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THE WISE CHRONICLE

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The market continued to be held by the claws of the bear as both indices continued on their downward trend for the month of April. The Composite Index fell 3.42 per cent to 925.75 while the All T&T Index was down by a greater margin, 4.74 per cent to 1,114.92. Advances were painstakingly outweighed by declines by a 5 to 22 ratio with 11 shares trading at their 52 week low.

Volumes remain significantly below that of last year, with a total of 10,113,017 shares changing ownership for April, in comparison to 24,338,717 in April 2005, emphasizing the lack of institutional presence on the market at this point in time. The value of shares traded was $90,691,396 which is actually the lowest monthly value of shares traded over the past 52 weeks.

The low value was due to the fact that the volume leader for the month of April was National Flour Mills, not traditionally a driver of the market, which copped 54.85 per cent of the market trading between $0.74 and $1.25. Guardian Holdings Limited followed capturing 8.24 per cent of the market with 833,813 shares crossing the floor while Capital & Credit Merchant Bank (CCMB) saw 774,420 traded which was 7.66 per cent of the market.

The price leader for April was National Commercial Bank Jamaica (NCBJ) which rose 14.29 per cent from $1.40 to $1.60 while Trinidad Publishing rose 6.30 per cent from $13.17 to $14.00. Ansa Mc Al followed with a 3.62 per cent appreciation to $41.56.
The three major declines of the month were the three volume leaders for the month with National Flour Mills down a whopping 40.80 per cent to 74 cents. Capital & Credit Merchant Bank was down 24.58 per cent to $1.35 while Guardian Holdings Limited dropped 15.00 per cent from $20.00 to $17.00 as investors reacted to the loss the Company made in its first quarter.

Guardian Holdings Limited
Results for the First Quarter ended March 31, 2006

Guardian Holdings Limited (GHL) reported a significant loss in the unaudited results for the first quarter ended March 31, 2006. The Group posted a Loss Per Share (diluted) of $1.92, which represents not only one of the most disappointing quarterly performances (see Exhibit 1), but a loss which effectively erodes the earnings of the previous year.

Since the implementation of IAS 39, the accounting standard regarding the treatment of Financial Assets, the Group has been vocal about focusing on operational performance for evaluation, even when the Group was performing well. The reason behind urging investors to focus on the operational growth versus the bottom line, is because of the volatility GHL's earnings would face because of changes in the value of their investment portfolio.

The downturn of the regional equities market continued into the first quarter of this year, with the Trinidad and Tobago Composite Index falling 10.19% and the Jamaican Main Index losing 16.85%. These falls have weighed heavily on the books of GHL and have been identified as one of the main drivers of the poor performance during the quarter. The Investment Portfolio of Guardian Holdings Limited is heavily weighted in equities and as such will be subject to the vagaries of the equities market. In subsequent meetings, the management of Guardian Holdings Limited disclosed the loss due to adverse mark-to-market movements as $358 million, which effectively eroded more than 95% of the profits earned in the whole 2005 financial year.

The burden of the loss does not fall square on the Investment Portfolio though. The operational performance also lagged during the period. Insurance Premium Revenue slipped by 2% from Q-1 2005 to Q-1 2006, however the amount ceded to Reinsurers dropped by a much larger margin of 22.55%, resulting in an improvement in Net Insurance Premium Revenue of 7.6% from $780.8 million to $840.2 million. Other Revenue, which gave the Group $348 million in Q-1 2005, (during the final stages of the local Bull-Run) brought a loss of $132 million in Q-1 2006, which was the main difference in the disparity in the Group's performance year on year. The resulting fall in Total Revenue was a hefty 37% from $1.1 billion to $708 million. Net Insurance Benefits and Claims increased from $590 million to $635 million, while Expenses increased from $354.8 million to $427.7 million. The Chairman's Statement noted that the Group was affected as well by two "one-off" events in the UK and Netherland Antilles operations, which would have contributed to the increase in expenses. The value disclosed by the Group of these losses was in the range of $75-$80 million, which would have been insignificant in previous years, but bears more weight because of the investment portfolio losses. The increased Expenses added to the decline in Other Revenue resulted in a movement from an Operating Profit of $183.3 million to an Operating Loss of $354.4 million.

An increase in the Share of Profits from Associated Companies was more than eroded by an increase in Finance Charges, resulting in a even further diminishing of the bottom line. The Profit After Taxation Attributable to Equity Holders of the Company fell from $141.5 million to a loss position of $394 million.

Given that this first quarter loss has eroded the entire earnings of the Company for 2005, the outlook for GHL is quite unfavorable over the 2006 financial year. The Mark-to-Market Losses recorded in the Company's Financial Statements may well continue to plague GHL's bottom line given the outlook for the local equities market. It is questionable whether GHL's Operational Performance, combined with whatever recovery in the regional equities markets is anticipated in the second half of the year, would be sufficient to keep GHL out of the "Red" by the year-end. We expect that this turn of events would place further pressure on the share price of GHL, despite the fact that the share price is already trading at a discount to its Net Asset Value, and the long term prospects of the Company is still strong.

The Company though has achieved only marginal growth in the local markets during this quarter, while the European operations continue to face what the Chairman has outlined as “soft market conditions”. The weather gurus have given a discouraging forecast for the hurricane season this year, which also is cause for anxiety over the performance of the Group this year.

At this point, it is difficult to project an earnings target for GHL and the reality that the Group might very well post a loss position brings a cloud of uncertainty over the share price. The running EPS of GHL of –80 cents, after the first quarter, does not bode well for the Group. Investors with a long-term focus could see this as an opportunity; as panic selling creates more of an opportunity to own the shares of one of the Caribbean’s leading Insurance Groups at a cheaper price. However, we are in a soft, frustrated market, with investor confidence not getting many encouraging boosts. Thus, the possibility for further downward movement must be factored into buying decisions. Our recommendation is to buy for the long term.

National Commercial Bank Jamaica
Results for the First Quarter ended Mar 31, 2006

National Commercial Bank Jamaica continued its excellent performance from the first quarter reporting Earnings Per Share of 96 cents which represents an increase of 52.38 per cent from the 2005’s half year earnings of 63 cents. This big jump however was due to the fact that the half year of 2005 saw the impairment loss on investment in Dyoll of $535.761 million which eroded approximately 21 cents from the Earnings Per Share for that period. Taking this into account the Earnings Per Share for the period under review actually grew 14.29 per cent and quarter and quarter, the growth would have been 11.36 per cent.

Revenue increased 4.89 per cent to $13.733 billion in 2006 from $13.092 billion in 2005. Total interest income grew 9.14 per cent to $11.127 billion driven in large part from interest income from loans which grew 21.44 per cent which is a usual result of increased loan activity in a declining interest rate environment. Interest income from loans actually made up 68.23 per cent of the Total Interest Income with Interest Income from Securities comprising the balance. Interest expense grew minimally 0.09 per cent resulting in an increase in Net Interest Income of 18.75 per cent.

The Company’s Net Fee and Commission Income grew healthily 30.00 per cent to $1.499 million while Net Trading Income was down 37.57 per cent to $1.013 billion due to the soft market conditions prevailing in Jamaica. The Company however reaped dividend income of $71.676 million while Other Operating Income fell 64.43 per cent to result in total Operating Revenue of $8.478 billion. (an increase of 8.11 per cent).

Expenses fell 3.67 per cent with Operating Expenses falling by 7.08 per cent in large part due to the impairment loss on investment in the Dyoll group discussed earlier. Had the Company not incurred this loss last year, expenses would have risen marginally by 2.38 per cent. In contrast to the first quarter, Provision for Credit Losses increased by 59.46 per cent while Other Operating Expenses fell 8.32 per cent to $1.744 billion.

Ultimately Operating Profit grew 51.32 per cent to $5.392 billion while growth without the Dyoll expense would have still been a healthy 19.84 per cent. Profit Before Tax grew 47.75 per cent (18.21 per cent without the Dyoll expense) to $3.168 billion. The Company’s effective tax rate decreased from 25.58 per cent in 2005 to 27.69 per cent in 2006. The Company’s Net Profit grew 52.06 per cent to $2.357 billion which would have been an actual increase of 13 per cent if the Dyoll expense is backed out of 2005.

At the current price of TT$1.60 and running earnings per share of $2.07 (TT20.04 cents), NCBJ is trading at a relatively low price/earnings ratio of 7.98. Given that this share usually trades between 10 to 12 times earnings, this would suggest a price trading range of TT$2.00 to TT$2.40. In addition, a projected Earnings Per Share of $2.10 (TT 20.34 cents), suggests a target price of TT$2.03 at the lower price/earnings multiple of 10 times earnings. Hence, we currently consider this share a BUY.

WEST INDIES STOCKBROKERS LIMITED STOCK MARKET QUOTATIONS AS AT APRIL 30, 2006

	Hist Eps	Est Eps	Est Div	Curr Price	Est Yield %	Est P/E Ratio
Bank						
FirstCaribbean	106.5	75.0	18.8	13.45	1.40	17.93
NCB Jca	17.4	20.3	4.8	1.60	3.00	7.88
RBTT Fin Hold	268.0	265.0	106.0	28.01	3.78	10.57
Republic Bank	509.0	509.0	225.0	88.50	2.54	17.39
Scotiabank	193.0	225.0	80.0	39.25	2.04	17.44
Non-Bank Fin						
ANSA Fin & Merch	121.0	145.0	32.0	19.95	1.60	13.76
Capital & Credit	19.3	19.3	2.5	1.35	1.85	6.99
DB&G	26.5	30.0	2.0	1.60	1.25	5.33
Guardian Holdings	185.0	185.0	55.0	17.00	3.24	9.19
JMMB	11.3	11.3	1.5	1.35	1.11	11.95
National Enterprises	76.0	76.0	48.0	7.99	6.01	10.51
Sagicor Financial Corp	78.0	155.0	60.0	12.01	5.00	7.75
Conglomerates						
Ansa Mcal Ltd	261.0	261.0	65.0	41.56	1.56	15.92
Bdos Ship & Trad	198.0	198.0	56.7	19.50	2.91	9.85
GraceKennedy	61.1	65.0	10.4	6.05	1.72	9.31
Neal and Massy	280.0	280.0	88.0	39.75	2.21	14.20
Trading						
Agostini's Ltd	91.5	93.4	33.0	10.95	3.01	11.72
BWIA *suspended*	0.0	0.0	0.0	0.97	0.00	0.00
Furness Trinidad	47.0	47.0	0.0	6.15	0.00	13.09
L J Williams Ltd. - 'A'	1.4	0.9	0.4	0.60	0.67	0.00
L J Williams Ltd. - 'B'	14.0	9.0	4.0	1.32	3.03	0.00
Prestige Holdings	46.4	46.4	21.0	8.67	2.42	18.69
Property						
PLIPDECO	116.0	116.0	22.0	9.00	2.44	7.76
Valpark	47.3	47.3	0.0	5.00	0.00	10.57
Manufacturing						
Angostura Holdings	180.0	5.0	12.0	5.60	2.14	112.00
Berger Paints	24.0	7.0	17.0	3.40	5.00	0.00
Flavorite Foods	45.2	72.0	21.0	5.05	4.16	7.01
National Flour Mills	8.6	8.6	8.0	0.74	10.81	8.60
One Caribbean Media	109.0	109.0	60.0	19.99	3.00	18.34
Readymix WI	24.0	0.0	6.0	3.85	1.56	0.00
Trinidad Cement	67.0	70.0	24.0	8.00	3.00	11.43
Trinidad Publishing	91.0	91.0	32.0	14.00	2.29	15.38
Unilever Caribbean Ltc	133.0	145.0	120.0	16.40	7.32	11.31
WITCO	137.4	137.4	135.0	23.02	5.86	16.75