

Guardian Holdings Limited (GHL)

SYMBOL	GHL
RECOMMENDATION	Long Term BUY
Current Price	\$22.99

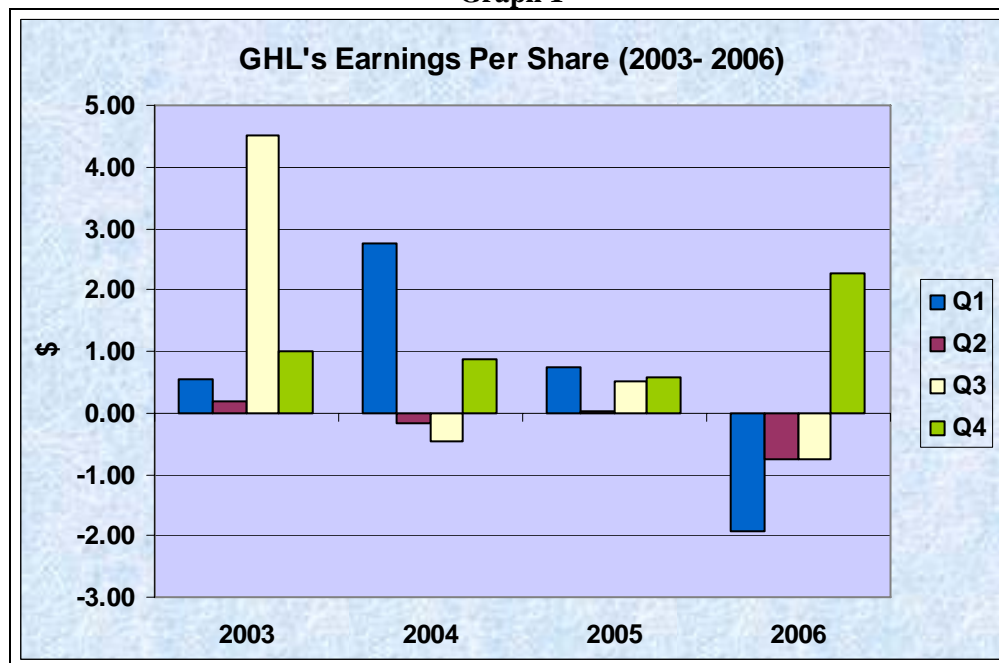
Results for the Year Ended December 31, 2006

Earnings Per Share

Guardian Holdings Limited (GHL) ended the financial year 2006 with a Loss Per Share (LPS) of \$1.14. When compared to Earnings Per Share (EPS) of \$1.80 in the comparable period (FY2005), the Company was down by 163.33 per cent. The Chairman has attributed the poor results to the costs associated with the restructuring of the Company's UK business in addition to the Fair Value Losses sustained in the local stock markets. He also stated that the restructuring programme in the UK was substantially completed by the end of the third quarter of 2006 and this entity delivered strong operating results in the last quarter.

Although Q406 produced positive earnings which resulted in an EPS of approximately \$2.28, this was mainly the result of mark to market gains. Fair Value Gains for the quarter amounted to \$411.31 million or approximately \$2.04 per share. Thus, earnings from core operations only contributed about 24 cents to the EPS for Q406. (See Graph1)

Graph 1





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

Equity Research Team
Sreshtha Tewari (Ext 2225)
sreshthat@wisett.com
Gia Singh (Ext 2264)
gias@wisett.com

Financials

Net Insurance Premium Revenue for the 12 month period stood at \$3.69 billion and was up by 13.98 per cent or \$453.23 million. For the quarter, this figure was up by a significant 41.94 per cent to \$1.17 billion. This was mainly due to the fact that the Company reduced its Insurance Premium ceded to Reinsurers by 45.46 percent on the quarter and 23.99 per cent on the year end, when compared to 2005. Also contributing to the increased Net Premium Revenue was increased Insurance Premium Revenue, while this was up by a minimal 3.84 per cent or \$169.86 million on the year end it was up by 23.82 per cent on the quarter-moving from \$1.04 billion (Q405) to \$1.29 billion (Q406).

Other Revenue, which includes mark to market gains/losses, amounted to \$907.61 million for FY2006 and was down by 22.87 per cent or \$269.06 million on the corresponding period in FY05. Fair Value Losses for the twelve month period amounted to \$103.45 million compared to Fair Value Gains of \$15.24 million in FY05. Q406 on Q405, Other Revenue was up by 158.58 per cent moving from \$311.64 million to \$805.83 million. Total Revenue for FY06 stood at \$4.60 billion up by a minimal 4.17 percent on FY05, while this figure for the quarter amounted to \$1.98 billion and was up by a considerable 73.91 per cent.

Net Insurance Benefits and Claims rose by 20.82 per cent for the year under review, from \$2.27 billion to \$2.74 billion. For the quarter, this figure amounted to \$763.78 million up by a significant 53.29 per cent on the corresponding quarter in FY05. Expenses rose by a lesser margin of 15.66 per cent to \$1.89 billion on the year end and 19.68 per cent to \$620.35 million on the quarter. Thus, GHL reported an Operating Loss of \$34.31 million for FY06 compared to an Operating Profit of \$510.58 in FY05. While Q406 reported an Operating Profit of \$593.26 million up by 392.72 percent on Q405's Operating Profit of \$120.41 million.

Share of Profits from Associated Companies totaled \$24.09 million for the year 2006 compared to \$69.30 million in 2005. Finance Charges for the period was \$148.24 million and was up by 21.17 per cent on the corresponding period in FY05. As a result, the year ended in a Loss Before Taxation of \$158.46 million compared to a Profit Before Taxation of \$457.54 million in the previous financial year. Taxation of \$77.38 million for the year under review resulted in a Loss After Taxation of \$235.84 million. In 2005, the Effective Tax Rate was 17.44 per cent which resulted in a Profit After Taxation figure of \$377.74 million.

Table 1 shows Financial Year End Data for GHL over the period 2003-2006.



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 Gia Singh (Ext 2264)
gias@wisett.com

Table 1

GHL's Year End Financial Data (2003-2006)							
	YE 2006 \$'000	% Change '05-'06	Restated YE 2005 \$'000	% Change '04-'05	YE 2004 \$'000	% Change '03-'04	YE 2003 \$'000
Net Insurance Premium Revenue	3,694,948	13.98%	3,241,721	76.09%	1,840,991	16.21%	1,584,203
Total Revenue	4,602,559	4.17%	4,418,392	22.91%	3,594,950	27.17%	2,826,856
Operating Profit/Loss	(34,309)	-106.72%	510,577	-39.65%	846,023	55.07%	545,588
Finance Charges	(148,242)	21.17%	(122,345)	16.37%	(105,135)	-11.41%	(118,670)
Profit/Loss Before Taxation	(158,461)	-134.63%	457,535	-34.82%	701,987	-44.88%	1,273,653
Taxation	(77,383)	-3.02%	(79,794)	-34.66%	(122,116)	-24.77%	(162,331)
Profit/Loss After Taxation	(235,844)	-162.44%	377,741	-34.86%	579,871	-47.82%	1,111,322
	(\$1.14)	-163.33%	\$1.80	-39.60%	\$2.98	-52.32%	\$6.25
Market Price @ Financial Year End	\$28.00	-12.72%	\$32.08	-8.60%	\$35.10	10.38%	\$31.80
P/E Ratio @ Financial Year End	****		17.3		11.8		5.1
Dividend	0.15	-72.73%	0.55	10.00%	0.5	-7.41%	0.54
Dividend Payout Ratio	****		29.73%		16.78%		8.64%
Dividend Yield	0.54%		1.71%		1.42%		1.70%
Net Asset Value	\$17.77	-4.26%	\$18.56	11.87%	\$16.59	25.78%	\$13.19
Market to Book Ratio	1.58		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	201,700		201,202		191,619		190,729

Dividends

In light of the results for the financial year 2006, the Board of Directors has decided to forego the payment of a final dividend. On August 25, 2006 GHL paid an Interim Dividend of 15 cents for FY06.

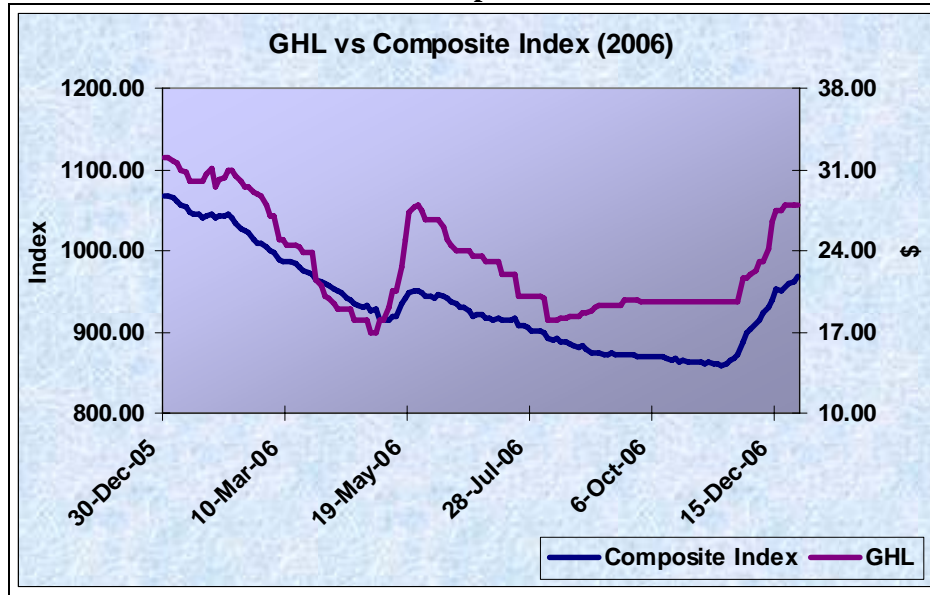
Share Price

The share price of GHL has been relatively volatile over the year 2006. The share started the year at a price of \$32.08, fell as low as \$17.00 on April 28, 2006 and then ended the year at \$28.00. The fall in value of the share price of GHL over 2006 is a reflection of the bearish market conditions which prevailed for the most part of the year coupled with the disappointing results of the Group.

Additionally, as can be seen from the graph below, there is mirrored effect in movements of GHL's price and the Composite Index. This is due to the fact that GHL has a significant weighting impact on the Index. Thus, movements in price of GHL would have the effect of moving the Index in the same direction. (See **Graph 2**)



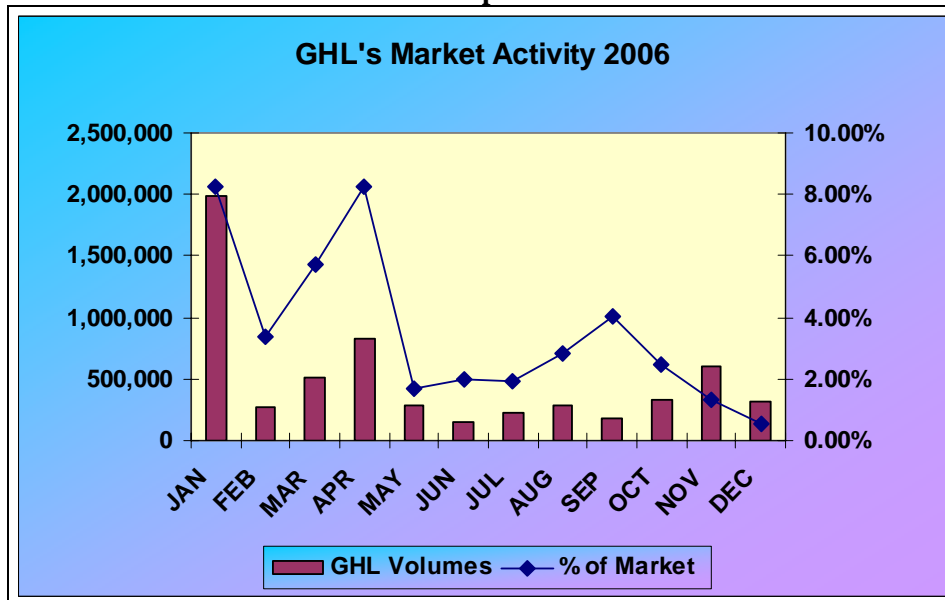
Graph 2



Market Activity

Over the period January 2006 to December 2006 the volume of shares traded were fairly light with the exception of January where the total volumes traded amounted to 1.98 million. January also saw the largest percentage traded in relation to the rest of the market (8.28 per cent). April followed closely with the number of GHL shares traded representing 8.24 per cent of the total market. The month of June saw the lowest volume of 0.15 million shares changing ownership. (See Graph 3)

Graph 3





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Recommendation

The shares of GHIL are currently trading at a price of \$22.99. The Company continues to have a strong Balance Sheet with a Net Asset Value of approximately \$17.77 and at the current price of \$22.99, the market to book ratio is 1.29 times. While the Chairman has stated that challenges and disappointments of 2006 are over, we are not in a position at this time to forecast the Company's earnings for FY07. However, at this time, based on the Company's attractive market to book ratio and the fact that GHIL is trading at a relatively low price, we would recommend this share as a **Long Term BUY**.

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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 Member of the Trinidad and Tobago Stock Exchange Ltd.