

Stock Market Review



Edward Rizzo

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

Maltapost registers 10% rise in pre-tax profits mainly on cost efficiencies

The September 2009 full-year results published by Maltapost on January 21 show a 10 per cent rise in pre-tax profits to €3.2 million. Few shareholders would have expected such a profitability level following the 26 per cent decrease experienced during the first six months of their financial year. Total turnover of the postal services company amounted to €20.2 million, representing a 1.4 per cent decline from the previous year.

This marginal decline was solely due to lower revenue from philately which had a boost in the previous financial year from the successful issue of the euro coin set in January 2008. Although Maltapost continued to suffer from a decline in domestic as well as international letter post volumes in line with trends across global postal markets, this was more than offset by growth registered in the parcel business following a surge in e-commerce.

The increased popularity of internet shopping is having a beneficial effect on Maltapost's business and in anticipation of further growth in this area, the company is planning an extension of the area dedicated for parcels within its head office.

The review of operational processes began to reap the desired results as employee costs dropped by €432,000 (4.3 per cent) to €9.6 million and administrative expenses declined by two per cent to €6.85 million. The improved processes led to a reduction in overtime and the company also aligned their employee requirements leading to a drop in full-time employees and an increase in part-timers.

Cost savings outweighed the marginal decline in revenue helping the company achieve EBITDA of €3.7 million and an operating profit of €2.9 million. Over the past four years, the company has achieved an exceptional improvement in performance with revenue increasing by 19.2 per cent, pre-tax profits climbing from just €0.48 million to €3.2 million and the operating profit margin increasing from only 2.1 per cent in 2006 to 14.2 per cent in the last financial year. This resulted following the privatisation of the company and the acquisition of majority control by Lombard Bank. Further operational efficiencies are being targeted ahead of the complete liberalisation of the postal market on January 1, 2013.

Maltapost is also undergoing a major branch refurbishment exercise. Over 60 per cent of the company's 34 branches have now been refurbished providing better customer experience and a better utilisation of areas within the branches leading to an improvement in the

company's revenues. This exercise will also eventually help the company achieve other strategic objectives mainly centred around the entry into financial services.

The company has already commenced the encashment of social security cheques (pensions, unemployment benefits and children allowances) as a first step into financial services. Hopefully, this will be followed by new services during the current financial year. The ultimate objective of the company is to achieve an increased contribution from financial services in line with the trends experienced by other international postal operators who ventured into this area.

The expertise and guidance from its majority shareholder Lombard Bank will undoubtedly help the company commence deposit taking and also to offer savings products in the near future. In anticipation of the entry into financial services, Maltapost is upgrading its IT systems and also conducting staff training programmes in view of the expertise required in this new area of activity.

During the last financial year the company also managed to achieve growth in other added services with the marketing and sales team offering customised services such as collection of bulk mail and organising mail shots on behalf of companies.

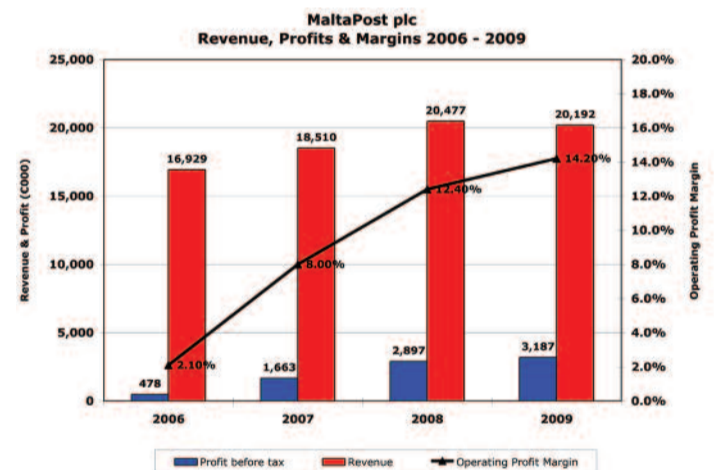
At the time of the IPO in January 2008, Maltapost had also indicated that it intended to launch new philately products some of which also in collaboration with Lombard Bank in the areas of numismatics. During the last financial year, the company suffered from a slowdown in this area but should experience a much better performance this year commencing with the launch of the publication *The Historical Collection - Celebrating Malta's Heritage Through Stamps*.

The potential for increased revenue from philately in the current financial year also stems from new products expected to be launched to commemorate some important events and activities this year including the visit of His Holiness the Pope to Malta in April 2010.

In conjunction with the publication of the full-year results on January 21, Maltapost declared a net dividend of €0.04 per share. Similar to last year, Maltapost's shareholders have the option of taking the dividend in cash or in new shares. This year's subscription price has been established at €0.66 per share compared to the €0.77 level last year. Given the attractive attribution price, one would expect a large number of shareholders to opt for new shares helping the company to increase its permanent share capital in the process. The balance sheet as at September 30, 2009 reveals the



Total turnover of the postal services company amounted to €20.2 million, representing a 1.4 per cent decline from the previous year.



Maltapost plc - Revenues, pre-tax profits and operating profit margin, 2006-2009.

robust financial position of the postal operator.

The company has a significant amount of cash coupled with an investment portfolio valued at just under €4.9 million and zero borrowings. The cash pile will enable the company acquire some property assets possibly also without the need for third-party funding.

Maltapost's share price has recovered strongly in recent months from a low of €0.60 per share.

Despite the 33 per cent upturn to the €0.80 level, the equity is among the highest dividend yielders on the local *Borża* with an attractive gross dividend yield of 7.7 per cent *per annum*. Investors who acquired Maltapost shares at the time of the IPO in January 2008 should be very pleased to see the value of their investment climb by 60 per cent coupled with a 16 per cent net dividend over the past two years.

“
Further operational efficiencies are being targeted ahead of the complete liberalisation of the postal market on January 1, 2013.”

Rizzo, Farrugia & Co. (Stockbrokers) Ltd, RFC, is a member of the Malta Stock Exchange and licensed by the Malta Financial Services Authority. This report has been prepared in accordance with legal requirements. It has not been disclosed to the issuer/s herein mentioned before its publication. It is based on public information only and is published solely for informational purposes and is not to be construed as a

solicitation or an offer to buy or sell any securities or related financial instruments. The author and other relevant persons may not trade in the securities to which this report relates (other than executing unsolicited client orders) until such time as the recipients of this report have had a reasonable opportunity to act thereon. RFC, its directors, the author of this report, other employees or RFC on behalf of its clients have

holdings in the securities herein mentioned and may at any time make purchases and/or sales in them as principal or agent. Stock markets are volatile and subject to fluctuations which cannot be reasonably foreseen. Past performance is not necessarily indicative of future results. Neither RFC nor any of its directors or employees accept any liability for any loss or damage arising out of the use of all or any part thereof and no rep-

resentation or warranty is provided in respect of the reliability of the information contained in this report.

© 2010 Rizzo, Farrugia & Co. (Stockbrokers) Ltd. All rights reserved.
www.rizzofarrugia.com

