

Prestige Holdings Limited (PHL)

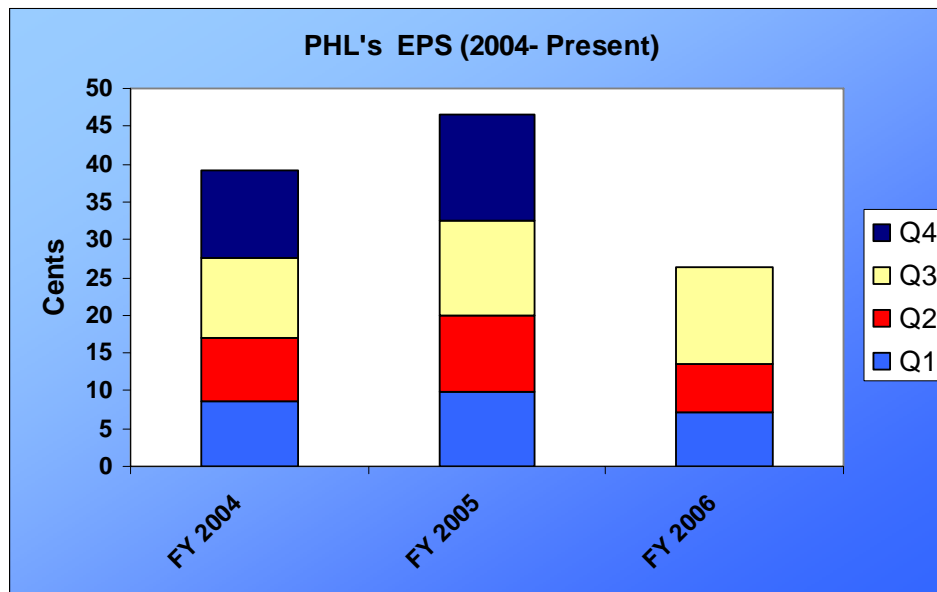
	PHL
RECOMMENDATION	BUY
Current Price	\$5.17
Running EPS	\$0.40
Projected EPS	\$0.38
P/E at Projected EPS	13.61
Dividend Yield	3.09%
Return on Assets	7.08%
Return on Equity	23.55%

Results for the Nine Months Ended August 31, 2006

Earnings Per Share

For the nine months ended August 31, 2006 Prestige Holdings Limited (PHL) reported a Diluted Earnings Per Share (EPS) of 26.42 cents. When compared to the nine months ended August 31, 2005, this represents a 19.45 per cent drop in Earnings. However, for the three months ended August 31, 2006 PHL's EPS was actually up by a marginal 0.54 per cent (12.98 cents) when compared to the same period in 2005 (12.91 cents). Also, as can be seen from **Graph 1**, the results for the three months ended August 31, 2006 have been the highest the Company has seen for the third quarter over the period 2004 to Present.

Graph 1





Financials

Sales for the nine month period were up by \$21.34 million or 5.16 per cent to end the period at \$434.51 million. For the quarter this figure amounted to \$153.65 million and represented an increase of 7.29 per cent on the comparable period in the previous financial year. While sales are currently up, the Chairman has pointed out that the drop in profits in the year to date results have been the product of reduced sales in KFC Trinidad and Tobago in the first half of the year. He has also stated that there have been improvements in this unit in the third quarter and that sales are currently ahead of prior year levels.

Cost of Sales for the period amounted to \$291.99 million, up by a minimal 5.43%. Thus Gross Profit for the nine months under review stood at \$142.52 million compared to \$136.21 million for the same period in 2005, an increase of \$6.30 million or 4.63 per cent.

An increase in Operating Restaurant Expenses of \$14.44 million or 15.03 per cent resulted in a nine month figure of \$32.01 million. As such, Operating Profit for the period amounted to \$32.01 million, down by \$8.13 million or 20.26 per cent. Net Finance Costs also increased, from \$6.65 million in the corresponding period in 2005 to \$7.78 million in the current period (16.86 per cent). As a result, Profit before Taxation amounted to \$24.23 million a drop of \$9.26 million or 27.64 per cent on the same period in the last financial year.

The Effective Tax Rate for the period stood at 31.50 per cent while the comparable nine month Tax Rate in 2005 was 34.20 per cent. Profit after Taxation ended the period at \$15.09 million a significant fall of 26.52 per cent or \$5.45 million on the comparable figure for the period ended August 31, 2005.

Table 1 Shows Financial Data Comparison of PHL – Nine Months 2005 on 2006 and Q3 2005 on 2006.

Table 1

Prestige Holdings Limited Financial Data Comparison (Nine Months 05/06 and Q3 05/06)						
	Nine Months 2006 \$'000	Nine Months 2005 \$'000	% Change '05 -'06	Q3 '06 \$'000	Q3 '05 \$'000	% Change Q3 '05 - Q3'06
Sales	434,506	413,170	5.16%	153,648	143,202	7.29%
Cost of Sales	(291,991)	(276,959)	5.43%	(101,587)	(95,927)	5.90%
Gross Profit	142,515	136,211	4.63%	52,061	47,275	10.12%
Operating Restaurants Expenses	(110,509)	(96,072)	15.03%	(39,013)	(33,560)	16.25%
Operating Restaurants Profit	32,006	40,139	-20.26%	13,048	13,715	-4.86%
Finance Costs-net	(7,776)	(6,654)	16.86%	(2,083)	(2,010)	3.63%
Profit Before Taxation from Operating Restaurants	24,230	33,485	-27.64%	10,965	11,705	-6.32%
Pre-Opening Expenses	(1,297)	(1,371)	-5.40%	-	-	-
Equity settled arrangements	(900)	(900)	0.00%	(300)	(300)	0.00%
Profit Before Taxation	22,033	31,214	-29.41%	10,665	11,405	-6.49%
Taxation	(6,941)	(10,674)	-34.97%	(3,035)	(3,301)	-8.06%
Profit After Taxation	15,092	20,540	-26.52%	7,630	8,104	-5.85%
Diluted Earnings Per Share (Cents)	26.42	32.80	-19.45%	12.98	12.91	0.54%



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Table 2 Shows Financial Data Comparison of PHL – Year End 2003-2005.

Table 2

Prestige Holdings Limited Financial Data Comparison (Year End 2003-2005)					
	YE 2005 \$'000	% Change '04 -'05	YE 2004 \$'000	% Change '03 -'04	YE 2003 \$'000
Sales	548,427	17.58%	466,438	18.50%	393,635
Cost of Sales	(369,786)	20.13%	(307,814)	14.11%	(269,747)
Gross Profit	178,641	20.20%	148,624	19.97%	123,888
Operating Restaurants Expenses	(127,755)	20.28%	(106,216)	16.99%	(90,787)
Operating Restaurants Profit	50,886	19.99%	42,408	28.12%	33,101
Finance Costs-net	(8,886)	2.37%	(8,680)	-23.92%	(11,409)
Profit Before Taxation from Operating Restaurants	42,000	24.53%	33,728	55.49%	21,692
Pre-Opening Expenses	(1,371)	***	-	***	-
Equity settled arrangements	(1,259)	69.45%	(743)	***	-
Profit Before Taxation	39,370	19.36%	32,985	52.06%	21,692
Taxation	(10,268)	-5.59%	(10,876)	41.61%	(7,680)
Profit After Taxation	29,102	31.63%	22,109	57.79%	14,012
Diluted Earnings per Share (Cents)	46.44	18.80%	39.09	41.12%	27.70
Market Price @ Financial Year End	\$11.80	34.09%	\$8.80	120.00%	\$4.00
P/E Ratio @ Financial Year End	25.41		22.51		14.44
Dividend (Cents)	21.00	-12.50%	24.00	33.33%	18.00
Dividend Payout Ratio (%)	45.22%		61.40%		64.98%
Dividend Yield	1.78%		2.73%		4.50%
Net Asset Value	\$1.49	23.14%	\$1.21	22.22%	\$0.99
Market to Book Ratio	7.92		7.27		4.04
Return on Equity	38.49%		37.84%		30.62%
Return on Assets	11.25%		9.87%		6.60%
Shares Outstanding	60,950,000		60,950,000		60,500,000

Dividends

The Board has resolved that the Company pay an Interim Dividend of 7 cents per share in respect of the financial year ending November 30, 2006- payable on October 27, 2006 to shareholders on record on October 13, 2006. The comparable Interim Dividend in 2005 was 9 cents per share.



Share Price

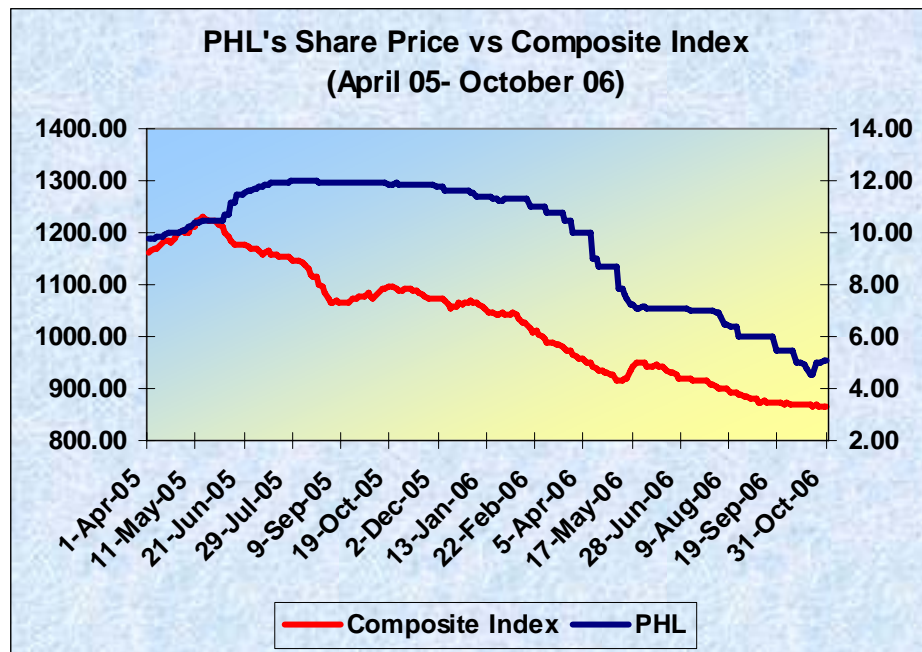
Over the period April 1, 2005 to October 31, 2006, the shares of PHL have traded as high as \$12.00 and as low as \$4.52. Currently the shares are trading at a price of \$5.17.

PHL is one of the small cap stocks on the local market, that is, the market capitalization value of the stock is less than \$2 billion. Thus, movements in the share price of PHL have little impact on the movement of the Composite Index, when compared to a large cap stock- this can be seen clearly in **Graph 2** between the months June 2005 to March 2006.

However after the release of poor first quarter results in April 2006, the Company's share price suffered. The poor results were mainly due to a fall in sales at KFC Trinidad and Tobago, following the media's alarming news coverage of the Aspergillus fungus at a small poultry farm in Cumuto, Trinidad which sparked fears that chicken was not safe to eat. The second quarter results were no help in building confidence as performance of the Group continued to decline- mainly as a result of severe labour shortages, which posed to be a serious issue in the food industry. Thus, the price of PHL declined significantly reaching its low of \$4.52.

Since the release of the improved third quarter results however, the market has seen a price increase of 14.38 per cent from its low (\$4.52 to \$5.17).

Graph 2

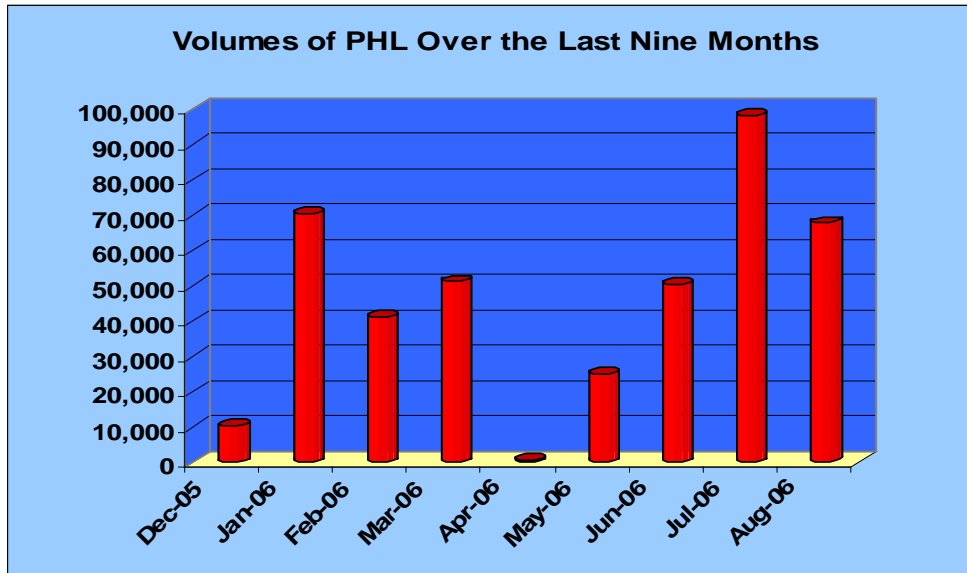


Volumes

The shares of Prestige Holdings Limited are tightly held, with 70 per cent held by Victor E. Mouttet Limited and the remaining 30 per cent in the hands of minority shareholders. This coupled with the fact that the issued share capital for this Company is one of the smallest on the market, means that the volumes traded are light when compared to the overall volumes in the market. July 2006 saw the largest volumes traded in PHL over the last nine months, while April 2006 saw the least volumes traded over the period. (See Graph 3)



Graph 3



Chairman's Outlook

The Chairman believes that the improved performance in the third quarter is an indication that the Company is recovering from the very difficult first half of 2006. His outlook is positive for the final quarter as the KFC business in Trinidad & Tobago is recovering to prior levels of profitability, while the T.G.I. FRIDAY'S businesses in Puerto Rico and in Jamaica, both of which have been operating at significant losses, are now generating improved results. However, while he expects improved profitability in the final quarter he does not expect the Company to achieve the prior year's level in 2006.

Recommendation

Prestige Holdings Limited is currently trading at a price of \$5.17 per share. In light of the current results and the Chairman's outlook we are revising our Forecasted EPS to 38 cents. At the current price and our revised Forecasted EPS, this share is trading at a multiple of 13.61 times, which is not only attractive for the sector but is also in the lower end of PHL's traditional trading range. Thus, at this time we revise our recommendation to a **BUY**.

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