Stock Market Review

MSE Share Index outperforms other main European indices

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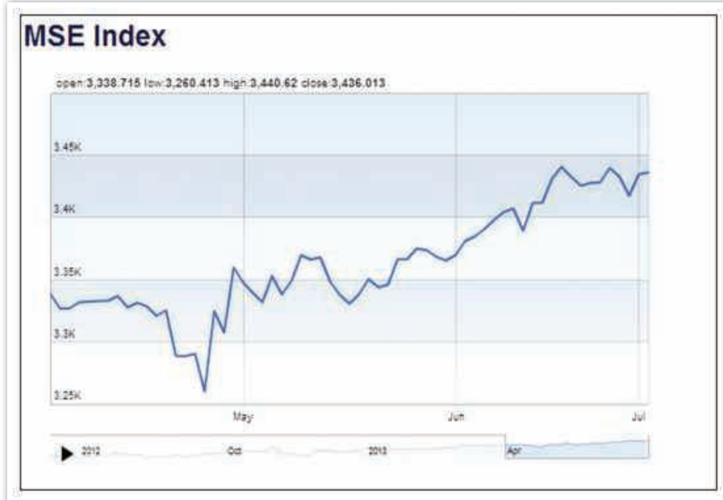

During the first half of the year, the local equity market performed positively with the MSE Share Index rising in each of the last six months – actually the local benchmark has been on an upward trend for a considerable time with nine positive performances over the past 10 months.

The MSE Share Index gained 6.4 per cent during the first half of 2013 following the 3.8 per cent rise in 2012. It is encouraging to note that the consistent increase in the equity index was accompanied by higher trading activity as this surged by over 60 per cent during the first six months. This indicates the increased responsiveness by retail and institutional investors to the various announcements issued by a number of companies making the market more liquid and enabling investors to trade more frequently.

The local equity market has therefore continued to recover following the 2008/09 downturn and is currently up 29.6 per cent from the multi-year low of 2,636.388 points recorded on April 13, 2009. Last week, the MSE Share Index reached a two-year high of 3,440.620 points and the upturn in recent months is very much spearheaded by some of the smaller capitalised companies, particularly the IT companies. However, it is also interesting to note that various equities registered double-digit returns in the past six months.

The IT companies have been the star performers in recent months. The Sterling-denominated equity of 6pm Holdings plc takes top place during the first half of 2013 with an extraordinary rise of 105 per cent from an adjusted value of £0.298 at the start of the year to £0.61. The second best performing equity was RS2 Software plc with a share price appreciation of 81 per cent. Both share prices have been adjusted to reflect the bonus share issues that took place some weeks ago. The strong performance by both equities came in response to the various official announcements issued by these companies confirming the award of new international contracts. More importantly, in the case of RS2, the upturn also reflects the interest shown by a Tier 1 UK bank to acquire a stake of at least 10 per cent of the total issued share capital. The latest announcement confirmed that following the approval of a number of resolutions at the recent AGM, information of a price sensitive nature is being disclosed to this bank which intends to establish a strategic relationship with RS2.

The other IT company, Crimsonwing plc, also had a positive but more subdued performance with an increase of 18.4 per cent so far during 2013. However, this must be viewed in the context of the strong uplift of Crimsonwing's share price during 2012 of 96 per cent. The market is now awaiting the publication of the March 2013 full-year results in the coming weeks. As anticipated by the directors in various announcements over recent months, these financial statements should confirm the profitable recovery of the business and the company is also expected to provide guidance for the current financial year. Revenues for the 2013/14 financial year are expected to exceed the €20 million level and more importantly the overall profit margin is also anticipated to increase further.

In addition to RS2 and Crimsonwing, two other equities reached new record levels during the past six months. Malta International Airport plc saw its share price advance by 13.6 per cent to a new all-time high of €2.05 as the company registered another record financial performance during 2012 and also announced a consistent growth in monthly passengers in each of the first five months of 2013. This is expected to produce yet another record year for MIA. This company proved to be a success for investors with consistently attractive semi-annual dividends in each year and a growth in the share price of 141.2 per cent from the initial public offering of 2002 at €0.85 and 25.7 per cent from the second public offering in 2005 at €1.631.

Similarly, the equity of Simonds Farsons Cisk plc climbed up 10.8 per cent to an all-time closing high of €2.77 (after reaching an intra-day record of €2.95) following a rise of 39 per cent in 2012. The recent sharp upturn in the share price reflects the strong improvement in pre-tax profits by the Group to a record level of €6.5 million for the last financial year to January 31, 2013.

Among the larger capitalised companies, the two banks recorded minimal share price movements with Bank of Valletta plc up 4.7 per cent and HSBC Bank Malta plc unchanged at €2.70.

Meanwhile, International Hotel Investments plc ended the first half of the year 4.7 per cent higher after shedding 14 per cent during Q1. The recovery evident in recent weeks stems from improved investor sentiment following confirmation by top executives within the Group that the aim is to start disposing of the non-hotel assets.

Only four companies saw their share prices perform negatively during the first six months of the year. Island Hotels Group Holdings plc is the worst performer with a decline of 32.2 per cent to fresh lows on continued losses registered in recent years. However, it is worth recalling the important development permit received earlier this year in respect of the Oasis project.

Meanwhile, international equity markets were more volatile especially in recent weeks. In fact, as a result of the sharp correction since the third week of June, the 6.4 per cent growth in the local equity market enabled the MSE Share Index to outperform the larger European indices. The FTSE 100 in the UK closed H1 with a rise of 5.4 per cent following a decline of 5.6 per cent during the month of June, with the DAX30 in Germany likewise showing a 4.6 per cent gain in the first six months after a similar correction in June. The French market closed minimally higher with negative returns recorded in Spain and Italy. Meanwhile, the US markets performed more positively with the Dow Jones Industrial Average covering 30 companies rising by 13.8 per cent, the S&P500 showing gains of 12.6 per cent and the technology-based NASDAQ up 12.7 per cent. However, until May many of the major international equity markets rallied to new multi-year or all-time highs but then suffered steep declines in June. The change in direction in the markets took place after officials from the Federal Reserve in the US indicated their intention to gradually start reducing the amount of stimulus (QE) in the markets.

While international investor sentiment seems to have changed following the events of recent weeks and one should expect increased volatility to characterise the equity as well as bond markets in the months ahead, the local equity market has become very much event-driven with trading activity and share price movements materializing after the publication of company announcements. This was very much evident in the movements and the high volumes seen in the equities of the IT companies as well as many of the other companies.

The outlook for the local equity market over the next six months is therefore very much dependent on each specific company and upcoming developments. A number of important announcements are likely to characterise the performance over the coming weeks and months. The IT companies will remain in focus following the sharp upturn in their share prices and the anticipation of further news from RS2 regarding the identity of the UK bank and the upcoming change in shareholding. Another company that has recently experienced a significant change in shareholding was FIMBank plc as Burgan Bank of Kuwait and United Gulf Bank of Bahrain (both members of the KIPCO Group of Kuwait) acquired a stake amounting to just under 38 per cent. As part of the plans by both banks presented to FIMBank shareholders during the Extraordinary General Meeting, a number of other important developments are likely to take place, i.e. a voluntary bid by one or both of the new shareholders for all other shares in FIMBank, the conversion of the convertible loan into new shares and subsequently a rights issue of up to $100 million to raise the total equity base of FIMBank. Another development that is widely anticipated by many local shareholders is the confirmation by IHI of the sale of the 12 luxury apartments in London which would enable the company to declare a cash dividend to shareholders. This could prove to be a major milestone for IHI and the market in general and given the indications from the Chairman during the recent AGM, this is likely to take place during the second half of 2013.

Lombard Bank Malta plc was also under the spotlight in recent months in view of the fate of their largest shareholder Cyprus Popular Bank. Although Lombard's Directors have publicly stated that the bank has no exposure to its largest shareholder, investor sentiment towards Lombard was negatively impacted leading to a decline in the share price to a level below the net asset value. Some news from the bank with respect to a potential buyer for this sizeable shareholding currently in the hands of the administrators of Cyprus Popular Bank could also be a major event for Lombard and the local market in due course.

Moreover, the expected new issues in the bond market is another important development expected for the second half of the year possibly providing investors with some renewed opportunities to diversify their portfolios in view of future market developments.

The events over the past six months confirm the responsiveness of the local equity market to company developments and news flow. The strong appreciation in many share prices rewards those active investors who sought exposure to certain companies at times when market sentiment was weak and share prices did not reflect the future potential for the company. Investors should therefore increasingly rely on information and research from financial analysts who closely follow individual company developments to position their portfolios accordingly.

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