

Stock Market Review

Edward Rizzo

Mr Rizzo is director of Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

Crimsonwing looks to the future with confidence

The Crimsonwing Group returned to profitability during the first half of their current financial year to September 30, 2009 generating a profit for the period of €151,510 compared to a loss of €58,677 during the comparative period last year. This was revealed by the company through an announcement on the Malta Stock Exchange on November 24 and was followed by a stockbrokers' meeting the following day. CEO David Walsh provided an insight into the financial results across all the companies forming the IT services group which operates from Malta, the UK and The Netherlands.

Although Group revenue declined by 4.2 per cent to €6 million, this was again negatively impacted by the weakness of sterling. Crimsonwing revealed that the fall in value of the British pound in the first half of their financial year reduced revenues by €420,000. However, on a constant currency basis, overall revenues edged 2.5 per cent higher. CEO Mr Walsh claims that this was an excellent performance given the challenging economic environment as a number of companies suspended new IT projects.

The main reason for the jump in operating profit (EBITDA) to €402,941 from a mere €26,111 last year was the aggressive cost cutting exercise adopted across all group business units. In recent months the cost base was reduced without compromising business development, research and development activities as well as staff training. Moreover, on the administrative side, expenses dropped by around €400,000 as a number of employees accepted a reduced wage and the CEO as well as the chairman waived their salaries and directors fees for a number of months as from December 2008. Although a number of these pay cuts did not carry on during the second half of the current financial year, Crimsonwing's directors stated in the half-year report that the group is "in an excellent position to take advantage of the anticipated second half recovery in the markets".

The expected improved performance during the second half of the year ending March 31, 2010 is also due to the commencement of work on a number of new contracts foremost of which is the €500,000 property management contract awarded to Crimsonwing



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UK which had been announced during the Annual General Meeting on October 1. The CEO also commented on the increased business activity with local clients and as announced in the media in recent months, Crimsonwing have been engaged by Bank of Valletta, Toly Products and the Times of Malta whereas other potential contracts are being negotiated with other local companies.

The group's client base now exceeds 120 companies and David Walsh explained that over recent years the dependency on the top clients has reduced substantially. The increased optimism by Crimsonwing's top management team is also supported by the final negotiations on a sizeable three-year contract with one of Crimsonwing's existing clients.

The most disappointing element within the half-year report relates to the cash flow situation being faced by a number of Crimsonwing's clients and which is naturally impacting the cash generation of the whole group.

A number of banks reduced facilities for a large number of companies in various parts of the world during the international banking crises and Crimsonwing agreed to extend credit terms with some clients to support its income generation. Although the CEO claims that the situation is gradually easing and debtor days have not extended beyond 45 days, the risk remains that some of the clients may need to continue to

delay payment or worse still default as was the case with Fraser Eagle only last year resulting in a write-off totalling €140,000.

An improved cash flow situation should increase the possibility of a re-instatement of a dividend for Crimsonwing shareholders. This had been suspended in the last financial year due to the losses sustained by the company.

Mr Walsh also spoke about the group's strategy going forward. This is mainly centred around the concept of increasing revenue per employee. Mr Walsh claims that with a present headcount of 200 employees, the group can achieve substantially higher revenue from current levels of just over €12 million per annum.

This can be achieved by raising the charge-out rate per employee in line with the substantially higher charge-out rates by Crimsonwing's main competitors in the UK and The Netherlands. While this may be difficult to achieve on contracts already in force with present clients, this strategy has been introduced with new contracts being signed up and should gradually lead to higher group revenue in the years ahead.

The rather quick turnaround in the financial performance of Crimsonwing coupled with the increased confidence on the immediate outlook as new valu-

able contracts are coming onstream should reassure Crimsonwing shareholders who had enthusiastically supported the December 2007 IPO at a price of €0.50.

Although the share price had initially climbed to a high of €0.62 on its debut in the market, the equity dropped below its IPO level in the fourth quarter of 2008 as the local equity market suffered the same fate as international equity indices in the aftermath of the Lehman Brothers collapse.

The difficult trading conditions faced by the Crimsonwing Group and the impact of the weak pound sterling leading to an overall loss for the year ended March 31, 2009 continued to dampen sentiment towards Crimsonwing.

The share price hit an all-time low of €0.25 in July 2009, and after recovering to the €0.39 level shortly afterwards, declined once again to €0.29 earlier this month before settling a level of €0.31 giving a market capitalisation of €8.06 million.

The probability of higher profitability levels in the coming years and renewed business confidence in the UK and The Netherlands should improve investor sentiment towards Crimsonwing possibly helping the share price to regain its IPO level in the not too distant future.

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