Stock Market Review

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Where do we Go from here?

Through his weekly column in The Malta Independent on March 27, Alfred Mifsud's timely article titled Go Greek highlighted the current state of affairs at Go plc following the announcement of the company's financial results for 2008. These results, which at first glance seem worrying in that the company registered a bottom line loss in 2008, in fact confirm the progress being registered from a purely operational point of view despite mounting competition which has now also expanded into mobile.

A number of one-off items and the inclusion of Go's share of losses in its Greek investment are the reasons behind this year's bottom line loss and this completely overshadows the robust improvement in a number of areas which confirm the underlying strengths of the company and its capability of competing head-on with any potential new entrant into its business activities. So where do these results leave GO plc and investor sentiment towards the company?

G0's share price has been on a downward trend since May 2006 when the government surprised the market and sold its 60 per cent majority shareholding to Dubai-based Emirates International Telecommunications at a price of €3.611 per share (Lm1.55 per share), 20.5 per cent below the market price at the time. Since then Go's share price has slid by 69.2 per cent to a current all-time low of €1.40, as seen in this updated graph which tracks the share price movements since the company obtained a listing in June 1998. Mr Mifsud's article touched upon a few possible reasons behind the dismal performance of the company's share price and I wish to focus specifically on some of the points he raised and my views of the situation.

I fully endorse Alfred Mifsud's opinion that one of the reasons the market is punishing the Go share price is that "the company is not working as actively as it should to keep its investors informed enough to enable them to understand more deeply the strategy it is following".

Mr Mifsud states very clearly in his column that the recent share price of €1.40 per share (equivalent to Lm0.601), grossly undervalues the group's current asset base (valued at €1.88 per share), its cash flow of €49 million in 2008 (+7.3 per cent on 2007) and the potential for higher profitability levels especially through its Greek venture. In fact Alfred Mifsud states "the share price of Go deserves to be in another planet from where it is presently languishing". Given the indicators highlighted above, one cannot disagree with his view.

Go as well as other listed companies need to understand why local investors are shying away from investing in their respective company equity thereby implying uncertainty as to their future prospects? This uncertainty creates indecisiveness causing a lack of interest as well as increasing levels of supply which easily forces share prices to head lower.

Share price movements reflect the perception by the market of the strength or weakness of a company as well as its return to investors. If the market is giving a "thumbs down" to a company, it is either because the return being offered by way of dividend income and price appreciation is low or because investors believe the company is weak.

Mr Mifsud argues that "Go is failing in making its case properly in the eyes of investors and in keeping them properly informed of its strategy and success". I fully agree with this and in my opinion Go is not the only company in this situation. Regrettably many companies in Malta do not have a well-planned investor relations strategy in place to keep the market informed of current business trends and future opportunities and threats. This very often results in a lack of trading activity in the company's shares and a subsequent movement in share prices which may not, in the company's perception, truly reflect prospects and opportunities.

Many large overseas public companies not only place great importance and dedicate much time to market participants and their shareholders, but they also make bold statements in times when the share price is grossly undervalued. The extent of the efforts made by some chairmen and CEO's overseas was amply evident in recent weeks at the height of the current international financial crisis which massacred the share prices of some of the world's largest banks.

In the space of a few weeks, the chairman of Barclays published an open letter to shareholders through an official Company Announcement while Citigroup's CEO sent an internal memo to employees which quickly hit the international headlines. In both instances, top officials at Barclays and Citigroup updated the market on their performance and when making reference to the market price they gave reasons why the share price was not reflecting the true worth of the company.

As such, listed companies in Malta should do more to capture and retain investor attention by providing more frequent updates, information, trends, plans and ideas. If this is carried out regularly the market should see increased trading activity resulting in a movement in share prices which will more accurately reflect the market's judgement of the company's efforts.

Although Go's operating activities have performed positively in 2008 indicating that the company is well equipped to continue to make its presence felt, investor attention will increasingly turn towards developments in Greece as this will have an increased impact on the bottom line in future financial results. Alfred Mifsud commented that Go's directors elected by the minority shareholders have "full confidence that this [the shareholding in the Greek company Forthnet] will turn out to be a very important investment for Go's future profitability".

If Go's directors are so confident about the future of the Greek investment, why did the chairman and the CEO spare such few words on this large investment during the recent media briefing? Only two days earlier, Forthnet published their fourth quarter results showing a sustained improvement in performance especially following the acquisition of the pay-TV company Nova. The old Forthnet reported a strong improvement in EBIDTA and generated a total operating profit before depreciation of €6.5 million in 2008. Meanwhile, the new pay-TV business which started being consolidated with the old Forthnet as from 1 September 2008, reported an 11.4 per cent growth in EBITDA during the fourth quarter of 2008 to €13.3 million.

Incidentally, none of these important positive indicators were highlighted by Go's executives two days later. In their announcement issued on the Greek Stock Exchange, Forthnet also confirmed that its TV unit acquired the important rights to air the Champions League for the 2009-2012 seasons. Shouldn't Go's shareholders be made aware of these developments? In recent days Forthnet made some regulatory announcements relating to the further acquisition of shares in the company by a director of both GO and Forthnet. Hardly a sign of no confidence in the company!

Go's announcement of a net dividend payment of €0.12 per share represents a very handsome after-tax return of 8.6 per cent on the recent all-time low of €1.40 per share. This ought to have sparked a strong demand for Go shares. However, although the price did bounce off its lows for a brief period in the aftermath of the dividend announcement on some demand that came to the market, offers generally outweighed demand despite still trading with the right to the dividend.

The share price continues to linger close to its all-time lows. Is the market viewing the dividend as being unsustainable? Although the dividend payment is digging into reserves following the loss incurred in 2008, the cash flow situation shows that the total payment of €12 million represents a low percentage of total cash generated of €49 million. Furthermore, given the erratic dividend payments made since the total privatisation of the company, investors are not to blame for feeling uncertain as to whether this dividend could be maintained going forward. The company should therefore publicly state their dividend policy clearly and inform the market whether such dividend payments are sustainable.

> **"The company still carries excess headcount which, once tackled and optimised, will lead to a leaner and more efficient company."**