FINANCIAL ANALYSIS

Lombard Bank half-year profits rise 29% to Lm1.38 million

Shareholding in Maltapost expected to rise to 60%

Edward Rizzo

ON AUGUST 7, Lombard Bank Malta plc published its financial results for the six months ended June 30, 2007. As in previous years, the directors decided not to declare an interim dividend to shareholders.

During the first half of 2007, total operating income generated by the Lombard Group increased by 8.3 per cent to Lm3.1 million. Net interest income amounted to Lm2.6 million, representing a rise of 8.8 per cent from the first half of last year. The directors attribute this rise in income to new business opportunities as loans and advances to customers grew by Lm12 million since the start of the year. The increase in the Central Bank of Malta central intervention rate also contributed to the growth in interest income registered in the first half of 2007.

Meanwhile, the group's non-interest income rose by 5.5 per cent to Lm0.4 million following a 9.4 per cent rise in net fee and commission income. On the other hand, net trading income, mainly comprising income from foreign exchange activities, dropped by 5.1 per cent to Lm0.15 million.

Non-interest expenses, comprising administrative costs and depreciation, increased by 15.6 per cent to Lm1.3 million. Administrative expenses surged 16 per cent to Lm1.2 million, mainly due to increased compliance and staff costs. The charge for depreciation rose by 7.4 per cent to Lm0.06 million. Despite this increase in costs, the Lombard Group's cost to income ratio remained at a very healthy level of 41 per cent (June 2006: 38.4 per cent). Including the share of profits of Lm0.1 million from the group's associate, Maltapost plc, the cost to income ratio improves to 39.7 per cent.

The group's operating profit before impairment allowances and other provisions amounted to Lm1.8 million in the first six months of 2007, 3.8 per cent higher than that generated in the first half of last year. Net impairment releases of Lm0.18 million were registered during the first half of the year compared to a provision of Lm0.1 million in the same period last year. This impairment release helped the group's operating profit rise by 20 per cent to Lm2 million. After accounting for the Lm0.1 million related to the group's 35 per cent investment in Maltapost, Lombard's pre-tax profit in the first six months of 2007 amounted to Lm2.1 million (June 2006: Lm1.7 million).

Profits after taxation and losses attributable to minority interests amounted to Lm1.38 million, representing a 28.7 per cent increase over the previous year. Earnings per share increased from 12c7 in June 2006 to 16c1.

As at June 30, 2007, the total assets of the Lombard Group amounted to Lm204.8 million. Loans and advances to customers increased by Lm12 million or 13.3 per cent in the first six months of the year to Lm102.2 million while balances with the Central Bank of Malta, holdings in Treasury Bills and cash dropped from Lm44.2 million to Lm32.3 million. Total deposits meanwhile decreased by Lm4.4 million or 2.5 per cent to Lm176.2 million resulting in an improved loans to deposits ratio of 58 per cent compared to 50 per cent as at December 31, 2006. Shareholders' funds increased by 6.1 per cent to Lm20.3 million resulting in a net asset value per share of Lm2.35.

The increase profits generated in the first six months of the year resulted in enhanced profitability ratios. Annualised pre-tax return on equity (profit before tax divided by average equity) edged up slightly to 21 per cent from 20.7 per cent in June 2006 with annualised post-tax return on equity of 14.5 per cent (June 2006: 13.4 per cent). Similarly the group's annualised return on assets (profit before tax divided by average assets) increased to 2 per cent from 1.8 per cent in June 2006.

After acquiring a 35 per cent shareholding in Maltapost from Transend Worldwide Ltd of New Zealand in August 2006, Lombard Bank announced on July 30, 2007 that its wholly-owned subsidiary Redbox Ltd entered into an agreement with the government of Malta for the acquisition of 25 per cent of the issued share capital of Maltapost. The press release issued by the government's ministry claimed that the price agreed with Lombard Bank amounts to Lm1.2 million, equivalent to a 50 per cent premium over Maltapost's net asset value. Should the agreement be approved by Cabinet, Lombard's shareholding in Maltapost will increase to 60 per cent. In the press release, it was also announced that the government will seek the disposal of its remaining 40 per cent shareholding in Maltapost via an Initial Public Offering. Lombard's majority control in the postal services operator could be rewarding should Lombard Bank manage to utilise Maltapost's vast branch network to offer its services and thus being able to compete better with the other larger banks while seeking to grow its non-interest income levels. However, the market still awaits guidance from top management at Lombard on the strategy being adopted following this acquisition.

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Plaza Centres reports a 19% increase in profits

PLAZA Centres plc published its 2007 interim results following a Board of Directors' meeting on August 3. Similar to last year no interim dividend was declared.

During the first half of this year, the total revenue generated by Plaza Centres amounted to Lm339,522, an 8.5 per cent rise from the previous comparative period as occupancy levels remained at 100 per cent.

Total operating expenses incorporating marketing costs, maintenance costs and administrative expenses edged 2.3 per cent higher to Lm51,226.

Earnings before interest, tax, depreciation and amortisation (EBITDA) during the period under review increased by 9.6 per cent to Lm288,296. The charge for depreciation during the first half of 2007 was slightly higher at Lm59,908 resulting in an operating profit of Lm228,388 (June 2006: Lm204,310). The operating profit margin increased to a record 67.3 per cent.

Net interest receivable increased to Lm10,529 resulting in a pre-tax profit of Lm238,917. After deducting the tax expense of Lm79,847, the profit for the first half of 2007 amounted to Lm159,070, 19.3 per cent higher than the profit achieved in the first six months of last year.

The company's total assets as at June 30, 2007 amounted to Lm10.3 million with shareholders' funds of Lm8 million resulting in a net asset value per share of Lm0.85. Plaza's profitability ratios improved to record levels in the first half of the year following the strong rise in profitability. Annualised pre-tax return on equity (profit before tax divided by average equity) increased to 6 per cent (June 2006: 5.7 per cent) with annualised return on assets (profit before tax divided by average assets) rising to 4.7 per cent from 4.3 per cent in June last year.

In the half-yearly report, the directors reported that over the past few months the company commenced works on the extension of the commercial centre which should be completed by early 2008. After acquiring a number of adjacent properties in recent years, the extension to the Plaza Commercial Centre will increase the rentable area by 20 per cent to 12,000 square metres. This extension has reportedly generated significant interest from prospective tenants which should help the Plaza continue to enjoy high levels of occupancy. This should lead to an immediate positive impact on the company's financial performance and increased dividends to shareholders. Meanwhile, the company is also actively pursuing growth opportunities through local as well as overseas projects.