

National Commercial Bank Jamaica (NCBJ)

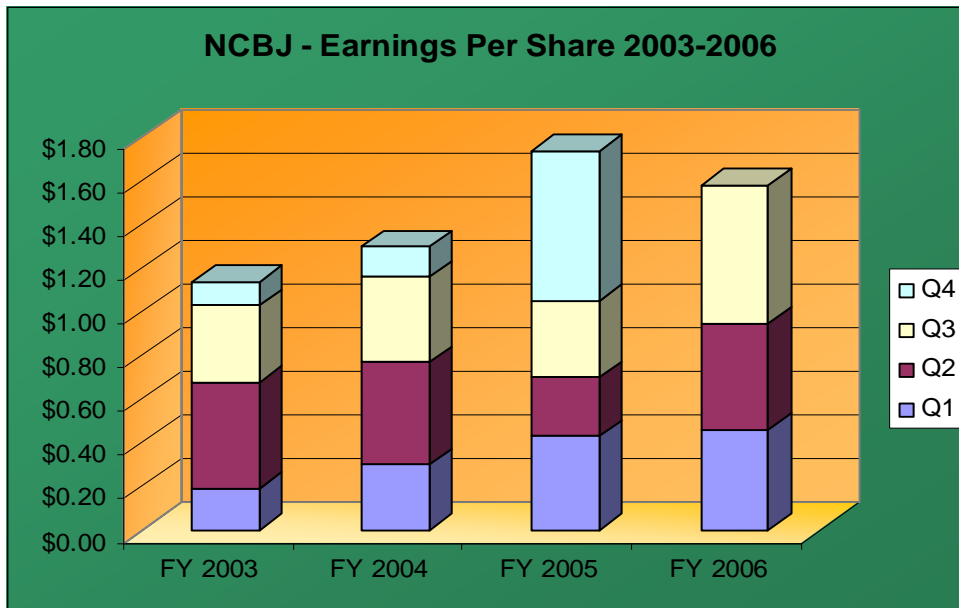
	NCBJ
RECOMMENDATION	BUY
Current Price	TT\$1.65
Running EPS	23 cents
Projected EPS	20 cents
P/E at Projected EPS	8.25 times
Dividend Yield (FY 2005)	2.45 per cent
Return on Assets	2.53 per cent
Return on Equity	23.69 per cent

Results for the Nine Months Ended June 30, 2006
All Figures Quoted in Jamaica Dollars

Earnings Per Share

National Commercial Bank (Jamaica) (NCBJ) continued to produce stellar results moving into its third quarter. Earnings Per Share (EPS) for the nine month period grew 61.22 per cent from \$0.98 in 2005 to \$1.58 in 2006. Even with the impairment loss the Company withstood on its investment in Dyoll Group Limited in the last financial year, the EPS grew by an impressive 33 per cent. To date, the third quarter has been the most successful as it contributed 39.87 per cent to the nine month EPS. Figure 1 shows the historical EPS of NCBJ.

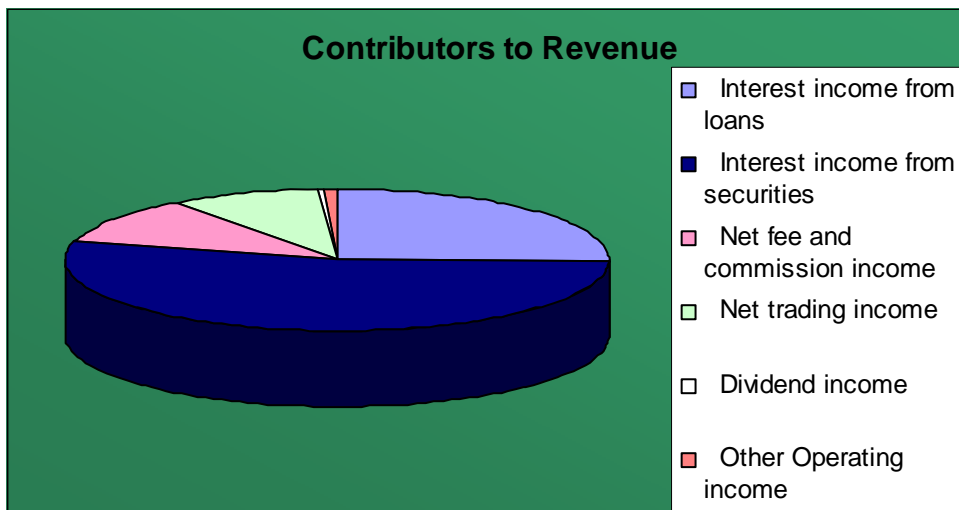
Figure 1



Financials

Revenue for the period under review rose 9.54 per cent to \$21.393 billion with 92.54 per cent of the Revenue streaming from its core banking business. Growth in Revenue was attributable to continued focus on this business which has resulted in higher loan income. Interest Income from loans actually grew 20.62 per cent to \$5.460 billion. While this contributed 25.52 per cent to total Revenue, the main driver of Revenue was Interest Income from Securities which made up approximately 53.51 per cent. Total Interest Income grew 9.89 per cent to \$16.909 billion and made up approximately 79.04 per cent of Revenue.

Figure 2



Interest expense rose 4.47 per cent to result in growth in Net Interest Income of 15.54 per cent to \$8.695 billion. Benefitting the most from the Banks focus on its core business was Net Fee and Commission Income which showed the strongest percentage growth as it rose 31.74 per cent to \$2.354 billion. Net Trading Income however fell 10.93 per cent to \$1.877 billion while Dividend Income dropped 45.70 per cent to \$71.676 million. Other Operating Income rose 55.35 per cent to \$182.155 million.

Total Operating Expenses fell 1.18 per cent to \$8.230 billion despite a 10.42 per cent increase in Staff Costs and a 270.22 per cent increase in Provision for Credit Losses. Impairment Loss in Investment fell 62.83 per cent from \$535.761 million in 2005 to \$199.131 million in 2006. The Impairment Loss for this Financial Year stood at \$0 until the third quarter when an impairment of the investment in Supreme Ventures Limited was made.

Supreme Ventures Limited (SVL) is a lottery and gaming company which placed 124,740,125 shares on the market in Jamaica in January. Due to the under subscription of the public offer, NCBJ had to take up approximately 63 per cent of the shares at the offer price of \$4.81 per unit. This translates to a value of \$380 million. The market price at the end of NCBJ's third quarter was \$2.50. Hence, an Impairment Loss on this investment was made.



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Depreciation Expenses fell minimally 0.10 per cent to \$766.232 million while Other Operating Expenses fell 12.16 per cent to \$2.532. Overall, Operating Profit rose 48.18 per cent to \$4.949 billion while Profit Before Tax rose 44.97 per cent to \$5.071 billion. The Effective Tax Rate moved from 31.00 per cent in 2005 to 22.92 per cent in 2006. The fall in the Effective Tax Rate resulted in a 61.93 per cent increase in Net Profit from \$2.414 billion to \$3.908 billion.

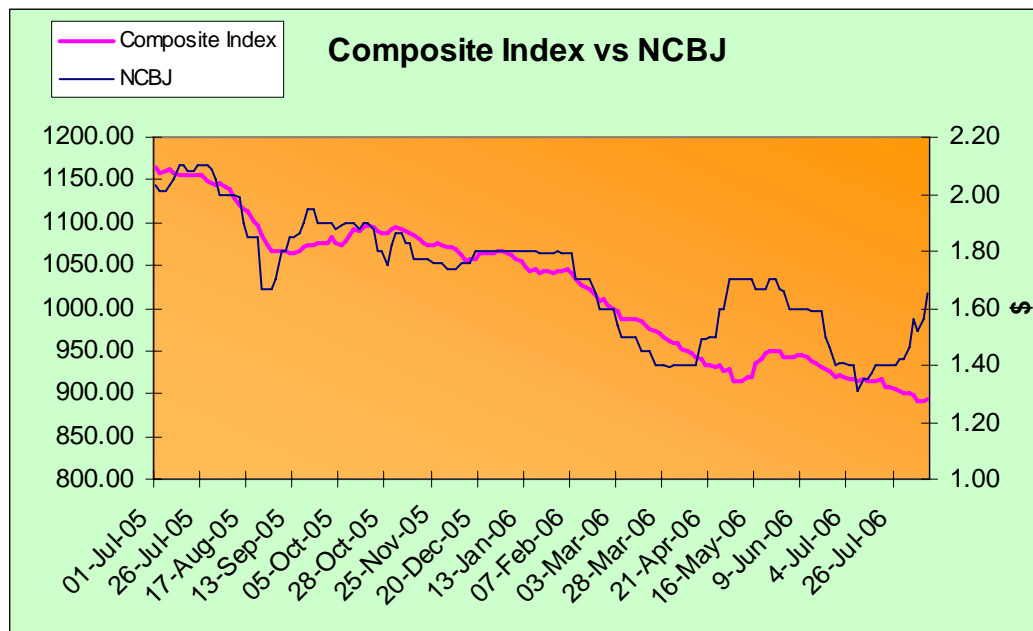
Asset Base

The Group's total asset base grew 12.75 per cent to \$218.531 billion. The major increases in the Group's asset base were Cash Due from Other Banks, Investment Securities and Investment in Associates which grew by 29.31 per cent, 26.71 per cent and 26.22 per cent respectively. The Company's Return on Assets is 2.53 per cent.

Share Price

Over the past 52 weeks NCBJ has traded as high as TT\$1.99 and as low as TT\$1.31. In Jamaica, its respective high and low is \$19.55 and \$13.82. While the Composite Index has generally continued on a downward trend, NCBJ's share price has seen fluctuations over the last year (See Figure 3). Since the release of the results the price has reacted positively in the Trinidad market.

Figure 3



Recommendation

At the current price of TT\$1.65 and our forecasted EPS of 20 cents, NCBJ is currently trading at a price/earnings ratio of 8.25. Given that this share usually trades between 8 to 11.5 times earnings, we currently recommend a BUY on this share.



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Figure 4

NCBJ	YE '04 JMD\$'000	YE '05 JMD\$'000	% Change	Nine Months '05 JMD\$'000	Nine Months '06 JMD\$'000	% Change
Interest Income from Loans	4,979,253	6,366,474	27.86%	4,526,714	5,460,141	20.62%
Interest Income from Securities	16,433,184	14,600,558	-11.15%	10,860,551	11,448,437	5.41%
Total Interest Income	21,412,437	20,967,032	-2.08%	15,387,265	16,908,578	9.89%
Interest Expense	-11,809,339	-10,425,519	-11.72%	-7,861,804	-8,213,604	4.47%
Net Interest Income	9,603,098	10,541,513	9.77%	7,525,461	8,694,974	15.54%
Net Fee and Commission Income	1,772,921	2,452,546	38.33%	1,786,631	2,353,742	31.74%
Net Trading Income	1,336,873	2,326,485	74.02%	2,107,034	1,876,823	-10.93%
Dividend Income	101,539	133,672	31.65%	131,997	71,676	-45.70%
Loan Provision Recovered	0	609,716				
Other Operating Income	187,940	555,630	195.64%	117,256	182,155	55.35%
Operating Income	13,002,371	16,619,562	27.82%	11,668,379	13,179,370	12.95%
Staff Costs	4,639,585	5,664,701	22.09%	4,081,939	4,507,349	10.42%
Provision for Credit Losses	422,341	61,393	-85.46%	60,864	225,332	270.22%
Depreciation and Amortisation	976,029	1,071,135	9.74%	535,761	199,131	-62.83%
Impairment Loss on Investment	0	236,359		766,965	766,232	-0.10%
Other Operating Expenses	3,171,532	3,761,474	18.60%	2,882,932	2,532,303	-12.16%
Operating Expenses	9,209,487	10,795,062	17.22%	8,328,461	8,230,346	-1.18%
Operating Profit	3,792,884	5,824,500	53.56%	3,339,918	4,949,024	48.18%
Profit Before Taxation	3,860,114	5,712,706	47.99%	3,497,849	5,070,663	44.97%
Net Profit	3,216,738	4,286,981	33.27%	2,413,569	3,908,376	61.93%
EPS cents	1.3	1.74	33.85%	0.98	1.58	61.22%
Price at Year End (TT)	\$ 2.35	\$ 1.80				
Price/Earnings Multiple	18.67	10.69				
Dividend (cents)	57	48				
Dividend Payout Ratio %	43.85%	27.59%				
Dividend Yield %	2.73	1.78				
Net Asset Value	\$ 6.61	\$ 8.53				
Market to Book Ratio	3.98	2.28				
Shares Outstanding	60,950,000	60,950,000				

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