Stock Market Review

GHM, Go plc top 2013 dividend league table

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As regular followers of my weekly column are aware, at this time of the year, once all companies would have published their full-year financial statements, an updated table showing the dividend yields of companies whose shares are listed on the Malta Stock Exchange is published.

Given the historically low interest rate environment, dividends paid by companies on their shares have increased in importance especially for investors who, in the past, mainly looked at fixed interest rate securities to generate income. A further rate cut was announced by the European Central Bank last week and it could take some years for investors to again enjoy suitable returns on traditional bank deposits and from sovereign bonds of investment grade countries.

Local investors who have a strong preference for income generation should look at the dividend yield table with a greater interest than usual since it is becoming increasingly evident that investors should consider investing in some of these companies to generate higher income levels. The yields published in this table are quoted after tax to provide a more meaningful comparison in view of the different tax treatment of dividends by some companies.

The last two new equity offerings in Malta were structured precisely in such a manner to accommodate income-oriented investors. These two issues were strongly supported by institutional investors, whereas they were received with a fair degree of scepticism by retail investors who possibly failed to understand the business models of these companies and their ability to honour their commitment to distribute a large part of annual profits in dividends to shareholders. It would therefore seem that retail investors require more guidance and assistance from independent financial advisers.

Comparing the updated dividend league table to the one published at this time last year reveals that more companies are now distributing cash dividends to shareholders. It is worth highlighting that the projected dividend to be issued by Tigné Mall plc (of four per cent for 2014) is not included in this table, while the figure of 3.1 per cent for Malita Investments only represents the first dividend distributed a few weeks ago. It does not take into account the expected full-year dividend to be distributed on a semi-annual basis.

Equity	Dividend Yield (after tax)
Grand Harbour Marina plc	6.45%
GO plc	6.29%
Bank of Valletta plc	4.92%
HSBC Bank Malta plc	4.48%
Plaza Centres plc	4.33%
Lombard Bank Malta plc	4.33%
MaltaPost plc	3.81%
FIMBank plc	3.66%
Malta International Airport plc	3.63%
Simonds Farsons Cisk plc	3.25%
Malita Investments plc	3.16%
6pm Holdings plc	2.86%
RS2 Software plc	2.45%
Middlesea Insurance plc	2.12%

Data as at May 6 2013

Five companies reinstated dividends to shareholders – Grand Harbour Marina plc, Go plc, 6pm Holdings plc, RS2 Software plc and Middlesea Insurance plc. In the case of GHM and Go, the dividends announced in recent weeks were very high and as a result, these two companies top the table with a substantial margin over the rest of the companies. Although the size of Go's dividend could have surprised many investors, this should be sustainable given the annual cash flow from operations and the banking facilities already in place to fund future investment requirements.

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Meanwhile, the situation at GHM is very different. As indicated in recent years, the marina operator is so far still totally dependent on the realisation of the sale of superyacht berths to fund a cash dividend to shareholders. As such, GHM shareholders must hope that such sales continue to materialise on a yearly basis to achieve a cash return since the equity has since failed to register any major upward appreciation.

Eight companies continue to regularly feature on the list of dividend paying companies. These are the four banks (Bank of Valletta plc, HSBC Bank Malta plc, Lombard Bank Malta plc and Fimbank plc) as well as Plaza Centres plc, Maltapost plc, Malta International Airport plc and Simonds Farsons Cisk plc.

All four banks improved their overall distributions to shareholders this year with similar increases in yields. The share prices of the two large retail banks continued to perform within a tight range while Lombard Bank's equity sunk to fresh lows on continued uncertainty regarding the fate of the 49 per cent shareholder. Meanwhile, the imminent change in shareholding at Fimbank had a positive impact on the equity as it climbed by 25 per cent over the past 12 months.

Plaza, Maltapost and MIA announced unchanged dividends to shareholders. Whereas the yield on Plaza's equity is unchanged over last year reflecting the flat share price performance, the yield on the equity of Maltapost is lower compared to last year. This is a result of the increase in the share price which materialised after the majority shareholder announced its intention to increase its equity stake to a maximum of 75 per cent. It also comes in anticipation of a recovery in profits following the increases in postage rates approved by the regulator.

Likewise, the net yield of MIA dropped from 4.05 per cent last year to 3.72 per cent reflecting the upward movement in the share price to new record levels as the market reacted positively to the company's developments in particular the expectation of a further record number of passengers also for 2013.

The yield on Farsons shares also dropped by circa 0.6 percentage points to 3.28 per cent. While the company announced a 25 per cent increase in dividends, the share price rallied by 40 per cent over the past 12 months in response to the record financial performance by the company. As such, the higher share price led to a lower yield.

While dividends for shareholders are a very important characteristic, one must not look at dividends in isolation. Investors must also take into account the capital growth prospects of some shares. This is commonly referred to as the total return for shareholders. This is important given recent developments of some companies. While two of the IT companies that reinstated dividends to shareholders, i.e. 6pm and RS2, feature at the lower end of the dividend league table, shareholders of these companies should not be disappointed at the developments over the past twelve months.

On a 12-month basis, these companies are among the strong outperformers with significant appreciation in their share prices thereby rewarding shareholders in different ways. The sterling-denominated equity of 6pm rallied by 66 per cent; the equity of RS2 climbed by 98 per cent to a new all-time high of €1.02.

Various other companies again failed to distribute cash dividends to shareholders. However, some may shortly be in a position to do so, depending on specific individual circumstances.

One is International Hotel Investments plc, which is reportedly negotiating the sale of the 12 residences in London and a successful conclusion to this transaction could lead to a maiden cash dividend to shareholders.

Another, Medserv plc, has had a rather erratic history of dividend distributions in view of the volatile nature of the company's operations which in recent years was impacted to a large degree by the situation in Libya. Medserv always favoured a policy of distributing excess cash to shareholders, and if the company's objectives are achieved for the current financial year, Medserv shareholders should be rewarded accordingly.

On the other hand, Crimsonwing plc has a March financial year-end and shareholders of this company look forward to the publication of the financial statements in the coming weeks to verify whether the company is in a position to emulate the other IT companies and re-instate a dividend to shareholders.

Crimsonwing's share price recovered significantly over the past 12 months with a rise of 256 per cent from its historical low as the market responded to the bullish outlook provided by the company.

It is important for investors and market participants to understand the different business models of each company to be in a position to know which are those companies that have sustainable dividends and those companies that are dependent on certain developments to reward shareholders with dividend payouts.

Notwithstanding the extent of the dividend, investors should generally have a mix of investments in their portfolio comprising companies not only offering stable returns but also some that have scope for capital appreciation. Developments in the local market during the past 12 months clearly send such a message. There has been strong share price growth in some companies which may have been overlooked by investors as well as market participants who do not follow company specific developments closely.