



## Energy Investments Boost NEL's Performance

National Enterprises Limited (NEL) benefited from strong growth in its Energy, LNG and Petrochemical holdings in the financial year 2005. These holdings contributed an average of 83% to NEL's overall profits and translated into a healthy dividend payout of TT\$0.79, a substantial 64% improvement over the TT\$0.48 distributed in 2005. Noteworthy was the company's change in accounting treatment to comply with International Accounting Standards (IAS) by consolidating its results with National Flour Mills (NFM), which is now treated as a subsidiary. Added to this TSTT which maintains a 16% weighting in profits contribution recorded a fall in profits before tax of around TT\$16 million within the first year of a more liberalised telecommunications environment.

### Change in Accounting Procedure

Previously, NEL reported the income earned on its investments from NFM on the Profit and Loss statement and the reported value was based on NEL's share of the assets of NFM. This accounting policy is usually adopted when a company has a substantial influence over another. NEL does not have significant control over the operations of these other investments. This accounting procedure should help NEL to better gauge the overall health of the group of companies instead of individual corporate standings.

### Financial Review

Share of profits before tax of associates recorded a marginal decline in 2005 and profit before tax retreated by 3.3% but a reduction in the effective tax rate of 21% helped to boost Net Profits to TT\$488 million, an improvement of 6%. Accordingly EPS was up 8% to TT\$.81. Turnover reflected revenue generated from the operations of NFM in 2005. NEL's overall performance over the last two years has been propelled by the strong performance of its holdings in energy and petrochemical companies - Tringen, NGC LNG and NGC NGL. However the inclusion of NFM's financials weighed on the company's results given that the results were negatively impacted by the effects of Hurricane Katrina and an explosion at the edible oil complex. NFM's growth capabilities may be limited in the medium term considering that it operates in a highly competitive and mature market. Also high operating costs continue to plague the company, a challenge management need to address. Contributions by NFM to NEL in the short term are expected to be far less substantial than that of other investments. Return on Equity and Return on Assets ratios were flat at 16.9% and 15%, respectively.

## Industry Review

A major challenge TSTT has been the liberalisation of the telecommunications industry and the inevitable penetration of new kid on the block, Digicel. TSTT's share of the industry pie is expected to contract. Management however seems to be satisfied with the strategies implemented to maintain its market share given the success of its rebranding (through the launch of Bmobile) and aggressive marketing strategy. In addition, the company's CFO recently revealed that TTTT is has been plagued by fraudulent practices, which are eroding TSTT's revenue losses in the range of TT\$30 to TT\$50 million per annum. In a broader global perspective, the country's technological aptitude, pre- competition fell 15 spots to the 75<sup>th</sup> position on the Global IT Report compiled by the World Economic Forum. Despite major upgrades done over the years by the then sole telecom provider TSTT, the country's preparedness for participating in Information Communication Technology (ICT) developments slipped as other nations, some smaller, have progressed at a faster rate. The introduction of Digicel and soon Laqtel and other small scale telecom providers like CCTT should improve the benefits from increased technological developments and usage.

The energy sector is expected to continue to boost NEL's bottom line. The performance reflects a combination of elevated crude oil prices as well as increased production capacity from two petrochemical plants (LNG and methanol). Crude oil prices, as measured by West Texas Intermediate, are expected to remain at high levels, above US\$60/ barrel for the remainder of the year. The outlook for the energy sector therefore remains quite optimistic.

## Regional Market Review

Equity Indices lagged the prior week's performance as the TTSE Composite Index retreated 0.4% along with the All Trinidad Index (-0.5%). CCMB led the advances with an upswing of 6.8%, while DB&G had the biggest spill of 8%. In terms of volumes traded JMMB emerged as the market leader accounting for 36% of total trades for the period.

The JSE Composite saw a reversal of two year gains on 4 July after the Index closed at 83,861.75 points, a level last seen around March 2004. The lacklustre market performance persisted with 19 declines and 10 advances. Salada Foods led the advances with a return of 35.7%, followed by Ciboney (20%). CCMB and Dehring Bunting and Golding both lost the most traction, falling 14.9% and 14.2%, respectively. Some 578 million shares were crossed by a SVL director to her registered company, contributing to the 1.1 billion shares moved on the same day and accounting for 99% of total trades. In spite of the weak market performance NCB Bank announced its intention to raise J\$300 million by issuing preference shares in its brokerage and money management subsidiary, NCB Capital Markets with the intention of taking the company public.

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In Barbados, the Composite Index gained a marginal 1.7% to close at 987.02 points on 5 July buoyed by cross-listed RBTT and Ansa McAl shares, which advanced 9.8% and 3.3%, respectively. Trading activity seemed to pick up pace as FCIB accounted for 54% of volumes crossing the floor and contributing to an overall increase in volume traded for the period of 90% over the prior week.

**Table:1 Regional Market Performance**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	917.50	-0.38	-2.62	-14.00	-20.84
All Trinidad	1,162.57	-0.52	-2.22	-12.09	-20.23
JSE Index	83,861.74	-1.26	-4.58	-19.17	-23.78
All Jamaica	76,699.15	-2.58	-9.65	-25.80	-32.85
JSE Select	2,100.60	-3.26	-10.34	-26.23	-30.66
BSE Composite	987.02	1.69	0.62	-4.63	-3.81

### Current Happenings

- T&T economy on the upswing according to CMMB CLI
- Barbados Central bank reports increased investments
- New “Empowerment for Ownership” Fund to provide major boost for businesses in St Kitts-Nevis
- NCB Capital Markets to raise funds, go public
- Jamaican Stocks continue down, BOJ intervenes in FX

**Table:1 International Market Performance**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1280.19	2.74	1.18	0.90	7.18
Nasdaq Composite		3.72	0.96	-2.38	6.47
Dow Jones		2.32	1.62	3.51	8.97
German Dax		4.99	1.92	4.91	23.91
FTSE 100		3.61	2.11	3.56	13.49
Nikkei 225		5.05	-0.19	-2.94	34.22

## **International Market Review**

Stock prices surged after the Federal Reserve raised interest rates a further 25 basis points given that a 50 basis point increase was anticipated and a pause in interest hikes is expected after two years of increases. The Nasdaq outperformed the S&P 500 and Dow Jones with a return of 3.7%. Mainly energy and materials stocks lead the advances.

Asian stocks hit a four week high as investors reacted to news that Japanese companies are set to increase investments at a faster pace. Energy stock recorded the largest gain for the period as oil prices climbed. The Nikkei rose 5% while the Hang Seng increased by 4%. Although the European stock Indices rallied at the end of trading on 4 July they later slipped as cautious investors reacted to the effects of a series of missile tests conducted by North Korea.

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