

GraceKennedy Limited (GKC)

All figures are quoted in Jamaican Dollars unless otherwise stated

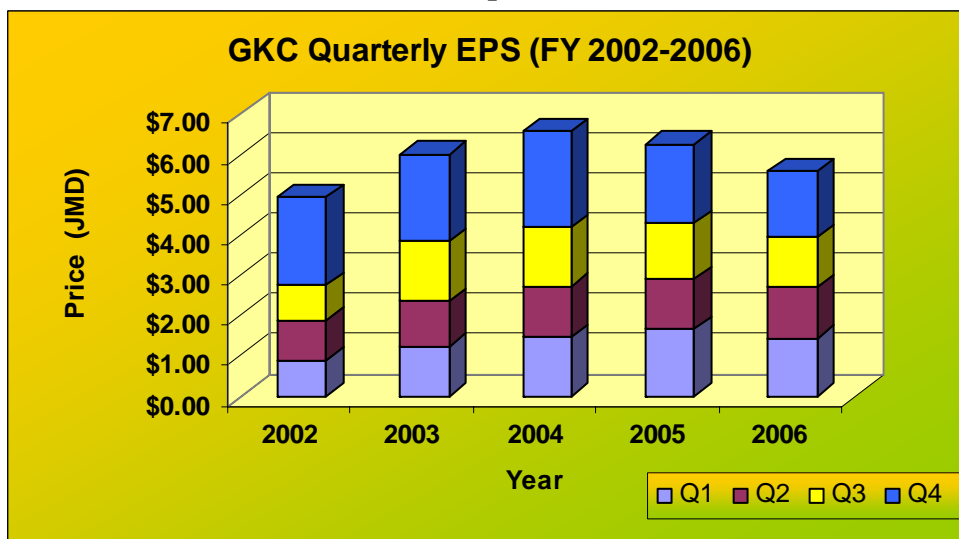
<u>SYMBOL</u>	<u>GKC</u>
RECOMMENDATION	BUY
Current Price	TT\$6.00
Running EPS	JMD5.61(TT\$0.53)
Projected EPS	TT\$0.66
P/E at Projected EPS	10 times
Dividend Yield	1.83%
Return on Assets	2.89%
Return on Equity	11.03%

Results for the Year Ended December 31, 2006

Earnings Per Share

For the Year Ended December 31, 2006 GraceKennedy Limited (GKC) reported Earnings Per Share (EPS) of \$5.61. This was down by 10.38 per cent or 65 cents on the previous financial year- FY2005. The fourth quarter continues to be the strongest performing quarter for this Group with Q4-2006 contributing 26.04 per cent to the total EPS. However, Q4-2006 on Q4- 2005, the EPS fell by 15.98 per cent or \$0.31. **Graph 1** below, shows the quarterly EPS for GraceKennedy over the period 2002- 2006. The Company experienced steady growth over the period 2002 to 2004, however due to restructuring costs and other problems the last two years have shown negative growth in EPS. (See **Graph 1**)

Graph 1





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Financials

For the period under review, GKC achieved Revenues of \$36.08 billion, an increase of \$3.06 billion or 9.25 per cent on the corresponding period in 2005. Expenses also showed an increase, moving from \$30.79 billion (FY2005) to \$34.35 billion (FY2006) up by 11.55 per cent. Thus, Operating Income fell by a substantial 22.37 per cent from \$2.24 billion to \$1.74 billion.

Other Income for the 12 month period stood at \$808.82 million and was up by 23.42 per cent on the previous year. Profit from Operations amounted to \$2.55 billion and was down by 12 per cent on the previous year's figure which stood at \$2.90 billion.

The Group's Finance Income was \$401.71 million, down by 9.37 per cent on the previous year, while Finance Expenses was up by a significant 31.72 per cent from \$347.61 million to \$457.87 million. Share of Results from Associated Companies stood at \$32.80 million and was also down considerably when compared to the figure of \$64.21 million at the end of 2005.

Profit Before Taxation for the period under review was \$2.52 billion and was down by 17.37 per cent or \$530.70 million on the corresponding period last year. The Effective Tax Rate for the period was 25.90 per cent compared to a Tax Rate of 30.56 per cent for FY2005. Thus, Profit After Taxation stood at \$1.87 billion a decrease of 11.82 per cent or \$250.88 million on the last financial year.

Table 1

GraceKennedy Financial Data (Q4 2006 & 2005 ; Q3 2006 & Q2 2006)							
	Q4 2006 \$'000	Q4 06-Q4 05 % Change	Q4 2005 \$'000	Q4 06-Q3 06 % Change	Q3 2006 \$'000	Q4 06-Q2 06 % Change	Q2 2006 \$'000
Revenues	9,645,135	17.96%	8,176,696	4.28%	9,249,592	14.59%	8,416,989
Expenses	9,194,592	23.59%	7,439,714	3.72%	8,864,590	14.51%	8,029,299
Operating Income	450,543	-38.87%	736,982	17.02%	385,002	16.21%	387,690
Other Income	236,199	26.16%	187,228	24.37%	189,923	1.10%	233,635
Profit from Operations	686,742	-25.69%	924,210	19.45%	574,925	10.53%	621,325
Finance Income	81,324	-13.10%	93,587	-30.90%	117,696	-26.85%	111,179
Finance Expense	-122,839	45.79%	-84,260	-203.02%	119,235	-209.45%	112,234
Share of results of associated companies	13,387	4.82%	12,772	-334.41%	-5,711	2.78%	13,025
Profit before Taxation	658,614	-30.40%	946,309	16.02%	567,675	8.46%	607,245
Taxation	-121,949	-59.57%	-301,606	-185.69%	142,313	-166.94%	182,173
Profit for the period	536,665	-16.76%	644,703	26.17%	425,362	26.25%	425,072
Diluted EPS	\$1.63	-15.98%	\$1.94	31.45%	\$1.24	27.34%	\$1.28



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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

The Chairman has noted that there have been significant reductions in the size of corporate offices due to the newly established corporate structure of the Group. This new corporate structure was established on December 1, 2006 and consists of the creation of two new business entities: GK Foods and GK Investments, instead of the previous four divisions. The reorganization costs totaled \$100 million and have been expensed in the fourth quarter of fiscal 2006. The Group expects to benefit from significant savings from this reorganization in the calendar year 2007.

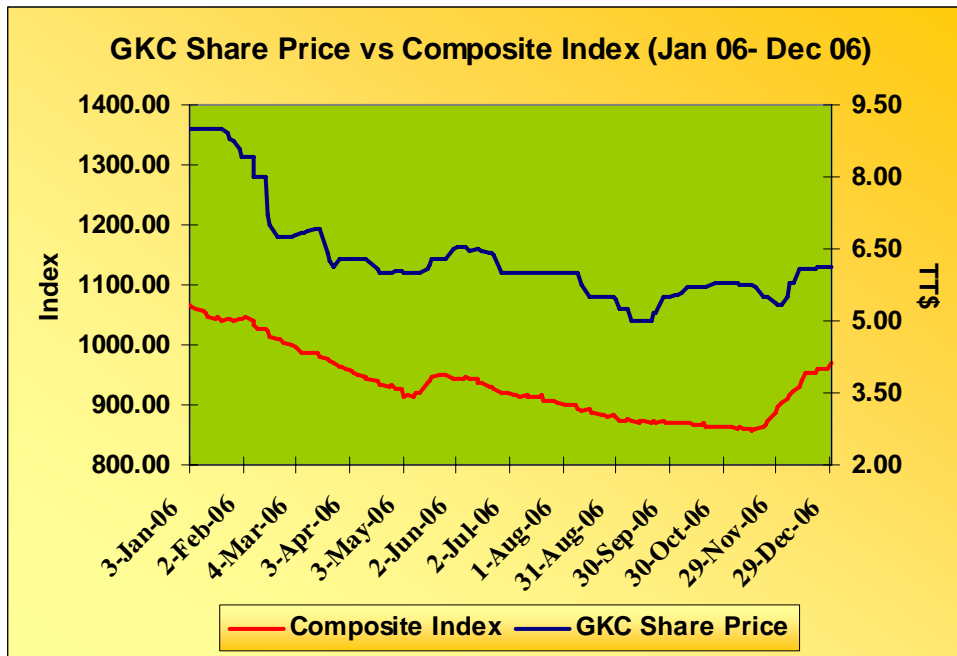
Additionally noted in the report to shareholders was the fact that an additional provision of \$281 million was made in the Jamaican Remittance Business (GraceKennedy Remittance Services), during the fourth quarter. This was mainly due to doubtful receivables for which collection efforts are continuing. In an interview with the Jamaica Gleaner (article dated February 16, 2007), the Chairman, Mr. Douglas Orane, stated that these "doubtful receivables" occurred as a result of a technology glitch which occurred last year during upgrades to the Group's money transfer platform. The provisions amounting to \$461 million were booked in the final two quarters of fiscal 2006. Thus, \$185 million was booked in Q3-2006 followed by the \$281 million in the fourth quarter. Also transpiring in this part of the business was the emergence of evidence of fraudulent activities, for which the Group has taken corrective steps to avoid a repeat of such occurrences. In his interview with the Jamaica Gleaner, Mr. Orane also stated that a smaller portion of the provision covered the losses derived from the fraudulent activity experienced by the Group.



Share Price

The shares of GKC started 2006 at a price of TT\$9.06 and ended at TT\$6.13, a fall in value of approximately 32 per cent. Looking at **Graph 2**, you can see that the trend line for GKC's share price is quite similar to that of the Composite Index. Both lines took a fairly sharp fall between January and May, followed by a more conservative decline over the period June to September and then picked up some momentum in November. (See **Graph 2**)

Graph 2

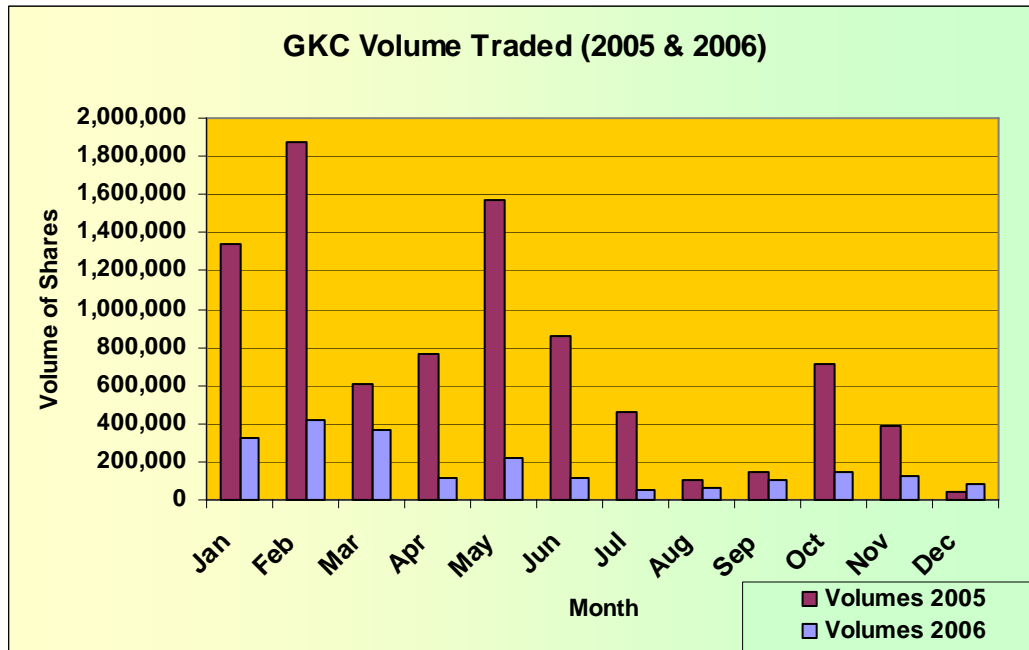


Volumes Traded

The volume of GKC shares traded in 2006 was down considerably when compared to volumes in 2005. In both 2005 and 2006, the month of February was the volume leading month, with the volume of shares traded amounting to 1,876,340 shares in 2005 and 420,418 shares in 2006. In contrast, July 2006 saw the least trading activity for GKC (50,893 shares traded), while December was the most inactive month in 2005 (45,772 shares traded). (See **Graph 3**)



Graph 3



Recommendation

GraceKennedy is currently trading at a price of TT\$6.00. In light of the current results and the forward looking statements of the Chairman, we are forecasting an EPS for FY2007 of TT\$0.60. At the current price and our forecasted EPS, this Jamaican Conglomerate is trading at a price to earnings multiple of 10 times, which is attractive for a Group which traditionally trades between 10 to 15 times. Also, using a multiple of 12 times and based on our forecasted EPS of TT\$0.60, we have estimated a 12 month return on this share of 20 per cent or a target price of TT\$7.20. Thus, with this fundamental analysis we recommend a **BUY** on this share.

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