Stock Market Review

The four star performers of 2012

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In the 2012 review two weeks ago, I explained that although the MSE Share Index ended the year with a gain of a mere 3.8 per cent, the share prices of Crimsonwing plc, Simonds Farsons Cisk plc, RS2 Software plc and Go plc strongly outperformed the benchmark index with some significant gains.

Crimsonwing's equity rallied by 96 per cent during 2012 but it is not the best performing equity of all times in a single calendar year for the local market. During the bull markets in 1999 and 2005, some equities had more than doubled during the year. In 1999, HSBC had jumped by 223 per cent and in that same historic year, the share prices of BoV and Go had similarly climbed by 175 per cent and 169 per cent respectively as euphoric sentiment overlooked all fundamental values.

However, the recovery of 206 per cent in Crimsonwing shares from its record low of €0.16 registered in February and April 2012 compares well to the extraordinary gains of the 1999 bull market. Crimsonwing's equity had dropped by 36 per cent at the start of 2012 to its record low on further evidence of the problems within its Dutch-based subsidiary which overshadowed the improvements in the UK and Malta.

However, the announcement published on May 24 revealing that Crimsonwing agreed to acquire the remaining 49 per cent shareholding of the other Dutch-based business (Promentum) which was to be financed through the allotment of new Crimsonwing shares valued at €0.30, led to an immediate rally with the equity jumping by 87.5 per cent on May 25. The share price eased back towards the €0.25 level during the summer months on lack of further support for the equity.

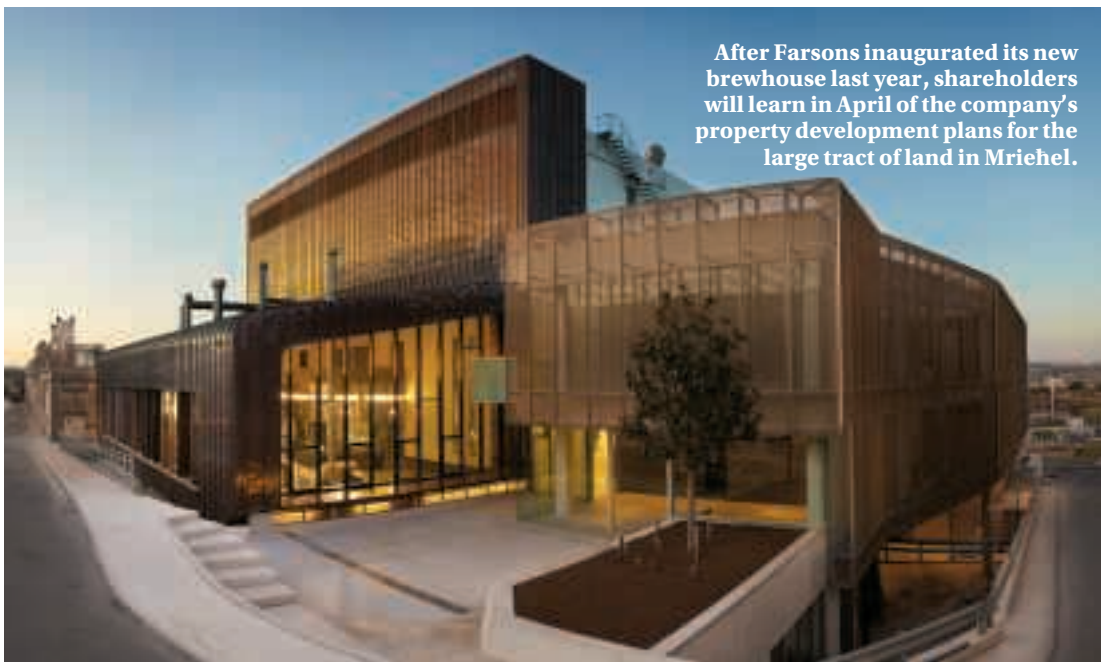
The significant outperformance in Crimsonwing's equity during the year came about following the media interview with CEO David Walsh published on October 22. A company announcement followed a few days later, detailing the new international contracts and more importantly the profit forecast for the next financial year ending March 2014 with the CEO indicating a €2 million pre-tax profit. The market immediately responded and the equity rallied by 52 per cent to €0.38 by the first week of November.

Moreover, the publication of the September 2012 half-year financials on November 29 confirming the start of the recovery in profits for the IT company led to a continued upswing in the shares as they approached their December 2007 IPO level of €0.50 by the end of 2012. This level was surpassed during the first trading session of 2013 as the equity gained a further 10 per cent to €0.54 and traded higher in subsequent sessions. The market now awaits the publication of the interim statement due by mid-February in which the company ought to disclose its key financial highlights of Q3 and possibly indicate its financial projections for the current financial year which comes to a close on March 31, 2013.

The second best performing equity during 2012 was Simonds Farsons Cisk plc with an increase of 38.9 per cent closing the year at an all-time high of €2.50 thereby surpassing the previous record of €2.427 in July 2008. The share price performed positively in Q2 and Q4 as the market first reacted to the record financial performance for the January year-end when the results were released in April and subsequently the equity advanced by 13.6 per cent in the final three months of the year reflecting the record interim financial performance announced in September.

Additionally, the interim statement in November indicated that the directors are expecting the group to register an improved performance for the year ending January 31, 2013, compared to the previous year when Farsons reported a record pre-tax profit of €5.1 million. These results will be announced in April 2013 and during the forthcoming annual general meeting which is normally convened in June, shareholders should hear further details on the company's property development plans for the large tract of land in Mriehel which has been largely released by the new facilities constructed in recent years.

Despite the 39 per cent share price increase during 2012, the equity continues to trade at a discount to the net asset value of €3 per share. This includes the value of €45 million (equivalent to €1.50 per share) attributed to the investment property which is largely earmarked for development to create a new recurring income stream for the Group. Another factor which investors ought to take into consideration is the tax aspect of the dividend distribution to shareholders. Dividends paid by Farsons are tax-free in the hands of shareholders and the dividend yield of 2.8 per cent per annum is therefore not comparable to the dividends on other equities normally taxed at 35 per cent. Given the significant tax credits of the company, dividends to shareholders ought to remain tax free for many more years to come.



After Farsons inaugurated its new brewhouse last year, shareholders will learn in April of the company's property development plans for the large tract of land in Mriehel.

2012 Best performers

Crimsonwing plc	+96.0%
Simonds Farsons Cisk plc	+38.9%
RS2 Software plc	+31.5%
Go plc	+21.4%

RS2 Software plc also ranks among the best performers for the second successive year. The equity of this IT company was the top performer in 2011 with an increase of 25 per cent and advanced by a further 31 per cent to €0.74 during 2012. It is also worth noting that trading activity in RS2's equity increased to 1.8 million shares during the past 12 months compared to 1.4 million in 2011. The share price of RS2 started off 2012 on a weak note as the market reacted negatively to the decision that no dividend was to be declared in respect of the 2011 year-end despite a 16 per cent increase in profits to €2.4 million.

> **The share price movements of these four equities during 2012 indicates the market is becoming increasingly responsive to news flow**

Although the company distributed bonus shares to shareholders following approval at the AGM, the share price dropped by 11 per cent during the first half of the year. The interim financial results showed a 12.6 per cent drop in net profits to €1.2 million and although the directors declared that the performance of the second half will improve over the first six months of 2012, the share price only recovered by four per cent to €0.52 during the summer months.

The significant upswing in the share price came about following the announcements on October 1 and November 16 when the company confirmed that it concluded two new license agreements for €6.5 million and indicated that other agreements were being negotiated and expected to be concluded by the year-end. The directors of RS2 had also announced in November that the financial performance of 2012 is expected to be higher than the pre-tax profit of €2.38 million registered in 2011.

Go plc's equity had a particularly volatile 2012 after ranking as the worst performer in 2011 with a drop of 49.4 per cent. Of particular relevance is the strong increase in trading activity in Go's equity during 2012 with a total of 4.5 million shares changing hands compared to 1.6 million shares in the previous 12 months. The downward trend in the share price experienced in 2011 continued in Q1 of 2012 with a 14.4 per cent decline as the market reacted to developments in Greece where Forthnet reportedly required a further equity injection and Go's 2011 financial results revealing another significant setback from the Greek investment.

The share price dropped to a new all-time low of €0.70 in May but started to recover quickly as the company revealed during its lengthy AGM that the transfer of the infamous Qawra property to the Government in exchange for other parcels of land will positively impact the 2012 financial results to the tune of €11.4 million.

The equity rebounded by 40 per cent during Q2 closing the month of June at €1.175.

The share price touched a 2012 high of €1.20 in early July but dropped back during summer possibly on the renewed uncertainty surrounding the Greek company as Forthnet continued to require a further capital injection.

Although Go has yet to decide whether it will support the proposed €30 million rights issue of Forthnet, Go's share price recouped the 19 per cent decline during the summer months with a 25 per cent jump in the final quarter of the year to close 2012 with an overall increase of 21 per cent to €1.19.

Go shareholders must now be eagerly awaiting developments in the near-term specifically related to the progress of the strategy being adopted by the new CEO to fend off the fierce competition across the local telecoms industry and more importantly whether the directors would be recommending the payment of a dividend after skipping it last year.

The share price movements of these four equities during 2012 indicates the market is becoming increasingly responsive to news flow.

This should encourage companies to communicate more regularly and effectively with shareholders and the market at large. Next week's article will analyse the weaker performers of 2012.