



Stock Market Weekly

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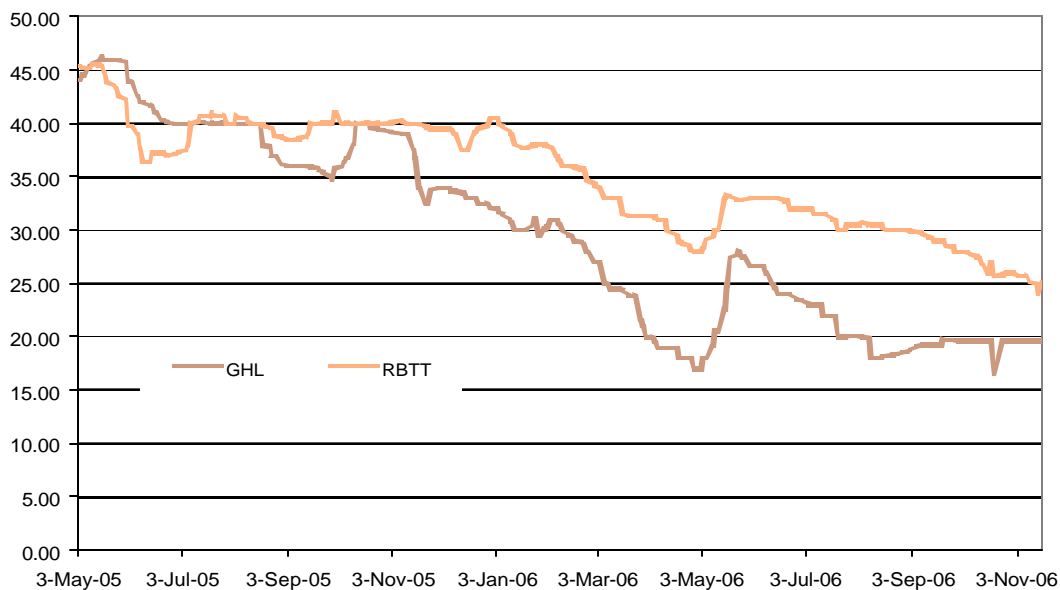
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RBTT and GHL – Unraveling of the Entente

Two recent events grabbed my attention. The first was an article in the 16 November Business Guardian entitled “Will RBTT remain locally owned? Ordinarily, this article would have been summarily dismissed, as this talk has been around for a year at least, apparently to no avail. The second event seems more significant as the price of RBTT advanced \$1.15 the following day. A sign that the pen indeed seems mightier than all the slings and arrows of outrageous fortune recently assailing our local stock market.

There was a time when official pronouncements from the Boardrooms of RBTT and GHL spoke of the possibilities of a merger of some such intention to form a regional financial powerhouse. This may probably be a partial explanation as to why these stock prices reached giddy heights of \$45 and \$46 per share, respectively, in May of last year. RBTT is now trading at around \$27.03 and GHL at \$19.65.

RBTT and GHL - A Graph of Two Stock Prices (TT\$)



In respect of these two companies, some \$11.4 billion of market capitalization simply “evanesced” into thin air. Let us look at the unraveling of the RBTT / GHL saga.

On 5 September 2003, RBTT increased its GHL shareholding to 20 per cent at the Group level. The bank previously owned

20 per cent of Guardian Insurance Limited and Guardian General Limited. This was facilitated by GHL issuing some 8.2 million shares to RBTT. Shortly after, in the same month, GHL sold about one third of its RBTT holdings for a cash gain of TT\$194.5 million.

The reason for this was, to paraphrase from an interim GHL report, to unlock the value of the Group's investment in RBTT. There were accounting issues at the equity level arising from GHL's inability to value its RBTT shareholding at market value to take advantage of the appreciation in this investment. Take your mind back to late 2002 when GHL had conditional approval for the acquisition of ING Fatum in the Dutch Caribbean. As a result of regulatory delays, this deal was finalized in April of 2003. Link Underwriting was acquired in late 2003 and Zenith in early 2005.

All these acquisitions, while providing strong top line growth did not provide immediate growth where it mattered, at the bottom line or Earnings per Share (EPS). The Rights Issue in 2005 priced at \$40 raised \$400 million to retire debt associated with the Zenith acquisition. The pressure was firmly on GHL management to provide the profit growth from these acquisitions to which shareholders had become accustomed.

RBTT, on the other hand, maintained its equity holding in GHL until fiscal 2005 when it sold 20 per cent off for a cash gain of \$229 million. The name of the game had clearly become one of profit, and why should it not be? No one is going to hold on to an investment that is not performing at the required level.

So where did it all go wrong?

One can argue that each party viewed these investments as just that, investments, to be sold and gains taken when deemed necessary. If this is so, then it is possible that shareholders were duped by the news emanating from both Boardrooms.

It may have been the Grenada experience where GHL made losses net of reinsurance and RBTT also had to make provisions for hurricane losses as well as the subsequent downgrade of Government of Grenada Bonds.

And of course, we cannot ignore GHL's European expansion. Granted, GHL needed to hedge against catastrophic weather events in the Caribbean Basin, but RBTT and GHL had followed in each others footsteps in expanding operations in the Dutch Caribbean and Latin America almost simultaneously.

So why was there no joint effort into Europe?

History would tell us that GHL endured some heartbreaking operational losses in the UK that has obliterated all operational profits in other territories in fiscal 2006. While they maintain that they have 'turned the corner' in the UK and 2007 should see a return to profitability, shareholders are justifiably more skeptical. As pointed out earlier, a lot of them are still holding Rights Shares purchased at \$40.00, and they have seen 50 per cent of their outlay evaporate.

Clearly, RBTT has been more focused on the integration of its Caribbean operations, specifically Jamaica, and the thrust into Latin America. What we must remember is that the Bank had to reevaluate its risk exposure in the Caribbean and Latin America in 2004, and with the resulting HR fallout, the Bank very well could have become a bit gun shy.

In conclusion, the regional equity markets have been in the grip of a protracted bear run for the last eighteen months. While all investors have suffered, this downturn should be viewed in the larger scheme of the cyclical nature of the equity market. This situation would account for some of the losses experienced by RBTT and GHL shareholders. However, given the size of the losses incurred by GHL over the first nine months of fiscal 2006, it would be interesting to see how the initial entente finally unravels.

Edgar Pariagh is a licensed Stockbroker and does not own any shares in either RBTT Financial or Guardian Holdings.

Regional Market Review

The TTSE Index closed the period at 866.73 with a total value of \$13,760,359.58 traded. Stocks experiencing declines were SFC (-\$0.03), followed by OCM and NML both decreasing by \$0.01. Stocks experiencing price increases were RBTT (\$0.62), followed by GHL (\$0.05) and SBTT (\$0.01). RBTT emerged as price leader trading at \$27.03 followed by Guardian Holdings trading at \$19.65. Other stocks recording price increases were Readymix and Scotiabank Trinidad & Tobago which traded at \$4.22 and \$24.00 respectively. Stocks recording price declines were Neal & Massey and One Caribbean Media trading at \$37.05 and \$19.46 respectively. Volume leaders included RBTT trading 423,172 shares, NCBJ trading 254,300 shares and CCMB, trading 288,237 shares.

Jamaican indices, JSE and the All JA Composite increased by 497.40 points and 7.78 points respectively to end the review period at 87,993.28 and 96,545.07 respectively. Volume leaders included CWJA trading over six (6) million shares, GLNR trading 796,147 shares and BNS trading 771,515 shares. Stocks experiencing losses were led by CCMB (-\$0.50), followed by KW(-\$0.03) and SVL (-\$0.03).

The BSE Index closed the review period at 3,702.03 points down 1.05 points from the previous trading day. The volume leader was Sagicor Financial trading over 25,000 shares followed by Goddard Enterprises trading over 1,000 shares. Trading on the ECSE increased for the review period ending November 22,2006. Bank of Nevis (BON), Trading & Development Company (TDC) and St. Lucia Electricity Services (SLES) shares all traded firm at EC\$5.00, EC\$13.00 and EC\$21.00 respectively resulting in the ECSE Index remaining at 120.58.

Table 1: Regional Market Performance

| Index | Closing Value | Weekly Change (%) | Monthly Change (%) | YTD Change (%) | 1 Year Change (%) |
|----------------|---------------|-------------------|--------------------|----------------|-------------------|
| TTSE Composite | 866.73 | 1.00 | 0.69 | -19.00 | -19.66 |
| All Trinidad | 1,069.01 | 1.89 | -0.12 | -19.17 | -20.59 |
| JSE Index | 87,993.28 | -0.15 | 3.83 | -15.19 | -11.17 |
| All Jamaica | 96,545.07 | 1.36 | 9.59 | -6.60 | 4.17 |
| JSE Select | 2,631.75 | 1.92 | 10.05 | -7.58 | 2.55 |
| BSE Composite | 3,702.03 | 0.00 | -3.01 | -5.81 | -6.12 |

Current Happenings

- Central bank maintains Repo rate at 8%
- T&T Inflation hits 10%
- Gassan Azan investing US\$18m in Montego Bay
- OCM receives approval from the BSE to list shares on the exchange
- Courts Sold to BVI Company
- Kingston Wharves expansion on target
- Life of Jamaica records strong profit growth

Table 2: International Market Performance

| Index | Closing Value | Weekly Change (%) | Monthly Change (%) | YTD Change (%) | 1 Year Change (%) |
|----------------------|---------------|-------------------|--------------------|----------------|-------------------|
| S&P 500 | 1,406.09 | 0.45 | 2.11 | 10.82 | 11.10 |
| Nasdaq Composite | 2,465.98 | 0.70 | 4.69 | 9.90 | 9.12 |
| Dow Jones Industrial | 12,326.95 | 0.17 | 1.73 | 13.64 | 12.92 |
| German Dax | 6,475.25 | 0.50 | 3.72 | 18.58 | 24.62 |
| FTSE 100 | 6,140.00 | -1.84 | -0.42 | 8.07 | 11.00 |
| Nikkei 225 | 15,914.23 | -1.54 | -5.21 | -1.22 | 8.20 |

International Market Review

US markets were all in positive territory with the S&P closing at 1,402.81, Nasdaq at 2,454.84 and DJIA closing at 12,321.59 points, recording increases of 3.28, 11.14 and 5.36 points respectively. The White House revised its outlook for the US economy, and now expects slower economic growth this year and next than it forecast six months ago, partly because of a slump in the housing market. It also said it expects a slight increase, both from its earlier forecast and from this year, in inflation in 2007 and 2008. Asian markets reacted positively with the Nikkei 225 and Hang Seng increasing by 180.09 and 242.49 points to close at 15,734.14 and 19,008.30 respectively on speculation that the US will cut borrowing costs. European markets however produced mixed results with the FTSE 100 declining by 42.30 to close 6,202.60 whilst the German DAX increased by 15.74 to close at 6,460.39.

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