

**Angostura Holdings Limited (AHL)**

	<u>AHL</u>
<b>RECOMMENDATION</b>	<b>SELL</b>
<b>Current Price</b>	<b>\$4.00</b>
<b>Running EPS</b>	<b>\$1.72</b>
<b>Projected EPS</b>	<b>\$0.20</b>
<b>P/E at Projected EPS</b>	<b>20.00 times</b>
<b>Projected Dividend Yield</b>	<b>3.00 per cent</b>
<b>Return on Assets</b>	<b>1.36 per cent</b>
<b>Return on Equity</b>	<b>3.26 per cent</b>

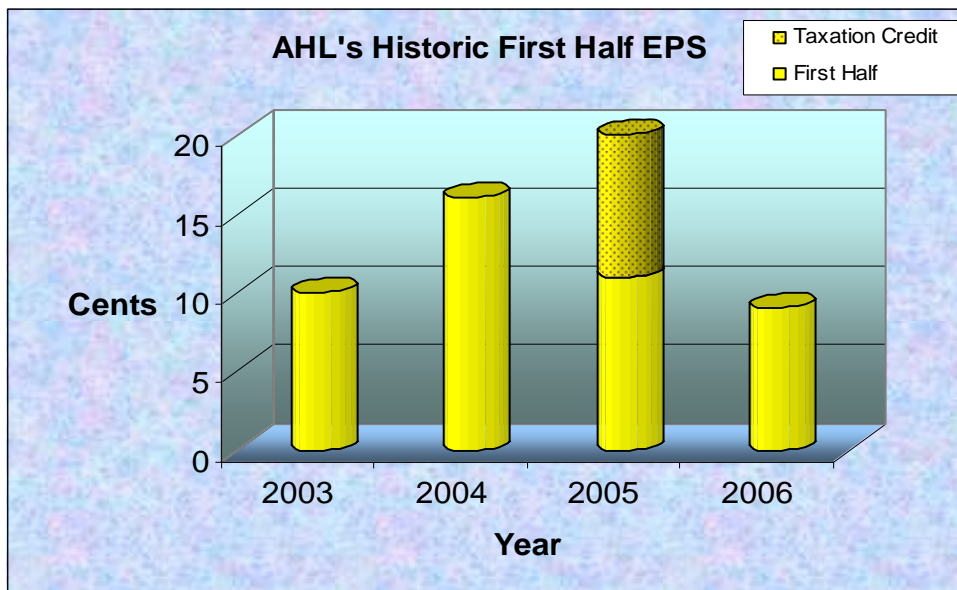
*Results for the Half Year Ended June 30, 2006*

**Earnings Per Share**

Angostura Holdings Limited (AHL) reported Earnings Per Share of 9 cents for the half year ended June 30, 2006. This was 8 cents or 47.06 per cent less than the corresponding period last year. HYE 2005 results however included a tax credit of \$11.958 million arising from the now disposed Cruzan Inc. This tax credit contributed approximately 6 cents to that period's EPS of 17 cents. Therefore, without that tax credit, the Company's adjusted EPS in 2005 would have been approximately 11 cents resulting in a fall of 18 per cent compared to HY 2006. It is important to note however that in 2006, the Company benefited from an unusually low effective tax rate of 4.01 per cent.

As Figure 1 shows, there has been no historic sustainable growth in EPS in the first half of the year. In actuality, AHL's EPS has been decreasing over the past three years.

**Figure 1**





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## **Financials**

Sales for the six month period fell 50.69 per cent from \$684.158 million in 2005 to \$337.340 million in 2006. The huge drop however is as a result of the disposal of Cruzan Inc whose results would have been consolidated into the Financial Statements for 2005. According to the Chairman's Statements, Net Turnover within the Trinidad business operation actually increased from \$200 million to \$337 million (68.50 per cent). Whilst in past years its bulk rum commodity business brought a strain on to the Company with its diminishing margins, this year this business contributed positively to the growth in Turnover. In addition, its branded cased export business in the United States, Europe and other markets was also responsible for the growth achieved.

While its bulk rum commodity business has seen a turnaround this year, AHL still continued to be challenged by both weak international bench mark pricing and increased costs of molasses on the world markets. The Company is continuing to work strategically with a European based spirits trader to dominate various aspects of the bulk and blended rum business throughout Europe.

AHL's Cost of Sales decreased 44.57 per cent to \$236.382 million while its Gross Profit decreased by an even bigger margin of 60.83 per cent to \$100.958 million. Selling and Marketing Expenses were down 42.46 per cent to \$61.115 million while Administrative Expenses were down 76.71 per cent to \$31.992 million. All of these figures are affected by the fact that the 2006 half year figures no longer include the books of Cruzan International.

Having regard to the fact that during 2005, the operating profitability of Cruzan Inc. was minimal, Operating Profit decreased 1.92 per cent from \$43.746 million in 2005 to \$42.907 million in 2006. This was largely as a result of continued marketing investment expenditure in local and overseas markets in an effort to grow and position its brands. The Company has also been faced with significant cost increases of raw material inputs, but it has been improving the level of operational efficiencies and seeking to obtain more synergistic opportunities with its related companies overseas that will counteract the cost increases over the next twelve months. The Group's Operating Profit Margin however rose from 4.96 per cent (HY 2005) to 12.71 per cent (HY 2006). Finance costs increased 20.77 per cent from \$22.422 million to \$27.080 million.

Profit Before Tax fell 15.16 per cent to \$18.574 million while Profit After Tax was down by a bigger margin, namely 47.51 per cent to \$17.830 million. The large drop was due to the inclusion of the aforementioned taxation credit of \$11.958 million arising from Cruzan Inc. in 2005. Without the credit, Profit After Tax would have been down approximately 19 per cent. In addition, as mentioned before, the Company enjoyed a low effective tax rate for this half year.

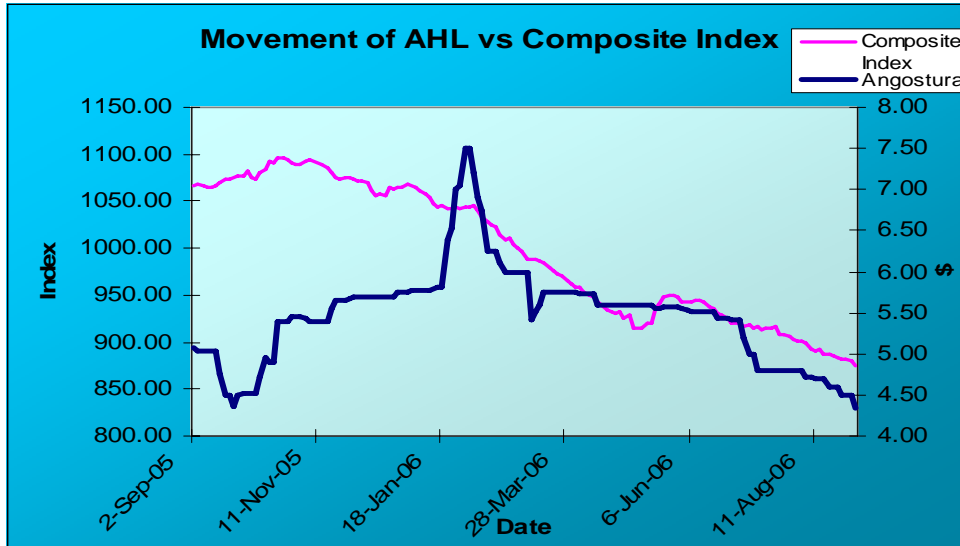
During 2006, the Group has been increasing its equity participation in Belvedere SA, a Paris listed company which has at the same time just completed a major Euro 400M acquisition of a French counterpart. AHL is also continuing to work strategically with a major European based spirits trader to dominate various aspects of the bulk and blended rum business throughout Europe. The Company is confident that the group will benefit from a greater level of brand presence and penetration throughout Europe as well as dividend flows.

AHL is also cognizant of the fact that the branding strategy being pursued is very costly and affects the level of reported profitability. The Company however expects shareholders will benefit over the medium term.

**Share Price**

From Figure 2 it is evident that AHL has little correlation to the Composite Index. The price peaked as high as \$7.50 earlier this year. This was prompted by publicity brought to the Company as the Chairman announced AHL’s expansion in Europe. The rise in price was therefore fuelled by speculation that this investment would lead to increased profitability. Hence, just as quickly as the share price peaked, it fell, to return to trade around \$5.50. Subsequent to that, the price slid further down and is now trading at a 52 week low of \$4.00.

**Figure 2**



**Recommendation**

Given the results, we are revising our year end forecast to 20 cents. At the current price of \$4.00, Angostura is trading at a price/earnings ratio of 20.0 times. Hence, at this price, Angostura is considered overvalued and so, we recommend a SELL.

**Dividends**

The directors have declared an Interim dividend of 5 cents to be paid on September 29<sup>th</sup> 2006. The ex-div was September 6, 2006. This is consistent with the interim dividend paid over the last five years. (see Figure 3)

**Figure 3**

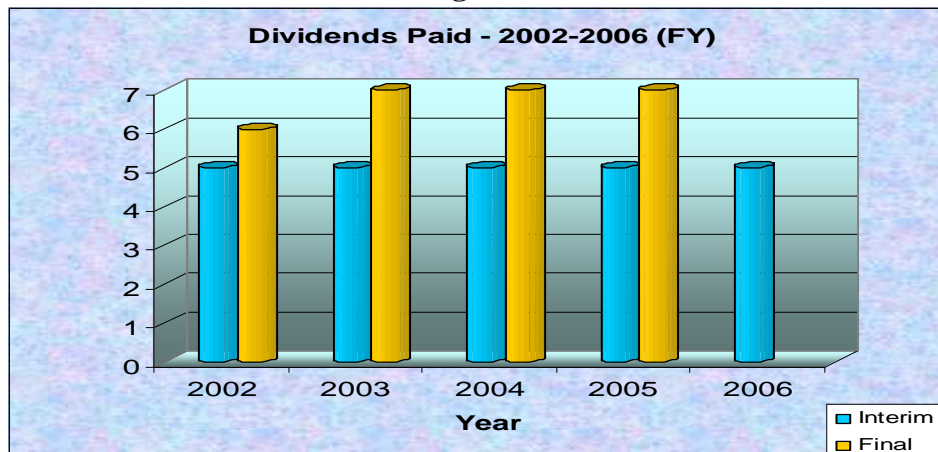


Figure 4

Angostura Holdings Limited Financial Data (2004-2006)					
	HY 2006 \$'000	Change HY 05-HY 06	HY 2005 \$'000	Change HY 04-HY 05	HY 2004 \$'000
Sales	337,340	-50.69%	684,158	12.56%	607,819
Cost of Goods Sold	236,382	-44.57%	426,442	11.89%	381,139
<b>Gross Profit</b>	100,958	-60.83%	257,716	13.69%	226,680
Expenses	93,107	-61.77%	243,563	26.97%	191,832
<b>Operating Profit</b>	42,907	-1.92%	43,746	25.53%	34,848
Profit Before Taxation	18,574	-15.61%	22,009	-9.90%	24,426
Profit for the Period	17,830	-73.13%	66,367	91.62%	34,634
<b>EPS (cents)</b>	9	-50.00%	18	12.50%	16
Dividend (cents)	5	0.00%	5	0.00%	5
Angostura Holdings Limited Year End Financial Data (2003-2005)					
	YE 2005	% Change '04-'05	YE 2004	% Change '03-'04	YE 2003
Sales	1,198,642	18.24%	1,013,758	-1.21%	1,026,199
Cost of Goods Sold	773,070	25.73%	614,846	1.24%	607,338
<b>Gross Profit</b>	425,572	6.68%	398,912	-4.76%	418,861
Expenses	419,927	21.75%	344,905	14.16%	302,123
<b>Operating Profit</b>	378,432	297.58%	95,183	-18.46%	116,738
Profit Before Taxation	352,475	784.30%	39,859	-31.37%	58,077
Profit for the Period	371,360	602.92%	52,831	-17.01%	63,661
EPS	\$1.80	520.69%	\$0.29	-6.45%	\$0.31
Market Price @ Financial Year End (TT\$)	\$5.76	15.20%	\$5.00	18.20%	\$4.23
P/E Ratio @ Financial Year End	3.20		17.24		13.65
Dividend	\$0.12	0.00%	\$0.12	0.00%	\$0.12
Dividend Payout Ratio (%)	6.67		41.38		38.71
Dividend Yield (%)	2.08		2.40		2.84
Net Asset Value	\$5.52	25.17%	\$4.41	8.35%	\$4.07
Market to Book Ratio	1.04		1.13		1.04
Return on Equity (%)	36.27		7.40		10.03
Return on Assets (%)	15.25		2.49		2.72
Shares Outstanding	206,277,630		206,277,630		207,277,630

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