

GraceKennedy Limited (GK)

All figures are quoted in Jamaican Dollars unless otherwise stated

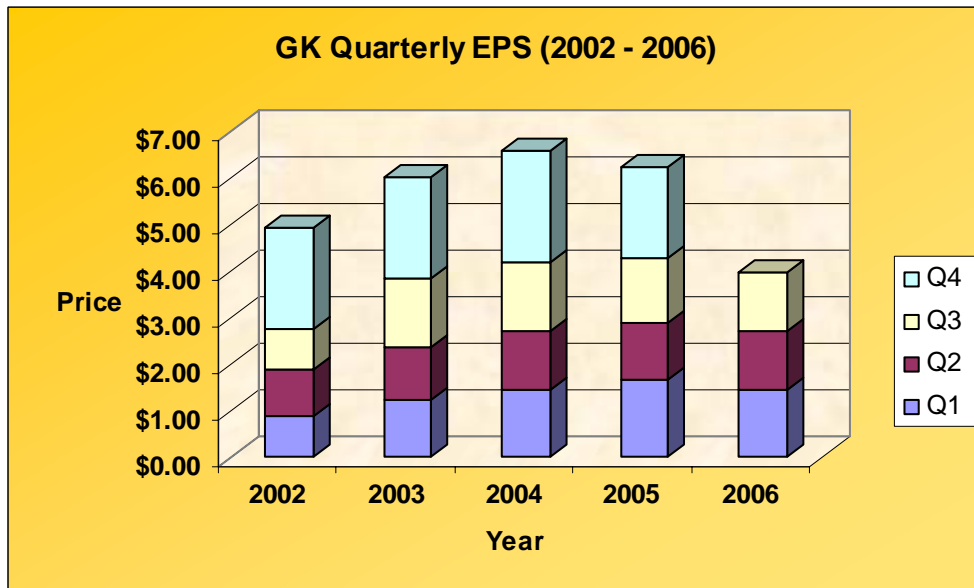
	GK
RECOMMENDATION	HOLD
Current Price	TT\$5.35
Running EPS	JMD5.92; TT\$0.56
Projected EPS	JMD5.59; TT\$0.53
P/E at Projected EPS	10.09 times
Dividend Yield	1.86%
Return on Assets	2.78%
Return on Equity	10.68%

Results for the Nine Months Ended September 30, 2006

Earnings Per Share

For the Nine Months ended September 30, 2006, GraceKennedy Limited (GK) reported Earnings Per Share (EPS) of \$3.97, a fall of \$0.34 or 7.89 per cent on the corresponding period in 2005. Q3 2006 on Q3 2005, the EPS fell \$0.16 or 11.43 per cent to \$1.24. (See Graph 1)

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

Revenue for the period amounted to \$26.44 billion and represented an increase of \$1.59 billion or 6.39 per cent on the comparable period in 2005. However, the Company's Expenses increased by 7.72 per cent or \$1.8 billion to end at \$25.15 billion. As a result, Nine Months on Nine Months, the Operating Income fell by 14.27 per cent or \$214.56 million to \$1.29 billion. For the three months ended September 30, 2006, this figure stood at \$385 million, down by 24.69 per cent on the corresponding period in 2005.

Other Income totaled \$572.62 million for the Nine Months, up 22.33 per cent or \$104.54 million on the Nine Months ended September 30, 2005. While the figure for the three months was up \$47.64 million or 33.48 per cent to \$189.92 million. Unfortunately, this was not enough to offset the higher expenses, as a consequence the Profit from Operations fell by 5.58 per cent to \$1.86 billion.

Finance Income for the period under review was \$320.39 million, down 8.37 per cent on the same period in 2005, while Finance Expenses totaled \$335.03, up by 27.22 per cent. Share of results from Associated Companies was also down, falling by a significant 62.27 per cent or \$32.02 million to \$19.41 million.

Profit Before Taxation ended the period at \$1.87 billion compared to \$2.11 billion in the corresponding Nine Months in 2005. The Effective Tax Rate for the period under review was 28.5 per cent, while the Rate stood at 29.97 per cent for the period ended September 30, 2005. Thus, Profit After Taxation amounted to \$1.33 billion a drop of 9.67 per cent on the figure for the corresponding period in 2005.

Table 1 shows GK's Financial Data over the periods: Nine Months 2006 & 2005; Q3 2006 and 2005 and Q2 2006

Table 1

Grace Kennedy Financial Data (Nine Months 2006 & 2005 ; Q3 2006 & 2005; Q2 2006)								
	Nine Months 2006 \$'000	Nine Months 2005 \$'000	Nine Months % Change	Q3 2006 \$'000	Q3 2005 \$'000	Q3 % Change	Q2 2006 \$'000	Q3 '06 on Q2 '06 % Change
Revenues	26,443,112	24,854,919	6.39%	9,249,592	8,479,893	9.08%	8,416,989	9.89%
Expenses	25,154,561	23,351,810	7.72%	8,864,590	7,968,697	11.24%	8,029,299	10.40%
Operating Income	1,288,551	1,503,109	-14.27%	385,002	511,196	-24.69%	387,690	-0.69%
Other Income	572,621	468,086	22.33%	189,923	142,281	33.48%	233,635	-18.71%
Profit from Operations	1,861,172	1,971,195	-5.58%	574,925	653,477	-12.02%	621,325	-7.47%
Finance Income	320,390	349,656	-8.37%	117,696	107,531	9.45%	111,179	5.86%
Finance Expense	335,032	263,350	27.22%	119,235	93,628	27.35%	112,234	6.24%
Share of results of associated companies	19,408	51,437	-62.27%	-5,711	6,522	187.57%	13,025	143.85%
Profit before Taxation	1,865,938	2,108,938	-11.52%	567,675	673,902	-15.76%	607,245	-6.52%
Taxation	531,792	631,947	-15.85%	142,313	199,299	-28.59%	182,173	-21.88%
Profit for the period	1,334,146	1,476,991	-9.67%	425,362	474,603	-10.38%	425,072	0.07%
Diluted EPS	\$3.97	\$4.31	-7.89%	\$1.24	\$1.40	-11.43%	\$1.28	-3.13%



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gias@wisett.com

Table 2 shows GK's Financial Data for Financial Year End 2003-2005

Table 2

Grace Kennedy Financial Data Year End (2003-2005)					
	FY 2005 \$'000	% Change 04-05	FY 2004 \$'000	% Change 03-04	FY 2003 \$'000
Revenues	33,031,615	7.58%	30,703,792	23.98%	24,765,501
Expenses	30,791,524	8.64%	28,342,426	24.42%	22,779,209
Operating Income	2,240,091	-5.14%	2,361,366	18.88%	1,986,292
Other Income	655,314	14.90%	570,328	56.24%	365,027
Profit from Operations	2,895,405	-1.24%	2,931,694	24.68%	2,351,319
Profit before Taxation	3,055,247	-3.06%	3,151,837	18.12%	2,668,230
Taxation	933,553	6.24%	878,757	39.99%	627,712
Profit After Taxation	2,121,694	-6.66%	2,273,080	11.40%	2,040,518
Profit Attributable to Shareholders	2,074,936	-4.44%	2,171,368	9.65%	1,980,191
Earnings Per Share (JMD)	\$6.26	-4.86%	\$6.58	9.48%	\$6.01
Earnings Per Share (TTD)	\$0.62	-8.14%	\$0.67	-9.18%	\$0.74
Market Price @ Financial Year End	\$9.02	-25.45%	\$12.10	108.62%	\$5.80
P/E Multiple	14.63		18.02		7.85
Dividend (JMD)	\$1.00	11.11%	\$0.90	5.88%	\$0.85
Dividend Payout Ratio	15.97%		13.68%		14.14%
Dividend Yield	1.16%		0.76%		1.70%
Net Asset Value (TTD)	\$4.29	-16.21%	\$5.12	255.56%	\$1.44
Market to Book Ratio	2.10		2.36		4.03
Return on Equity	14.22%		17.88%		21.03%
Return on Assets	3.72%		4.63%		6.06%
Shares Outstanding '000	327,395		325,817		323,466

Divisional Performance

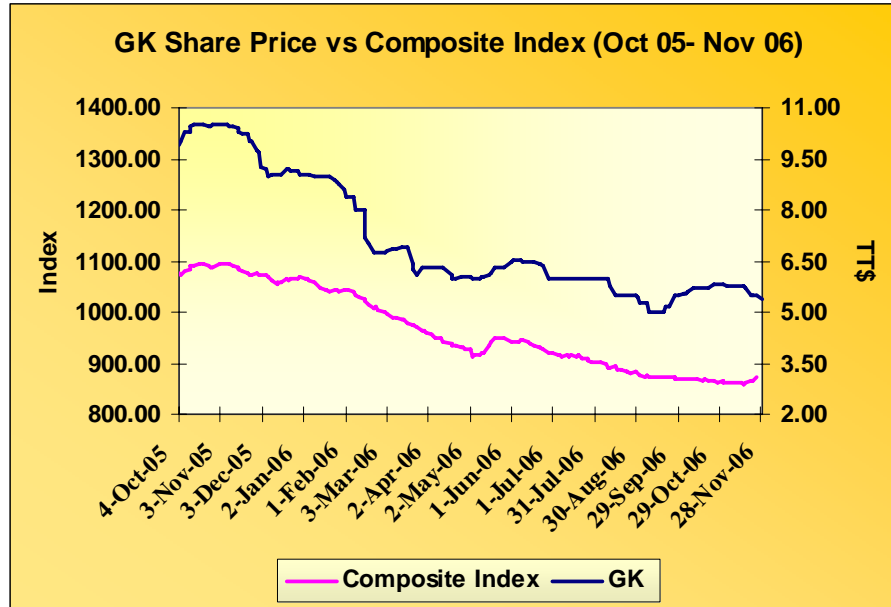
In the Chairman's Statement, he highlighted the fact that the Food Trading Division performed below expectations due mainly to the soft market place which resulted in low consumer demand and consequent pressure on margins. The Information Services Division also saw a reduction in profits when compared to the same period last year. However, this was due to a provision of \$185 million for outstanding receivables, in respect of which collection efforts are continuing. While the Financial Services Division saw mixed results for the quarter, due primarily to the challenging macro-economic environment, which resulted in slow growth of the overall banking and investment industry. The Retail & Trading Division was the only division with improved results and the Chairman expects this to continue into the future.



Share Price

Over the period October 2005 to present, the share price of GraceKennedy has been on a slow but definite downward trend. The share price saw a high of \$10.52 on October 21, 2005 and almost one year later it fell 52.47 per cent to a low of \$5.00 on September 8, 2006. Currently, the shares are trading at a price of \$5.35. (See Graph 2)

Graph 2



Outlook

The Group is currently in the process of restructuring and effective December 1, 2006 the new structure will comprise of two entities: GK Foods and GK Investments, instead of the four current divisions. The restructuring will give greater autonomy to the two new divisions and their related subsidiaries and it is expected that this will enable them to compete more effectively in their respective industries. The Group is also reducing the size of its corporate offices as part of its bid to lower the high costs associated with running the organization. The Chairman is confident that these changes will allow the Group to be more vibrant and profitable and expects significant savings during 2007 in the Group's overhead costs.

Recommendation

In light of the current results and the anticipated costs associated with the restructuring of the Group we have revised our Forecasted EPS down to TT\$0.53. At the current price of \$5.35 and our revised Forecasted EPS, this share is trading at a multiple of 10.09 times. The shares of GK usually trade in the band of 8 to 13 times. Given these fundamentals we currently recommend a **HOLD** on this share.

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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.