacted by the exceedingly low level of interest rates.

Lombard failed to provide any update on the performance of the postal subsidiary and the bank's intention as announced on October 25 to purchase additional shares in Maltapost plc to increase its stake to a maximum of 74.5 per cent. Presumably, Lombard needs to await the publication of the September 2012 full-year results by Maltapost in the coming weeks before proceeding with increasing its majority stake.

Most interim statements are becoming more detailed and informative, giving a better overview of a company's financial performance and trends being experienced in their areas of business activity. This should assist investors and market practitioners. Companies should also consider using these semi-annual interim statements as a means of providing quarterly financial highlights and key performance indicators similar to that being issued by Grand Harbour Marina plc.

Stock markets thrive on information and more regular news flow would surely help increase activity in the market as was evident in some specific circumstances over recent months.