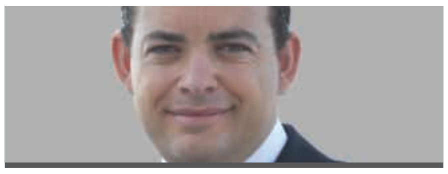
Stock Market Review

Go's minority shareholders await further developments on Forthnet



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Forthnet dominated the business headlines in Greece in recent weeks as a number of announcements and media reports were published regarding changes to the company's shareholder structure. On July 23 Forthnet announced that the second-largest shareholder Cryte Investments GPI BV had sold its entire shareholding equivalent to 25.73 per cent of the share capital of Forthnet. At the same time, Forthnet was informed that Zesmero Ltd (a Cypriot-based company) had acquired 27.04 per cent of the total Forthnet shares outstanding. As a result, Zesmero became the second-largest shareholder of Forthnet after Forgendo (a joint venture between Go plc and its largest shareholder, Emirates International Telecommunications LLC), which owns 41.27 per cent of Forthnet.

Only two days later, Forthnet announced it was informed that WIND Hellas Telecommunications SA has an option to acquire all the 3,503,073 shares owned by Zesmero. Forthnet and WIND Hellas had been in merger talks in recent years but nothing concrete ever materialised.

Some local shareholders of Go may not be aware of these details because they were not given much prominence locally and Go did not replicate any of the media reports through specific company announcements on its part. However, these recent developments are interesting both for Forthnet and for Go plc.

One of the factors that may have dampened investor sentiment towards Go since August last year was the pending €30 million rights issue and the resultant uncertainty as to whether Go will be participating in this capital-raising exercise. The rights issue has so far not taken place as a result of developments across the Greek telecoms market as well as negotiations that were taking place with Forthnet's bankers.

Deepak Padmanabhan, who is the chairman of both Forthnet and Go, had explained to members of the financial community last March that the rights issue still needs to take place and the offer document will be published once regulatory approval is given.

Given that the previous second-largest shareholder of Forthnet, i.e Cryte Investments, had publicly indicated it was not willing to support the rights issue, could it now be the opportune time for Forthnet to seek new capital? The new second-largest shareholder Zesmero could possibly be more inclined to subscribe to such shares, given the option it granted to WIND Hellas.

These could be interesting times for Forthnet. In the publication of their interim financial statements on August 13, Go made reference to such developments by stating that Forthnet is constantly being monitored and the recent events highlight the strategic importance of Forthnet in the Greek telecommunications market.

Although Go's investment in Forthnet was completely written off in its financial statements as at December 31, 2012, this is still an area of much interest for Go's minority shareholders, given the fact that Go still has an indirect sizeable investment in the Greek company and the Go board and executive management team need to extract as much value as possible from this investment in future years to recoup some of the huge losses incurred on this investment.

Meanwhile, Go's interim financial statements to June 30, 2013 only take account of the local operations because the investment in Greece was written off last year and the financial statements are not impacted any further by developments at Forthnet. Notwithstanding this, the half-year results are not easily comparable due to the one-off transactions in both periods, mainly related to last year's profit from the exchange of properties with the Government of Malta. In fact, Go registered a gain of €11.4 million from this which boosted last year's financial performance.

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Although a comparison of the 2013 interim financial results with those of the same period last year is difficult due to these one-off transactions, the financial performance clearly portrays the intensifying competition and regulatory pressures on revenues. In fact, Group revenue declined by 4.9 per cent to €60.5 million, with Go highlighting the drop in 'Average Revenue per User' and the impact on mobile revenues which were again negatively impacted by the reduction in mobile termination rates and roaming as mandated by the Malta Communications Authority and the European Union (EU).

What is interesting to note is that despite this decline, there was a slight improvement in the gross profit margin, and administrative expenses also dropped by 5.8 per cent following the cost containment measures adopted in recent years.

Another point worth highlighting from the interim report was the repayment of €15.9 million in bank borrowings. Overall bank debt was reduced to €60.4 million following this repayment, thereby improving the gearing level when compared to an equity base of €97.1 million.

The repayment of borrowings could be one of the reasons for the decision taken by the board to again not declare an interim dividend. Go explained that the extent of the distribution to shareholders will be taken once the 2013 full-year financials are available.

Another reason may be the ongoing developments in Greece and the possibility of Go deciding to inject further capital into Forthnet by accepting to take up its rights in the event of a new issue of shares. Go's minority shareholders had aired their wish that such decisions should be communicated to them before they are taken. The Board of Directors and executive management at Go should not overlook this fact. Since the Greek investment was completely written off some months ago, it would seem appropriate for the company to consult with its minority shareholders before proceeding with any investment in Forthnet.

In the news release published last week accompanying the half-year results, Go also stated that in the future it will continue "to evaluate new opportunities to grow its activities with a view to pursuing sustainable levels of profitability in the best interests of its shareholders". Go's minority shareholders together with the financial community ought to be given further insight into such possible new initiatives. Could this entail the acquisition of certain companies operating in related areas of the telecoms industry, similar to the purchase of the Bell Med Group a couple of years ago which seems to have helped generate healthy revenues and profits?

Meanwhile, shareholders and the financial community are also expecting to be informed of developments with respect to the €50 million property portfolio which had been transferred to a company specifically to consider other ways of improving shareholder value. At the last meeting held with the company, it was evident from discussions that 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.

Go needs to regularly update shareholders and the market at large on the various initiatives that are being considered by management to make up for the very challenging conditions pertaining to the telecoms industry.