

National Enterprises Limited

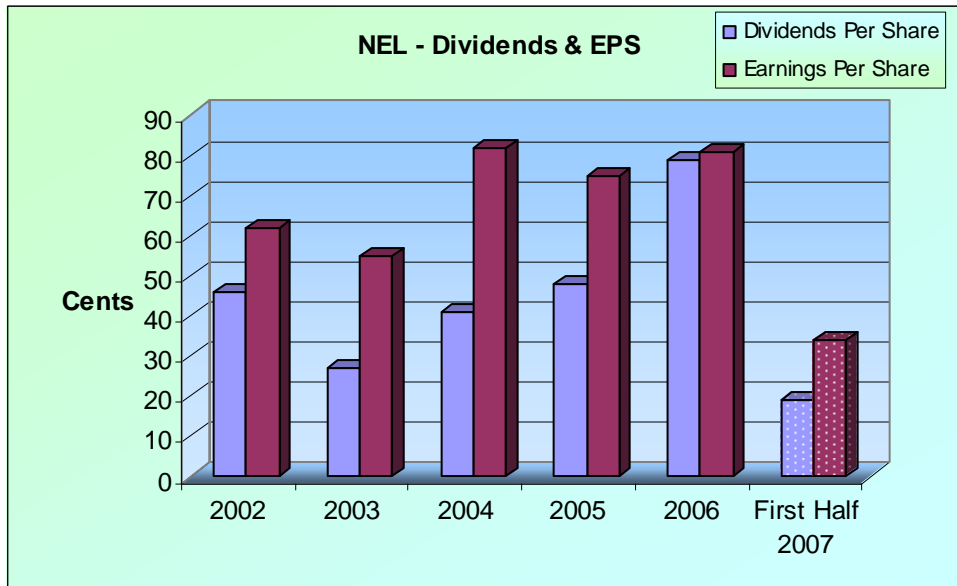
	NEL
RECOMMENDATION	HOLD
Current Price	\$7.75
Running EPS	\$0.73
Projected EPS	\$0.65
P/E at Projected EPS	11.92 times
Projected Dividend	60 cents
Dividend Yield	7.74 per cent
Return on Assets	12.19 per cent
Return on Equity	13.64 per cent

Results for the Half Year Ended September 30, 2006

Earnings Per Share

For the Half Year ended September 30, 2006, National Enterprises Limited (NEL) reported Earnings Per Share (EPS) of \$0.34. This was down by a considerable 19.05 per cent or \$0.08 on the corresponding period in 2005. The Chairman has attributed the fall in EPS primarily to the performance of Telecommunications Services of Trinidad and Tobago Limited (TSTT) and National Flour Mills Limited (NFM). Over the past five years, NEL's EPS has not shown any steady growth but has fluctuated with 2004 being the highest second to 2006. At an analyst's meeting, the Chairman stated that 2006 was an exceptional year and therefore was not expecting the same level of earnings in the current year.

Figure 1



Dividends



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As can be seen from Figure 1, NEL has managed to increase its dividend payment every year from 2003. However, given the expectations for decreased earnings this year, it is unlikely that NEL will be able to sustain the dividend paid last year.

At the half year the Board of Directors of NEL has declared an interim dividend of 19 cents per share which is the same as the corresponding period last year. The ex-div date was December 8, 2006 with payment on December 19, 2006. It is the policy of NEL to have a Dividend Payout Ratio of 90 per cent of dividends received less administrative expenses. To the end of the year we have forecasted total dividends of 60 cents.

Performance of Investments

With respect to TSTT, in which NEL holds a 51 per cent stake, Profit After Tax was adversely affected by additional costs due to strategic actions taken to deal with the competitive environment of the mobile phone market. The Chairman has stated that these costs will be non-recurring and has also noted that despite the competitive environment- the revenue of TSTT has grown by 4.9 per cent when compared to the first half of the prior year. Thus for the period under review, NEL's share of Profit Before Tax from TSTT amounted to \$20.34 million compared to \$118.45 million in the same period last financial year. This represented a fall of \$98.13 million or 82.84 per cent. The Chairman however expects TSTT's expenditure control to improve next year and so looks forward to a better performance from this investment in the next fiscal year.

With regards to NFM, in which NEL also holds a 51 per cent stake but which is treated as a subsidiary, financial results were negatively affected by a provision for voluntary separation costs in addition to lost sales from the closure of the Edible Oil Complex in October 2005.

NEL also holds interests in: Trinidad Nitrogen Company Limited (TRINGEN) - 51%; NGC NGL Company Limited (NGC NGL) - 20 % and NGC Trinidad and Tobago LNG Limited (NGC LNG) - 37.84 %. All of which, like TSTT are treated as Equity Investments in which NEL receives a share of Before Tax Profits. For the Half Year period ended September 30, 2006 NEL's share of profits in TRINGEN amounted to \$140.95 million, a marginal fall of 2.45 per cent or \$8.05 million on the corresponding half year period in 2005. With respect to NGC NGL, NEL received \$39.97 million compared to \$48.02 million in the first half of financial year 2005. NGC LNG contributed \$72.05 million to the current period, which was up by 101.74 per cent or \$36.34 million on the same period last year. Thus, for the period under review, NEL's total Share of Before Tax Profits of Investments stood at \$273.30 million, a fall of \$73.39 million or 21.17 per cent on the comparable period in 2005.

Financials

Turnover for the period under review, which would include revenue from NFM, amounted to \$198.75 million, was down by 32.44 per cent or \$95.42 million on the comparable half year in 2005. Trading Income stood at \$13.94 million compared to \$36.45 million in the same period last year. The Company's Operating Expenses increased significantly over the first half of the last financial year, up by 106.96 per cent from \$20.19 million in 2005 to \$41.79 million in the current period. As previously discussed, this significant increase in Operating Expenses is mainly due to NFM's high voluntary separation cost, which is estimated at a total of \$57 million, all of which will be absorbed this year. As a result, the Company's Operating Profit amounted to \$27.85 million and was down by a substantial 271.33 per cent or \$44.10 million on the corresponding period last year.

After Operating Profit was added to Share of Before Tax Profits on Investments, the Company ended the period with \$245.45 million in Profit Before Taxation. This figure was down by 32.37 per cent or \$117.49



million on the comparable half year in 2005. The Effective Tax Rate for the period under review stood at 24.58 per cent compared to a rate of 30.07 per cent in corresponding half year in 2005. Net Profit for the period under review amounted to \$185.12 million compared to \$253.79 million in the same period last year; this represented a fall of 27.06 per cent.

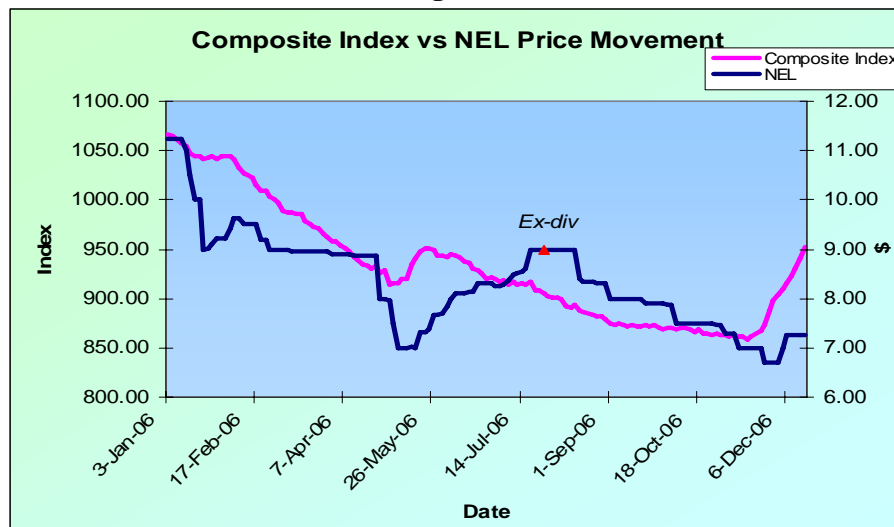
Figure 2

National Enterprises Limited			
Half Year Analysis	FY 2007	FY 2006	
		(Restated)	
Turnover	198,754	294,177	-32.44%
Trading Income	13,943	36,445	-61.74%
Operating Expenses	-41,790	-20,192	106.96%
Operating Profit	-27,847	16,253	-271.33%
Share of Profit Before Tax Results of Investments			
TSTT	20,328	118,453	-82.84%
Trinidad Nitrogen Company Limited	140,949	144,496	-2.45%
NGC NGL Company Limited	39,966	48,018	-16.77%
NGC Trinidad & Tobago LNG Limited	72,052	35,716	101.74%
	273,295	346,683	-21.17%
Profit Before Tax	245,448	362,936	-32.37%
Taxation	-60,326	-109,148	-44.73%
Net Profit for the Period	185,122	253,788	-27.06%
Earnings Per Share	\$ 0.34	\$ 0.42	-19.05%

Share Price

The share price of NEL has fallen considerably from its open for the calendar year 2006 of \$11.24. It took some positive strides in May until its ex-div date in July. Subsequent to this, it again fell before experiencing a small rise before its ex-div date in December. Over the last 52 weeks, NEL has traded as high as \$9.63 and as low as \$6.69.

Figure 3

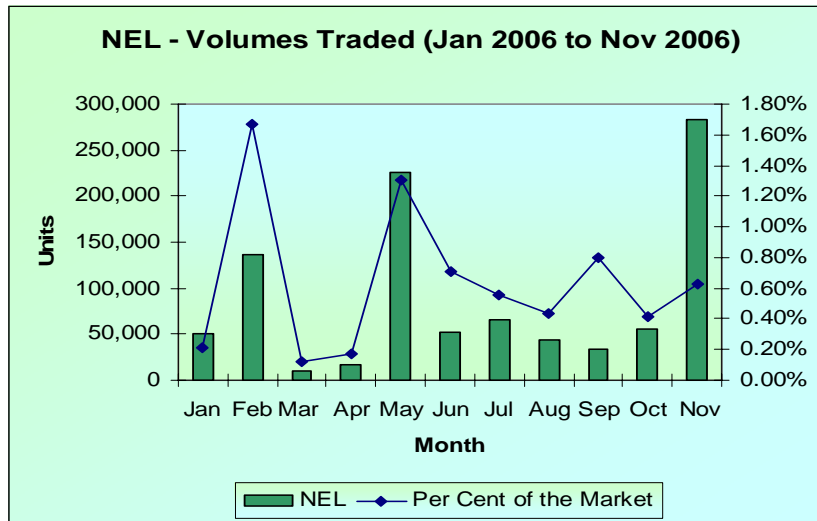




Volumes

NEL has seen small volumes traded on the Stock Market with no month accounting for more than 2 per cent of the market. (See Figure 4). The largest amount of trading activity occurred in the months of May and November. Such activity could have perhaps been spurred by the ex-div date for the share. In July and December, NEL went ex-div paying a dividend of 60 cents and 19 cents respectively.

Figure 4



Outlook & Recommendation

Taking into consideration the fact that NEL is usually bought for its high dividend payout, at our forecasted dividend of \$0.60, NEL's dividend yield is 7.74 per cent, which is currently the highest on the market. However, given that we have revised our EPS downward to \$0.65, at the current price NEL is trading at a multiple of 11.92 times. Though investors may buy this share for its dividend yield, we recommend a HOLD as we do not foresee improved results for the rest of the year. In addition, interest rates are going up which limits the attractiveness of NEL. It is also important to remember, given the light trading of this share, it is sometimes difficult to offload the share at a given point in time.



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Figure 5

National Enterprises Limited	Year End	Year End	
Historical Financials	2006	2005	
Turnover	587,206	657,950	-10.75%
Cost of Sales	525,032	575,506	-8.77%
Gross Profit	62,174	82,444	-24.59%
Selling and distribution expenses	25,404	21,738	16.86%
Administration expenses	39,588	41,064	-3.59%
Finance Charges	444	669	-33.63%
	65,436	63,471	3.10%
Operating loss/profit	-3,262	18,973	-117.19%
Interest Income	2,829	3,407	-16.97%
Other income	17,520	8,428	107.88%
Share of profit before tax of associates	600,284	607,875	-1.25%
Profit before taxation	617,371	638,683	-3.34%
Taxation	129,197	179,942	-28.20%
Profit for the year	488,174	458,741	6.42%
Earnings Per Share	\$ 0.81	\$ 0.75	8.00%
Price at Year End	\$ 8.90	\$ 11.60	
Price/Earnings Multiple	11	15	
Dividend	\$ 0.79	\$ 0.48	
Dividend Payout Ratio	97.53%	64.00%	
Dividend Yield	8.87%	4.14%	
Net Asset Value	\$ 5.04	\$ 4.72	
Market to Book Ratio	1.77	2.45	
Shares Outstanding	600,000,641	600,000,641	

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