

GraceKennedy Limited(GK)

	GK
RECOMMENDATION	Long Term BUY
Current Price	\$6.00
Running EPS	JMD\$6.07
Projected EPS	JMD\$6.26; TT\$0.60
P/E at Projected EPS	10 times
Return on Assets	2.87 per cent
Return on Equity	11.62 per cent

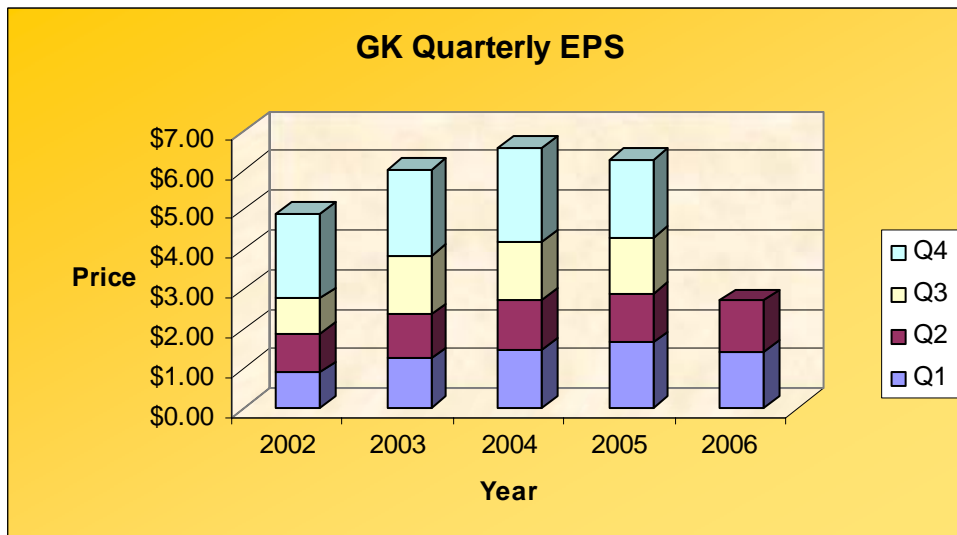
Results for the Half Year Ended June 30, 2006

All figures quoted in Jamaica Dollars unless otherwise stated

Earnings Per Share

GraceKennedy Limited's (GK) half year ended June 30, 2006 continued to be affected by problems in its home market which lingered from the first quarter. The second quarter was in fact less profitable than the first as Earnings Per Share (EPS) fell 11.11 per cent to \$1.28. (See Figure1) With respect to the half year, the EPS fell 6.53 per cent to \$2.72 with the second quarter contributing 47.06 per cent.

Figure 1



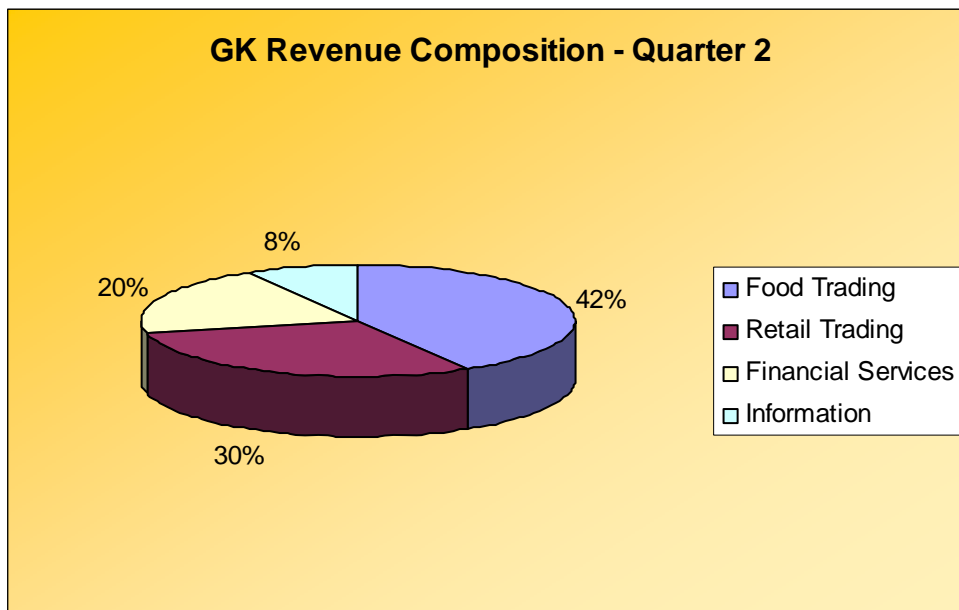
The lack-lustre performance was attributable to reduced profits in the Food Trading Division which was carried over from late 2005. The Retail & Trading Division was impacted by the performance of Hardware & Lumber Limited whose business was affected by the shortage of

cement. Its Financial Services Division also experienced a challenging half-year resulting in profits below expectations for that Segment.

Financials

Revenue grew marginally 5.00 per cent to \$17.193 billion with the second quarter contributing 48.95 per cent. The Food Trading Division continued to be the main driver of revenue contributing over 40 per cent to it. (See Figure 2) Expenses grew by a similar margin to Revenue, specifically 5.90 per cent, to result in an 8.91 per cent drop in Operating Income to \$903.549 million.

Figure 2



Other Income rose 17.46 per cent to \$382.698 million and contributed approximately 29.75 per cent to GK's Operating Profit. The growth in other income was aided by the sale of GK's 50 per cent shareholding in MedeCus Health Insurance Agency and MedeCus Health Insurance Company Limited. The sale price for the interest was \$74 million and made up 19 per cent of Other Income.

The rise in Other Income cushioned the drop in Operating Profit as it fell 2.39 per cent from \$1.318 billion in 2005 to \$1.286 billion 2006. The Group's Operating Profit margin dropped from 8.05 per cent in 2005 to 7.48 per cent to 2006.

Finance Income fell 16.29 per cent to \$202.694 million while Finance Expense increased 27.15 per cent to \$215.797 million. Share of results from Associated Companies fell 44.07 per cent to \$25.119 million to result in a 9.53 per cent drop in Profit Before Tax from \$1.435 billion in 2005 to \$1.298 billion in 2006. Without the one time gain of \$74 million however, Profit Before Tax would have been down approximately 15 per cent.



The Effective Tax Rate moved minimally from 30.14 per cent in 2005 to 30.00 per cent in 2006. Overall, Profit for the Period declined 9.34 per cent from \$1.002 billion in 2005 to \$908.784 million in 2006. The Company's Net Profit Margin fell from 6.12 per cent to 5.29 per cent.

Outlook

Although the Food Trading division has seen some improvement in demand, going forward, the Company will be paying attention to cost reduction and revenue growth. A new range of products has been launched in the Canadian and Jamaican markets while impressive growth has been reported in its other international markets. There has also been an investment in software in all companies which should aid productivity.

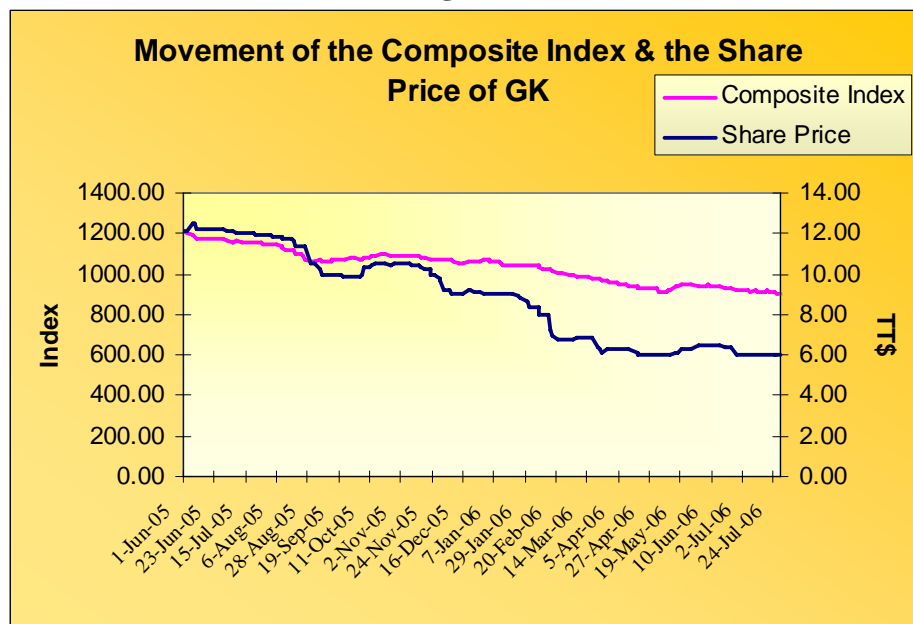
The Retail & Trading Division expects to see improvement in the performance of Hardware & Lumber as Jamaica began to receive increased cement supplies during June. There has been improved sales performance in its Hi-Lo Food Stores (Jamaica) and the Company has achieved a reduction in expenses as a result of various cost containment efforts despite significant increases in energy costs. The Group has decided to sell Medi-Grace Limited and the sale is expected to be completed by the end of August.

In its Financial Services Division, First Global Bank and First Global Financial Services are expected to introduce new products and services in 2006-2007.

Share Price

In Jamaica, this share has traded as high as \$112.75 and as low as \$56.00 over the past 52 weeks. In Trinidad, the 52 week high and low stands at TT\$11.89 and TT\$5.99 respectively. The expectation of minimal growth has kept this share price under pressure as it has not traded higher than TT\$7.00 since February (See Figure 3) despite the announcement of a share buy-back.

Figure 3





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Recommendation

Given the challenges facing the Company, WISE is forecasting flat earnings for this year. At the current price of TT\$6.00 and the forecasted EPS of TT\$0.60, GK is trading at a price/earnings ratio of 10 times. While the short term may look bleak, given that measurements are being put in place to control costs and become more efficient, in addition to GK's expansion into new product lines, we recommend GK as a LONG-TERM BUY.

Share Buy-back

At GK's Extraordinary Meeting held on May 29, 2006, a resolution was passed by shareholders for the buy back of shares as determined by the Directors subject to the provisions of the Stock Exchange. The Board has decided to repurchase up to 2.5 per cent of shares in issue over a period of three years following the expiry of 21 days from the date of notice.

Financial Data (2004-2006)

Grace Kennedy Limited - Financial Data							
	FY 2005	FY 2004	%		HY 2006	HY 2005	%
	Jca\$'000	Jca\$'000	Change		Jca\$'000	Jca\$'000	Change
Revenues	33,031,615	30,703,792	7.58%		17,193,520	16,375,026	5.00%
Profit from Operations	2,895,405	2,931,694	-1.24%		1,286,247	1,317,718	-2.39%
Profit before Taxation	3,055,247	3,151,837	-3.06%		1,298,263	1,435,036	-9.53%
Profit for the period	2,121,694	2,273,080	-6.66%		908,784	1,002,388	-9.34%
Profit Attributable to Shareholders	2,074,936	2,171,368	-4.44%		898,623	967,350	-7.10%
Earnings Per Share (basic)	6.38	6.73	-5.20%		2.76	2.98	-7.38%
Earnings Per Share (diluted)	6.26	6.58	-4.86%		2.72	2.91	0.06529
P/E Multiple	15	18	16.67%				
Dividend	\$1.00	\$0.90	11.11%				
Dividend Payout Ratio	15.97%	13.68%					
Dividend Yield	1.07%	0.74%					
Net Asset Value	20,954,650	18,359,797					
Market to Book Ratio	1.45	2.17					
Shares Outstanding	327,226,678	318,226,678					

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