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National Enterprises Limited

| | NEL |
|---------------------------------|-----------------|
| RECOMMENDATION | HOLD |
| Current Price | \$8.26 |
| Current Running P/E | 10.19 |
| Running EPS | 81 cents |
| Projected EPS | 81 cents |
| Dividend Yield (FY 2006) | 8.88% |
| Return on Assets | 15.41% |
| Return on Equity | 16.50% |

Year Ended March 31, 2006

National Enterprises Limited reported Earnings Per Share of 81 cents for the year ended March 31, 2006. This was 8.00 per cent more than 2005's EPS of 75 cents (restated for change in accounting policy). The growth in EPS however was largely as a result of the reduction in the Corporate Tax Rate as the Company's Profit Before Tax was down 3.34 per cent from \$638.683 million in 2005 to \$617.371 million in 2006. The effective tax rate in fact fell from 28.17 per cent in 2005 to 20.93 per cent in 2006 resulting in growth in after tax profits of 6.42 per cent.

It is important to note that the change in accounting treatment was necessary for NEL to comply with International Accounting Standards (IAS). Hence, for the first time, National Flour Mills (NFM) was treated as an associate and so, the financial statements of NFM were consolidated into NEL's accounts. Though NEL also has 51 per cent shareholding in TSTT and TRINGEN, those financials were not consolidated as the ability to exercise control is limited by shareholder agreements with joint venture partners. Hence, the application of equity accounting to these investments was considered appropriate.

Though there was an 8.77 per cent decrease in Cost of Sales, Gross Profit was down 24.59 per cent to \$62.174 million as Turnover dropped 10.75 per cent to \$587.206 million. The Company made an Operating Loss of \$6.262 million as Selling and Distribution Expenses rose 16.86 per cent to \$25.404 million. Administration Expenses fell 3.59 per cent to \$39.588 million and Finance Charges fell 33.63 per cent to \$0.444 million.

Interest income fell 16.97 per cent to \$2.829 million while Other Income rose 107.88 per cent to \$17.520 million. Share of profit before tax of associates fell minimally by 1.25 per cent from \$607.875 million to \$600.284 million. Unfortunately, a breakdown was not given of the performance of the subsidiary Companies thus we are unable to say which Company negatively impacted on the Share of Profits.

Looking forward, it remains to be seen whether strategies pursued by TSTT and NFM would be sufficient to enhance shareholder value. The Chairman however noted that TSTT's market



performance has been substantially better than the performances of other dominant providers in other Caribbean countries during their comparable periods of liberalization.

The reigns of NFM are currently in the hands of a recently appointed Chief Executive Officer, Mr. Neil Rolingson. While the impact of his leadership on the bottom line of the Company remains to be seen, it is noteworthy that the recent resolution reached between the Seamen and Waterfront Workers Trade Union (SWWTU) and NFM would cost the Company \$29 million. Given that the Net Profit of NFM for its fiscal year ended 2005 was \$10.359 million, it is clear that this settlement would have a great impact on its EPS for 2006. Hence, the contribution of NFM towards NEL in the short-term looks bleak. The Chairman however remains confident that the continuing buoyant gas and petrochemical prices, in addition to the competitive strategies pursued by TSTT and NFM will enable NEL to provide enhanced shareholder value and adequate dividends in the coming years.

The Directors have declared a final dividend of 60 cents per share which brings the total dividends paid for the fiscal year to 79 cents. This represents a dividend payout ratio of 97.53 per cent. The final dividend is payable on August 16, 2006. At the current price of \$8.26, the dividend yield on this share is an attractive 9.56 per cent which is currently the highest on the market. NEL is currently trading at a price/earnings ratio of 10.19 times earnings. At this point in time, we recommend a HOLD on this share.

Figure 1

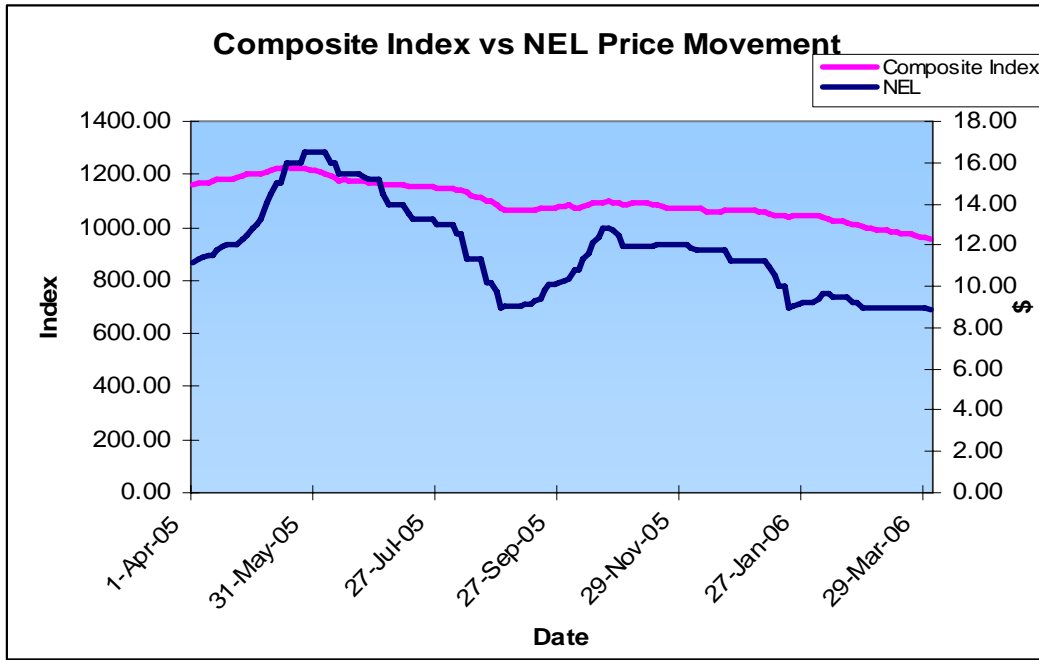


Figure 2

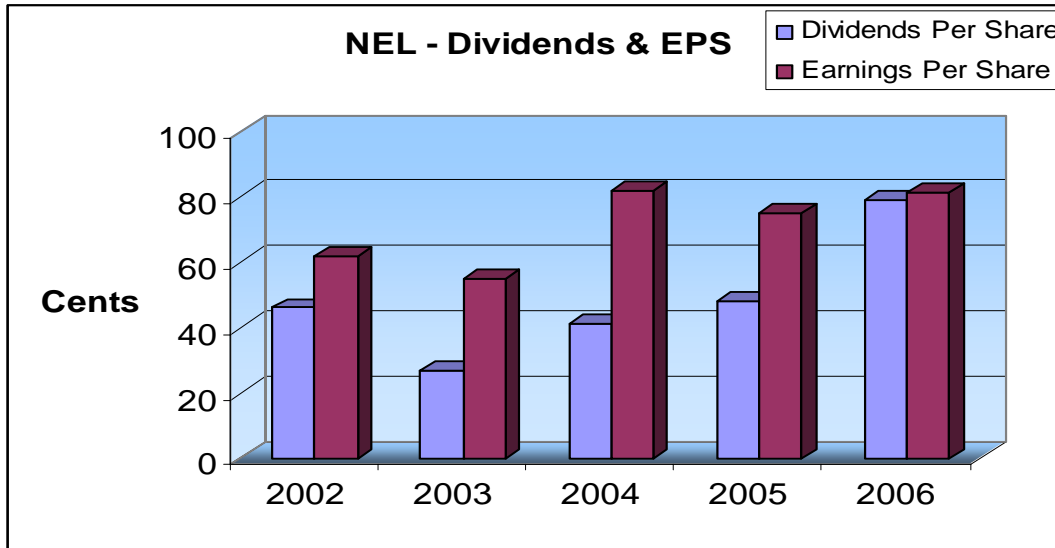




Figure 3

| National Enterprises Limited | | | |
|------------------------------------------|----------------|----------------|-----------------|
| Results for the year ended 31 MAR 06 | 000's | 000's | |
| | 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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