

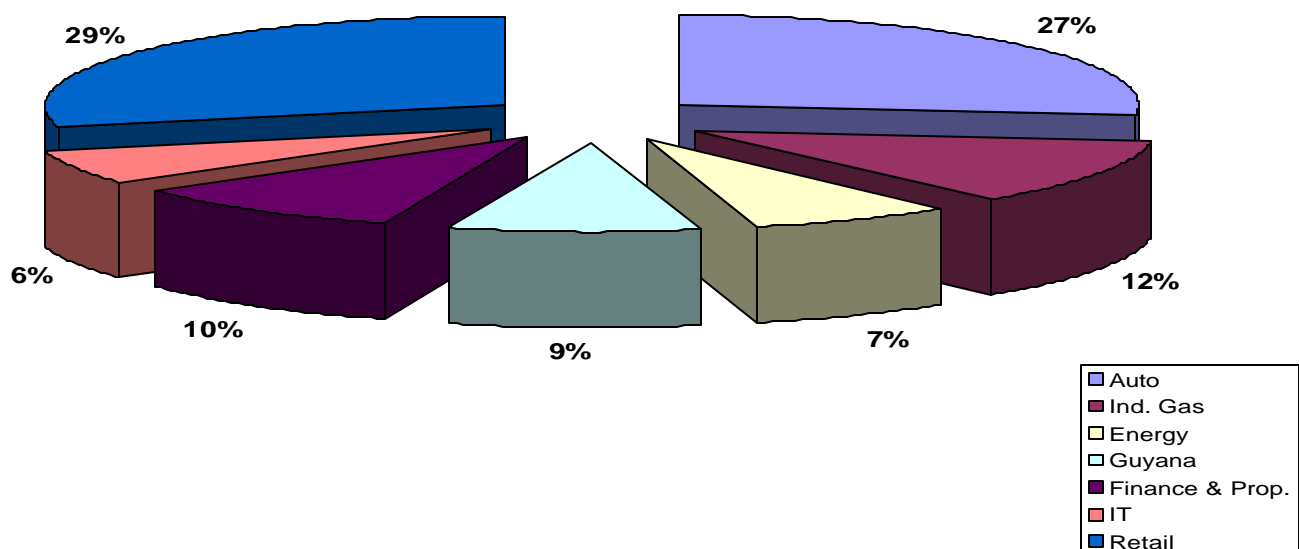


## Neal and Massy Good Growth Ahead

Neal and Massy Holdings Limited (NML) released results for fiscal 2006 recently with Earnings per Share (EPS) increasing by an impressive 20.4% to TT\$3.37. Third party revenue was the major contributor to this strong performance, rising by over 18% to TT\$4.2 billion. This is no mean achievement for a company of this size. At a recent Stockbrokers Meeting, Management indicated that approximately one-third of the revenue growth was attributed to acquisitions made by the Group during fiscal 2006. Therefore the core business segment contributed two-thirds of the improvement in revenue, and bodes well for earnings stability.

Operating profits were 18.6% higher in 2006 at TT\$401.5 million when compared with the TT\$338.5 million made a year earlier. The operating margin though increased marginally to 9.5% from 9.1% in 2005. Attributable profit to shareholders was 20.1% higher in 2006 totaling TT\$299.2 million in comparison to the 2005 figure of TT\$249.1 million. The profit margin was virtually unchanged at 7%.

**Operating Profit by Business Unit 2006.**



The pie chart above shows the contribution of each business segment to operating profit. The Retail and Automotive segments remain the largest contributors at over \$100 million each. The auto showroom is to be expanded with the acquisition of additional acreage in Morvant and the introduction of a new high-end auto line. On the retail front, Hi-Lo Maraval is expected to undergo expansion and two new stores are earmarked for the East and South.

In fiscal 2007, the contributions from Energy and Finance and Property are expected to increase as earnings from Insertech and NM Wood would be consolidated into the Energy segment. The NM Wood Group joint venture will maintain the offshore facilities of British Petroleum over the next five years. NML has a 50% shareholding in this venture which will realize annual revenue of US\$50 million. Pres-T-Con will fall under the Finance and Property segment and this operation is expected to generate over TT\$20 million in operating profit in fiscal 2007.

The Group's acquisitions in fiscal 2006 were funded by a mixture of debt and equity. Total borrowings rose to TT\$739.2 million from the previous years' amount of TT\$499.2 million. The debt to equity ratio stood at 32.6% at the end of fiscal 2006, up from 27.3% in 2005. The current ratio, although declining to 1.5 from 1.7, is still a good indication that the Group can meet its short-term obligations. Operating cash flows increased to TT\$381 million in fiscal 2006 from TT\$259 million in 2005, another sign that an increased debt load should not hinder overall performance in fiscal 2007.

The NML Group has not signaled its intentions to undertake any acquisitions in the year ahead. In our opinion, this level of leverage appears acceptable and the Group is more than capable of meeting debt service requirements as indicated by the level of operating cash flow and the current ratio.

Table 1. NML Earnings scan for the last five (5) years

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
EPS	\$1.85	\$1.90	\$2.43	\$2.80	\$3.37
\$change	0.34	0.05	0.53	0.37	0.57
% change	22.5	2.7	27.9	15.2	20.4

The average earnings per share (EPS) growth for the last five years stood at 17.7%. If we apply this rate to the TT\$3.37 made in 2006, we arrive at TT\$3.97 projected earnings in 2007. This is a reasonable estimate of what NML is expected to earn in fiscal 2007 based on current information available. At the time of writing, the share price advanced to TT\$40.04. The corresponding historical price earnings ratio is 11.9 times, while the entire market currently trades at a multiple of 13.6 times.

On this basis, NML seems an appropriate choice for those investors who are looking for solid long-term growth.

***Edgar Pariagh owns shares in Neal and Massy.***

## **Regional Market Review**

The TTSE Index is slowly reversing losses and in this period gained more ground with an improvement of 2.4%. This was buoyed mainly by T&T listings as the All T&T Index, which measures the performance of locally listed stocks improved by 2.0%. Investors' interest seemed to have been revived as trading doubled over the last two consecutive weeks along with traded values. Market volume was led by JMMB and RBTT which remain the two more favoured stocks. Similarly, it was the Jamaican stocks which gained the most in this period. JMMB continued to climb as investors placed their money behind the Group's expansionary strategy, the stock advanced some 16% to close at TT\$1.35 at the close of trade on 5 December. NCBJ and DB&G also appreciated by 10.0% each.

The BSE recorded a marginal increase of .2% to close with 946.77 points, better than the losses recorded in the prior weeks and market volume also improved by 17%. This was pushed by increasing interest in BS&T shares. On 1 December Sunbeach shares were traded again on the BSE at its pre suspension price of BDB\$.55. Vtel (St Lucia) Inc. now has controlling interest in the company after purchasing 25.5 million units at BD\$.06 per share from five major shareholders. Under Barbados' 2002 Take-Over Bid regulations, it is now required to make the same offer or better to approximately 850 registered shareholders. In other news, savings rates in 2005 were raised four times, causing commercial banks to increase lending rates in attempts to maintain their margins while providing clients with the savings rates mandated by the Central Bank. Recently the Barbados Central Bank raised savings rates to 5.75% up from 4.25% to encourage savings, dampen credit demand, and slow capital flights in search of higher returns. In Jamaica, the market continued to rally but at a slower pace in this review period. The JSE now has the least year to date losses among the three major regional equity benchmarks of 5.5%. However, the ALL Jamaica Index is already up 4.2%. Stocks like Mayberry Investments, Jamaica Broilers, Kingston Wharves, Pan Caribbean Financial and Seprod traded at their 52 week high on 4 December also reflective of more favourable stock market trends. Mayberry recorded an impressive return of 54% in terms of price appreciation and traded near to the 15% circuit breaker on 3<sup>rd</sup> and 4<sup>th</sup> December.

Another week of quiet trading characterized the activity on the ECSE for the review period. The ECSE Index dropped 0.19 points to close at 120.39. Meanwhile activity on the RGSM was minimal trading 300,000 units of Government of Antigua & Barbuda 8.25% 5-year note traded at par. In other news, the Government of Antigua & Barbuda will bring to market EC\$17 Million 91-day Treasury Bill on 8 December.

**Table 1: Regional Market Performance**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	909.13	2.43	5.53	-14.78	-15.20
All Trinidad	1,131.56	2.04	5.99	-14.44	-15.65
JSE Index	98,043.30	0.93	12.60	-5.50	-3.19
All Jamaica	107,718.37	0.64	16.37	4.21	9.03
JSE Select	2,955.17	0.22	18.34	3.78	8.42
BSE Composite	946.77	0.24	0.00	-8.52	-8.30

### Current Happenings

- 700m bond issue sold out
- We have final say on bank acquisitions' says Central Bank on FCIB's interest in RBTT
- \$900 Million for FirstCaribbean Capital Markets
- Vtel now major Sunbeach player

- Interest Rates are going up, just in time for the Christmas season.
- J'can blue chip company seeking US\$50 m to make overseas acquisition?
- Jamaica spends US\$1.5b on imported energy
- Several new listings expected on the JSE in 2007

## International Market Review

Projections of a weakening dollar did not seem to faze investors as all major US indices ended the review period in positive territory. The S&P 500 (up 2 points) closed at 1,414 points, the Nasdaq Composite closed 2,452 points and the DJIA closed at 12,331 points.

European markets also ended the review period positively with the German Dax (up 1.45 points) closing at 6,372 points, the FTSE 100, though up negligibly, increased to 6,086 points and the Eurostoxx also up negligibly closed at 4,007 points.

In Asian markets reacted positively to speculation that oil prices will decline in combined with a weakening dollar. Analysts are projecting that this drop in oil prices and the weakening dollar will make power companies more attractive to investors.

The Hang Seng and Nikkei 225 closed at 18,944 and 16,265.76 up 1.63 points and 2.58 points respectively.

**Table 2: International Market Performance**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,414.76	2.01	3.70	11.50	12.10
Nasdaq Composite	2,452.38	1.65	5.22	9.30	8.63
Dow Jones Industrial	12,331.60	1.61	2.88	13.68	13.81
German Dax	6,372.80	1.45	0.67	16.70	21.00
FTSE 100	6,086.40	1.00	-2.22	7.13	10.45
Nikkei 225	16,265.76	2.59	-0.60	0.96	4.59

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