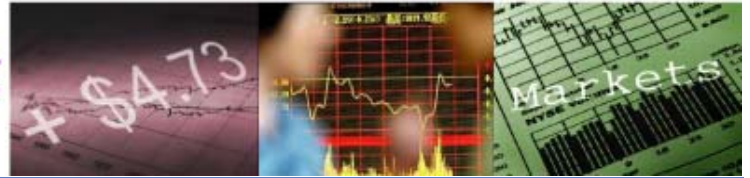




Stock Market Weekly



By Nesha Debysingh, Senior Research Analyst

nesha.debsingh@mycmmb.com

"Cement Woes"

"Cement Woes" are currently afflicting some of the region's major economies as manufacturers and contractors alike complain about the lack of availability and falling quality of cement. This is especially worrisome when placed in the context of Cricket World Cup 2007 which has prompted the start of some significant infrastructure projects as well as the expansion of the construction sector across the region including Trinidad, Jamaica, Barbados and Guyana.

Perhaps the most noteworthy incident thus far has been the situation surrounding TCL subsidiary, Caribbean Cement Company Limited (CCC), whose share price has plunged by about 57% since the start of 2006. This follows the announcement that the company had to recall 500 tonnes of defective cement found to exhibit false setting characteristics (premature hardening). The company was subsequently ordered by the Jamaican Minister of Commerce, Science and Technology to recall all cement produced during the period 19-24 February 2006.

Carib Cement came under additional pressure when the Minister revealed at the beginning of March of his intention to review the cement monopoly. In addition, the Jamaican government has responded to growing complains about the virtual standstill in the construction sector due to the lack of cement by agreeing to reduce the import duty on cement for six months. The original duty of 41% was meant to be in place for four years. This decision came after CCC drew heavy criticism for its recent 12.5% price hike as well as the fact that Carib Cement was forced to import cement due to a production shortfall last October. The removal of this duty temporarily eliminates CCC's monopoly advantage in the Jamaican market.

Although CCC may be covered by their insurers for the losses incurred from the recall of its product in February and late March when the company suspended the manufacture and distribution of cement, the losses associated with negative public relations and liability claims may potentially be quite large.

In July 2005, TCL secured a US\$105 million package from the International Finance Corporation to help finance its regional expansion and modernization efforts. A portion of this loan (US\$85million) is attributable to CCC. According to CCC, the construction of its new Kiln which would double its current capacity will not be complete until June 2008. The question which one has to ask is will CCC be able to repay the loan given the current loss of confidence in its product and the temporary removal of Government protection? What has been management's response to this significant blow to CCC's reputation? How was almost 500 tonnes of defective cement allowed to reach the hands of the consumer?

Guyana's government has also followed in similar vein by opting to import cement particularly from Venezuela and Colombia in response to the current shortage. The strong demand for cement for projects like the co-generation plant and sugar factory at Skeldon, the Cricket World Cup stadium, hotels, housing construction, roads and other infrastructural development will continue to put pressure on the supply for the remainder of the year.

The Minister of Tourism has encouraged cement importers to take advantage of the removal of the Common External Tariff. TCL is unable at the moment to meet the demand pressures of this market although it is hoped that completion of the US\$9 million bagging terminal in mid-2006 will regularize cement supplies in the Guyanese market.

Growth in Jamaican market share has for the most part fueled much of TCL's top line growth over the last couple of years. CCC accounted for 42% of gross revenues in 2004. What are the implications of a possible reduction in Jamaican market share for the TCL Group given that substantial improvements in operational efficiencies will be seen only after the infrastructural improvements?

Management has responded to this surge in regional demand in two ways; it refinanced most of its debt resulting in a material reduction in its finance cost and by outlining elaborate expansion plans. Yet the tangible benefits of this are nowhere to be seen. Completion deadlines are in 2008 but acute shortages are reasonably expected to continue given the build up to World Cup 2007. TCL's management in its 2004 year end results identified mid-2005 as the expected date for the coming on stream of the Guyana bagging terminal, this has now been pushed into 2006.

TCL continues to face several challenges including rising energy costs, the impact of hurricanes in 2004 and losses by another subsidiary Readymix Limited, which is currently undergoing an accounting review. TCL must move quickly to consolidate the benefits of its position as the region's dominant cement manufacturer and distributor. TCL's share price has fallen 11% to T\$8.99 since the beginning of the year and is currently trading at a PE of 14 times, just in line with the sector PE. Given the sheer quantum of demand and given TCL's dominance in the regional markets, the performance of its stock price obviously points to deeper woes that may not necessarily be connected to mere supply/demand factors.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	1 Year Change (%)
TTSE Composite	964.98	-1.03	-3.83	-9.54
All Trinidad	1,179.32	-0.85	-4.24	-10.83
JSE Index	86,453.94	-1.56	-10.73	-16.67
All Jamaica	83,990.96	-4.27	-8.85	-18.74
JSE Select	2,295.42	-4.52	-10.27	-19.39
BSE Local	3,912.90	-0.22	-0.38	-0.44

Current Happenings

- Jamaica Stock Exchange to enforce TRN requirement
- **UK firm gets \$30mn to manage POS Port**
- **Prime Minister PJ Patterson steps down from Political Leadership**
- Grenada May not join CSME on time
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Table: 2 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	1 Year Change (%)
S&P 500	2,393.23	-1.41	3.57	-0.31
Nasdaq	2,304.46	-2.03	4.21	0.55
Dow Jones	11,154.54	-1.88	3.10	-1.44
German Dax	5,890.63	-2.31	-1.56	-2.31
FTSE 100	5,935.70	-6.22	-4.39	-0.57
Nikkei 225	15,856.58	-0.99	-2.85	-2.87
Hang Seng	16,690.24	-0.29	2.29	3.92
Eurostoxx	3,811.22	-3.07	-1.62	-2.26

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