

**National Flour Mills Limited**

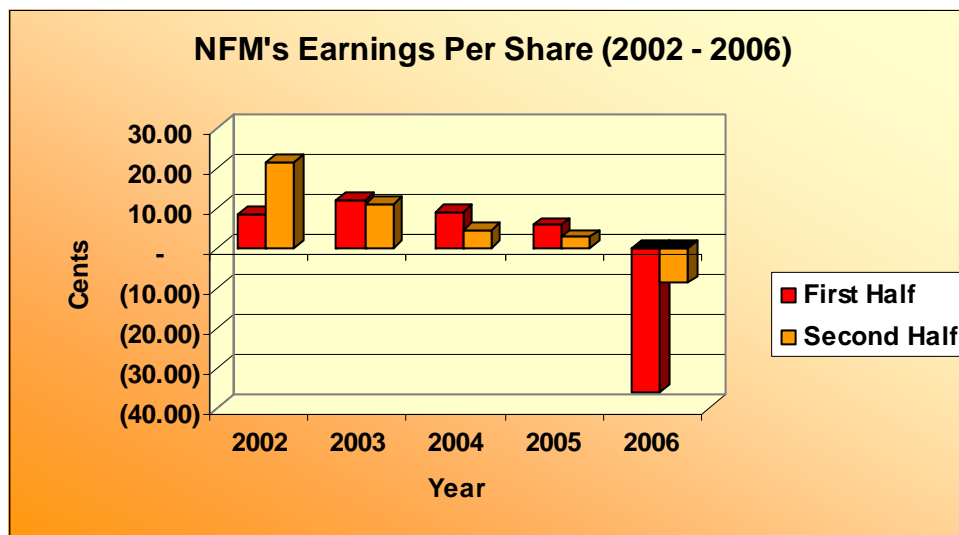
|                                      | <u>NFM</u>      |
|--------------------------------------|-----------------|
| <b>RECOMMENDATION</b>                | <b>SELL</b>     |
| <b>Current Price</b>                 | <b>\$1.40</b>   |
| <b>Running Loss Per Share</b>        | <b>45 cents</b> |
| <b>Forecasted Earnings Per Share</b> | <b>10 cents</b> |
| <b>P/E at Projected EPS</b>          | <b>14 times</b> |

*Results for the Year Ended December 31, 2006*

**Earnings Per Share**

National Flour Mills (NFM) reported disappointing financial results for the year ended December 31, 2006 with an After Tax Loss of \$53.700 million. According to the Chairman this loss was incurred due to four main reasons. Firstly, industrial action taken in early 2006 led to the Company's inability to fully service the markets. Also, significant increases in costs were incurred to meet intensified competition within the domestic market. Thirdly the \$57.157 million cost to implement the Voluntary Separation Programme (VSEP) was absorbed in the financial results for fiscal 2006. In addition, the closure of the Edible Oil Complex as a result of an explosion in 2005 resulted in the Company losing a substantial source of revenue. In light of these events, a Loss Per Share of 0.45 cents was incurred, down 623.26 per cent from an Earnings Per Share of 8.6 cents in the previous financial year. **Figure 1** below shows NFM's EPS over the period 2002 to 2006.

**Figure 1**





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## Financials

Turnover for the period amounted to \$366.837 million, down 37.61 per cent or \$221.113 million from fiscal 2005. Also, Trading Income fell by a significant 41.32 per cent or \$25.691 million to \$36.483 million while Other Income rose 37.58 per cent or \$1.542 million to \$5.645 million.

Expenses increased by a considerable 91.05 per cent or \$53.986 million to \$113.277 million. As a result, the Company ended with a Loss Before Tax of \$71.149 million compared to a Profit Before Tax of \$3.784 million in fiscal 2005. For the period under review, Taxation amounted to \$17.449 million while in fiscal 2005, the Company benefited from a Tax Credit of \$6.575 million. Thus, Loss from Ordinary Activities totaled \$53.700 million. This figure represents a substantial fall of 618.39 percent or \$64.059 million from the Profit After Tax of \$10.359 million attained in fiscal 2005.

*Table 1 shows NFM's Financial Data Comparison for the financial period 2004-2006*

**Table 1**

| National Flour Mills Limited Year End Financial Data (2004-2006) |             |                  |             |                  |             |
|--|-------------|------------------|-------------|------------------|-------------|
|  | YE 2006     | % Change '05-'06 | YE 2005     | % Change '04-'05 | YE 2004     |
| Turnover   | 366,837     | -37.61%          | 587,950     | -10.64%          | 657,950     |
| Trading Income   | 36,483      | -41.32%          | 62,174      | -24.59%          | 82,444      |
| <b>Expenses</b>  | 108,864     | 84.99%           | 58,847      | -4.36%           | 61,532      |
| Finance Charges  | 4,413       | 893.92%          | 444         | -33.63%          | 669         |
| <b>Operating Income</b>  | -76,794     | -2763.68%        | 2,883       | -85.76%          | 20,243      |
| Net Income Before Taxation                                       | -71,149     | -1980.26%        | 3,784       | -84.01%          | 23,662      |
| Profit for the Period  | -53,700     | -618.39%         | 10,359      |                  | 16,355      |
| EPS/(Loss Per Share)   | -\$0.45     | -623.26%         | \$0.09      | -36.76%          | \$0.14      |
| Market Price @ Financial Year End (TT\$)                         | \$1.60      | -10.11%          | \$1.78      | -37.54%          | \$2.85      |
| P/E Ratio @ Financial Year End                                   |             |                  | 20.70       |                  | 20.96       |
| Dividend   | \$0.00      | -100.00%         | \$0.08      | -38.46%          | \$0.13      |
| Dividend Payout Ratio (%)  |             |                  | 93.02       |                  | 95.59       |
| Dividend Yield (%)   |             |                  | \$4.49      |                  | 4.56        |
| Net Asset Value  | \$1.91      | -20.08%          | \$2.39      | -0.83%           | \$2.41      |
| Market to Book Ratio   | 0.84        |                  | 0.74        |                  | 1.18        |
| Return on Equity (%)   |             |                  | 3.59        |                  | 5.54        |
| Return on Assets (%)   |             |                  | 2.10        |                  | 3.57        |
| Shares Outstanding   | 120,200,000 |                  | 120,200,000 |                  | 120,200,000 |



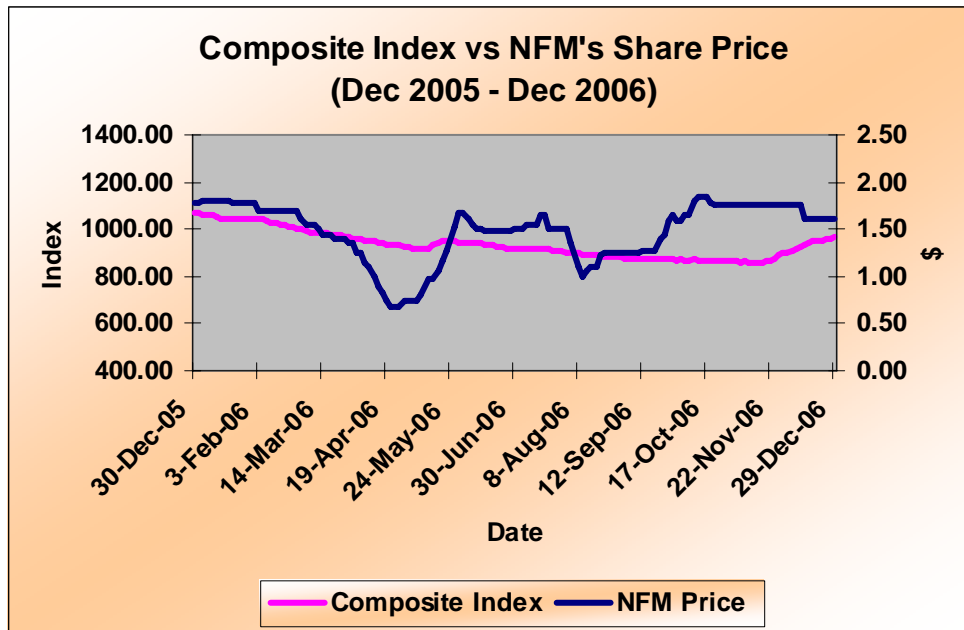
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**Share Price**

Over the period December 2005 to December 2006, NFM’s share price saw a high of \$1.85 and a low of \$0.68. The price started the year at \$1.78 and trended downward to its low of \$0.68 on April 21. This was followed by a sharp climb to \$1.67 on May 31. The share price continued to fluctuate between \$1.50 and \$1.67 before declining to \$1.00 on August 9. NFM’s price subsequently rose to its high of \$1.85 on October 11 and declined marginally to \$1.75 on October 20. The share price continued to trade at this price for seven weeks and closed the year at \$1.60 (See Figure 2).

Figure 2



**Dividends**

Based on these results, the Board has decided to forego the payment of a final dividend.

**Outlook and Recommendation**

For fiscal 2007, NFM faces three major challenges in order to positively effect a turnaround. These include rising raw material prices, the need to improve market share and the need to reduce operational costs. Throughout the year the Company also has plans to strengthen its distribution channels, aggressively promote all of its brands and to implement cost reduction strategies.

Given these results we are forecasting an Earnings Per Share (EPS) of 10 cents for fiscal 2007. At the current market price of \$1.40 and this forecasted EPS, NFM is trading at a price/earnings ratio of 14 times. With the anticipated challenges facing the company for fiscal 2007, we currently recommend a **SELL** on this share.

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