Stock Market Review

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Medserv profitability climbs to a record pre-tax of €3.1 million

Strong contribution from Libyan subsidiary

The Medserv 2009 full-year results show record pre-tax profits of €3.1 million representing substantial growth from the profitability of just under €1 million in 2008. Despite the global economic turmoil which dampened demand for oil, Medserv managed to benefit from the provision of support services to various specialised vessels and barges. While the Malta base remained the largest contributor to total Group turnover of €17.5 million, the importance of the Libyan subsidiary is evident from the 2009 results.

The Libyan base situated within the Misurata Free Trade Zone generated total revenues of €6.2 million and accounted for 31 per cent of total after-tax profits of the Medserv Group. Despite the higher risk normally associated with operating in Libya, the potential benefits to a company gaining exposure to this market is highly evident in the Medserv Group's financials in recent years and vindicates the decision taken a few years ago by the Medserv board of directors to expand into Libya.

The change in sales mix was more evident for the Malta operation as the Libyan subsidiary mainly provided support to three major oil companies in offshore exploration activities. This level of activity in Libya is expected to be maintained during 2010 as the group's Misurata base should commence providing services to Gazprom. Medserv Misurata was contracted to provide support to Gazprom as they shortly commence the drilling of six wells.

This work is anticipated to start in July and could take up to 10 months. Moreover another two major oil companies will be utilising the services of Medserv in Libya. The US company ExxonMobil have contracted Medserv to carry out all mud cleaning and disposal operations while the Libyan subsidiary secured the handling of all tubular pipes within the Misurata port required by oil giant BP who will shortly commence work on 17 oil wells. The contract of BP in Libya marks a return to the country after a 30-year absence and has been described by the British oil and gas company as among its single biggest exploration commitments.

In 2009, the Malta base focused on the opportunity to provide support to a number of specialised vessels and rigs as these required servicing ahead of further exploratory work in the Mediterranean region. This new area of activity contributed 35 per cent to the overall turnover of the Malta operations and helped the Medserv Group achieve higher margins. Total Group EBITDA amounted to €3.9 million representing a margin of 22 per cent (2008: 10 per cent). Support services to such vessels is expected to continue also in 2010 as Medserv Malta has already secured work on an African installer barge, rigs and other specialised vessels.

Moreover, the Malta base will also see the start of the much-awaited work for another major international oil company supporting its drilling operations offshore Libya leading to higher revenues related to exploration support services. This oil giant is due to begin offshore exploration activities on an initial programme of 12 wells as part of its substantial contract involving a total of 129 wells. This initial work phase is expected to last until 2012 and will provide the Medserv Group with a substantial business pipeline in the coming years thus reducing the volatility in the financial performance of the group which was very evident since the IPO.

In addition to their operations in Malta and Libya, Medserv is seeking entry into new markets namely Italy, Egypt and Tunisia. The potential setting up of similar operations in Italy and Egypt had been mentioned by Medserv in recent months. The group is now also exploring the possibility of seeking to provide support services to some companies in Tunisia where increased offshore drilling operations are currently taking place. Medserv's directors explained that the potential expansion into these markets is solely client-oriented and provides an important opportunity to strengthen their existing business relationships.

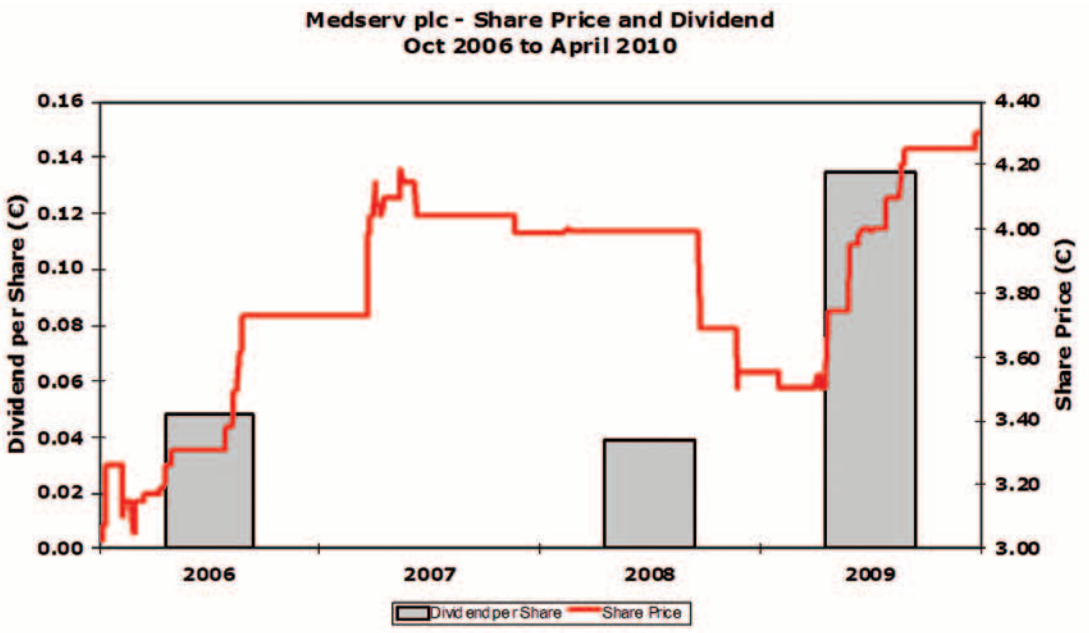
However, such expansion would also create further possibilities to attract new clients from these markets. While work on entering these markets is progressing, Medserv does not expect any major contribution from such initiatives in 2010 with the group remaining exposed to the current operations conducted through Malta and Libya.

At the time of the publication of the 2009 full-year results on April 8, the board of directors also recommended the payment of a total net dividend of €1.35 million for approval by shareholders at the forthcoming annual general meeting on May 18. This payment accounts for over 50 per cent of the profits generated in 2009 and during last week's meeting with stockbrokers Medserv's chairman Anthony Diacono explained that the dividend payout ratio has been increased from 40 per cent to 50 per cent for 2010 and should remain at this level in future years.

The net dividend of €0.135 per share translates into a net dividend yield of 3.1 per cent and compares favourably with other local companies also offering good returns to shareholders. Shortly after the publication of the 2009 financial statements and the dividend announcement, Medserv's share price touched to a new all-time high of €4.30. This represents a capital appreciation of 42 per cent since the October 2006 IPO price of €3.028 reflecting the growth in profitability since then. However, the level of trading activity in Medserv shares remains disappointingly low undoubtedly a result of the few shareholders in the company. Unfortunately, the 25 per cent public offering in 2006 only attracted circa 140 applicants.

As such, Medserv ranks as the company having the least number of shareholders compared to the other publicly listed companies on the borza. However, should a regular supply of shares from existing shareholders materialise, the number of shareholders is likely to grow.

While the 2009 financial statements show a substantial increase in profitability, the long-awaited exploration activities by the major oil companies offshore Libya has yet to commence and therefore the Medserv Group has a strong business pipeline which will further contribute to profitability in the coming years. Moreover, any successful oil and gas find by any of Medserv's clients is likely to lead to substantially higher levels of business activity in the years ahead.



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