Stock Market Review

Maltapost debt-free again

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The September 2012 full-year results published by Maltapost plc last week may have surprised many investors in more than one way. Pre-tax profits declined by 32 per cent to €2.1 million – but many market participants possibly expected a worse result given the 52 per cent drop in profits in the first half of the financial year and the directors' warning on August 17 that the rate of profitability decline may accelerate until the revised tariffs are introduced.

Since the publication of the interim results on May 8, Maltapost's share price had been among the worst performers with a drop of 34 per cent to a low of €0.63.

Additionally, the decision by Maltapost's directors to recommend an unchanged dividend of €0.04 per share also ought to have caught many investors by surprise. The market was possibly expecting a lower dividend this year given the weaker financial performance.

Another positive aspect was the repayment of all bank borrowings during the year.

In the previous financial year, Maltapost had taken on borrowings of €4 million to fund the purchase of its head office while it also acquired two properties from internally generated cash.

However, despite the lower amount of profits generated, Maltapost still managed to eliminate its bank borrowings and it received a substantial inflow of its international trade receivables and also disposed of some of its financial investments.

When questioned on some of the main highlights of the results and the company's plans for the future, Maltapost chief executive Joe Gafà remarked that the company intended to remain debt-free although it aimed to continue to purchase property in certain locations. This depicts the company's rate of cash generation and the strength of the balance sheet. Although the postal operator repaid its bank borrowings of €4 million, as at September 30, the company held cash and deposits with financial institutions of over €5 million, apart from financial assets valued at €2.4 million.

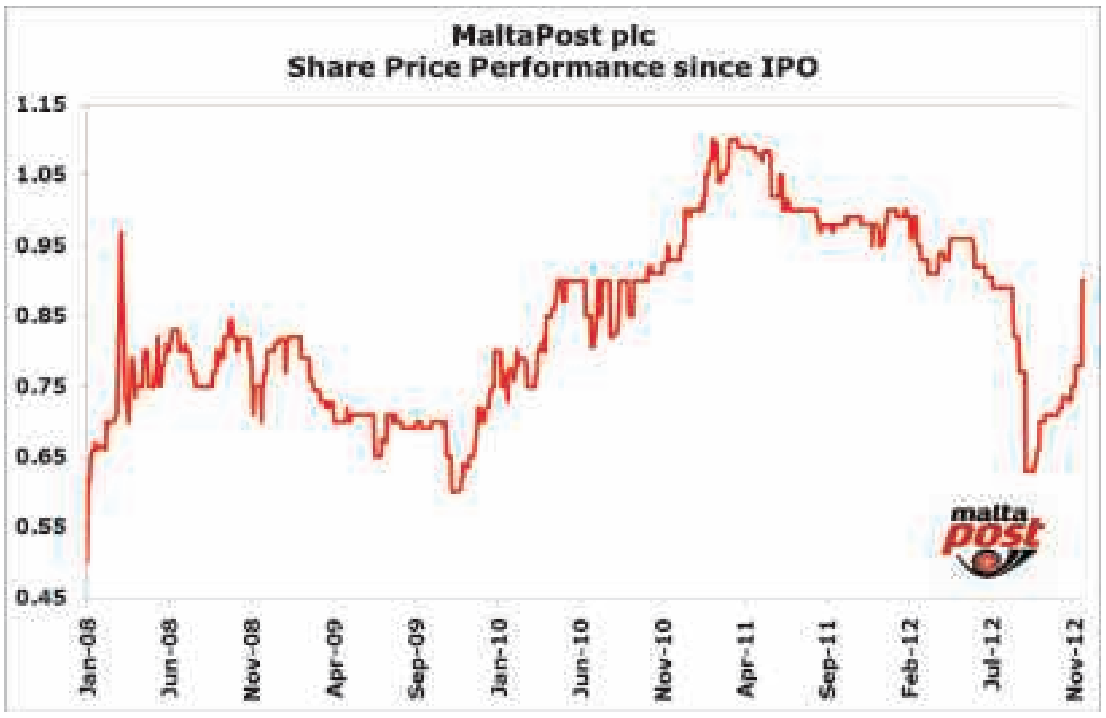
The reaction in the market clearly indicated that investors were positively surprised by the preliminary statement of results. The share price immediately climbed by 15.4 per cent to €0.90 last Wednesday and traded again at this level the following day. However, since the equity only traded for two days with the eligibility for the final dividend, this limited trading activity in the company's shares. It is generally advisable for the dividend entitlement period to be sufficiently long to enable investors to have adequate time to react to the financial results announcement. A company's equity is generally more active between the announcement of results and the dividend cut-off date.

In last week's announcement, Maltapost directors were explicit in their statement that the company's financial performance is expected to improve in the current financial year which began on October 1, 2012, following the recent decision by the Malta Communications Authority to revise postal tariffs.

From November 19, tariffs for local bulk mail and registered mail (both local and international) were increased while domestic 'single piece' letter mail will rise from the current 20c to 26c from April 1, 2013. Additionally, the price control mechanism recently published by the MCA following a consultation period indicates that postal rates are set to increase further on October 1, 2013, and October 1, 2014. These are subject to final confirmation by the regulator after a review of assumptions, forecasts and efficiency levels of the postal operator related to the Universal Service Obligations.

Before the coming into force on January 1 this year of the new international tariff framework set by the Universal Postal Union, the company had generated a pre-tax profit of €3 million annually for a number of years. It remains to be seen how long it will take the company to regain this level of pre-tax profits. Maltapost ought to communicate further with shareholders in the annual report and at the annual general meeting on January 10 to provide further insight.

The positive statement by Maltapost on the expectation of higher profits from the current year – despite the new tariffs not coming into force immediately at the start of the current financial year – could also be as a result of the anticipated higher mail volumes during the upcoming general election. Despite the popularity of social media which has already been widely used to communicate with the electorate, Maltapost expects higher postal volumes as has been the norm during such events.



As traditional mailing volumes continue to decline, all postal operators need to expand their service offering to counteract this inevitable trend. In this respect, Maltapost continued to benefit from e-commerce activities and the recent Send On service has reportedly been a success with more than 7,000 registered users despite the intense competition.

Philately is another area where Maltapost aims to continue to grow, helping to offset the decline in revenue from traditional mail. The CEO confirmed that during the last 12 months, revenue from philately jumped by over 68 per cent to circa €0.5 million on strong interest for the various initiatives launched by the company during the year, most notably the 70th anniversary of Operation Pedestal.

> **"Maltapost's intention is to remain debt-free although the company aims to continue to purchase property in certain locations"**

Mr Gafà also explained that e-commerce is also helping the growth in philately revenue as Maltapost successfully enhanced its website with an area specifically dedicated to philately enabling international collectors to subscribe online. More recently, Maltapost also joined the world online philately agency. This extensive website enables international collectors to purchase stamps and other collectibles from a choice of countries. This could present scope for sizeable growth in this profitable area in future years.

Maltapost recently focused on document management and archiving to expand its range of services to the market. After successfully being awarded a significant contract with a major government department, the company is reportedly in discussions with various private companies to offer similar services. Maltapost is also aiming to bundle its services for corporate clients to enhance the range of its services to such customers.

Another positive surprise announcement in last week's preliminary statement of results was that the company is also planning to enter the insurance market. Since its initial public offering almost five years ago, Maltapost's stated strategy has been to gradually expand in the financial services sector to capitalise on its extensive branch network. Maltapost is still seeking approval from the Malta Financial Services Authority to conduct this new service which it intends to carry out through a new fully-owned subsidiary.

When questioned for further details on the new insurance offering, Mr Gafà explained that Maltapost will be a tied insurance intermediary to sell all types of insurance from its branch network. However, Maltapost's CEO could not confirm the name of the insurance company for which the postal operator will be acting as an agent. Maltapost will need to recruit suitably qualified people in this area to offer such a service.

Another development worth mentioning is that on October 25, Maltapost and Lombard Bank both issued separate announcements through the stock exchange advising the market that the majority shareholder "intends to increase its stake in the postal operator from the current 67.72 per cent to not more than 74.5 per cent".

However, the announcement at the time and also last week's preliminary statement of results failed to disclose the way in which the majority shareholder aims to achieve its stated objective. While Lombard Bank (through its subsidiary Redbox Ltd) gradually increased its Maltapost shareholding over the past five years through the take-up of additional shares in lieu of the annual dividend, it had also conducted some purchases in the market over the years.

The surprise announcement last October gave a strong indication that Lombard's intention to increase its stake in Maltapost will not take place gradually through the subscription of new shares instead of a cash dividend annually.

The stated declaration indicated that a definite plan of action has been decided and will be implemented within certain conditions.

Now that the full-year results have been published and the 'closed trading period' for insiders has ended, the market expects further news in this respect.