Stock Market Review

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The laggards of 2009

The Maltese equity market is approaching the final days of 2009 showing a gain of just over seven per cent from the level at the close of last year. The MSE Share Index had lost almost 16 per cent during the first three months of 2009 as the after-effects of the Lehman bankruptcy sent all global stock markets to multi-year lows in the first quarter of the year. The local equity market bottomed at 2,636.388 points on April 13 and has since climbed by over 30 per cent.

The recovery was spearheaded by three of the four largest companies listed on the Stock Exchange (HSBC Bank Malta plc, Bank of Valletta plc and GO plc) which have all registered double-digit gains during the year following a strong upturn from their respective lows. On the other hand, the worst performers on the equity market so far this year were Middlesea Insurance plc and Datatrak Holdings plc. Since the latter company is on the Alternative Companies List of the Stock Exchange (the second tier market for junior companies), it is not included in the computation of the benchmark Index.

However, Middlesea features on the Official List and the 70 per cent decline in its share price during the past 12 months has naturally left a negative impact on the performance on the Maltese equity market. Moreover, it had also affected sentiment towards the equity market following the announcement of the sizable losses registered by the insurance group in the past months and the subsequent need for a massive capital raising exercise.

The Middlesea share price had peaked at a price of €6.29 in May 2006. The equity had followed the overall downward trend of the local equity market in recent years but began to underperform earlier this year following revelations of the losses incurred during 2008. Once the 2009 half-year results confirmed that Middlesea continued to suffer sizable losses in Italy, the company's share price dropped sharply reaching a level of €1.24 on the day of the rights issue announcement on November 17.

The announcement of the heavily discounted rights issue price and the publication of a prospectus indicating that the Middlesea Group's loss for 2009 is estimated to rise to €41.75 million (from €19 million at the half-year stage), forced the equity to sink to its nominal value and rights issue price of €0.60 remaining rather volatile during the rights issue subscription period. The results of the rights issue published last week reveal that apart from the three larger Middlesea shareholders (BoV, Mapfre and Munich Re) who had committed themselves to take up the additional shares, the general public shareholders owning 37.5 per cent subscribed for only about 30 per cent of their entitlement possibly in view of the continuing uncertainty surrounding the Italian subsidiary of Middlesea.

In fact, only 1,152 shareholders took up their rights from a total of almost 4,500 shareholders. The low take-up from the smaller investors is not unexpected given the rationale for this large capital raising exercise.

Incidentally, last week Lloyds Banking Group plc conducted the world's largest rights issue and the bank achieved very strong support from its shareholders as it announced an acceptance rate of just over 95 per cent. Since the Middlesea shareholders did not take up all their rights, BoV and Mapfre as underwriters purchased the remaining additional shares that were not taken up.

This resulted in both institutions increasing their shareholding in Middlesea to 30.8 per cent each, while the public shareholders saw their shareholding in Middlesea decrease to 18.5 per cent from the previous level of 37.5 per cent. Given the fact that BoV and Mapfre now have joint effective control over the Middlesea Group with a combined shareholding of 61.6 per cent, the minority shareholders are keen to understand the extent of any increased involvement of these two large institutions in the management and strategic direction of the Middlesea Group going forward and hoping for a quick return to a sustained yearly profitable performance.

Datatrak shareholders also had another disappointing 2009 as the share price of this company continued to register steep declines. Although only a handful of trades took place this year, the share price lost 62 per cent from last year's level of €0.19 per share to the recent price of €0.072 per share. Datatrak's IPO in November 2000 was launched at a price of €2.33 per share and investors who had subscribed to some shares at the time have seen their investment practically wiped out over the years.

Datatrak Holdings went through a number of changes at shareholder level when in June 2008, 15,949,500 shares were allotted to the CEO Joe Fenech Conti at a price of €0.30 per share in exchange for the 50 per cent shareholding which he held in Datatrak IT Services Ltd and Datatrak Solutions Ltd, which then became fully-owned subsidiaries of the Datatrak Group. Mr Fenech Conti, through his holding company JFC Holdings Ltd, became the new majority shareholder of Datatrak Holdings, as the issued share capital doubled to 31,899,000 shares.

In conjunction with this, the CEO and new majority shareholder also carried out a thorough operational restructuring exercise which involved discontinuing the business of the network sales and focusing on the provision of geographical information systems services, mainly in the area of mapping. At the time three new business units were set up focusing on ICT Management, International Projects and Business Consultancy.

Unfortunately, this coincided with the international economic slowdown and the significant decline in the value of sterling. Datatrak was severely impacted by the weakness in value of the British pound and together with the delay in a number of new projects, contributed to the Datatrak Group incurring a loss of €0.85 million during the 18-month period to June 30.

In the 2009 annual report published on November 13, CEO Joe Fenech Conti explained that the group is now starting to benefit from a recent rescue plan which involved a significant reduction in headcount and closure of non-performing activities including the International Projects division which had failed to secure any new projects by December 2008. The rescue plan was intended to bring the Group on a monthly profitability level.

In fact, the CEO reported on November 13 that the management accounts since July showed a return to profitability and cash generation based on regular income streams. Despite the losses suffered in the 18 months ended June 30 the CEO reiterated that Datatrak's outlook is good as a result of the potential business pipeline in view of a number of tenders submitted in recent months for value totalling circa €18 million. These, however, have yet to be awarded.

While Middlesea Insurance and Datatrak Holdings have been singled out as the main laggards in 2009, the equities of the other IT companies also suffered in line with the challenging international economic conditions. The share price of RS2 Software plc dropped by over 25 per cent during 2009 from its IPO level of €0.80 with Crimsonwing plc also suffering a 21.5 per cent decline despite recovering strongly from its July all-time low of €0.25.

The market is very likely to be focusing on developments at these companies in the coming months to monitor any progress being achieved and to establish when they are likely to return to profitability.

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