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Guardian Holdings Limited

	GHL
RECOMMENDATION	Long term BUY
Current Price	TT\$18.02
Current Running P/E	-21.25 times
Running EPS	-TT\$0.80
Projected EPS	TT\$0.55 to + TT\$0.80
Dividend Yield FY 05	3.24%
Forecasted Y/E price	TT\$22.50 - \$25.00
Net Asset Value	\$16.23
Market to Book	1.14

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.

Exhibit 1

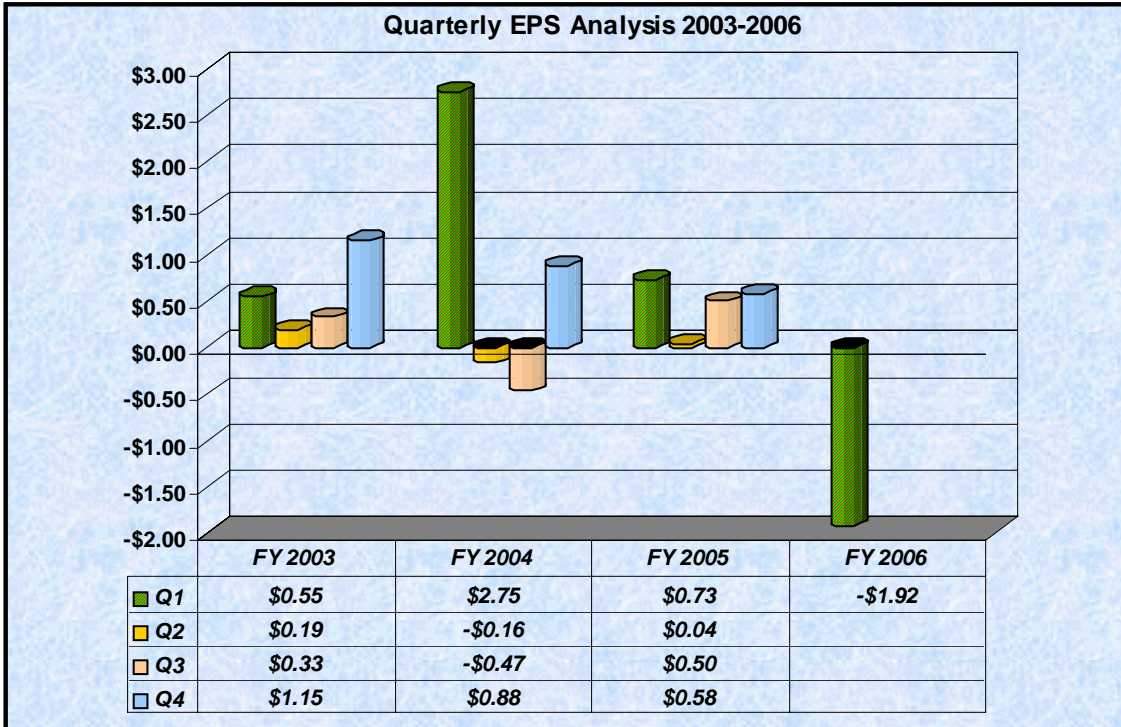
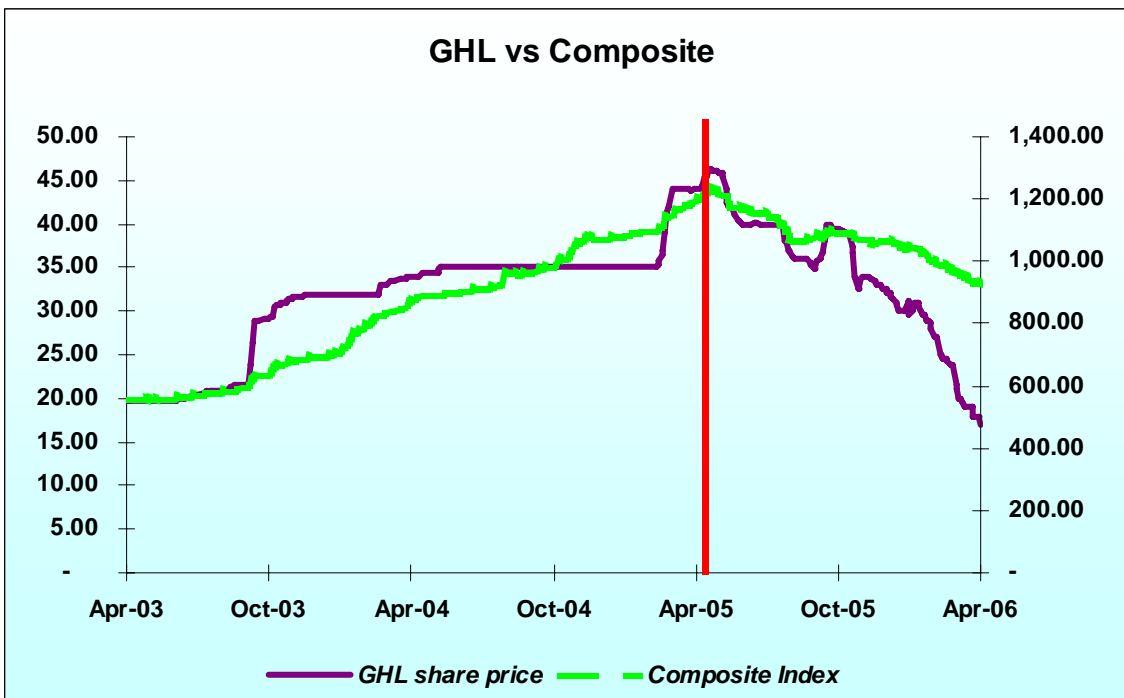


Exhibit 2





Financial History				
Year End 31/12	F.Y 2003	F.Y 2004	F.Y 2005	Q1 2006
Profit Before Tax TT\$M	1,273.7	702	456	-379.2
% Change Per Period	397%	-45%	-35%	-336.5%
Profit After Tax \$M	1,111.3	579.9	372	-393.5
% Change Per Period	400%	-47%	-36%	-376.75%
Profit Attributable to Shareholders \$M	1055.6	578.9	369	-394
% Change Per Period	474%	-36%	-36%	-378.5%
EPS (Diluted)	\$6.25	\$2.96	1.85	-\$1.95
% Change Per Period	448%	-53%	-38%	-52%
Price / Earnings Multiple	5.1	11.7	17.34	-21.25
Dividend per Share	\$0.54	\$0.50	\$0.55	
Dividend Payout Ratio %	8.6%	16.7%	30%	
Dividend Yield %	1.7%	1.4%	1.7%	
Net Asset Value (\$)	\$13.19	\$16.50	\$18.50	\$16.23
Market to Book	2.4	2.1	1.73	1.14
Total Assets '000	11,577,104	13,766,600	17,388,102	17,696,045

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