COMMENT

The Maltacom rebranding

Will it lead to improved shareholder returns?

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DURING the recent launch of the re-branding exercise of the Maltacom Group, chairman Sonny Portelli explained that the creation of GO is the most visible change in the restructuring exercise which began shortly after Maltacom was completely privatised in May 2006.

The re-branding is one of the initiatives within the group's Value Creation Plan. This plan outlines the strategic objectives for the coming years and involves around 30 projects.

The most notable initiatives in previous months were the acquisition of Multiplus Limited, the launch of 3G and 3.5G and the reduction in the workforce through the voluntary early retirement scheme.

The re-branding into GO reflects the group's position as Malta's only quadruple-play operator in the telecommunications sector, offering fixed telephony, mobile telephony, broadband internet and digital TV.

The new brand is based on the notion of delivery and aims to place the customer at the centre of all the group's operations, hence the tagline "Made for You".

GO replaces all the previous brands of the group, the most notable being those of Maltacom, Go Mobile, Maltanet and Multiplus through the merger of Maltanet and Multiplus into Maltacom.

The official change in name to GO plc is expected to be made following the shareholders' approval during an extraordinary general meeting scheduled for the fourth quarter of this year.

Despite the fresh image being given to the group and its strong financial performance in recent years, the share price has continued to disappoint investors and the most obvious question being put forward by shareholders is: "Will the re-branding exercise also lead to improved shareholders' returns?"

During the last financial year which ended on December 31, 2006, the group achieved a marginal increase in turnover to Lm55.5 million as the continued decline in fixed line revenues was offset by strong growth in broadband internet, mobile telephony and revenue derived from the call centre activity.

The group incurred a one-time cost of Lm3.2 million arising from the early retirement of 200 employees which should lead to annual saving of circa Lm1.5 million as from this year.

A second voluntary retirement scheme was launched last April and will remain open until October.

The most common relative valuation multiple used in the telecoms sector is the EV/EBITDA multiple which compares the stock market valuation to the earnings generated before taking into account interest payments, tax, depreciation and amortisation. While Maltacom's EV/EVITDA was in line with international benchmarks at the time of privatisation, at a current market price of Lm1.40 (10 per cent below the price paid by Tecom), Maltacom is trading on a multiple of 5.2 times, which is significantly lower than the international benchmark of 6.6 times. Despite this under-valuation the local market has so far failed to react and the share price has continued to drift in recent weeks.

In my view, the share price is unlikely to recover before the process of returning to shareholders a large part of the group's excessively high cash balances commences. Although CEO David Kay stated in the 2006 annual report that a review of the group's capital structure and investment strategy is being undertaken, the market needs a definite policy statement in this respect.

In addition to the cash holdings of Lm16.7 million as at December 31, 2006, the group holds Lm13.7 million worth of "other investments" made up of units in collective investments schemes and publicly traded bonds. Given the sharp decline in bond prices seen in recent weeks and hence in the value of the group's "other investments", shareholders ought to question why this surplus cash is being held in fixed-interest securities and more recently losing value rather than being returned to shareholders.

Although the group requires to undertake further capital expenditure in order to remain at the forefront of the local telecoms market, its strong financial position warrants that it should take on further debt. This process of re-leveraging a company's balance sheet is a very common practice overseas. As at December 31, 2006, the Maltacom Group had a total debt of only Lm10.2 million, whereas cash and other investments totalled Lm30.4 million. Shareholders' funds were at Lm88.9 million.

Managements of companies overseas are under extreme pressure to make their firms, balance sheets more efficient, either through acquisition (buying a company with at least the same profitability ratios) or returning most of the "idle" reserves to shareholders. Unless Maltacom's Value Creation Plan includes acquisitions, pressure should be exerted by minority shareholders to return a large part of this excess cash to shareholders. This should lead to a more active market for the company's shares and a strong share price recovery providing a much-needed relief to shareholders.

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