Stock Market Review

Maltapost's dividend unchanged despite slight decline in profits

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Maltapost plc published its September 2013 full-year results on December 6, revealing a revenue increase of 2.5 per cent to a record level of €21.6 million but a 5.4 per cent decline in pre-tax profits to €1.95 million. The slight decline in profitability was probably anticipated by analysts given the recent public declarations by the company indicating this downward trend as a result of the non-occurrence of the one-off gains which positively boosted the financial performance in the previous financial year.

In fact, during the first half of the 2012/13 financial year running from October 1, 2012, to March 31, 2013, Maltapost registered a 27.6 per cent increase in pre-tax profits to €1 million. The first half performance was possibly enhanced by the increased mail resulting from the national general elections which took place in March, although this may not have been as meaningful as in previous elections given the growing importance of social media.

During the second half of the previous financial year, Maltapost recognised a number of one-off items related to exchange rate fluctuations, a reversal of a provision and adjustments to provisions of a different nature. These one-offs boosted the 2011/12 financial performance and make the comparison between last year and this year rather difficult.

Selected postal tariffs were increased on two occasions during the 2012/13 financial year which has just come to an end. On November 19, 2012, rates for local and international bulk mail as well as registered mail increased while on April 1, 2013, (which coincides with the start of the second half of the financial year), the tariff for single piece letter mail increased by 30 per cent from €0.20 to €0.26 per item. These increases had been agreed to with the regulator (the Malta Communications Authority) in November 2012. In the same document establishing a price control mechanism for Maltapost which was also subject to a public consultation, Maltapost had proposed further tariff hikes for selected services as from October 1, 2013, October 1, 2014, and October 1, 2015. However, in the document published by the MCA on November 14, 2013, tariff hikes on these dates were not indicated.

On the other hand, Maltapost's proposals had been revised presumably following lengthy discussions between both parties. As an example, the price for a local single piece letter which is currently at €0.26 was initially earmarked to be increased to €0.32 in 2014 and €0.36 in 2015, and is now set to remain unchanged over the coming three years. On the other hand, the postage rate for letters weighing between 50g to 100g is set to increase from €0.32 to €0.42 as initially proposed in November 2012.

The changes to the recommendations made by Maltapost to the regulator is surprising given the ongoing warnings over recent years by the company that the letter mail service operates at a loss. In the most recent statement, Maltapost again reiterated that the Universal Service Obligation is not financially sustainable. Likewise, in the Interim Directors' Statement published on August 14, 2013, the directors had stated that "Maltapost needs to earn a reasonable commercial rate of return". They added that the company will "continue to work closely with the regulatory authority to achieve the changes needed for the sustainability of the Universal Service". Given the recent changes to the recommendations made by the company, shareholders would rightly question what other measures need to be implemented to make this service a profitable one for the company. Is it simply a question of seeking to introduce higher postal rates or does the company need to rightsize its workforce? Shareholders would welcome information on the options being contemplated by the Board and management to address this problem. The forthcoming Annual General Meeting would seem to be an appropriate occasion for the company to explain these options.

While the postal operator continues to see a decline in volumes from its traditional business, the growth in the parcel business was once again highlighted by the directors in the review of the September 2013 financial statements. Although no figures were disclosed on the rate of growth in this area of activity, the SendOn service was reportedly a very successful venture for the company and is likely to have contributed positively to the recent financial performance.

Maltapost has for some years now indicated that it aims to also diversify its range of services and in the recent statement, the directors highlighted yet again the provision of financial services, document management and hybrid mail.

In the area of document management and hybrid mail, earlier this year Maltapost announced that it had purchased premises in Gozo and was investing up to €3 million in a state-of-the-art document management centre. The company aims to offer dedicated physical and electronic archiving from its Gozo centre as well as printing and scanning facilities. An update on the progress achieved by the company in this respect and any important contracts that have since been awarded would be appreciated by shareholders and financial analysts.

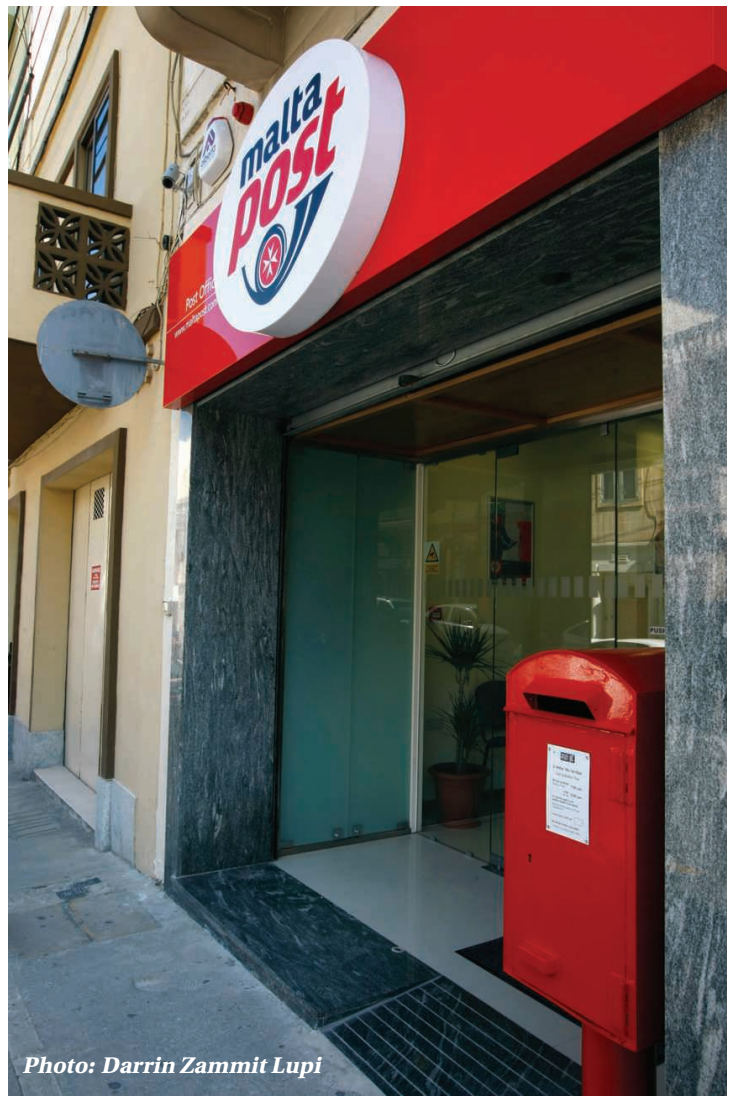
Meanwhile, in a surprise announcement a few days after the publication of the financial statements, Maltapost stated that the aim of securing an agreement for its new subsidiary to act as an insurance agent of Middlesea Insurance plc will no longer be pursued any further. A similar announcement was issued concurrently by Middlesea. The initial announcement of Maltapost's intentions to offer insurance-related services had been issued 11 months ago and shareholders were expecting an announcement on the commencement of such services. Given the circumstances, both Maltapost and Middlesea owe their respective shareholders an explanation as to why this venture was aborted. It would have seemed to be a sensible move also for Middlesea to utilise the extensive Maltapost branch network to offer its general insurance products.

Despite the unexpected turn of events, Maltapost stated that it still intends to provide insurance-related services and further announcements will be made at the appropriate time.

While profitability growth is currently a challenge given the changes in communications brought about by technological changes, shareholders should be happy with the financial strength of the company. The company remains debt free with very high levels of cash. In fact, this is probably the main reason for the unchanged net dividend of €0.04 per share being recommended by the directors for approval at the upcoming Annual General Meeting on January 15, 2014.

Shareholders again have the option of receiving this dividend either in cash or by subscribing to new shares. The attribution price this year is of €1.07 per share. An important financial indicator is the return on equity. It is worth highlighting that the pre-tax ROE of Maltapost declined from 20.8 per cent in 2007 to 12.5 per cent during the last financial year. While profitability has increased in absolute terms since then, this declining ratio is probably indicative of the fact that the company is retaining too much capital. Therefore, shareholders should question whether in the circumstances, the company ought to continue offering a scrip dividend rather than a mandatory cash dividend.

May I take this opportunity to wish all my readers a Happy Christmas and a profitable 2014. My next article will appear on Thursday, January 2, 2014.



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