



Stock Market Weekly



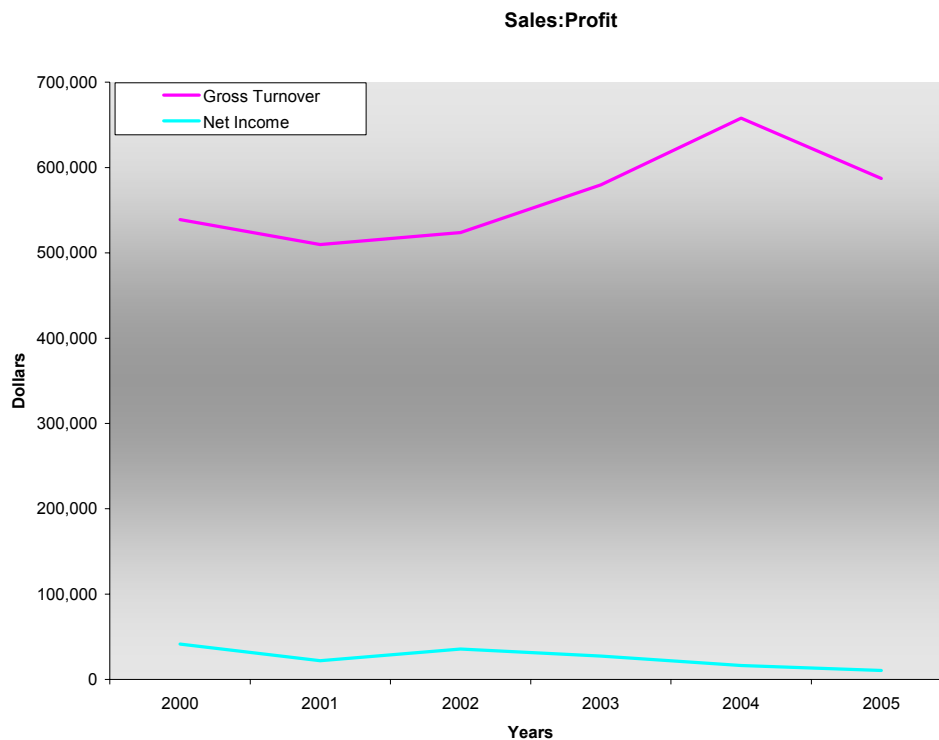
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‘Slow Grind at the Mills – What’s next for NFM

National Flour Mills (NFM) has recently been in the spotlight but on the industrial relations front. Issues faced by the company include increasing competition, high cost of production, weak export markets and significant changes to management which have sent the share price to a low of \$0.68 from the highs of \$5.51 where it traded in June 2000. What is the next step for NFM; a company 51% owned by Corporation Sole via NEL?

Financially, the company remains weak. Over the past year, NFM’s struggles were compounded by the effects of Hurricane Katrina in conjunction with the continuous surges in international oil prices which disrupted shipments and affected overall profitability of the company. Also adding to the distress was a bullish commodity market which was not supported by an export market. The ongoing exodus by senior management accepting VSEP packages currently leaves the company in a quandary. Over the past year, revenue fell by 11% attributed to a fall in sales of flour, soyabean and oils. Net income for the period fell to \$10.3M from \$23.6M representing a 37% decline. In addition, operating costs were increasingly high, placing overall net profit margin at 1.8% from 2.5%. While the latest VSEP package will reduce this expense, a heavy one-off cost will be incurred in fiscal 2006. To deal with the competition, the company was forced to reduce the price of its products and employ strategies to defend market share. They also built a new flour mill which was completed in 2005. The cost incurred has sent the long term debt to capital ratio up to 16.6%, thereby increasing total liabilities by 27%. Profitability as measured by the ROE has fallen to 3.6% in 2005 from 5.6% in 2004 which now gives it a five year average of 11%. The ROA currently stands at 2.1% with a five year average of 6.90%. Book Value now stands at \$2.38 and the share is currently trading at a P/E of 9.3. The dividend discount model provides a value of \$0.95.



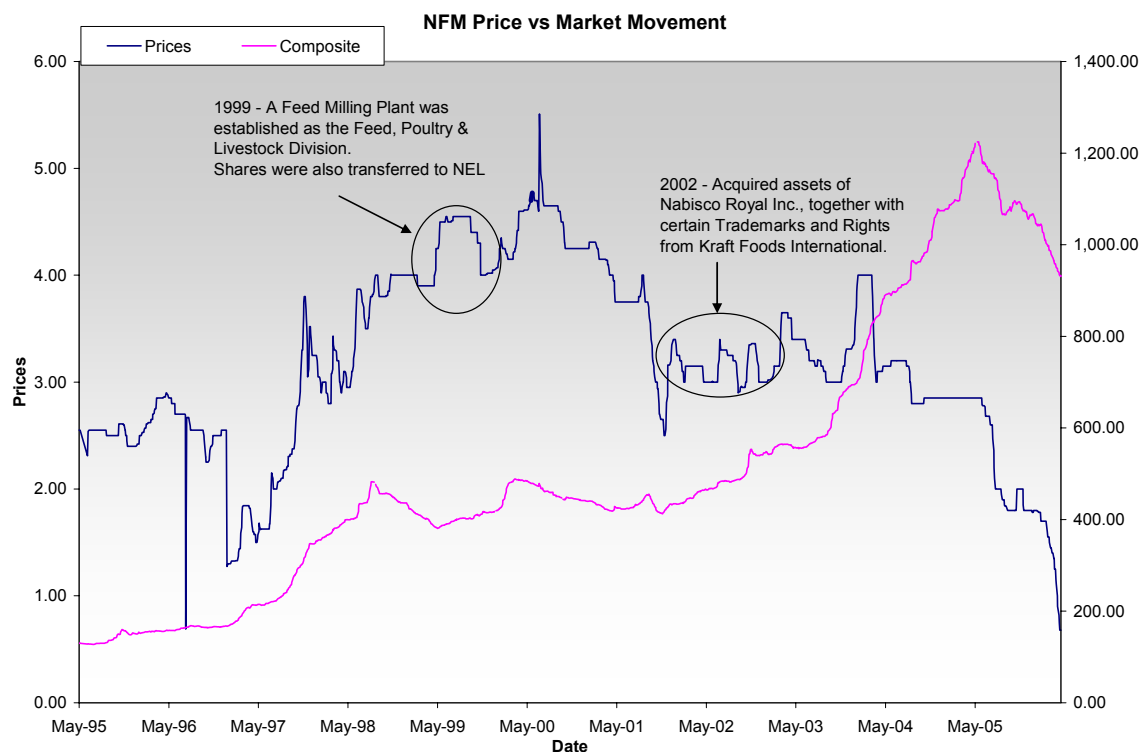
In the local market, the flour segment is estimated at approximately 100,000 tonnes annually and as the competition stiffens, the inefficient players will be eliminated. As the number of players in the market increases improvements at NFM are essential to ensure that its reputation for high quality products is maintained – a standard that has eluded them on occasions. Since the launch of the Country Pride by Nutrimix Flour Mills and more recently, reduced prices of its products the playing field is being levelled. The Nutrimix mill is supposed to produce flour at a lower cost, which should filter down to consumers. In addition to the hoards of local suppliers, Nutrimix is positioning itself to cut into the market share now enjoyed by NFM both locally and in the Caribbean as indicated by the level of investment undertaken with an objective to significantly increase market share not only in Trinidad but in the Caribbean in a short space of time. Also, on the competitive field is another flour plant based in Point Lisas, Republic Flour Mills. It is smaller and older than the Nutrimix plant but will take advantage of opportunities in the market in Trinidad. This business is expected to also target the Suriname and Eastern Caribbean markets, but with cheaper costs, and expected to be competitive in the regional markets.

NFM's problems stemmed not only from obsolete equipment and a large work force but also high overheads. Changes to prices as a result of increases in cost are simply passed on to the consumer without improvements to the level of efficiency in the market. NFM has not operated as a monopoly since 1995, when the Government opened up the market, initially with a reduced tariff. That tariff has since been reduced across the board and entrepreneurs have been importing rice and flour in direct competition with NFM. The company having ruled as a monopoly for close to 40 years, now has a brand new CEO in PLIPDECO's ex President, Neil Rollingson. Among Mr. Rollingson's challenges, will be the consequences of CSME and FTAA on the opening up of markets

and the responses he fashions will be critical to NFM's survival.

To deal with the competition, the company implemented a new business model to improve the core competencies and an organizational restructuring which is expected to be completed by the second quarter of 2006. The restructuring will involve hiring new management to replace the migration of senior management. An agreement between NFM and the Seamen and Waterfront Workers Trade Union (SWWTU) on workers' Voluntary Separation Package (VSEP) ignited the changes in management. This saw many stalwarts of the company accepting the package and departing from a company which they have been a part of for many years. This raises a further issue: that of institutional memory loss. A smooth transition requires some measure of continuity to be maintained in the person of key individuals with insight and knowledge of the company's history and who understand much of its internal functioning. Systems of socialization, governance, and economic control are also conserved in the form of institutional memory, as rules, procedures, technologies, beliefs and culture.

NFM operates mostly in mature and highly competitive markets that limit its capability to grow. At its current price, NFM is trading at a significant discount to its book value, which makes it an attractive target for acquisition. Competition has intensified in the local market resulting in a fall in sales and the company has been forced to reduce the price of its products, further hampering revenue. In addition, operating costs are still high, affecting the overall profit margin. Given this, prospects for NFM will depend on how the management responds to the many challenges. Utilization of the new facility to its full capacity has some drawbacks, given that the forecast for growth in sales is flat over the next two years.



Regional Market Review

Chief executive of the First Caribbean International Bank (FCIB) announced that the bank is looking to establish a retail presence in the local market by opening a retail branch in Trinidad by the end of this year. These plans include getting a retail license and other regulatory approvals as well as finding a suitable location for its first retail banking branch in this country. Over the past week GHJ released earnings which showed a loss of \$1.92 in the first quarter. The disappointment among investors was obvious as the stock fell by \$1.00 after the results were released. However buyers began to creep back into the stock and it subsequently rebounded to \$18.02.

On the TTSE, during the past week, 8 stocks advanced, 10 declined and 15 traded firm. The composite index continued to trend downwards from 930.84 to end the week at 914.34, a 1.8% decline. The All T&T index also fell by 0.7% closing at 1,120.62 from 1,128.62. The major movers were NCBj, TCL, and NFM which saw an increase of 13.3%, 10.1% and 8.8% respectively. Major declines came from FCIB, PLD, and NEL, shedding 8.9%, 10% and 10.4% respectively.

On the BSE, the local index fell by 0.4% as it moved from 3,897.88 to 3,883.84 points with 4 declines, 2 advances and 9 stocks trading firm. The major movers affecting the index were AMCL and CSP which advanced 3.5% and 1.3% respectively. Declines were experienced in BNKS (- 8.6%), CWBL (- 4.8%), CPF (- 3.3), BS&T (- 4.0%). The All Jamaican Index also ended the week lower with the index falling 0.2% to 87,825.21 from 87,999.26 points. There were 9 advances, 20 declines and 11 stocks trading firm. The largest decline came from CCC which fell 13.6% and ended of the week at a price of J\$5.10. Other stocks ending lower included GK and GHJ, which shed 10.2% and 11.1% respectively.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	948.26	-0.494	-3.987	-11.11	-19.110
All Trinidad	1,153.94	-0.62	-4.21	-12.75	-21.607
JSE Index	84,117.21	-1.24	-10.55	-18.92	-26.756
All Jamaica	82,714.53	-1.555	-6.956	-19.977	-32.963
JSE Select	2,266.18	-0.57	-7.75	-20.42	-31.244
BSE Local	3,923.90	0.00	-0.07	-0.16	0.959

Current Happenings

- TCL gets more time to report
- Prestige Holdings Ltd honoured with Hott Spott
- Udecott records \$36M profit
- First Dyoll payout on May 16

Table:1 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,313.21	0.88	3.57	3.50	11.17
Nasdaq Composite	2,309.84	-0.88	4.21	2.95	15.95
Dow Jones	11,416.45	1.18	3.10	5.25	9.26
German Dax	5,968.96	-1.81	-0.91	9.31	35.78
FTSE 100	6,010.00	-12.20	-11.29	-5.94	20.85
Nikkei 225	17,153.77	1.08	-1.04	6.47	46.04

International Market Review

U.S. stocks ended the week with a strong rally, sending the S&P 500 index to a five-year high, as retail sale showed renewed buoyancy. Treasuries ended higher and the dollar slid against the euro. The Dow Jones Industrial Average lifted to the highest value since January 2000, rallying 0.6%, on news that General Motors Corporation US sales of larger sport-utility vehicles increased in the last month. The S&P 500 added 8.02 points to close at 1,313.21 points, the highest since February 2001 while the Nasdaq Composite Index gained 0.2% at the end of May 2, 2006.

In the United Kingdom, stocks rebounded after their biggest weekly loss in six months. Energy producers including BP Plc rallied as crude oil rose on Wall Street. Cairn Energy Plc advanced after Merrill Lynch & Co. recommended a buy and this resulted in the FTSE 100 Index rising by 1% after experiencing a loss of 1.8% in the prior week. Copper and zinc prices rose in London amid speculation that demand will remain robust in the U.S. and investors bought metals in pursuit of higher returns than stocks and bonds. Gold traded near a 25-year high in London on speculation that the escalating dispute over Iran's nuclear program will spark demand for bullion as a haven. Asian markets also ended higher rising for a third day straight on expectation of the release of healthy corporate profits.

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