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CCMB – Weak earnings Growth on changing economic landscape

Financial institutions such as Capital and Credit Merchant Bank, Dehring bunting and Golding and Mayberry Investments Limited have been faced with increasing competition in Jamaica's financial industry. Added to this, the companies are operating in a declining spread environment based on a flat yield curve and rising interest rates in the U.S and within the region. These factors inevitably contributed to more compressed margins and profits. CCMB's Net Profit fell to J\$458 million from J\$758 due to lower trading gains in the second quarter which plunged from J\$400 million to J\$79 million. Accordingly Earnings Per Share (EPS) retreated 41% to J\$.75 (TT\$.07) compared to J\$1.29 (TT\$.13) based on lower profits and the dilutionary effect of an additional 53 million shares from the recent rights issue in late 2005.

Rising interest rates both in the U.S and the Caribbean are narrowing the interest differential between Jamaican and US dollar assets. This together with a persistent anaemic equity market forced CCMB to realign its investor portfolio over the last year. Gains on securities trading fell from J\$400 million to J\$79 million in this specific quarter. This was impacted by a fall in the valuation of Government of Jamaica U.S denominated bonds as well as the effect of weak equity market performance on the equity portfolio forcing the Group to limit its range of securities. Additionally, in 2005 these gains were boosted by J\$262 million from the sale of part of its equity holdings. Simultaneously, the company is seeking to dispose of low yielding assets while acquiring higher yielding assets to counteract volatility in earnings from securities trading.

Efficiency levels showed some improvement as Non-Interest Expenses in the second quarter fell by 14% on lower staff costs. The efficiency ratio moved up to 54% from 33.5% in the second quarter better than its Industry peers JMMB's (51.7%) and DB&G (47%). This is indicative of greater focus on cost containment; a strategy which should bode well in the next two periods given the tightening economic environment in which the Group now operates. The implementation of a new IT platform in early 2007 is expected to boost efficiency and capability.

The loan portfolio after provision for loan losses recorded a healthy 35% increase. Loan loss provisions at the end of the period improved from 2.55% in 2005 to .8% in 2006. ROE and ROA fell to 18.6% and 1.6% down from 29.2% and 2.2%, respectively at half year 2005. CCMB's capital base was impacted both by retention of J\$478 million in Net Profits and the mark-to market loss of J\$511 million. Unappropriated profits of J\$432 million was

transferred from to Retained Earnings which helped to boost the Tier 1 Capital (the fundamental measure of a bank's financial strength) to J\$3.5 billion.

The outlook for CCMB for the remainder of FY 2006 is moderate. The main concern for the Finance sector is the rising interest rate levels in the U.S and the effect on Jamaican assets and increasing competition which could result in further overall margin compression. The Group continues to focus on restructuring its balance sheet with a more conservative investment approach to rebuild its non-proprietary income streams together with cost containment. While CCMB is facing short-term challenges regarding its revenue stream, we believe the current initiatives will be fruitful over the longer term. The stock is currently priced at a P/E of 10.1 times, higher than the Industry P/E of 8.5 times.

Regional Market Review

Locally the TTSE Composite closed at 901.90 on 28th July which marks a fall of 15.5% for year to date. RBTT recorded the largest gain of 1.8% while Plipdeco had the biggest decline of 3.6%. The Central Bank pushed the Repo rate up a further 25 basis points to 7.50% with a further increase expected at the end of August. Adding to the slow down in market activity, half year and nine month results from companies like BS&T, TCL and RML were disappointing compared to prior periods.

The BSE Composite ended the period with a marginal gain of 0.1%. Trading volumes remained low with 68, 610 shares changing hands. However Barbados Light and Power's stirred some interest as trading in the company's rights issue commenced on 2nd August. The company is hoping to raise B\$28 million to fund the company's investment in TeleBarbados Inc and Savoy Properties Limited through its subsidiary, LPH Telecom Ltd. The company is offering 1 share for every 5 at B\$10.00; LPH is currently trading at B\$11.25.

Price appreciation in several heavily weighted stocks like FCIB, Lascelles and BNSJ stimulated a gain of 334 points on the JSE Composite which closed with 82,335.48 points on 31st July. These stocks improved the advance decline ratio to 24/7. Market volume amounted to 23,705 818 shares as stocks like BNS and LOJ were among the most favoured. Stocks topping the market in terms of price appreciation were Pegasus (25%), Courts (18.1%) and Jamaica Broilers (16%), while Guardian Holdings and Gleaner lost the most value. In other news Caribbean Cement made further losses in its half year results of J\$44 million bringing the total 12 month loss to J\$842 million. Although there was a 15% hike in cement prices in July the run up in energy costs and the impact of the cement recall in the first quarter the company incurred operating losses. The company intends to issue a further price hike in the 4th quarter to combat rising energy costs.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change	Monthly Change	YTD Change (%)	1 Year Change
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		(%)	(%)		(%)
TTSE Composite	898.97	-0.20	-1.69	-15.73	-21.16
All Trinidad	1,136.49	-0.22	-1.78	-14.07	-21.18
JSE Index	84,988.80	0.04	2.20	-18.08	-20.33
All Jamaica	79,970.21	0.09	5.71	-22.63	-26.12
JSE Select	2,202.78	-1.11	5.58	-22.64	-23.64
BSE Composite	983.01	0.01	-0.34	-5.02	-4.37

Current Happenings

- CMMB CLI forecasts steady economy in August
- Capital and Credit re-positions strategy, technology to boost revenue
- Interest rate hikes – risk to Barbados operations
- Caribbean Cement Company loses J\$340 m in 4 months
- Profit levels falling for Jamaica's Investment houses

Table:1 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1271.48	-0.40	0.47	0.21	-0.55
Nasdaq Composite	2060.85	-1.46	-3.25	-8.15	-0.86
Dow Jones Industrial	11173.59	-0.11	0.75	3.01	-0.24
German Dax	5651.92	-0.53	-0.53	3.50	-0.51
FTSE 100	5818.10	-1.86	-1.20	2.40	-1.92
Nikkei 225	15464.66	0.05	1.03	-4.01	0.00

International Market Review

The Standard and Poor's 500 and Dow Jones continued to outshine the Nasdaq as Proctor and Gamble and Time Warner recorded profits in recently released results. On the other hand two heavily weighted technology stocks Amazon.com Inc and Yahoo! Inc released lower earnings than expected forcing the Nasdaq down by 0.4% at the close of trade on 1st August. Asian indices were in positive territory in this period as Japanese exporters Toyota Motor Corp. and Canon Inc. rose in anticipation of earnings increase in the U.S. The Nikkei improved by 3.7% and the Hang Seng gained 1.8%. Both the FTSE 100 and Eurostoxx recorded flat returns seemingly in

response to an increase in interest rates by the European Central Bank who was also joined by the Bank of England causing concern that economic growth will fade.

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