

Flavorite Foods Limited (FFL)

	FFL
RECOMMENDATION	BUY
Current Price	\$4.60
Running EPS	67 cents
Projected EPS	80 cents
P/E at Projected EPS	5.75 times
Dividend Yield	7.61%
Return on Assets	9.64%
Return on Equity	13.80%

Results for the Year Ended December 31, 2006

Earnings Per Share

For the Year Ended December 31, 2006, Flavorite Foods Limited (FFL) reported Earnings Per Share (EPS) of 67 cents. This represented an increase of 24.07 per cent or 13 cents on the comparable period of 2005. As can be seen from **Graph 1** below, FFL's EPS has shown consistent growth over the period 2001 to 2006.

Graph 1



Financials

Revenue for fiscal 2006 rose to \$58.657 million and was up on the corresponding period of fiscal 2005 by 7.42 per cent or \$4.054 million. Cost of Sales amounted to \$27.430 million which was an increase of \$2.342 million or 9.34 per cent on the previous financial year. This resulted in Gross Profit increasing by 5.80 per cent or \$1.711 million from \$29.516 million in 2005 to \$31.227 million in 2006. Other Operating Income grew by a significant 18.78 per cent or \$0.204 million to \$1.288 million.



West Indies Stockbrokers Ltd.
 1st Floor, Albion Plaza,
 22-24 Victoria Avenue,
 Port of Spain.
 Tel: 625-9473; Fax: 627-5002

Equity Research Team
 Gia Singh (Ext 2264)
gias@wisett.com
 Nancy Chen (Ext 2225)
nancyc@wisett.com

For the period under review Distribution Expenses increased by a minimal 3.37 per cent or \$0.370 million to \$11.347 million while Administrative Expenses was up 1.40 per cent or \$0.183 million to \$13.224 million. Other Operating Expenses, however, saw a considerable increase of \$0.342 million or 72.23 per cent from \$0.474 million in fiscal 2005 to \$0.816 million in fiscal 2006. Thus, FFL's Operating Profit increased by 16.69 per cent or \$1.019 million to close the financial year 2006 at \$7.128 million. Finance Costs also rose significantly, moving from \$55.094 million in fiscal 2005 to \$71.859 million in fiscal 2006, an increase of 30.43 per cent.

Profit Before Taxation stood at \$7.056 million, up 16.56 per cent or \$1.003 million on the prior year. The Effective Tax Rate for fiscal 2006 was 25.90 per cent compared to a Tax Rate of 30.12 per cent for the previous year. Ultimately, Net Profit for fiscal 2006 amounted to \$5.228 million up by 23.60 per cent or \$0.998 million on the corresponding figure of \$4.230 million for fiscal 2005.

Table 1 shows a Year End Financial Comparison of FFL over the period 2003-2006

Table 1

FFL Historical Financial Data (2003-2006)							
	YE 2006	% Change (2005-2006)	YE 2005	% Change (2004-2005)	YE 2004	% Change (2003-2004)	YE 2003
Revenue	58,656,787	7.42%	54,603,216	14.79%	47,569,917	9.51%	43,438,319
Cost of Sales	(27,429,753)	9.34%	(25,087,359)	18.97%	(21,087,480)	17.40%	(17,961,567)
Gross Profit	31,227,034	5.80%	29,515,857	11.45%	26,482,437	3.95%	25,476,752
Other Operating Income	1,288,234	18.78%	1,084,530	8.23%	1,002,077	11.48%	898,848
Expenses	(25,387,588)	3.66%	(24,491,988)	9.64%	(22,339,453)	2.88%	(21,714,332)
Operating Profit	7,127,680	16.69%	6,108,399	18.72%	5,145,061	10.38%	4,661,268
Finance Costs	(71,859)	30.43%	(55,094)	-5.94%	(58,574)	27.72%	(45,860)
Profit Before Tax	7,055,821	16.56%	6,053,305	19.01%	5,086,487	10.21%	4,615,408
Taxation	(1,827,641)	0.22%	(1,823,548)	16.30%	(1,567,926)	10.52%	(1,418,671)
Net Profit	5,228,180	23.60%	4,229,757	20.21%	3,518,561	10.07%	3,196,737
Earnings Per Share	67	24.07%	54	20.00%	45	9.76%	41
Price at Year End	\$5.10	3.03%	\$4.95	8.79%	\$4.55	26.04%	\$3.61
P/E Ratio at Year End	7.61		9.17		10.11		8.80
Dividend	30	100.00%	15	15.38%	13	0.00%	13
Dividend Payout Ratio	44.78%		27.78%		28.89%		31.70%
Dividend Yield	5.88%		3.03%		2.86%		3.60%
Net Asset Value	\$5.88	51.94%	\$3.87	12.17%	\$3.45	10.22%	\$3.13
Market to Book Ratio	0.87		1.28		1.32		1.15
Return on Equity	13.80%		14.86%		13.74%		13.77%
Return on Assets	9.64%		9.76%		9.39%		9.35%
Weighted average number of ordinary shares in issue	7,777,660		7,777,660		7,777,660		7,777,660



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nancyc@wisett.com

Dividends

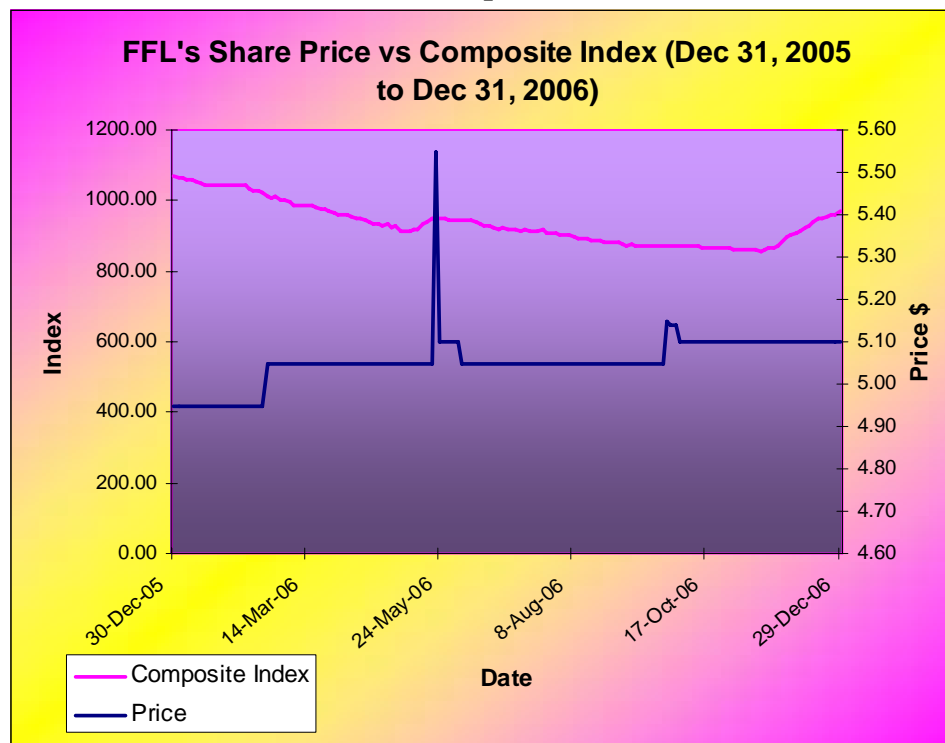
The Board of Directors has proposed a final dividend of \$0.30 per share compared to \$0.15 paid in fiscal 2005.

Recommendation

The shares of FFL are currently trading at a price of \$4.60. Based on a forecasted EPS of 80 cents for fiscal 2007 and the current price, these shares are trading at a price to earnings multiple of 5.75 times. This multiple is attractive for this share, since FFL typically trades in the band of 9 to 10 times. However, approximately 85 per cent of these shares are held by two substantial shareholders, namely: Stone Street Capital Limited (80%) and T. Geddes Grant Pension Fund Plan (5%). Thus, while we would recommend a **BUY** based on fundamentals, we caution investors on the availability and liquidity of this share.

Graph 2 below shows FFL's Share Price versus the Composite Index over the period December 31, 2005 to December 31, 2006

Graph 2



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West Indies Stockbrokers Limited, 1st Floor Albion Plaza, 22-24 Victoria Avenue, Port of Spain, Trinidad (868) 623-4861 Fax (868)-627-5002 e-mail: info@wisett.com
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