

GraceKennedy Limited (GKC)

All figures are quoted in Jamaica Dollars unless otherwise stated

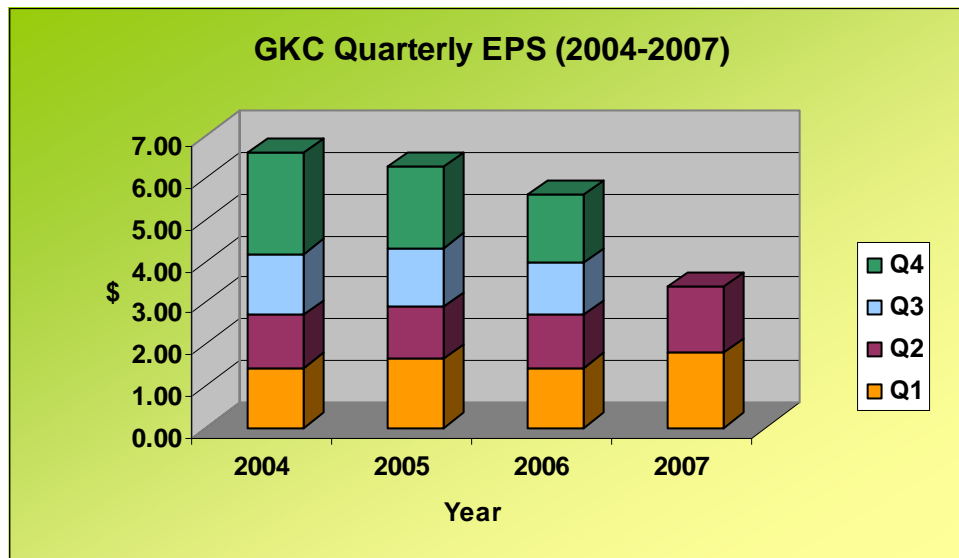
SYMBOL	GKC
RECOMMENDATION	BUY
Current Price	TT\$5.51
Running EPS	TT\$0.59 (JMD6.26)
Projected EPS	TT\$0.65 (JMD6.84)
P/E at Projected EPS	8.48 times
Dividend Yield at Estimated Dividend	2.18%
Return on Assets	3.09%
Return on Equity	12.20%

Results for the Half Year Ended June 30, 2007

Earnings Per Share

GraceKennedy Limited (GKC) has had another successful quarter for FY07. The Group reported Earnings Per Share (EPS) of \$1.56 for the second quarter which brought the Half Year EPS to \$3.37 for FY07. HY07 on HY06 this represented a significant increase of 23.90 per cent or \$0.65, while Q207 on Q206, the Group's EPS grew by 21.88 per cent or \$0.28. **Graph 1** below shows GKC's Quarterly EPS over the period 2004 to 2007.

Graph 1





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Financials

For the period under review, the Group reported Revenues of \$22.94 billion, up a noteworthy 33.42 per cent or \$5.75 billion on the comparable period in FY06. Q207 on Q206, this figure grew 46.98 per cent or \$3.95 billion from \$8.42 billion (Q206) to \$12.37 billion (Q207).

HY07 on HY06, Expenses also saw an increase, up 32.79 per cent or \$5.34 billion to \$21.63 billion. Q207 on Q206, this figure rose 46.57 per cent or \$3.74 billion to \$11.77 billion. As a result, Operating Income increased from \$903.55 million (HY06) to \$1.31 billion (HY07), a substantial increase of 44.75 per cent or \$404.34 million. Comparing Q207 to Q206, Operating Income grew 55.35 per cent or \$214.60 million to \$602.29 million. Conversely, Other Income, for the six month period, fell 3.23 per cent or \$12.38 million to \$370.32 million. Thus, Profit from Operations amounted to \$1.68 billion, up 30.47 per cent or \$391.96 million when compared to HY06.

Interest Income fell 6.96 per cent or \$14.11 million to end HY07 at \$188.58 million, while Interest Expense saw a significant increase of 55.24 per cent or \$119.20 million on the previous year's total of \$335 million. Share of Results of Associated Companies increased by a significant 177.84 per cent or \$44.67 million to end the HY at \$69.79 million.

For the HY ended June 30, 2007, Profit Before Taxation amounted to \$1.60 billion, an increase of 23.36 per cent or \$303.32 million on the comparable figure for FY06. The Effective Tax Rate for the period was 30 per cent which was the same Tax Rate for HY06. As such, Profit After Taxation stood at \$1.121 billion, up 23.36 per cent or \$212.33 million on HY06.

Table 1 shows GKC's Financials for HY07 on HY06 and Q207 on Q206

Table 1

GraceKennedy Financial Data HY07 on HY06 and Q207 on Q206						
	HY'07 \$'000	% Change HY'07 on HY'06	HY'06 \$'000	Q2'07 \$'000	% Change Q2'07 on Q2'06	Q2'06 \$'000
Revenues	22,939,907	33.42%	17,193,520	12,371,055	46.98%	8,416,989
Expenses	(21,632,021)	32.79%	(16,289,971)	(11,768,761)	46.57%	(8,029,299)
Other Income	370,320	-3.23%	382,698	235,767	0.91%	233,635
Profit from Operations	1,678,206	30.47%	1,286,247	838,061	34.88%	621,325
Interest Income - non -financial services	188,584	-6.96%	202,694	85,267	-23.31%	111,179
Interest Expense - non -financial services	(334,995)	55.24%	(215,797)	(177,939)	58.54%	(112,234)
Share of results of associated companies	69,791	177.84%	25,119	12,405	-195.24%	(13,025)
Profit before Taxation	1,601,586	23.36%	1,298,263	757,794	24.79%	607,245
Taxation	(480,476)	23.36%	(389,479)	(227,338)	24.79%	(182,173)
Profit for the period	1,121,110	23.36%	908,784	530,456	24.79%	425,072
Diluted EPS	\$3.37	23.90%	\$2.72	\$1.56	21.88%	\$1.28



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Table 2 shows Year End Financial Data for GKC over the period (2003-2006)

Table 2

GraceKennedy Financial Data Year End (2003-2006)							
	FY 2006 \$'000	% Change 05-06	FY 2005 \$'000	% Change 04-05	FY 2004 \$'000	% Change 03-04	FY 2003 \$'000
Revenues	36,088,247	9.25%	33,031,615	7.58%	30,703,792	23.98%	24,765,501
Expenses	34,349,153	11.55%	30,791,524	8.64%	28,342,426	24.42%	22,779,209
Operating Income	1,739,094	-22.37%	2,240,091	-5.14%	2,361,366	18.88%	1,986,292
Other Income	808,820	23.42%	655,314	14.90%	570,328	56.24%	365,027
Profit from Operations	2,547,914	-12.00%	2,895,405	-1.24%	2,931,694	24.68%	2,351,319
Profit before Taxation	2,524,552	-17.37%	3,055,247	-3.06%	3,151,837	18.12%	2,668,230
Taxation	-653,741	170.03%	933,553	6.24%	878,757	39.99%	627,712
Profit After Taxation	1,870,811	-11.82%	2,121,694	-6.66%	2,273,080	11.40%	2,040,518
Profit Attributable to Shareholders	1,845,004	-11.08%	2,074,936	-4.44%	2,171,368	9.65%	1,980,191
Earnings Per Share (JMD)	\$5.61	-10.38%	\$6.26	-4.86%	\$6.58	9.48%	\$6.01
Earnings Per Share (TTD)	\$0.53	-13.66%	\$0.62	-8.14%	\$0.67	-9.18%	\$0.74
Market Price @ Financial Year End (TTD)	\$6.13	-32.04%	\$9.02	-25.45%	\$12.10	108.62%	\$5.80
P/E Multiple	11.51		14.63		18.02		7.85
Dividend (JMD)	\$1.05	5.00%	\$1.00	11.11%	\$0.90	5.88%	\$0.85
Dividend Payout Ratio	18.72%		15.97%		13.68%		14.14%
Dividend Yield	1.63%		1.09%		0.76%		1.80%
Net Asset Value (TTD)	\$5.19		\$4.29	-16.21%	\$5.12	255.56%	\$1.44
Market to Book Ratio	1.18		2.10		2.36		4.03
Return on Equity	11.03%		14.22%		17.88%		21.03%
Return on Assets	2.89%		3.72%		4.63%		6.06%
Shares Outstanding '000	327,722		327,395		325,817		323,466

Chairman's Statements and Other Notable Business Activities

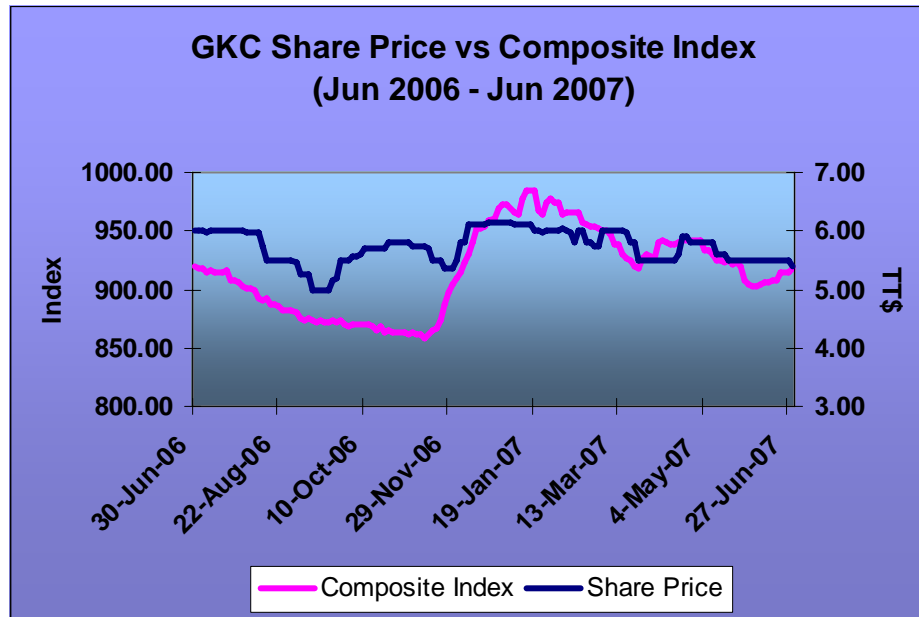
According to the Chairman, all companies within the GK Foods division, including the Hi-Lo supermarkets, showed positive results. Grace Foods & Services, in particular, showed an outstanding performance, driven by the strong demand for the Grace brand. Additionally, the acquisition of WT (Holdings) Limited ("WT Foods") on February 28, 2007, has met with the Group's expectations. In the GK Investments division, First Global Bank Limited opened a new branch in Mandeville on June 26 and is scheduled to open another branch in Liguanea in September. Furthermore, the GraceKennedy Remittance Services Group (GKRS) performed well for the first half year with Profit Before Tax exceeding the prior year by 55 per cent due to reduced expenses from the reorganized corporate structure in December 2006, as well as increased volumes in the money transfer business. In addition, on July 19, GKC acquire 90 per cent of ONE1 Financial Limited, a financial services company in Trinidad & Tobago.



Share Price

Over the 52 week period June 2006 to June 2007, GKC traded in the range of TT\$5.00 and TT\$6.16. The share saw the 52 week low of TT\$5.00 on September 8, 2006 and the high of TT\$6.16 on January 2, 2007. The share closed the period at TT\$5.40. **Graph 2** below illustrates GKC's share price movement versus the Composite Index over the period June 2006 to June 2007.

Graph 2



Volumes Traded

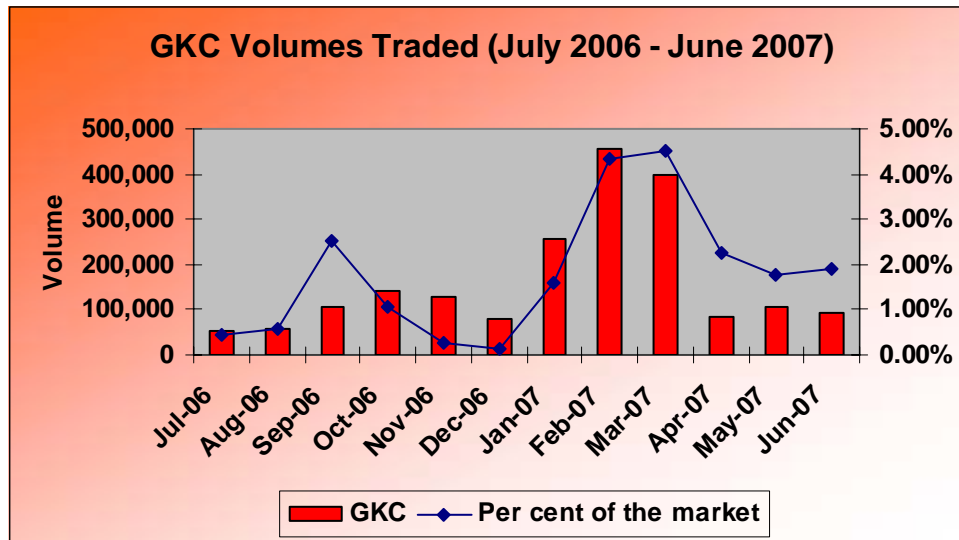
A total of 1,960,295 GKC shares traded over the period July 2006 to June 2007. February 2007 saw the highest volume traded as 455,659 shares crossed the floor, while July 2006 was the least active with 50,893 shares changing hands. March 2007 saw the highest percentage (4.50 per cent) of GKC shares traded in relation to the market while December 2006 saw the lowest percentage traded (0.14 per cent). (See **Graph 3** below)



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Graph 3



Recommendation

GKC shares are currently trading at a price of TT\$5.51. In light of the current results, we are increasing our forecasted EPS for FY07 to TT\$0.65. At the current price and this forecasted EPS, this share is trading at a price to earnings multiple of 8.48 times. Additionally using a multiple of 10 times and the forecasted EPS of TT\$0.65, this share has an expected return of approximately 18 per cent on the current price or a target price of TT\$6.50. Thus, we continue to recommend a **BUY** on this share.

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