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GraceKennedy: Bittersweet End to 2005

Challenges endured by the Conglomerate in 2005 and a revision by management for profit forecasts portended a difficult fourth quarter for GraceKennedy. The group benefited from its focus on restructuring its operations which translated into revenue growth of 10% in its half year results. Third quarter revenues were also boosted as the Grace brands gained favour in the Jamaican and International markets. However, high inflation rates and oil prices, and inclement weather prompted a slowdown in the growth of profits for the Group's main revenue earner Food and Trading Division (FTD) and the Financial Services Division (FSD) which accounts for 45% of profits in the third quarter. Expectations for fourth quarter results were lowered when management revised profit forecasts downward to 5% from 10%.

The Group's aggressive marketing of new products and services boosted the revenue streams in the Food and Trading Division by 15%. However Grace Kennedy's retail segment reported a 3% decline in revenue due to the performance of Hardware and Lumber which was negatively impacted in the second quarter following from heavy rains and a slowdown in consumer spending. On the other end the Financial Services Division which accounted for 45% of total profits before tax, experienced growth of 8% over FYE 2005, this despite lower interest rates and increasing competition in the financial sector.

Overall, revenue improved for the 12 months ending December 31 2005 however this was not reflected in the group's bottom line as Net profits declined by 4.5%. Reflecting ongoing efforts to improve efficiency levels, growth in expenses on a year on year basis fell from 25% in 2004 compared to 8% in 2005. This increase in expenses however weighed on the Group's operating profits despite a slight improvement in other income. Net Profit Margin was also down to 7.3% from 7.7% in 2005. The company's cash position remained high as cash and short term investments continued to maintain the heaviest asset concentration of 55%. However, Grace Kennedy's liquidity position as indicated by the current ratio of 1.15 compares favourably to its peers Neal and Massy (1.73) and Barbados Shipping and Trading (2.15). Overall both Return on Equity and Return on Assets fell.

The Jamaican economy maintains a stable outlook from Standard and Poor's and projections for growth are positive. Additionally sustained growth is expected in 2006 as the group continues to benefit from a highly diversified revenue base and ongoing efforts at improving operational efficiencies. Over future periods the contribution from the DYOLL portfolio is expected to contribute positively to revenue for the Financial Services Division. The launch of the First Global IPO will also provide the capital needed to expand this division as this was postponed in 2005 due to weak market performance.

Growth projections for the next financial year is projected to be in the range of 5% and 15%. The company intends to focus on improving efficiency and boosting non-local revenue both in the Food and Trading Division and the Financial Services division. The group is currently trading at a P/E of 14 times compared to a sector PE 17.2 times as the price has declined given the current weak market conditions.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	1,008.70	-1.35	-3.14	-5.45	-8.04
All Trinidad	1,240.72	-1.10	-2.70	-6.19	-5.09
JSE Index	96,003.52	-0.33	-6.08	-7.47	-15.34
All Jamaica	91,188.61	-0.80	-8.14	-11.78	-28.36
JSE Select	2,512.47	-0.45	-9.14	-11.77	-28.56
BSE Local	3,931.16	0.27	0.06	0.02	5.44

Regional Market Review

Regional Indices all remained in negative territory in the period ending 21 February with the exception of the BSE Local Index which recorded minimal gains of .3%. The TTSE Composite maintained its negative growth in the review period recording a loss of 1.4%, weighed by Jamaican stocks which headlined as top decliners. The All T&T Index improved slightly losing fewer points than the prior week to close at 1,240.72 points. A year to date comparison revealed losses on both the TTSE Composite and the All T&T Indices of -5.5% and -6.2% respectively. Market activity continued to be lacklustre as volumes traded declined. JMMB accounted for 71% of the 2.8 million shares traded but this flood of supply may be sending the price south as the stock fell by 7.7%. Grace Kennedy followed JMMB with a loss of 6.3% and NCBJ fell by 5.9%. SavInvest India Asia Fund advanced by 2.2%, with Flavorite Foods in a close second and Readymix with a marginal increase of .5%.

Investors expressed confidence in the Government of Jamaica this week when a 30 year GOJ bond was oversubscribed by 60%, despite having the lowest coupon rate offering of 8.5% on any such instrument. This interest however failed to filter into the equity market as market confidence remained low. The advance decline ratio stood at 11 to 18 with 10 shares unchanged. Equity markets seem to be weighed by a dismal outlook pending the outcome of elections carded for 26 February. The JSE closed at 96,003.52 points on 21 February falling by 314.97 points. The All Jamaica and JSE Select Indices also fell by .8% and .4% respectively. Declining stocks in this period included DYOLL (-30%), H&L (-20%) and PCFS(-9.3%). Ciboney copped more substantial returns for the period with a gain of 22%, with FCIBJ following with 15% and Salada Foods increasing by 7.1%. Life of Jamaica emerged as investors' choice trading 2.3 million shares out of the total 11.3 million for the period ending 21 February.

In Barbados, news that Sagicor is focusing on organic growth opportunities helped to boost investor interest. Approximately 80,000 shares traded for this stock accounting for 37% of total trades for the review period. ICBL advanced by the most gaining 9.1% in value while RBTT topped the declines falling by 1.8%.

Current Happenings

- Caricom leaders head to Europe to discuss sugar price cuts
 - BWIA's suspension extended
 - US\$ demand in Trinidad satisfied for now
 - Gracekennedy falls short in 2005
 - A benign December quarter bodes well for the Jamaican economy in 2006- barring external shocks
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Table: 2 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,283.03	0.24	3.57	1.11	6.78
Nasdaq	2,262.96	-0.59	4.21	0.86	9.93
Dow Jones	11,069.06	0.09	3.10	2.04	2.63
German Dax	5,801.04	0.64	8.45	6.23	33.25
FTSE 100	5,857.70	-7.72	-5.78	-5.94	15.75
Nikkei 225	15,894.94	-0.24	1.26	-1.34	36.43
Hang Seng	16,627.24	7.81	6.16	11.26	17.82
Eurostoxx	3,779.51	9.41	6.44	4.57	23.37

International Market Review

U.S equity markets were negatively impacted on word that U.S. Federal Reserve policy makers revealed that higher inflation levels may trigger rate increases. This dampened market sentiment and resulted in marginal movements in US equity benchmarks. Standard and Poors 500 and Dow Jones recorded marginal gains of .2% and .1% respectively while the Nasdaq retreated by 204 points on 21 February. An upswing in oil prices tempered a possible rally on the FTSE 500 which fell by 7.7% on concern that high energy costs could weigh on corporate earnings. The German Dax sustained marginal growth but however year to date performance is fairly healthy with a return of 6.2%. More optimistic growth prospects from Japan's government stimulated more positive returns for Japanese stocks but this rally changed directions and the Nikkei lost ground based on the possible increase in the cost of doing business in the US if interest rates are raised. The Hang Seng climbed 7.8%.

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