



Cherelyn Elbourne, Research Analyst

cherelyn.elbourne@mycmmmb.com

Sagicor returns to More Sustainable Earnings

The Sagicor Group saw a return to more sustainable and consistent gains in the six months ending June 2006 following its 2005 stellar performance characterized by aggressive business consolidations and acquisitions. Group net income amounted to B\$72.7 million compared to B\$125 million in the half year ended June 2005. The Group's investment income benefited from a lower than anticipated level of gains in the investment portfolio given the persistent softness in regional stock markets. Sagicor, nevertheless, maintains a more conservative strategy by securing more fixed income securities and government instruments in its investment portfolio. Additionally, Sagicor's other income was boosted in 2005 by the "one off gain" of over B\$27 million related to the sale of 18% interest in Life of Jamaica. Operating Profits on an adjusted basis for 2005 fell 11% which pushed the Operating Profit margin lower to 9.2% on a twelve month trailing basis for 2006 from 13.7% in 2005. As a result, Earnings Per Share (EPS) amounted to B\$0.19 in the first half of 2006 and was 40% lower than the EPS of B\$0.35 reported in the comparative 2005 period.

Net Premium Revenue rose from B\$361 million to B\$303 million, reflecting healthy growth in the life and health insurance segments. The Group's main revenue earner regained its momentum, accounting for 58% of total revenue compared with 49% in the prior year. However, total revenue was still fairly flat given lower Net Investment and Other Income. The premium revenue to benefit ratio moved from 0.95 in 2005 to 1.1 in 2006, suggesting that the prior acquisition of five new companies have contributed to core earnings although it is still too early to make a statement in relation to their contribution to operating expenses.

The Group's balance sheet remains solid, although Shareholders' Equity was negatively affected by the fall off in equity value and available for sale investments. SFC usually takes any unrealized gains or losses arising out of the mark to market of its investments to shareholders' equity. Return on Equity fell to 10.9% from 16.2% while ROA dipped slightly to 1.6% compared to 2.5% in the prior period. In May 2006, the company floated debt securities which financed bank loans and the balance was included in Financial Investments. The company's debt ratios rose slightly but remain at a safe level.

The stock is currently trading at TT\$12.85 and B\$4.20 and is showing signs of improvement in the Trinidad market, jumping by 52% in the first half of 2006 as more than 6 million shares have already changed ownership

compared to the respective period in 2005. In light of the mature stage of the Insurance industry, Sagicor's organic growth strategy is welcomed and is on par with Guardian Holdings extra regional and regional penetration. This strategy and reputation for being sturdy on the reins helps to maintain its favour with investors and retain an A.M. Best International Rating of "A" for financial strength.

Regional Market Review

Locally, the TTSE lost 9 points to close at 873.14 points and the All Trinidad Index declined by half of a percentage point to 1,104.42 points. Sagicor led trading this week, contributing 42% of total traded volumes with TCL in tow with 86,346 units. Over the past three weeks trading has slowed progressively to a total of 376,158 shares. Market activity was minimal as 20 shares traded firm with 8 retreating and only 4 shares advancing at the close of trade on Tuesday 5 September. Guardian Holdings held firm as the top advancing stock, adding 2.9% in value for investors. TCL and Witco both realised negligible gains of .5% and .2% each. The market reacted to Plipdeco's less stellar half year performance as the stock lost 12.8% of its value to close at TT\$6.10. The stock's profit fell to TT\$24.1 million due to reduced fair value gains in the valuation of investment properties in accordance with IAS 40. Other stocks losing traction were NCBJ, down 8.5% to TT\$1.50 and BS&T which dropped 5.3% to TT\$17.00. BWIA is once again on the front burner as talks of closure and replacement haunt the 66-year old airline. The stock which is listed on both the TTSE and BSE has been suspended from trading since November 2005 but the fate of the company should be revealed on Friday 8 September.

In Jamaica, the market saw a brief rally last week as investor confidence rose, pushed buy institutional demand and some retail transactions. The tempo was retained at the close of trading on Tuesday 5 September as volumes surpassed the prior period. This was aided by over 11 million Cable and Wireless shares changing hands and accounting for 19% of total trades. Caribbean Cement rallied 12.4%, while Jamaica Broilers climbed to J\$3.50 after posting favourable earnings for the quarter ending July 2006 based on significant improvement in the Poultry division and Jamaica Producers came in third in terms of price appreciation gaining 6.5%. Stock losing favour were Salada Foods which fell 26.3%, followed by Ciboney, although losing only one point the stock lost 16.7% in value. After moving to a one month high of J\$2.00 in early September, SVL retreated by 9% to J\$1.89.

The BSE showed signs of improving market activity as traded volumes increased to 325,892 as the demand for BS&T shares climbed. The company is in the process of purchasing majority interest in a chain of 12 supermarkets in Bahamas through its new holding company BSL Holdings Limited. The US\$56 million transaction would thereby replace current major shareholder Winn Dixie Company. BS&T's investment in BSL Holdings is pending approval by the Bahamian Government for a 40% shareholding in that company. Shareholding in BSL Holdings includes Bahamian pension funds, corporate entities and private individuals. Rights trading for Light and Power Holdings concluded on 1 September after which the share price fell 10% to B\$10.13. Demand for LPH rights increased in the last trading week and the company urged investors to apply to the company directly for additional shares. Goddard Enterprises and Sagicor also retreated by 6.8% and 3.5%

respectively.

Table:1 Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	873.14	-1.05	-3.13	-18.15	-18.23
All Trinidad	1104.42	-0.50	-3.00	-16.49	-16.06
JSE Index	83,346.61	-0.01	-2.43	-19.67	-19.33
All Jamaica	80,883.90	-0.32	0.40	-21.75	-21.59
JSE Select	2,210.84	0.31	-1.40	-22.36	-20.43
BSE Composite	975.52	-0.35	-1.17	-5.74	-5.12

Current Happenings

- Government to transfer Credit Union supervision from the Cooperative Department to Central Bank
- Manning: The U.S should do more in the war against drugs in the Region
- Scotiabank Mutual Funds in the pipeline
- Digicel among 3 bidding for Columbia's three largest cellular companies
- Jamaican Unit Trust Fund Managers hurting - 12% plunge in 12 months

Table:1 International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1313.25	0.69	2.65	3.50	7.82
Nasdaq Composite	2205.70	0.91	5.79	-1.70	3.02
Dow Jones Industrial	11469.28	0.76	2.04	5.73	9.78
German Dax	5884.07	0.28	2.81	7.75	19.84
FTSE 100	5981.70	0.88	1.57	5.28	12.06
Nikkei 225	16385.96	3.24	5.72	1.70	29.69

International Market Review

U.S equity markets hit a four month high in this period as the employment reports mirrored the Federal Reserve's projection of a gradual economic slowdown; indicating that policy makers may keep borrowing costs steady. The unemployment rate fell to 4.7% from 4.8% in August as more jobs were created in the period.

Although stocks started on a positive note this month September has historically been the worst period for the market. Also contributing to the rally was General Motors' first sales increase since January. The Nasdaq rose 0.9% to 2,205.70 points, while the S&P 500 and Dow Jones Industrial both advanced by about 0.7%. In other news, companies in the U.S are repurchasing their stocks spurred by record levels of cash and relatively low interest rates. In 2006 the repurchases have already exceeded the record amount for a full year. The offers followed \$116 billion of repurchases in the second quarter, the most ever, according to Standard & Poor's.

European benchmarks advanced on expectations that earnings will be able to weather higher borrowing costs. Gains on energy stocks were limited as oil prices slid. BP Plc, Europe's second-biggest oil company, declined 1.3% as oil fell to less than \$69 a barrel, an 11-week low, as the summer travel season drew to a close. European stocks rose on optimism that the U.S economy, which is Europe's largest export market is weathering two years of interest-rate increases. The FTSE and the German Dax moved to 5,884.07 and 5,981.70 points, respectively.

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.
