

Guardian Holdings Limited (GHL)

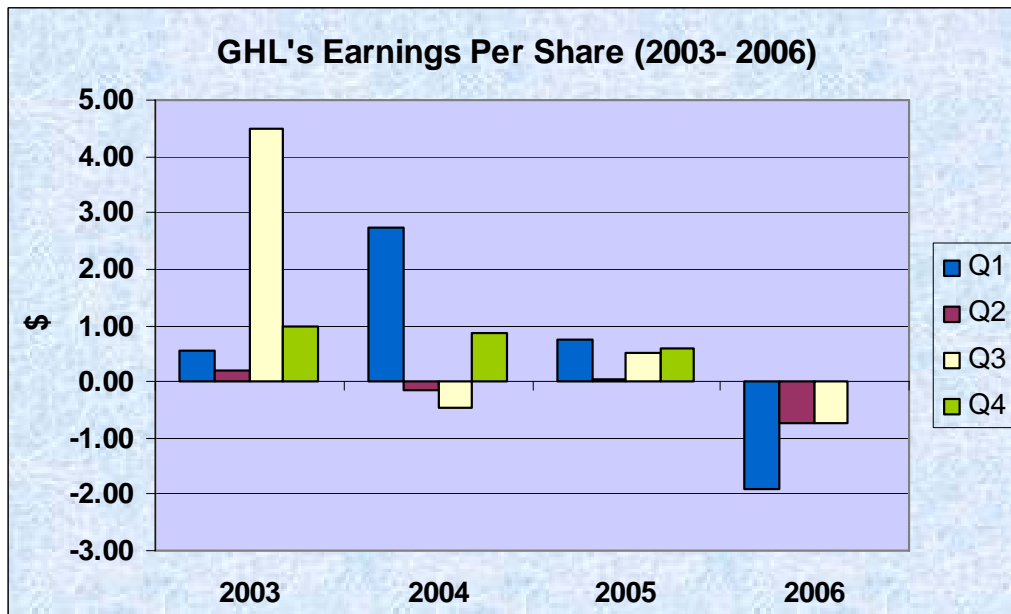
	<u>GHL</u>
RECOMMENDATION	Long Term BUY
Current Price	\$19.65
Dividend Yield	1.78%

Results for the Nine Months Ended September 30, 2006

Loss Per Share

Guardian Holdings Limited (GHL) reported a Loss Per Share (LPS) of \$0.75 for the third quarter driving the LPS for the nine month period ended September 30, 2006 further into negative territory. The total reported LPS for the nine month period was \$3.42 which was 369.29 per cent less than 2005's nine month Earnings Per Share (EPS) of \$1.27. The bulk of this loss was borne from the first quarter which reported a LPS of \$1.92. (See Graph 1)

Graph 1





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Financials

The Chairman stated that the continuing poor performance of the regional stock markets coupled with the soft market conditions and significant restructuring costs of the UK General Insurance subsidiaries were the two factors solely responsible for the loss. The fair value loss for the nine month period totaled \$514 million. This contributed approximately \$2.50 to the nine month LPS. The Group however views its equity investments as strategic and therefore expects positive contributions from this portfolio in the long term. In addition, the integration of its two UK subsidiaries, Link and Zenith was completed (now GHIL Europe), resulting in the displacement of 96 persons, the full cost of which was absorbed into this quarter's results.

Net Insurance Premium for the nine month period was up 4.45 per cent to \$2.519 billion despite a 2.03 per cent decrease in Insurance Premium Revenue. This is because there was an 18.42 per cent drop from \$954.505 million to \$778.653 million in Insurance Premium ceded to Re-insurers. Similarly, for the third quarter alone, Insurance Premium Revenue was up 2.37 per cent with a 27.07 per cent fall in Insurance Premium ceded to Re-insurers resulting in a 15.61 per cent increase in Net Insurance Premium Revenue. Total Revenue (Q3) however fell 1.97 per cent to \$1.008 billion as Other Revenue fell 48.41 per cent to \$145.721 million. The Total Revenue for the nine month period was down 17.66 per cent compared to the similar period for 2005 as Other Revenue fell 81.32 per cent to \$156.455 million.

Net Insurance Benefits and Claims rose 11.83 per cent to \$1.971 billion while Expenses rose 13.92 per cent for the nine month period resulting in an Operating Loss of \$563.190 million. The third quarter contributed 17.98 per cent to this Loss.

Share of Profit of Associated Companies fell 46.04 per cent for the nine month period to \$14.615 million with the third quarter contributing 54.33 per cent of the total figure. Though Finance Charges for Q3 decreased over the comparative period last year, Finance Charges for the nine month period increased 10.02 per cent compared to 2005.

Profit Before Tax fell 313.52 per cent to a loss of \$653.287 million with the third quarter contributing 20.22 per cent to the loss. The Effective Tax Rate was reduced significantly from 17.65 per cent for the nine month period ended 2005 to 8.00 per cent for the current period.

Assets and Shareholder's Equity

The Group's Total Assets stood at an impressive \$17.90 billion for the period ended September 30, 2006, showing an increase of 3.12 per cent on the figure as at December 31, 2005. However, as a result of the losses being sustained in 2006, the Total Shareholders Equity (inclusive of minority interests) fell from \$3.73 billion at year end 2005 to \$3.01 billion for the current period, a fall of 19.28 per cent.

See Tables on page 3 for Financial Data Comparison over the periods:

- *Nine Months 2006 on 2005; Q3 2006 on Q3 2005 and Q2 2006 (Table1) and;*
- *Year End 2003-2006 (Table 2).*



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Table 1

GHL's Financial Data (2003-2006)								
	Nine Months 2006 \$'000	Nine Months 2005 \$'000	Nine Months % Change '05-'06	Q3 2006 \$'000	Q3 2005 \$'000	Q3 % Change '05-'06	Q2 2006 \$'000	% Change Q2 06-Q3 06
Insurance Premium Revenue	3,298,060	3,366,476	-2.03%	1,107,490	1,081,862	2.37%	1,065,772	3.91%
Insurance Premium ceded to Re-insurers	778,653	954,505	-18.42%	244,829	335,684	-27.07%	249,193	-1.75%
Net Insurance Premium Revenue	2,519,407	2,411,971	4.45%	862,661	746,178	15.61%	816,579	5.64%
Other Revenue	156,455	837,740	-81.32%	145,721	282,475	-48.41%	142,779	2.06%
Total Revenue	2,675,862	3,249,711	-17.66%	1,008,382	1,028,653	-1.97%	959,358	5.11%
Net Insurance Benefits and Claims	1,971,768	1,763,232	11.83%	717,635	541,465	32.54%	619,372	15.86%
Expenses	1,267,284	1,112,437	13.92%	392,031	340,253	15.22%	447,474	12.39%
Operating Profit/Loss	(563,190)	374,042	250.57%	(101,284)	146,935	168.93%	(107,488)	-5.77%
Share of Profit/(Losses) of Associated Companies	14,615	27,085	-46.04%	7,940	20,433	-61.14%	(2)	***
Finance Charges	104,712	95,172	10.02%	38,768	43,060	-9.97%	34,505	12.35%
Profit before Taxation	(653,287)	305,955	313.52%	(132,112)	124,308	206.28%	(141,995)	-6.96%
Taxation	52,248	53,992	-3.23%	24,613	24,022	2.46%	13,327	84.69%
Profit after Taxation	(705,535)	251,963	380.02%	(156,725)	100,286	256.28%	(155,322)	0.90%
EPS - Diluted	(\$3.42)	\$1.27	369.29%	(\$0.76)	\$0.51	249.02%	(\$0.75)	1.33%

Table 2

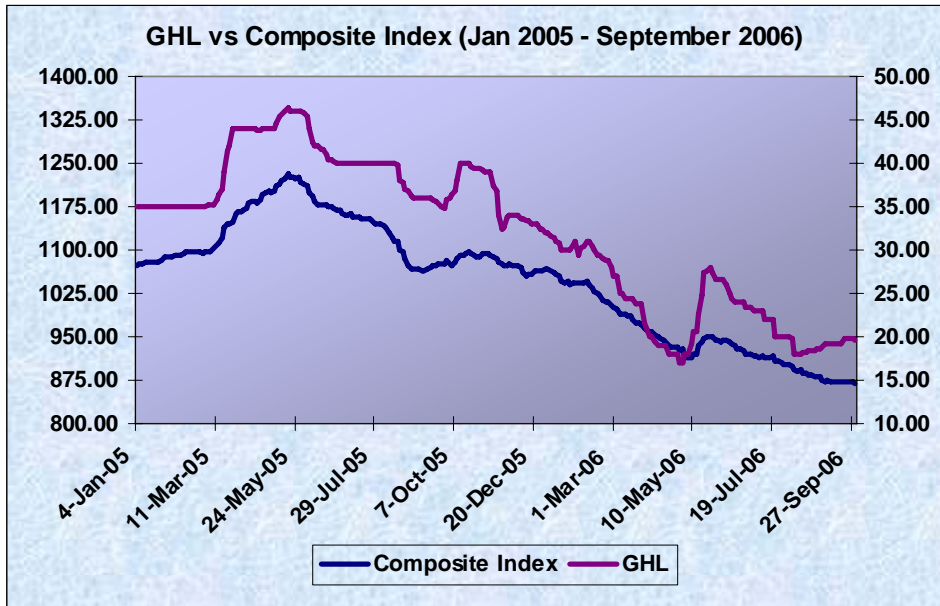
GHL's Financial Data (2003-2006)					
	YE 2005 \$'000	% Change '04-'05	YE 2004 \$'000	% Change '03-'04	YE 2003 \$'000
Net Insurance Premium Revenue	3,241,289	76.06%	1,840,991	16.21%	1,584,203
Total Revenue	4,381,701	21.88%	3,594,950	27.17%	2,826,856
Operating Profit/Loss	495,339	41.45%	846,023	55.07%	545,588
Finance Charges	122,345	16.37%	105,135	11.41%	118,670
Profit/Loss Before Taxation	455,959	35.05%	701,987	44.88%	1,273,653
Taxation	63,735	47.81%	122,116	24.77%	162,331
Profit/Loss After Taxation	372,224	35.81%	579,871	47.82%	1,111,322
Diluted- EPS/LPS	\$1.85	37.92%	\$2.98	52.32%	\$6.25
Market Price @ Financial Year End	\$32.08	-8.60%	\$35.10	10.38%	\$31.80
P/E Ratio @ Financial Year End	17.3		11.8		5.1
Dividend	0.55	10.00%	0.5	-7.41%	0.54
Dividend Payout Ratio	29.73%		16.78%		8.64%
Dividend Yield	1.71%		1.42%		1.70%
Net Asset Value	\$18.56	11.87%	\$16.59	25.78%	\$13.19
Market to Book Ratio	1.73		2.12		2.41
Return on Equity	10.77%		20.37%		52.55%
Return on Assets	2.27%		4.29%		11.77%
Shares Outstanding	201,202		191,619		190,729



Share Price

The share price of GHL has been relatively volatile from January 2005 to date; reaching a high of \$46.32 on March 17, 2005 and a low of \$17.00 on April 28, 2006. This represents a fall in value of approximately 63%. GHL shares are currently trading at a price of \$19.65, which represents a fall in value of 57.58 per cent on the high of \$46.32. (See Graph 2)

Graph 2



Volumes

Over the period January 2006 to October 2006 the volume of shares traded were fairly light with the exception of January where the total volumes traded amounted to 1.98 million. The month of June saw the lowest volume of 0.15 million shares changing ownership. (See Graph 3)

Graph 3





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Chairman's Outlook

The Chairman is confident that the integrated UK entity, GHL Europe, is now poised to meet the challenges of the UK markets and will achieve a breakeven position in Q4-2006 especially as there are strong indications of the market strengthening. He expects GHL Europe to return to profitability in 2007.

The Chairman has furthermore stated that its operating companies have all made profits after adjusting for diminution in the value of its investment portfolios. He is also confident that adherence to its long term strategies and its commitment to continuous improvements in operational efficiencies will result in a reduced loss position in the last quarter and a substantially improved performance in 2007.

Recommendation

We do not expect to see any Profits for this Company by year end and it uncertain as to how soon in 2007 we will see some significant improvement in the bottom line. However, the Company should see a reduction in costs in the last quarter of 2006 as the full costs associated with the restructuring of the UK subsidiaries were absorbed in this quarter's results. Additionally, GHL is still a fundamentally good company with a current Net Asset Value Per Share of \$14.93. Thus, at the current price of \$19.65 its market to book stands at an attractive 1.32 times. Hence, at this low price, GHL is trading at a bargain and would be a good opportunity for investors looking for a long-term investment. Thus, we recommend a LONG TERM BUY.

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