



## *Massy and McAl... A Tale of Two Conglomerates*

The classic Dickensian beginning, "It was the best of times, it was the worst of times", might not be totally appropriate in comparing the performances of two of the largest Caribbean conglomerates. What is apparent, however, is that apart from a slowing economy that has negatively affected consumer demand and by extension revenue for both, the two can be considered to be confronted by some different challenges as well.

Neal and Massy (NML) financial year ends on September 30 while its peer ANSA Mc Al (AMCL) has a year-end of December 31. To provide a current comparison of the two the majority of data presented below is based on the six-month period January to June 2009 (shown as YTD in the tables provided). This is the half-year for AMCL and quarters two and three for NML. Other comparative data is included on a trailing twelve month (TTM) basis and the most recent quarter; March to June 2009 (MRQ) as indicated. The areas of the operating and profit margins will be looked at in the first tables as noted in Table 1 below:

**Table 1**

	YTD		MRQ	
	AMCL	NML	AMCL	NML
Operating Margin	19.1%	7.6%	21.7%	7.7%
Profit Margin	12.6%	4.9%	15.7%	5.2%

The measures above show that AMCL is ahead of NML in terms of its management of operating and other costs as it affects both the level of operating profit, margins and net profit. It is evident that NML has room to move down its cost curve to realize the double-digit figures of AMCL. Some more data is presented in Table 2 to expand the picture and enhance the comparison.

**Table 2**

	AMCL	NML
Third party Revenue (TTM)	\$5,155	\$8,775
Earnings (TTM)	\$ 680	\$ 454
Average Assets*	\$9,797	\$8,033
Return on average assets	6.9%	5.7%
Earnings per share (EPS) (TTM)	\$3.33	\$4.74

\*Average assets for the 12-month period June 08/09.

\$ Amounts in TT Millions.

While NML has been able to churn out higher third party revenue, it lags AMCL in terms of earnings and return on average assets. On an EPS basis, AMCL is behind NML as shown in the table.

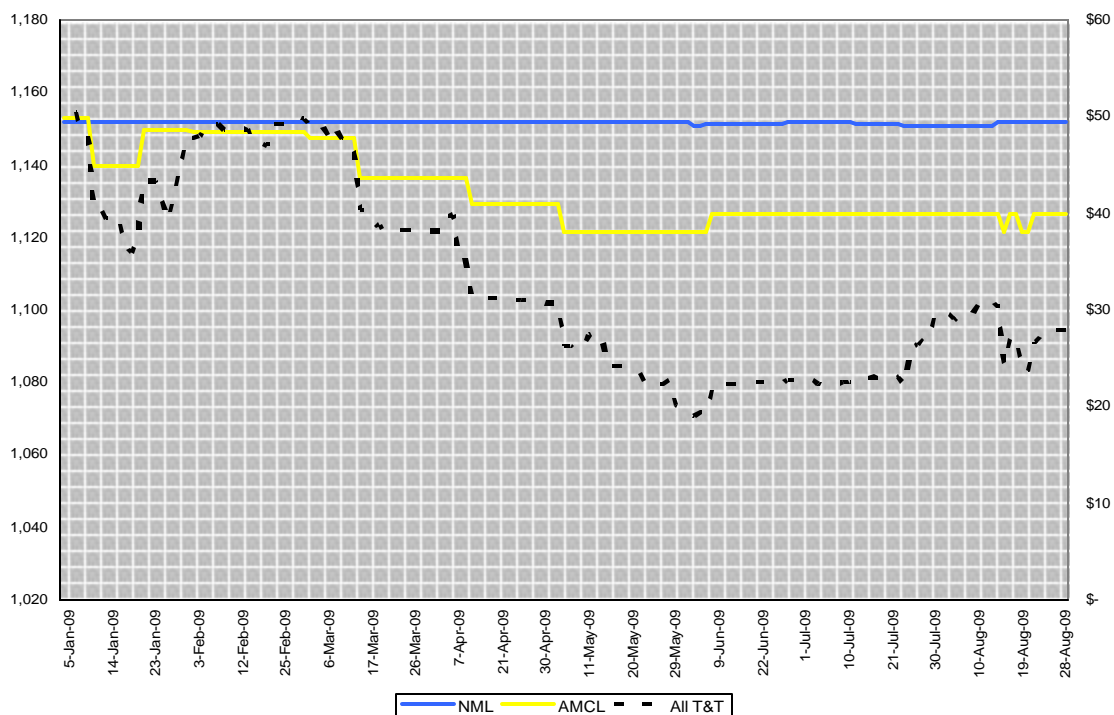
Some points to note in the figures provided are the merger of the operations of NML and Barbados Shipping and Trading (BS&T) as well as the subsequent issue of NML shares to former BS&T shareholders. As BS&T moved from associate company status to that of a wholly owned subsidiary, the effect of consolidation is to increase the top line (revenue) at the expense of results from associates; expenses are also brought in from the acquisition date. This can very well explain the comparatively low margins in Table 1 as the BS&T cost structure may have been higher than NML's. NML also experienced some decreased earnings from associates in Jamaica (Cool Petroleum) and Barbados (Warrens Motors).

The single-digit margins seen in Table 1, if taken together with the BS&T merger is evidence that NML is still 'digesting' this transaction. One of the tasks facing newly appointed NML Group CEO Gervase Warner may very well have to be cost rationalization across the lines of businesses, paring those units that are not performing or getting them up to par.

Current AMCL CEO Norman Sabga has been at the helm for some years, while at NML Mr Warner was appointed as acting CEO in May 2009. A point can be made then that NML may be in a short transition period in terms of leadership and strategy.

Figure 1 illustrates the share price performance of NML and AMCL, together with the performance of the All T&T Index for the period January to August 2009. The All T&T Index is used in lieu of the Composite to eliminate the skewed effect of the declines in cross-listed stocks over the period.

**Figure 1**



An interesting picture indeed; NML has not moved at all, while shares of AMCL have shown a 20 per cent depreciation over the period. This compares with a decline in the All T&T Index of 5.2 per cent. What has caused this variance in price performance?

One explanation can be the price-to-earnings (PE) ratio. As at September 16, the PE ratios were 12.0 for AMCL and 10.4 for NML; so an argument can be made that AMCL was trading at a higher multiple than NML and some correction was in store especially with regard to short-term growth prospects. When the opening prices for 2009 are considered, it provides even more weight to this view. AMCL was quoted at \$50 at the start of 2009 versus NML at \$49.50. AMCL's earnings for the calendar year 2008 was \$3.34 per share, giving a rich PE of 15 times, against NML's calendar 2008 EPS of \$5.11 and a PE of 9.7.

These earning multiples indicate among other things; investors were willing to pay more for a dollar of earnings from AMCL over NML. A lower PE for NML argues a certain amount of caution on the part of buyers who were awaiting the outcome of the consolidation of the BS&T merger and its effect on the financials. The price of AMCL could well have overshot its fair value at the end of 2008, when buyers were purchasing with the expectation of earnings closer to \$4.00 per share thus the subsequent correction can be viewed as a natural market reaction.

Looking ahead, future projections for share prices will largely depend on success in markets outside the Caribbean. AMCL has tapped into extra-regional markets with its Beverage and Manufacturing operations while NML has a presence in the US through its Distribution business. So in this respect, both companies already have their footholds in major markets and with the recession in the US seemingly abating, it augurs well for the overseas and Caribbean business units of AMCL and NML.

***Edgar Pariagh does not hold any positions in AMCL or NML.***

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**Table 1: Regional Market Performance (as at 17 September 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	787.24	0.10	0.20	-6.61	-28.34
All Trinidad	1,100.05	0.09	0.65	-4.74	-25.46
JSE Index	80,400.26	0.19	0.32	0.31	-23.53
JSE Select	1,809.72	0.23	-0.43	-8.82	-36.71
All Jamaica	65,886.29	0.45	-0.91	-10.96	-37.01
BSE Composite	848.20	0.05	0.63	-7.79	-20.97

**Table 2: International Market Performance (as at 17 September 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,065.49	2.04	8.75	17.96	-7.86
Nasdaq Composite	2,126.75	2.05	10.15	34.86	1.33
Dow Jones Industrial	9,783.92	1.62	7.10	11.48	-7.78
German Dax	5,731.14	2.44	10.18	19.15	-2.22
FTSE 100	5,163.95	3.53	11.17	16.46	5.12
Nikkei 225	10,443.80	-0.66	1.71	19.40	-11.12
Hang Seng	21,768.51	3.32	8.10	51.30	23.42
DJ Eurostoxx	2,895.45	2.77	11.20	18.11	-4.09

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