

Stock Market Review



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A decade of investing on the *Borża*

As many columnists are looking back at the events that marked the past 10 years, today's article aims to highlight the key developments that took place in Malta's capital market during this period.

With many people focusing on the potential IT pitfalls of Y2K and the changeover to the year 2000, the *Borża* was then experiencing its first bull market at the turn of the century. During the final quarter of 1999, the local equity market rallied by an extraordinary 73.2 per cent as investors rushed to acquire shares in the handful of Maltese listed equities following the publication of the White Paper on Privatisation. The euphoric mood among investors continued into the New Year of 2000 with the Index climbing a further 15.5 per cent in the first three months of the new millennium after having peaked at 4,013.371 points on 24 January 2000.

In subsequent months, this surge on the local *Borża* began to subside with the Index easing gradually. The rate of decline gathered momentum in 2001 as the MSE Share Index was experiencing its first bear market. This also coincided with the end of the dot.com bubble across international financial markets as investors pulled out of new internet-based companies that were pinning their hopes on unrealistic assumptions. Instead they shifted their attention to companies that generated actual revenue and profitability.

Locally, the new tax on local collective investment schemes announced in the 2001 Budget Speech also negatively impacted investor sentiment. Furthermore later during the year, stock markets took fright following the terrorist attacks on the Twin Towers of September 11, 2001. The bear market on the local *Borża* lasted for two years and nine months until the Index bottomed on October 30, 2002 at a level of 1,747.522 points, representing a staggering 56.5 per cent decline from peak to trough.

At the time when the market was hovering around its low and investor sentiment was weak, a new equity was listed following the IPO of Malta International Airport plc. In July 2002 the government of Malta had disposed of a 40 per cent shareholding in MIA to the Malta Mediterranean Link Consortium led by Vienna International Airport and the Canadian company SNC-Lavalin, and shortly afterwards in October 2002, the government sold a further 20 per cent shareholding to the investing public through an offer of shares at a price of €1.70 (Lm0.73). Although investment appetite for shares on the secondary market was weak, there was a strong response by the public to this offer with over 4,700 investors submitting an application for a stake in the airport operator.



By 2002, the total number of equities had increased to 14 following the new IPOs of Plaza Centres plc, International Hotel Investments plc, Datatrak Holdings plc, GlobalCapital plc and FimBank plc in 2000 and 2001. With no new equity offerings for a three-year period until the second MIA offering by the government in October 2005, the focus turned to secondary market activity. A renewed air of optimism was evident helping the local equity market to commence a new cycle. Following a 13.6 per cent rise in 2003, bullish sentiment among local investors gathered momentum.

The equity market recorded a 44 per cent gain in 2004. As the two large banks began reporting highly improved profitability levels and dividend payments increased, share prices continued to rise and this accelerated in the second half of 2005 and the first quarter of 2006 with the MSE Share Index staging another strong upturn on very high levels of trading activity.

This euphoria among local investors followed from the success of the second offering by the government of MIA shares where the Vienna Airport's subsidiary, VIE (Malta) Ltd, successfully tendered for a 10 per cent stake in the airport operator at a premium to the government's fixed offering price to the public of €3.261 (Lm1.40).

The surge in trading volumes on the secondary market was also instigated by the handsome dividend payments and corporate actions (share splits and bonus share issues) by the two major banks. From a quarterly average of circa €20 million worth of trades, this increased to €43.6 million in Q4 2005 and surged further to €92.9 million in the first three months of 2006 as the market peaked at 6,641.873 points on March 28, 2006. Although trading activity remained robust during the second quarter of 2006 (€56 million), the bull market came to an end as the Index declined by 16.6 per cent in the second quarter of 2006.

The equity market had risen to unsustainable levels during the first quarter of 2006. As the market began to correct, the sale of government's majority shareholding in Maltacom plc (now Go plc) to Emirates International Telecommunications Malta Ltd at a steep discount to the market price was another blow to investor sentiment. However, despite the renewed downturn in the equity market, a new wave of equity listings came to the market starting off with Medserv plc in October 2006 followed by Grand Harbour Marina plc and 6pm Holdings plc in 2007 and Crimsonwing plc, MaltaPost plc and RS2 Software plc in 2008.

Although all issues were fully-subscribed (in particular the IPO of the postal operator was very heavily over-subscribed), the equity market continued to drift on lower volumes of daily trading activity. During the second quarter of 2008, only €12.3 million worth of trades had taken place and this declined further to €9.7 million during the following quarter. The bankruptcy of Lehman Brothers in September 2008 brought further misery to the markets and unprecedented turmoil led to massive government intervention in the global financial system in the worst economic crisis since the Great Depression of the 1930s.

As global equity markets went into a tailspin, the negative impact on local investor sentiment was evidenced with trading volumes declining to just under €6 million during the final quarter of 2008 and the first quarter of 2009. This low level of market activity continued and the Index touched a low of 2,636.388 points on April 13, 2009. Incidentally, the decline from the previous high in March 2006 was similar to the first bear market at just over 60 per cent.

However the duration of Malta's second bear market was longer at just over three years. Since the low in April 2009, the local equity market has so far recovered by 31.3 per cent to end the year at 3,460.553 points on the back of encouraging recoveries

by BoV, Go and HSBC following the strong financial performance and dividend payment by BoV for the year ended September 30, 2009.

The equity listing of Island Hotels Group Holdings plc in October 2009 brought the total number of listed equities to 20. Although the number of equities listed on the *Borża* has seen a considerable improvement over the past decade, the number is still far too low. Too many private companies have shied away from going public to date.

On the other hand, the rate of growth in the number of companies listing corporate bonds has been more encouraging. The corporate bond market was in its infancy at the start of the decade with just five listings at the end of 1999. However, this has grown to 39 with a strong increase in the past three years. 2009 can be regarded as the year of the corporate bond market with a record number of bonds being launched.

Through the 10 corporate bond issues in the past 12 months, a total of €295 million was raised by companies on the primary market. This momentum looks set to continue into 2010 as interest rates are widely anticipated to remain at historically low levels throughout the year. The market capitalisation of the bond market has surged from €97 million in 1999 to €742 million in 2009.

Following the encouraging number of new equity and bond listings since October 2006, market participants and investors alike are now looking forward to another important and long-overdue development in the evolution of the *Borża* to take place – a market making facility that will make it easier and quicker for investors to dispose of investments when they need to raise some cash or to acquire investments when they have too much cash lying idle. Indications are that such a development is possible in the near term. If this is so, one should expect daily market activity to start rising again in 2010 from the very low levels recorded in 2009.

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