Stock Market Review

Farsons half-year results

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The Farsons Group results for the first half of their 2013/14 financial year covering the six-month period between February 1and July 3, 2013 shows a marginal improvement in revenue and profitability to €40.7 million and €3.8 million respectively.

The interim financial statements were published on September 25, 2013 with the directors explaining that, while turnover increased as a result of higher export volumes and improved sales from the political activities leading up to the March 9 general election, the past six months were also negatively impacted by lower sales of carbonated soft drinks and water due to lower-than-average temperatures in July and the continued intense competition across the sector. Moreover, the Farsons directors indicated that the food importation subsidiary lost representation of a number of key brands due to consolidation by a foreign principal. This comes as a surprise as this loss of representation had not been mentioned during the annual general meeting held last June in which the CEO delivered an extensive presentation covering the various subsidiaries and markets in which the group operates.

Moreover, last month's company announcement presenting the interim financial statements ought to have provided more details on this unfortunate event for the group's food importation subsidiary and the initiatives being undertaken to replace such key brands.

The Farsons Group has been registering significant improvements in profitability over the past four years as a result of a number of factors including record tourism numbers, improved efficiencies from the new logistics centre, packaging hall and the brewhouse as well as specific initiatives by the new senior management team on cost cutting and innovation. However, an area which contributed significantly to the slight increase in profits during the past six months to a new record level was the performance of the food retailing business. This may have gone unnoticed. The group's franchise establishments representing Burger King, Pizza Hut and KFC had in the past registered disappointing performances. However, the interim financial statements for the six months to July 31, 2013 reveal an 8.2 per cent growth in revenue to €5.4 million and a 37.4 per cent rise in operating profits to €0.36 million. While this still represents a very small contribution to overall revenue and profitability for the entire Group, it is welcome news for shareholders and provides clear evidence that the new management team have the right qualities to register further progress in the years ahead.

Also, on September 25, the directors declared a net interim dividend of €0.0333 per share (equivalent to €1 million). This was paid on October 18. The interim dividend is substantially higher than the distribution of €400,000 made this time last year but the directors explained that a decision was taken to more or less balance the distribution between the interim and the final dividend. As such, the increase in the interim dividend should not be indicative of a higher aggregate dividend than that paid in respect of the 2012/13 financial year.

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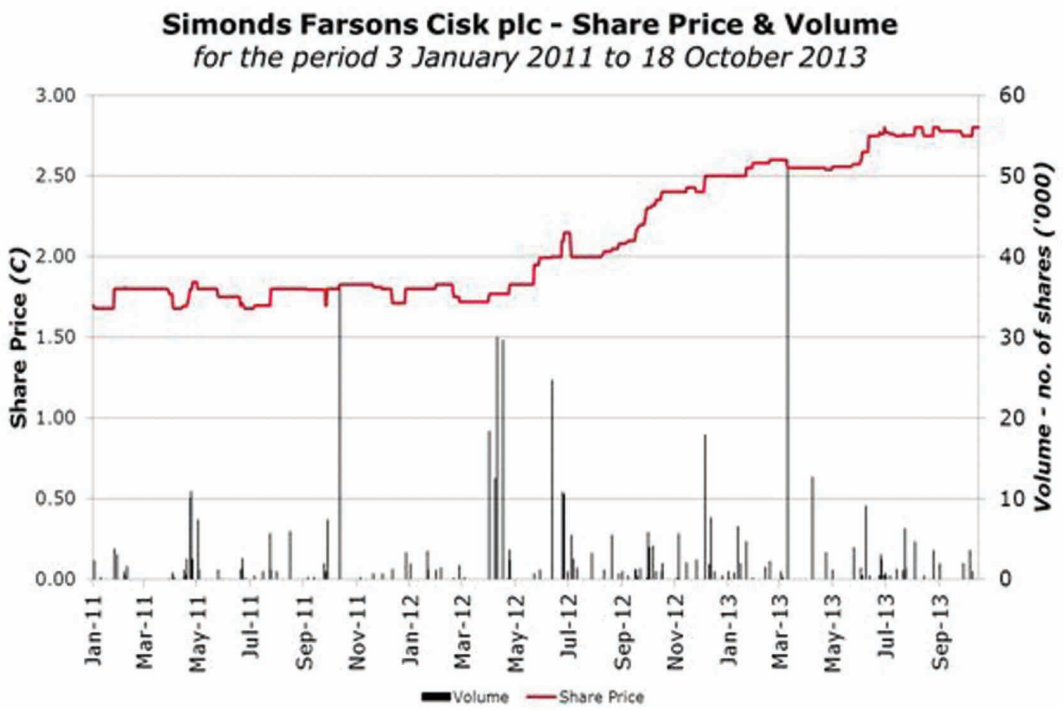

The Farsons share price has performed very positively over the past two years with a rise of 56 per cent reaching new record levels reflecting the improvement in the company's financials. Despite the strong share price appreciation, it is worth highlighting that the price to earnings multiple is only 13 times which is a fair multiple in the current circumstances and a figure which is well below the historical average for Farsons' equity.

Trading activity in the shares has, however, remained somewhat disappointing with sporadic trades taking place. This is a reflection of the shareholding structure with three family-holding companies owning just below 80 per cent of the total issued share capital and the balance held by over 1,700 private shareholders and institutions. In view of the tight shareholding structure and the few shares in public hands, trading activity is infrequent and this discourages new investors from considering an allocation to Farsons shares as part of their overall investment portfolio.

The board and senior management of Farsons should seek ways of improving the liquidity in their equity. Perhaps some corporate actions to address this should be considered. In fact, during question time at the June 2013 annual general meeting a discussion developed on whether the company ought to consider a share split or the issuance of bonus shares. While these corporate actions should be actively considered, the better solution would be for one or more of the large shareholders to offer some of their shares through the market to widen the ownership structure.

The disposal of some shares by the larger shareholders is very often looked at negatively by certain public companies and other stakeholders across the industry. However, large shareholders should also contribute to developing a more liquid market. While a few such shareholders in some companies have understood this requirement and acted accordingly, it needs to be widely discussed for all market participants to appreciate the wider benefits this creates to shareholder value.

In the specific case of Farsons, this needs to be considered more urgently in the light of the company's future plans. A more liquid market needs to materialise in Farsons shares if the company wishes to make a success of its plans for a separate listing of its property company. This could also involve some fresh fundraising to finance the future property developments.

A number of years ago, the Farsons Board had indicated that the property holding company Trident Developments Ltd could be converted into a public company and seek a separate listing on the Malta Stock Exchange. This will result in the group being split up into the manufacturing arm together with other operational activities under the present parent company and the portfolio of properties organised under a separate 'plc'. This idea was re-iterated once again during the presentation made to shareholders on the overall concept of the development of the large parcel of land in Mrieħel. The presentation was delivered following the formal business proceedings at the Annual General Meeting held last June.

During the presentation it was mentioned that over the next 18 months further studies on the Farsons Business Park will take place including the obtaining of planning permits from MEPA. The various options available to obtain the required funding for this large scale development would also be addressed.

The land in Mrieħel is earmarked for an overall 45,000 sqm development into the Farsons Business Park encompassing retail outlets, a business centre, parking facilities and a Farsons Visitors Centre on the site of the old brewhouse.

The eventual income to be generated from the sale or rental of such facilities will provide a new revenue stream for the Group. This will improve the return on equity which currently stands in the region of only eight per cent.

The large idle asset base is the major reason for the low returns being generated.

This would improve substantially when the operational performance is viewed solely in the context of the assets being used for such activities with the rest of the properties transferred to a separately listed entity.

The listing of Trident Development would be a welcome addition to other MSE listed equities having a similar business model to the other property companies such as Malita Investments plc, Plaza Centres plc and Tigne Mall plc. Hopefully, Trident may also be in a position to offer attractive dividends to shareholders as these three companies do. Farsons shareholders hope that quicker progress can be registered in this respect following the announcement of these plans in 2008. However, detailed studies and well deliberated decisions must be taken in respect of this mammoth project to ensure that this development will be another Farsons Group success story.