Stock Market Review

Go plc's share price rebounds strongly

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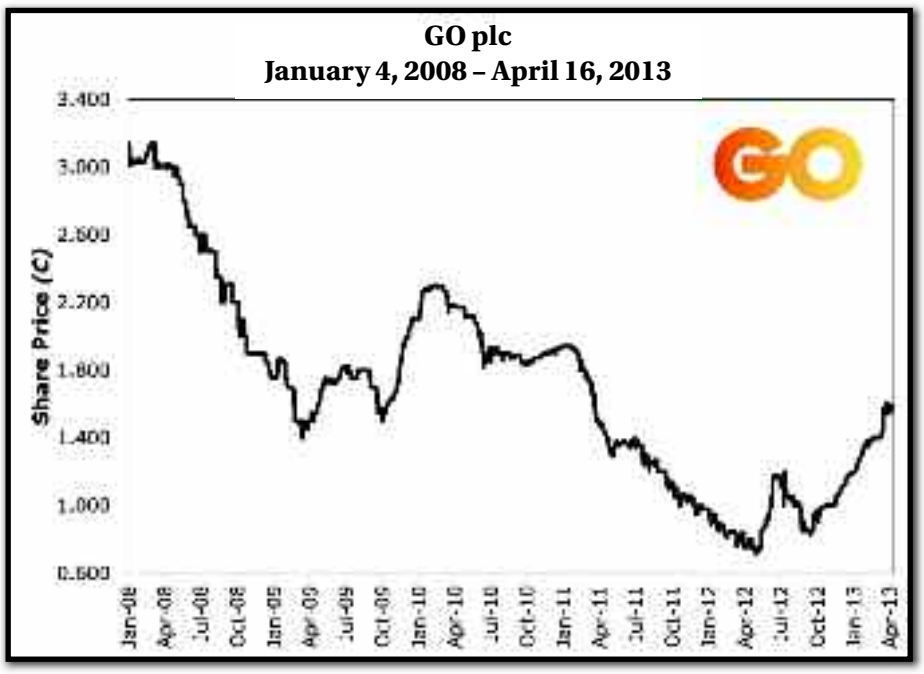

Go plc's share price was among the top performers during the first quarter of 2013 with an increase of 34.4 per cent. The equity of the telecoms company has surged from last year's all-time low, placing the equity as the second best performer over a 12-month rolling period. Since its low of €0.70 on May 14, 2012, the share price has rallied by 124 per cent to a price of €1.571. The best performer was Crimsonwing plc with an extraordinary rise of over 256 per cent from last year's low of €0.16 to a current share price of €0.57.

The initial rally in Go's share price occurred shortly after last year's four-hour annual general meeting which had been a historic one as a result of the various special resolutions placed on the agenda by a group of minority shareholders holding in excess of five per cent of the company.

The detailed information provided by the chairman and the executive management mainly on the developments in Greece and Go's property portfolio seemed to have clarified a number of issues that had clouded sentiment in previous months. The clarification from Go on these two important issues must have been a major factor behind the surge in the equity from a low of €0.70 to a high of €1.20 by mid-July.

Although the 2012 half-year results published on August 31, 2012, gave a clear indication of the profitable local operations of the group as no other impairments on the Greek investment had been recognised, the news in the summer months that Forthnet required a fresh capital raising exercise of €30 million and the resultant uncertainty whether Go plc would also participate in such a rights issue, placed the share price under renewed selling pressure. The share price proved to be rather volatile during the second half of 2012 as it then dropped back to €0.82 in September before regaining the €1.20 level by the end of the year.

The pending rights issue has so far not materialised due to the developments in Greece and ongoing negotiations with Forthnet's bankers. Despite the continued uncertainty among the investing community on the future of Forthnet, Go's share price maintained the renewed upward momentum and advanced further at the start of 2013 in anticipation of the 2012 full-year results publication and the potential reinstatement of a dividend. The 2012 year-end financial statements were published on March 20 and on the following day, the share price climbed by seven per cent on strong activity. Although the return to an overall profitable position for the group was widely expected following the interim results announcement and the minimal negative impact from a further impairment on Forthnet, the major surprise was the extent of the dividend recommendation by the directors.

Possibly, few investors would have anticipated a net dividend of €0.10 per share which, at the prevailing price at the time of €1.44 per share, translated into a net yield of seven per cent – undoubtedly the best dividend paying company on the MSE.

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Despite the increasing competition and regulatory developments which led to a decline in revenue, the financial statements also indicated that the group maintained a healthy cash generation with cash flows from operations amounting to almost €40 million. Shareholders would naturally now need to analyse from the financial statements and the group's upcoming investment programme whether such a dividend is sustainable also in future years.

The healthy cash generation is an important indicator. However, it is also very encouraging for shareholders that the group already has adequate banking facilities in place to cover its planned ongoing capital expenditure to maintain the group's status as one of the leading technology companies in Malta. This is very positive and worth noting by prospective investors.

On the other hand, during the recent meeting with the financial community, Go chairman Deepak Padmanabhan explained that the capital raising exercise at Forthnet still needs to take place. Forthnet recently announced that it has finalised the rights issue offer document and they are awaiting regulatory approval. When published, the prospectus will then be used as a basis for discussion by Go and other Forthnet shareholders on whether to participate in the rights issue or not.

Although the looming decision on a further capital outflow towards Greece still has to take place, the share price of Go plc continued to trade higher even after the equity turned ex-dividend at the beginning of April. This could indicate that the market is anticipating that after Go's directors opted to completely write off the investment in Forthnet in Go's 2012 financial statements, a further investment in Forthnet by Go is unlikely to take place and Go's percentage shareholding in the Greek company will be diluted accordingly. The final decision should be announced in the coming weeks.

Some of the information contained in Forthnet's 2012 annual report recently published provides a clear message to all Forthnet shareholders of the serious financial difficulties being faced by the Greek company and the significant risks attached to a further investment in Greece. As at December 31, 2012, Forthnet's current liabilities significantly exceeded current assets and Forthnet is in violation of a number of its financial covenants with its bankers.

On January 15, the lending banks requested an update on the progress of the share capital increase and actions taken by the company towards compliance with the financial covenants and other undertakings of the loan agreements. Due to Forthnet's insufficient working capital, it will not be able to fully meet its contractual obligations for 2013 which include €49.5 million in repayments to creditors.

As such, the €30 million equity injection is urgently required to alleviate the company's financial problems. The directors of Forthnet warned that there is a material uncertainty on the company's ability to continue as a 'going concern' should it be unable to "complete a refinancing of its entire contractual obligations with respect to its bank debt, have its share capital increase sufficiently subscribed in a way that is fitting to its liquidity outlook and resolves outstanding issues regarding financial covenants and undertakings under its bond loans".

Additionally, another factor likely to impact investor sentiment towards Go will be when decisions are announced concerning the group's investment property portfolio. Following the setting up of the property holding company Malta Properties Company Limited, Go's senior management team recently explained to members of the financial community that it is currently drawing up a master plan for its €50 million property portfolio after it carried out a detailed review of upcoming technological infrastructure requirements and necessary replacements. Some of the properties may be disposed of entirely after all infrastructure is removed from the property concerned while other properties may be developed and rented out to create a new recurring revenue stream for the group in the form of rental income.

Answering questions from the floor on recent rumours surrounding the property in St Julian's located close to the Pender development, Go chief financial officer Edmond Brincat confirmed that discussions are taking place with a potential buyer. However, Mr Brincat also explained that the property is still required to house some of the group's technology indicating that a near-term announcement in respect of this particular property is unlikely.

Many Go plc shareholders who did not take the opportunity of the low share price of last year to average down their cost of their overall exposure to the company, would tend to argue that despite the significant rebound over the past 12 months, the equity is still substantially below its level of previous years. This is correct and it is also worth highlighting that the current share price of €1.60 is also below the 1998 IPO level which was equivalent to €2.09.

This is a clear reflection of the loss in shareholder value suffered by all shareholders from the ill-fated Greek investment. However, should Go decide against taking up its rights issue entitlement in Forthnet, maintain a strong cash generation from operating successfully in Malta and in the future realise value from its large idle property portfolio, Go could gradually rebuild the value lost in recent years providing further support to the current positive investor sentiment towards the company.