

## Stock Market Review

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# Strong recovery by three local equities from their 2009 lows

After declining by almost 16 per cent during the first quarter of 2009 (on the back of the 35 per cent loss in 2008), the local equity market staged a gradual recovery with the Index posting gains in the subsequent two quarters and advancing by a further 4.4 per cent since October 1. This renewed upturn in the MSE Share Index was spearheaded by three of the four largest companies listed on the Borza (HSBC Bank Malta plc, Bank of Valletta plc and Go plc) while the share price of International Hotel Investments plc (the third largest company) continued to disappoint as the equity shed 16.2 per cent this year to €0.75.

The article published on March 5, 2009 entitled Malta's blue-chip equities: How low can they go?, had sought to raise awareness of the extent of the decline in the share prices of Bank of Valletta, HSBC Bank Malta and Go by comparing the fundamental ratios at the time to similar ratios when the equities had touched their previous lows in 2002. The article was also intended to highlight the discrepancies between the reasons behind the sudden collapse of the share prices of most international banks compared to the health of the local banking industry.

While the timing of the article was not intended to coincide exactly with the bottom of the market since this is impossible to predict (the share prices of HSBC, BoV and Go had all fallen further in the following weeks), the steep drop during the first quarter of 2009 and the resultant fundamental ratios based on the depressed share prices had clearly indicated the potential for a gradual recovery once sentiment improves. Stockmarkets always overshoot in times of euphoria (as seen in the local market in 2000 and 2006 and the dot.com boom in 1999/2000 across international markets) and undershoot in times of fear. However, as widely advocated by many international commentators, volatility in markets creates excellent opportunities for long-term investors.

With the benefit of hindsight, the first half of 2009 was an excellent opportunity for investors to gain exposure to some local equities by taking advantage of the fear that had gripped the market forcing share prices down to multi-year lows. Go's equity had actually dropped to an all-time low of €1.40 on March 18, equivalent to a 33 per cent discount compared to the June 1998 IPO price. Interestingly despite a 31.3 per cent recovery in its share price during the



past nine months, Go's share price at €1.99 equity is still below the IPO offer price of €2.096 11 years ago!

The equity which experienced the sharpest upturn is undoubtedly BoV with an extraordinary rise of 84.7 per cent from its multi-year low of €2.002 on 12 March. The sudden improvement across international financial markets from April onwards helped sentiment towards BoV's equity which had been badly hit by the deterioration in its final performance following large write-downs on its international bond investment portfolio. This was confirmed when the bank published its September 2009 full-year results at the end of October which helped the share price rise to higher levels.

However, in recent weeks, activity in BoV shares has dwindled markedly and the share price edged down slightly from its peak this year. This coincided with the Middlesea rights issue announcement. In fact, since MSI's announcement on November 17, BoV's share price declined 3.7 per cent lower while HSBC's equity climbed a further 8.7 per cent. As Middlesea's largest shareholder, BoV have committed themselves to the take-up of their entitlement amounting to over 14.5 million shares and have also jointly underwritten the significant capital raising exercise at Middlesea together with the Spanish insurance company Mapfre. The uncertainty on the future outlook of the Middlesea Group could be one of the reasons for the underperformance of BoV's equity in recent weeks.

On the other hand, HSBC's share price has resumed a strong upward trend rising to a 14-month high of €3.25. The improved sentiment

towards the banking industry following the BoV results publication spilled over onto HSBC's equity which has risen by 17.9 per cent since the BoV announcement. This was also supported by HSBC's Interim Directors' Statement on November 13 which confirmed that the bank registered a "satisfactory" performance during the third quarter of their financial year.

While Go's equity has underperformed the larger banks in 2009 having "only" risen by 14 per cent, the share price performance of Malta's largest telecoms operator during the final quarter of the year has been quite remarkable. After the publication of Go's interim results which showed a loss of €5.4 million, the equity eased back to the €1.50 level on October 6, however consistent demand for the following eight weeks helped the share price climb 32.7 per cent to €1.99 (a level last recorded in October 2008).

While the Interim Statement published by Go on November 6 had indicated that "the downward trend in the Group's revenue and profitability reported for the first six months of 2009 continued throughout the third quarter but at a lower rate of decline", the renewed positive sentiment surrounding Go's equity could be attributable to the improved financial performance of the Greek company Forthnet during the third quarter of the year (operating profit increased to €16.8 million from only €4.4 million in the comparative period). Moreover, indications of a possible reorganisation of Go's vast property portfolio could also be influencing positive sentiment towards the share price as the market awaits news of potential ways of increasing

shareholder value through the sale or redevelopment of some of the larger sites within the portfolio.

Last week's announcement that Go secured exclusive local broadcasting rights for the English Premier League for a three-year period could also have fuelled further demand for Go's equity. On the other hand, uncertainty surrounding Go's majority shareholder (Emirates International Telecommunications LLC - a member of Dubai Holding) and any potential repercussions this may have going forward following the events unfolding in Dubai have failed to dampen the recent share price upswing despite the fact that no official announcement was made by either Go or the majority shareholder.

With respect to other components of the MSE Share Index, some companies are also showing double-digit gains from their recent lows, namely, Crimsonwing plc (+24 per cent), Malta International Airport plc (+20 per cent), Medserv plc (+17.1 per cent) and Lombard Bank Malta plc (+15.2 per cent). While Lombard's recent share price recovery must have also been lifted by the improved outlook on the local banking industry following the BoV results announcement, all these companies have recently reported an improved outlook going forward and this has started to positively affect investor sentiment. Furthermore the recent news of a gradual improvement across most European economies should continue to help the business outlook of a number of local companies moving into 2010. This augurs well for a continued upward trend in the overall equity market performance in the months ahead.

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