Stock Market Review

Farsons working on various fronts to sustain its growth

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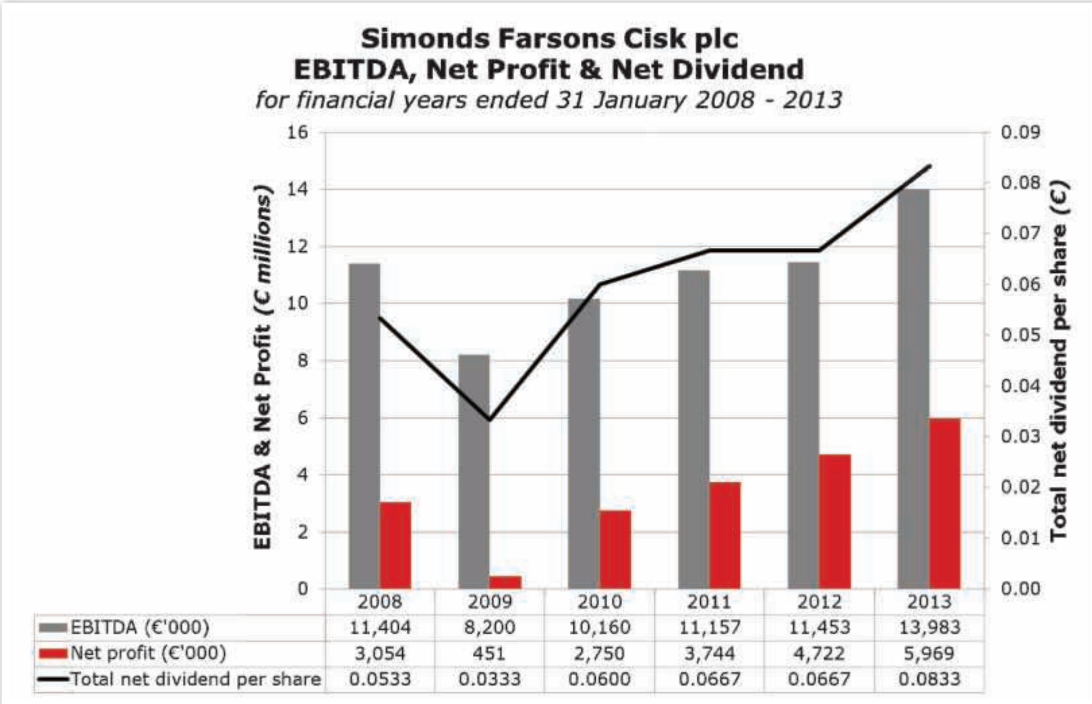

	2008	2009	2010	2011	2012	2013
EBITDA (€'000)	11,404	8,200	10,160	11,157	11,453	13,983
Net profit (€'000)	3,054	451	2,750	3,744	4,722	5,969
Total net dividend per share	0.0533	0.0333	0.0600	0.0667	0.0667	0.0833

Simonds Farsons Cisk plc convened its customary meeting with members of the financial community last week, coinciding with the publication of the 2013 Annual Report which was distributed to all shareholders before the 66th Annual General Meeting scheduled to take place on June 20.

The 2012-13 financial period, which came to a close on January 31, 2013, was another record year for Farsons on all fronts. Overall revenue grew by nine per cent to €77.2 million, earnings before interest, tax, depreciation and amortisation (EBITDA) rose 22 per cent to €14 million and pre-tax profits climbed 28 per cent to €6.5 million. During the meeting, Chief Financial Officer Charles Xuereb discussed the financial performance in detail, indicating the specific business units which contributed to what he described as an "impressive result".

The brewing and bottling of Cisk, Kinnie and various other beverages still remains the most important segment of the Group, with an operating profit contribution rising by 24 per cent to €5.8 million. While Farsons adopted a number of initiatives to improve efficiency, strengthen its product portfolio and focus on sales and marketing activities to drive higher revenue, various other external factors contributed to the record performance.

Mr Xuereb noted the European football championship of June 2012, the favourable weather conditions with above-average temperatures in the summer months and, equally important, another strong year for tourism.

Meanwhile, the food and beverage importation segment produced mixed results. The food importation business suffered due to market pressures and lower margins resulting in a decline in profitability, while the beverage importation side registered strong results following the successful consolidation of a number of new brands and a consistent performance by some of the other flagship products.

The 11 outlets forming the franchised food business incorporating KFC, Pizza Hut and Burger King also performed positively in the 2012-13 financial year. The company is seeking planning approval for the opening of a new drive-through Burger King outlet in Qormi in very close proximity to the new Lidl store. Within this segment, the company indicated that they were happy to pursue growth opportunities with the present brands being represented, as they firmly believe that there exists strong potential for further growth and expansion of these brands.

Reference was also made to the strengthening of the balance sheet with a decrease in borrowings in recent years from a total of €43.9 million in 2009 to €29.7 million as at January 31, 2013. The gearing level therefore improved to only 24.4 per cent in the last financial year. This is positive for the company's various creditors, including the many bondholders. Likewise, the interest cover grew to over five times and these two indicators possibly justify the recent increase in the price of the company's 6% bonds to 108.50 per cent, which reduced the yield to below 4.6 per cent per annum.

In a presentation at the start of the meeting, CEO Norman Aquilina provided an overview of the basic driving principles being adopted by Farsons and spoke at length about the various initiatives to sustain the recent financial performance. Mr Aquilina made specific reference to a strict focus on the export market, innovation and cost efficiencies.

The CEO indicated that the company has set itself ambitious plans for the export segment through the continued internationalisation of Cisk and Kinnie in specific markets. He singled out Italy and Libya as being the markets which possibly offer most scope for growth in the near term, although Mr Aquilina indicated that Cisk and Kinnie were already present in other markets too. The CEO explained the current limitations for the export market due to current packaging restrictions from the plant available, which has been in use for many years.

> **"Renewed investment is required to make further inroads in exports"**

Mr Aquilina clearly indicated that renewed investment was required to make further inroads in exports. The CEO also commented that the recent investment in the new brewhouse enabled the company to offer a more competitive product. The packaging hall, which was being studied and which was announced by the chairman towards the end of the meeting, should achieve management's objective of ensuring more packaging alternatives to satisfy the export markets.

Mr Aquilina also spoke about the importance of innovation to sustain the company's financial performance in future years. The CEO gave specific examples of the innovative additions to the Cisk portfolio (Excel and Chill) and other packaging initiatives across the product portfolio to improve sales figures.

While the investments in the brewhouse, logistics centre and packaging hall in recent years had a natural impact on the number of employees and the beneficial effect of lower costs for the Group, the CEO also made specific reference to some energy efficiency projects to reduce utility costs.

Farsons is currently embarking on a €3 million investment plan incorporating the installation of PV panels, a new refrigeration plant and other initiatives, including a water treatment plant. These energy-saving projects will not only reduce energy consumption and water usage but also generate energy from renewable sources.

The chairman concluded the meeting by delivering a short presentation on the need for continued investment to move ahead with the company's plans. Mr Farrugia announced that the board was actively studying the construction of a new beer packaging hall to replace the current facility which has been used for the past 25 years.

The chairman indicated that the cost of this investment should amount to €25 million and is required to further reduce ongoing costs and more importantly to increase the company's competitiveness in export markets by offering diverse packaging options for various countries. Mr Farrugia indicated that this is a very important investment for the future of Farsons and shows the decisive focus being placed on exports to sustain the Group performance also in future years. Management will be undertaking further studies and analysis of this investment and the funding plans in the coming year, and the construction of this new facility is expected to last for three years.

The chairman also advised that at the upcoming AGM, a masterplan will be presented detailing the vision for the redevelopment of the large idle property on the Mrieħel frontage which is valued in the balance sheet at €45 million. This large parcel of land has been the subject of various annual reports and presentations since early 2009, when a revaluation of this land in the financial statements led to a significant increase in the net asset value of the company.

During the meeting last week, Mr Farrugia did not give too much detail but stated that a company announcement would be made on the day of the AGM providing details to the market at large, although he warned that the announcement would not relate to an immediate investment.

Mr Farrugia described this as a "statement of intent" which will enable the company to deepen its analysis on the various proposals in hand, including discussion with other stakeholders who may partake in some of the proposed ideas.

This development has been anticipated for some time, and this year's AGM should therefore provide some interesting information on what could eventually turn out to be a major milestone for the Farsons Group.

Farsons shares have performed very positively in recent months. The share price has increased 49 per cent since touching a low of €1.72 in February 2012. This positive performance is in response to the record financial results announced by the company and the payment of higher dividends to shareholders.

The equity touched a new record level of €2.60 in February and March 2013 but activity in the company's shares has been far lower than in other equities, reflecting the tight shareholding structure with three family-holding companies owning 79.32 per cent. The balance of 20.68 per cent is spread among 1,787 other shareholders.

In view of the high percentage held by the three holding companies, Farsons' board should consider various options to increase the number of shares in public hands and improve the liquidity in the equity. Companies also ought to focus on such initiatives in order to improve shareholder value.