



The Road Ahead for the TTSE

The topic on the mind of the local stock investor is whether the companies listed on the Trinidad and Tobago Stock Exchange (TTSE) will be affected by the global recessionary environment, and the impending slowdown in our local economy. It is quite clear that the extreme volatility in the major international stock markets has had a psychological effect on local investors leading to local panic selling, falling stock prices, and increased fear and uncertainty. But, are the companies **fundamentally** sound?

At current price levels, the market is trading at a trailing P/E multiple of just less than 12 times – far lower than we have observed in a number of years. As supply continues to grossly outweigh demand on the market, we can expect to see further declining prices, some unwarranted and some justified. It is no secret that our economy is in for a slowdown – the Central Bank has projected real GDP growth to be 3.5% in 2008, and slow to 2% in 2009; and so we ask ourselves this question: Which of our companies are strong enough to withstand such a slowdown?

Given the outlook for our economy, we have opted to take the conservative road and assume that none of the companies will experience growth in earnings or dividends over the next two years. After that, we assume that they will grow at a sustainable growth rate that has been computed using historical ratios. Even under these assumptions, it is interesting to note that there will be some buying opportunities remaining in the local stock market.

Banking

Our local banks have entered this period of global financial turmoil on strong footing. Let's look at Scotiabank (SBTT) and Republic Bank Limited (RBL): they are well capitalized, liquid and profitable, and they are funded mostly through domestic deposits and equity. We expect that SBTT and RBL should be able to maintain their earnings over the next couple of years.

Assuming zero growth in earnings for two years going forward, SBTT and RBL have valuations of \$29.02 and \$97.04 respectively.

Manufacturing

Our Manufacturing sector includes companies that operate in anti-cyclical industries, for example, Witco (WCO) and Angostura Holdings (AHL). Tobacco and alcohol related companies have historically stood firmly during tough economic times. Though zero-growth for both of these companies is highly unlikely, we maintain our original assumptions, which give us valuations of \$32.89 for WCO, and \$7.80 for AHL. Additional returns can be gained for the WCO shareholder through dividends as the company pays out almost 100% of its earnings in the form of dividends.

On the flip-side, the Manufacturing sector also includes companies whose earnings are heavily dependent on the economic

activity of the country – Trinidad Cement (TCL) and Readymix (RML), for example. Frankly, the outlook for these two companies is negative. Demand for cement and concrete is going to fall as construction activity tapers off in the next couple of years. Unless management takes drastic measures to ensure the best possible operating efficiencies and stringently manage expenses, there is a distinct possibility for both of these companies to experience a contraction in profits. Our initial assumptions of zero-growth suggest that TCL is fairly valued at \$3.75, and RML at \$12.74, with the possibility of even lower valuations if construction activity falls significantly.

Conglomerates

Ansa McAl (AMCL) and Neal and Massy Limited (NML) are the two locally domiciled conglomerates listed on the TTSE. Both AMCL and NML are involved in a wide cross-section of businesses, most of which will be impacted by slowing economic growth. Industries such as Automobile distribution will experience declining sales growth, largely due to increased taxes on new vehicles, as outlined in the 2009 Budget. AMCL's manufacturing segment will no longer enjoy the benefits of a booming construction industry, and NML's hotel chains throughout the region will suffer decreased occupancy rates as tourism dwindles. On the other hand, AMCL's beverage industry will probably continue to grow. If these two companies have flat profits and dividends over the next two years, NML has a fair value of \$55.73, and AMCL of \$52.41.

Non-Banking Finance

We have chosen to examine Guardian Holdings (GHL) and Sagicor (SFC) in this sector. The core business of the insurance companies will likely remain solid, even during a slowdown in economic activity. The area that we can expect to see significant levels of vulnerability is through the investment income – considering the state of the global capital markets, we can expect volatility in such income, depending on the mix of the portfolio. Assuming no growth, GHL is fairly valued at \$24.36, and SFC at \$17.39.

Trading

Prestige Holdings (PHL) has just returned to operating profitability after two consecutive quarters of losses; is this bounce sustainable, though? Although they have been operating in an ever increasing inflationary environment, PHL was able to manage its cost of sales margin during the most recent reporting period, compared to last year. Going forward, as global food prices continue on a downward trend, we can expect price pressures to ease locally, boding well for inputs such as raw materials, and therefore overall profits. With a brand mix containing more affordable lines like KFC, to higher-end lines like TGI Fridays, they have a broad customer base. Going forward, as long as management keeps focused on containing costs, PHL is not likely to feel significant effects of a slow-down. Assuming no growth in profits, the company is valued at \$4.19.

Thus, there will be some opportunities to make returns on the TTSE, but timing is everything. Current price levels would suggest that many stocks are trading at cheap multiples, but given the supply vs. demand situation on the market, we can only anticipate more falling prices and even better opportunities going forward. We urge investors to keep a keen eye on the market – it is difficult to call a bottom, but our belief is that we haven't seen it as yet.

**** The valuations have been computed using a two-stage dividend discount model. Calculations were done with information available as at the time of writing this article on 27th November 2008.**

Current Happenings in Local and International Markets:

- Scotiabank records fourth quarter profit of \$432 million
- Challenging times for GKC
- Sagicor falls again
- Shoppers flock to stores for Black Friday deals, but say they are cutting back
- Oil falls in anticipation of OPEC meeting
- Euro-zone jobless rate hits two-year high
- US wholesale prices plunge
- Japan's Recession Deepens as Factory Output Slumps
- Europe Inflation Rate Drops Most in Almost 2 Decades

Table 1: Regional Market Performance (as at 27 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	874.73	-2.49	-6.54	-10.93	-8.23
All Trinidad	1,182.03	-1.93	-6.81	-1.55	0.04
JSE Index	85,737.70	-0.39	-8.15	-20.59	-15.83
JSE Select	2,121.58	0.25	-12.01	-27.57	-23.93
All Jamaica	78,680.13	0.01	-11.87	-26.32	-22.26
BSE Composite	983.12	-1.27	-2.08	-4.44	-3.94

Table 2: International Market Performance (as at 27 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	887.68	17.97	4.57	-39.55	-37.85
Nasdaq Composite	1,532.10	16.41	1.74	-42.23	-40.63
Dow Jones Industrial	8,726.61	15.55	6.74	-34.21	-32.66
German Dax	4,665.27	10.55	7.63	-42.17	-38.06
FTSE 100	4,226.10	9.06	9.69	-34.55	-31.18
Nikkei 225	8,373.39	8.70	16.90	-45.30	-44.99
Hang Seng	13,552.06	10.19	23.02	-51.27	-50.19
DJ Eurostoxx	2,427.97	9.07	5.88	-44.82	-42.53

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.