



## Mixed Outlook for Prestige Holdings

In the first half of 2006, Prestige Holdings Limited (PHL) faced several challenges, many of which were outside the span of management's control, leading to a fall of more than 30% in Profits Attributable to Shareholders. These challenges included:

- ❖ Fears associated with an outbreak of the "Aspergillosis" fungus in poultry that squeezed revenue for the Group's main engine of growth – KFC in Trinidad
- ❖ Labor shortages and rising food costs associated with the inflationary upswing in the Trinidad and Tobago economy
- ❖ A Parliament impasse in Puerto Rico which led to a temporary retreat of 20% in weekly sales for the TGIF restaurants in San Juan caused by a fall-off in disposable income of public servants

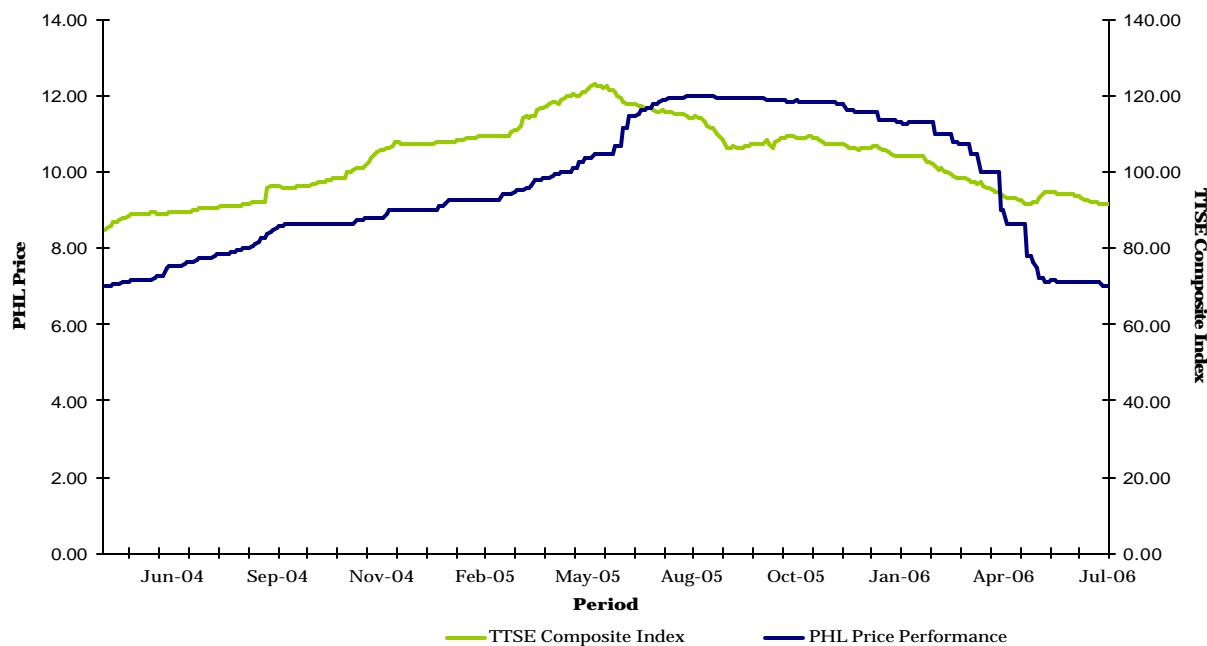
Accordingly, margins on Gross Profit and Operating Profit dipped from 33% and 9.8% in the first half of 2006 to 32% and 6.7%, respectively, in the same period in 2005. Both Return on Equity and Return on Assets fell marginally when compared to the relevant period in 2005. Total Assets were up 11%, pushed by higher levels of Property Plant and Equipment associated with the ongoing expansion of the Group's varied restaurant interests.

Prestige's Debt to Equity Ratio remained flat, but its Long Term Debt to Equity increased significantly since the Group finalized a debt refinancing exercise. The effect of the refinancing was reflected in a 30% rise in Non-Current Liabilities as Short-Term Debt plus existing facilities were consolidated into Long-Term Debt, which pushed Non-Current Liabilities up 30%. Prestige is currently carrying nearly three times more debt than equity, making it a riskier alternative to other companies in the Trading Sector.

The Group has indicated a turnaround in the operations in Dominican Republic, which contributed 11% of total sales in 2005 and where economic conditions remain stable. Prestige continues to maintain dominance in the Casual Dining and Quick Service Restaurant segment of Trinidad and Tobago, and intends to continue its expansionary phase. Plans to increase the number of restaurants namely TGIF in Barbados and Puerto Rico, Long John Silver's (Movie Towne, Trinidad) and KFC (Arima, Trinidad) by year's end should improve sales

performance. However, costs across all franchises must be contained to improve efficiency levels and boost profits, which may be lower than the prior year. Franchises such as the Long John Silver Sea Food Brand has enjoyed an initial favorable market response, while the complementary brands including TCBY, Mrs. Fields and Pretzel Time are still in their transition phases and are yet to have a significant impact on profit levels.

**Comparative Price to TTSE Index Performance**



Source: CMMB Resesarch and TTSE

PHL is the most actively traded stock in the Trading Sector with a Trading Frequency of 58%, suggesting that the stock is fairly liquid. In terms of stock performance, two years gains were reversed when the stock fell to its current trading price of TT\$7.00; a price that was last seen around April 2004. The outlook for the stock has been adjusted downwards on account of lower year end earnings expectations and a relatively high P/E of around 33 times when compared to a Market P/E of 15.4 times. PHL is considered intrinsically valued between TT\$9.17 and TT\$9.35.

## Regional Market Review

The Jamaica Stock Exchange managed to record a small positive return of 0.3% with 15 stocks advancing while 11 retreated at the close of trade on 11 July 2006. Supreme Ventures continued to dominate trading, with 13.7 million shares accounting for 42.0% of total trades.

GraceKennedy is set to buy back its common shares in August which is expected to dampen the Conglomerate's market liquidity. This should help to improve demand and share price stability, which year to date has lost 31.0% of its value. Accordingly, GKC will repurchase 2.5% of issued shares or 8,184,467 shares over a three

year period. Using the current price of J\$59.00 the total value of this transaction should mark J\$482 million. Despite persistent harsh market conditions, NCBJ intends to offer preference shares to the public for its subsidiary NCB Capital Markets (NCBCM) in order to raise J\$300 million. This offer is expected to be open only for a day before the end of July. This seems to be a “tall order,” however, considering the hostile market response to both Supreme Ventures and Pulse Investment in this weak stock market environment. By listing its subsidiary NCB will be taxed at zero rate as confirmed by the Ministry of Finance on dividend payments and could therefore save on profits from NCBCM.

In Barbados, market activity remained weak as some 21 stocks traded firm with only two advances and declines. The BSE Composite Index recorded no gains at the close of trade on 11 July and the Cross-List Index declined 1.5%, mainly as GraceKennedy fell 20% in this period. In Trinidad, both the TTSE Composite and ALL T&T Index were in negative territory losing 0.3% and 0.5% respectively, despite more vibrant market activity than the prior week. Market volumes which were measured at 4.4 million, more than doubled the prior period trading levels and market value rose to TTS\$85 million compared to TTS\$15 million. Of the five stocks advancing TCL was the top performer as it moved up 9.8%, followed by DB&G and AHL with gains of 6.3% and 4.0%. NEL, PLD and AMCL all lost approximately 2.5% of their value.

**Table:1 Regional Market Performance**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	914.50	-0.33	-3.13	-14.28	-21.01
All Trinidad	1,157.14	-0.47	-2.67	-12.51	-20.40
JSE Index	83,558.31	0.29	-4.48	-19.46	-23.14
All Jamaica	75,121.98	-0.63	-10.97	-27.33	-32.42
JSE Select	2,078.73	-0.38	-10.73	-27.00	-29.40
BSE Composite	986.99	0.00	0.78	-4.63	-4.29

### Current Happenings

- T&T economy Imports at 40 percent of GDP
- Rocky second quarter for International Mutual Funds
- Barbados records increase in tourist arrivals
- Gracekennedy to buy back 8 million shares
- NCB Capital Markets Issue to ‘open and close’ before month end

**Table:1 International Market Performance**

<b>Index</b>	<b>Closing Value</b>	<b>Weekly Change (%)</b>	<b>Monthly Change (%)</b>	<b>YTD Change (%)</b>	<b>1 Year Change (%)</b>
S&P 500	1,272.52	0.13	2.92	0.29	4.35
Nasdaq Composite	2,128.86	-1.14	1.80	-5.12	-0.31
Dow Jones	11,134.77	-0.15	3.17	2.65	5.85
German Dax	5,616.04	-0.17	4.09	2.85	20.43
FTSE 100	5,857.30	0.53	4.21	3.09	11.73
Nikkei 225	15,473.82	-0.32	4.32	-3.96	32.54

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### **International Market Review**

The U.S. economy seems to be under pressure as interest rates continue to rise and oil prices continue to escalate. This could translate into reduced consumer spending and reduced imports inevitably affecting growth for the rest of the year. Corporate profits from Alcoa Inc, the world's largest aluminum producer, BHP Billiton and Alumina have all missed analysts' projections. The S&P recorded positive returns of 0.1% while the Dow Jones and Nasdaq lost around 0.2% of their value at the close of trade on July 11<sup>th</sup> 2006. Concerns that European companies may be unable to sustain profit growth caused the German Dax to lose points especially coming off Alcoa's second quarter results. Both the DAX and Euro Stoxx index fell 0.2%. Japan's Nikkei and the broader Topix index both retreated by 0.3% and 0.5%, respectively. Meanwhile, the slide in stock prices spurred an increase in demand for fixed income securities like Japan's government bonds.

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