

**National Flour Mills Limited**

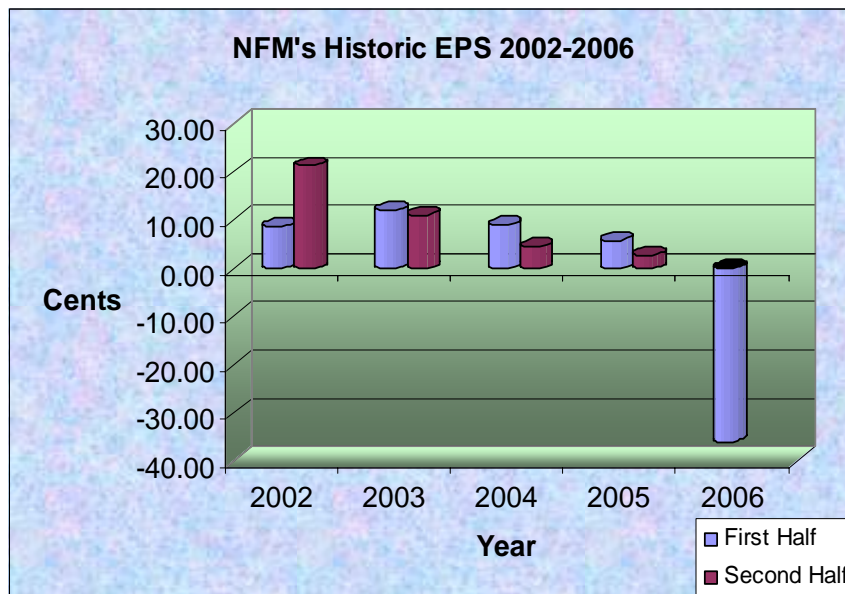
	<u>NFM</u>
<b>RECOMMENDATION</b>	<b>HOLD</b>
<b>Current Price</b>	<b>\$1.59</b>
<b>Running Loss Per Share</b>	<b>33.15 cents</b>
<b>Loss Per Share EPS</b>	<b>58 cents</b>
<b>P/E at Projected EPS</b>	<b>Not applicable</b>

*Results for the Half Year Ended June 30, 2006*

**Earnings Per Share**

National Flour Mills (NFM) reported Loss Per Share of 35.95 cents for the half year ended June 30, 2006. The Earnings Per Share (EPS) of the Company fell 719.82 per cent into negative territory from 5.8 cents reported for the corresponding period last year.

**Figure 1**



According to the Chairman, the fall in EPS reflects a number of unplanned events within its operation. Firstly, the closure of the Edible Oil Complex as a result of the unfortunate explosion in late 2005 saw the end of an important component of the Company's revenue source. In addition, unresolved issues pertaining to the implementation of the Voluntary Separation Programme resulted in poor productivity towards the end of 2005 as well as industrial action in early 2006. These events restricted its capacity to meet customers' requirements. The fact



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however remains that the Company has been faced with declining earnings in its first half as early as 2003. (see Figure 1) Since that time, heightened competition as well as increased commodity prices and problems in its now closed edible oil complex have continuously steered the bottom line in a negative direction.

### **Financials**

The Company's Turnover fell 32.44 per cent to \$198.754 million mainly as a result of the closure of the Edible Oil Complex in late 2005. Despite the fact that Cost of Sales dropped 28.39 per cent to \$184.811 million, Gross Profit was down 61.74 per cent to \$13.943 million. A small drop in Operating Expenses of 7.33 per cent to \$24.496 million did little to ease the fall in Operating Income. Operating Income in fact fell 205.41 per cent to (\$10.553) million resulting in an Operating Loss for the first half of the year.

Net Income dropped by a larger margin of 527.72 per cent to (\$42.819) million due to the Exceptional Expense of \$32.266 million. This exceptional expense is most likely related to the cost of the Voluntary Separation Programme. The full cost of this Programme (approximately \$57 million) will be borne in the current year. Net Income After Tax was down 719.82 per cent to (\$43.216) million.

### **Turnaround Plan**

The Company has embarked on an eighteen month turnaround plan to maximize the benefits of the reduced staff overheads. The reduction is expected as a result of the full implementation of the Voluntary Separation Programme; reduced conversion costs from the commissioning of the new flour mill; aggressive expansion in its feed business; and more profitable ways of supplying its oil and rice markets both locally and regionally.

NFM has implemented a new organizational structure to meet its 18 month objectives. Its current outlook for the rest of the year suggests a small positive net operating margin.

### **Share Price**

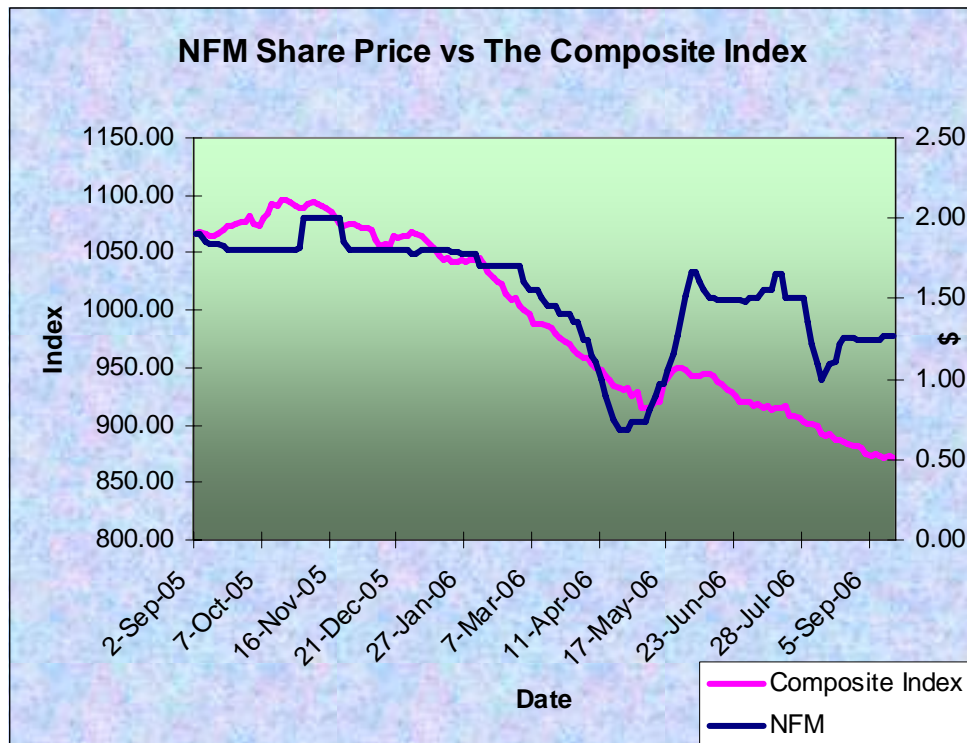
Since March, NFM's share price has oscillated primarily as a result of speculative activity. After the share reached a low of 68 cents due to panic selling as a result of the questionable future of the Company, the price rebounded somewhat based on speculators taking advantage of the low price (see Figure 2). The current price of the share is \$1.39.

### **Dividends**

No interim dividend was paid.



Figure 2



### Recommendation

Given the half year results, WISE expects NFM's year to end with its Net Income in negative territory. NFM's current outlook for the second half of the year is to achieve a Turnover of approximately \$40 million per month. Using this forecast and a small operating margin of 2 per cent for the second half, the loss for that period would be approximately 22 cents. From this analysis, the forecasted total Loss Per Share for the end of the year would be approximately 58 cents.

NFM has made a Net Profit Margin Projection of 4.1 per cent for the year ended 2007, with a Projected EPS of 21 cents. At this projected EPS and a price/earnings multiple of 8 times earnings, the forecasted price for NFM at that time would be \$1.68. In addition, it is interesting to note that at the current market price of \$1.39, NFM's Market to Book ratio is at a low of 0.58. Thus given the Company's projection coupled with the favourable market to book ratio, a speculator may buy this share at the current price.

For the more conservative investor however, we would recommend a HOLD until we have seen signs that the turnaround plan positively influencing the bottom line.

Figure 3

National Flour Mills Limited Financial Data (2004-2006)					
	HY 2006 \$'000	Change HY 05- HY 06	HY 2005 \$'000	Change HY 04- HY 05	HY 2004 \$'000
Turnover	198,754	-32.44%	294,177	-8.19%	320,402
Cost of Sales	184,811	-28.29%	257,732	-7.25%	277,893
<b>Gross Profit</b>	13,943	-61.74%	36,445	-14.27%	42,509
Operating Expenses	24,496	-7.33%	26,434	-6.90%	28,392
<b>Operating Profit/Loss</b>	(10,553)	-205.41%	10,011	-29.09%	14,117
Exceptional Expense	(32,266)		0		0
Profit Before Taxation	(42,819)	-527.72%	10,011	-29.09%	14,117
Profit for the Period	(43,216)	-723.79%	6,928	-36.88%	10,976
<b>EPS (cents)</b>	(36)	-719.83%	6	-36.26%	9
<b>Dividend (cents)</b>	0	-100.00%	5	-28.57%	7
National Flour Mills Limited Year End Financial Data (2003-2005)					
	YE 2005	% Change '04-'05	YE 2004	% Change '03-'04	YE 2003
Turnover	587,206	-10.75%	657,950	13.52%	579,592
Trading Income	62,174	-24.59%	82,444	-8.91%	90,506
<b>Expenses</b>	58,847	-4.36%	61,532	14.05%	53,950
Finance Charges	444	-33.63%	669	-39.57%	1,107
<b>Operating Income</b>	2,883	-85.76%	20,243	-42.90%	35,449
Net Income Before Taxation	3,784	-84.01%	23,662	490.96%	4,004
Profit for the Period	10,359	-36.66%	16,355	-40.63%	27,549
<b>EPS</b>	\$0.09	-36.76%	\$0.14	-40.87%	\$0.23
Market Price @ Financial Year End (TT\$)	\$1.78	-37.54%	\$2.85	-14.93%	\$3.35
<b>P/E Ratio @ Financial Year End</b>	20.70		20.96		14.57
Dividend	\$0.08	-38.46%	\$0.13	-18.75%	\$0.16
<b>Dividend Payout Ratio (%)</b>	93.02		95.59		69.57
<b>Dividend Yield (%)</b>	\$4.49		4.56		4.78
<b>Net Asset Value</b>	\$2.39	-0.83%	\$2.41	-0.82%	\$2.43
<b>Market to Book Ratio</b>	0.74		1.18		1.38
<b>Return on Equity (%)</b>	3.59		5.54		9.46
<b>Return on Assets (%)</b>	2.10		3.57		5.98
Shares Outstanding	120,200,000		120,200,000		120,200,000

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