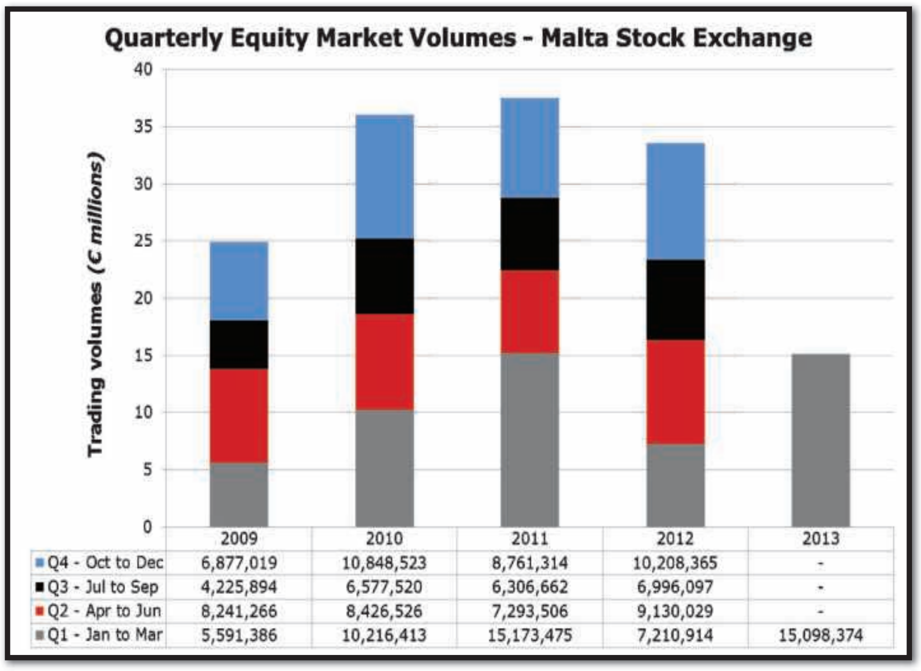
Stock Market Review

MSE Share Index rises on surge in volumes

Edward Rizzo

Edward Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.



During the first three months of the year, the local equity market measured by the MSE Share Index closed in positive territory for the fourth consecutive quarter. The Index gained 3.45 per cent as the large majority of shares performed positively and eight equities actually registered double-digit returns.

A very positive development was that the upswing came about from a continued increase in trading activity indicating a return to favour of equities as yields on bonds continued to decline. In fact, the higher volumes seen in the fourth quarter of 2012 gathered further momentum during the first three months of this year as equity market activity reached the €15 million mark – the highest level since the first quarter of 2011. Trading volumes in the first quarter of 2013 were 47.9 per cent higher when compared to the trading activity during the last three months of 2012 and more than double the volumes registered in the first quarter of last year.

The double-digit increases by the various equities reflected the positive developments at each of the respective companies. 6pm Holdings plc ranks as the best performing equity in Q1 2013 with a 45.2 per cent jump to the GBP0.45 level after revealing a number of new contracts including a £2 million integrated record management project with one of the largest hospitals in the National Health Service of the UK.

Similarly, Go plc's share price jumped 34.4 per cent to regain the €1.599 level as the group returned to a profitable position for the first time in five years (after completely writing off its investment in Forthnet). Possibly the major catalyst at Go was the dividend announcement as the directors recommended a net dividend of €0.10 per share – the extent of which ought to have positively surprised the market.

The US Dollar-denominated equity of Fimbank plc also rallied by 23.8 per cent to the $0.99 level as the market welcomed the imminent introduction of new institutional shareholders (Burgan Bank and United Gulf Bank). Moreover, investor sentiment towards the trade finance specialist was also further supported by the declaration of the high net dividend of $0.0369 per share notwithstanding a 3.6 per cent dip in profitability to $8.8 million.

The share price of Maltapost plc also rallied by 22.4 per cent to €1.04 during the first three months of 2013 as the postal operator confirmed in its interim directors' statement of February 19 that the company has started to recover from the 31.2 per cent drop in profitability for the last financial year ended September 30, 2012. During the first quarter of the year, Maltapost also confirmed that the new insurance subsidiary being set up will be acting as an agent of Middlesea Insurance plc.

In the IT sector, apart from 6pm Holdings plc, the other companies also had a strong start to the year. RS2 Software plc climbed 24.3 per cent to a new all-time high of €0.92 and the equity continued to reach new record levels during the first few days of April after the company confirmed the third licence agreement for 2012 worth $1.8 million and additionally that its fully-owned subsidiary, RS2 Smart Processing Ltd, concluded its first managed services contract with an initial three-year term.

Crimsonwing plc had been the star performer in 2012 with a share price appreciation of 96 per cent and the equity advanced by more than 16 per cent in Q1 2013 to €0.57. The market now awaits the publication of the March 2013 full-year results.

> **"Equity market activity reached the €15 million mark – the highest level since Q1 2011"**

Another equity with a double-digit increase was MIDI plc (+14.6 per cent to €0.315) as investors welcomed the company's decision to dispose of The Point, enabling it to move ahead with the remaining construction projects at Tigné Point.

Among the other positive performers it is worth highlighting that the share price of Malta International Airport plc edged 3.3 per cent higher to €1.86 after briefly touching a new record of €1.90 on March 14. The market responded positively to the publication of the record results for the 2012 financial year, the final dividend recommendation and more importantly to the forecast of a new record year in terms of passenger numbers expected for 2013.

The three retail banks listed on the Malta Stock Exchange also performed positively between January and March. The equities were supported by the 2012 positive results of Bank of Valletta plc and HSBC Bank Malta plc and by the surprise increase in the dividend of Lombard Bank Malta plc despite a drop in profitability caused by the decline in earnings at Maltapost plc.

On the other hand, three equities ended the first quarter of 2013 in negative territory. The worst performer was Island Hotels Group Holdings plc which slumped 18 per cent to €0.648 as the group reported another loss-making year and the directors revealed that the group is facing challenges to raise fresh equity needed to finance the upcoming projects including the development of the Oasis (the former Ħal Ferh site).

International Hotel Investments plc also slid 9.9 per cent lower to €0.775 during the first three months of 2013 as investors continue to await developments with respect to the sale of the 12 luxury apartments in London. In last week's announcement, IHI's directors indicated that the board remains firmly committed to dispose of the London Residences and negotiations are still ongoing with interested bidders with the ultimate objective of maximising shareholder returns.

The directors explained the group is still in discussions with Sovereign Wealth Funds and large institutions with the aim of raising fresh capital to enable the group to move ahead in its overall vision including property acquisitions in Europe, North America and Asia to expand the Corinthia brand. The market will remain attentive to upcoming announcements in this respect.

The other equity in negative territory was Plaza Centres plc with an 8.3 per cent decline to €0.55 after failing to hold on to last year's closing price of €0.60 which was reached on very low volumes. Plaza reported a 1.7 per cent decline in profitability to €0.82 million as occupancy dropped following the vacation of some office space. Nonetheless, the net dividend was practically unchanged at €0.0247 per share and the company reported that occupancy is expected to start rising again in the coming months as some of the office space is leased.

While volumes across the equity market surged, local corporate bond market activity during Q1 2013 was at its weakest since 2011 on very minimal availability of bonds in the market, restricting daily activity. The lack of new issuance also contributed to the low level of activity on the secondary market but this is expected to improve as the year progresses following the new revisions to the Listing Policies.

On the other hand, volumes across the various Malta Government Stocks surged possibly as the continued improvement in prices led to some profit-taking. The Rizzo Farrugia MGS Index edged 1.14 per cent higher in the first three months of 2013 building upon the 1.67 per cent gain last year. Many of the long-term MGS prices touched fresh all-time highs and this positive trend continued in the early part of April following the developments in Cyprus and the resultant impact on the international bond markets.

Although the local equity market performed positively, the MSE Share Index again underperformed when compared to some of the larger international equity markets. Investor sentiment continued to be helped by the aggressive monetary policy actions implemented by central banks around the world. The biggest beneficiary was Japan's Nikkei 225 which rallied by 18.7 per cent in the first three months of 2013. US markets also performed very positively with the Dow Jones rising by 11.25 per cent – the best first-quarter performance for this index since 1998. Both the Dow Jones and the broader S&P 500 (+10 per cent) achieved new all-time highs from their previous records of 2007 before the start of the international financial crisis. The FTSE100 in the UK advanced by 8.7 per cent but the continental European equity markets posted weaker performances as sentiment was again impacted by the ongoing eurozone crisis. The Italian and Spanish equity markets dropped, reflecting the country's economic and political challenges.

The outlook for international markets will continue to be impacted by monetary policy actions and ongoing developments across the eurozone. Last weekend's international press turned its focus to Portugal after their constitutional court rejected €1.3 billion worth of key austerity measures, putting additional pressure on the country's public finances and increasing the possibility that Portugal may need to agree on a second bailout following the original one of 2011. Economic data regularly published from the key global economies will also naturally impinge on investor sentiment.

While the eurozone crisis will have a bearing on the future performance of the market, locally, share prices will be more responsive to company specific developments. In the coming weeks, we will have the conclusion of the reporting season for those companies with a December year-end while BOV will be issuing their half-year results for the six-month period to March 31. These are always an important gauge for future market sentiment.