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Stock Market Weekly

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Republic Bank – Disappointing 2006, but Expects Better 2007

Republic Bank Limited (RBL) recently released disappointing results for the year ended 30 September 2006. The main catalyst for the reported 25% falloff in earnings per share to TT$4.01 in 2006 was the unrealised loss of TT$175 million in its First Caribbean International Bank (FCIB) shareholdings. This loss was based on the depressed price of FCIB, which according to RBL's Chairman was fuelled by Barclays Bank's intended sale of its FCIB interest to Canadian Imperial Bank of Commerce (CIBC). These losses are not expected to recur next year. At the close of this financial period, the stock contracted by TT$9.05 to TT$85.95 and along with the dividend declared of $2.50 for 2006 provided shareholders with an annual return of 6.9%; lower than the 22% yield in 2005.

Strong growth in loans and advances contributed to an 18% improvement in core operations. The Group's Trinidad division continued to be the main income and profit generator followed by its Barbados operations. RBL has nevertheless been seeking to diversify its income stream outside of Trinidad. Noteworthy was the improvement of 56% in interest income from the Dominican Republic operations and a slowdown in reported losses before tax from TT$80 million in 2005 to TT$61 million in 2006. This slowdown resulted from a recent restructuring exercise that saw the sale of both the retail bank and the credit card business. Improvements in the Grenada operations continued, while the recent purchase of Dextra Bank and Trust is expected to boost the Cayman results in 2007.

In 2006, the Group recorded a 35% growth in its asset base to TT$35.1 billion. This was generated mainly from its acquisition in the Cayman Islands in an effort to grow its offshore banking business. Profitability ratios fell however based on the impact of the FCIB shareholding and subsequent unrealized loss. Accordingly return on assets fell to 1.9% from 2.7% in 2005, while return on equity slipped from 20% in 2005 to 14.8% in the current period.

Republic Bank appears well poised to continue its pursuit of growth, as the company remains highly capitalized and cash heavy. If it accepts CIBC's offer for FCIB, the Group could report an unrealized gain in the next financial year. We are forecasting moderate growth in earnings per share. The stock is currently trading at a P/E of 21.4 times which is above that of competitor RBTT (13.2 times) and the banking industry (16 times). With this in mind, RBL may be suited for investors with a more medium term investing threshold.

Regional Market Review

Market Activity on the TTSE continued to be driven by heavy demand in this period, particularly from stocks like JMMB, RBL and RBTT. For the latter demand was fuelled by speculations of a possible merger or takeover of the bank. Market value was also encouraging, pushed by a large trade of 1.8 million RBL shares on 12 December worth about TT$158 million. These helped to extend the rally on the TTSE which inched up another 1.6%, with the ALL T&T in tow up 1.4%, year to date losses have been reduced to 12.8% and 12.7%, respectively. JMMB was the star performer in this period with a price appreciation of 14.7% while demand persisted; the share accounted for 28% of total traded volumes with RBTT in a close second with 24%. Other advancing stocks included GraceKennedy (5.2%) and Guardian (4.8%). BWIA shareholders will know their faith in terms of compensation for shares held in the company by 15 December. The company is expected to be de-listed by the end of 2006.

Despite news of impending insolvency some 19,382 BWIA shares traded on 8 December on the BSE. It was RBTT however which dominated trading, moving 42,567 units in the review period. The BSE Composite retreated by 1.2% to close with 934.79 points. Top advancers in this period were GraceKennedy which appreciated by 9.0% and Sagicor (1%). While stocks like Cave Sheppard, Cable and Wireless and FCIB lost the most ground.

In Jamaica, the market seemed to slow down as losers outnumbered winners 21 to 12 in this review period. Trading was also moderate as volumes also slowed when compared to the prior week. The Central American furniture retailer Cobalt Holdings secured a pledge from 90% of Courts (Jamaica) shareholders. The company recently agreed to buy the Caribbean Holdings of Courts (Jamaica). Which is valued at US$156 million or J$4.25 per share. The company is prepared to delist the stock immediately from the JSE. DYOLL enjoyed favour among investors as the share gained 50% in value with a month to date increase of around 87% on restructuring prospects. Goodyear also climbed 25% to close at J$10.00 while JMMB continued to shine this week as investors sought arbitrage opportunities in Trinidad based on a high market value on the TTSE. Major decliners included Pegasus (11%), Kingston Wharves (10.9%) and Salada Foods (9%). In the ECSE, the Government of St. Vincent & the Grenadines issued EC$16m Treasury Bills on December 8. Attracting a total of 9 bids, the issue was fully subscribed and closed at 5.82%. TCL proudly announced that the company will be listing on the Eastern Caribbean Securities Exchange on December 15, 2006.

Table 1: Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	930.03	1.61	7.98	-12.82	-11.90
All Trinidad	1,154.04	1.41	8.92	-12.74	-12.04
JSE Index	97,935.99	-0.19	11.15	-5.60	-5.03
All Jamaica	105,953.84	-1.78	11.92	2.51	3.15
JSE Select	2,916.00	-1.29	13.49	2.40	2.89
BSE Composite	934.79	-1.25	-2.75	-9.68	-9.86

Current Happenings

- Banks in the news: Scotia little giant, big results; RBTT eyes Panama market
- State earned good price for BWIA slots Enill defends $63.1m sale
- Speed bumps on the road to regional capital market integration

- Cruise shipping dilemma - Jamaica said to be losing billions annually
- Lascelles launches Jamaica's first premium beer Firm targets 20 per cent of beer market
- Jamaica spends US$1.5b on imported energy
- TCL to list on Eastern Caribbean Securities Exchange on 15 December
- Countdown to elections in St Lucia

International Market Review

The Federal Reserve continued to pause at 5.25% for the fourth consecutive time. This was based on a slowdown in economic growth as the housing market slowed, inflationary pressures are expected to temper over time. The Federal Reserve Open Market Committee (FOMC) expects the economy to expand at a moderate pace. Takeover speculation and lower oil prices caused U.S stocks to extend their best annual advance since 2003 at the close of trade on 12 December. According to Bloomberg reports, U.S deals announced for the year to date could match 2000's M&A record of US$1.63 trillion. The S&P and Dow Jones Industrial closed with 1,413.04 points and 12,328.48 points respectfully, while the NASDAQ fell by less than one percentage point. Asian stocks also benefited as the Yen was reduced to a record low against the Euro and the dollar, boosting export values. Essentially, a weaker Yen increases the value of Japanese exports while these goods become more competitive abroad. The Nikkei advanced by .9% while the Hang Seng posted a marginal decline for the review period ending 12 December. In Europe, The London Stock Exchange (LSE) is now facing a hostile takeover from NASDAQ after rejecting two offers from the U.S based Exchange. The LSE has recommended that shareholders reject the offer of 1,243 pence asserting that it was "substantially undervalued. European indices advanced as M&A activity in the steel and financial industries increased fuelling an end of year rally.

Table 2: International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,413.04	0.01	2.07	11.37	12.11
Nasdaq Composite	2,442.86	-0.12	1.52	8.87	8.05
Dow Jones Industrial	12,328.48	0.16	1.62	13.65	14.50
German Dax	6,469.42	1.57	1.18	18.47	22.04
FTSE 100	6,159.80	1.14	-0.56	8.42	11.97
Nikkei 225	16,527.99	0.96	3.15	2.59	5.01