

Neal & Massy Holdings Limited (NML)

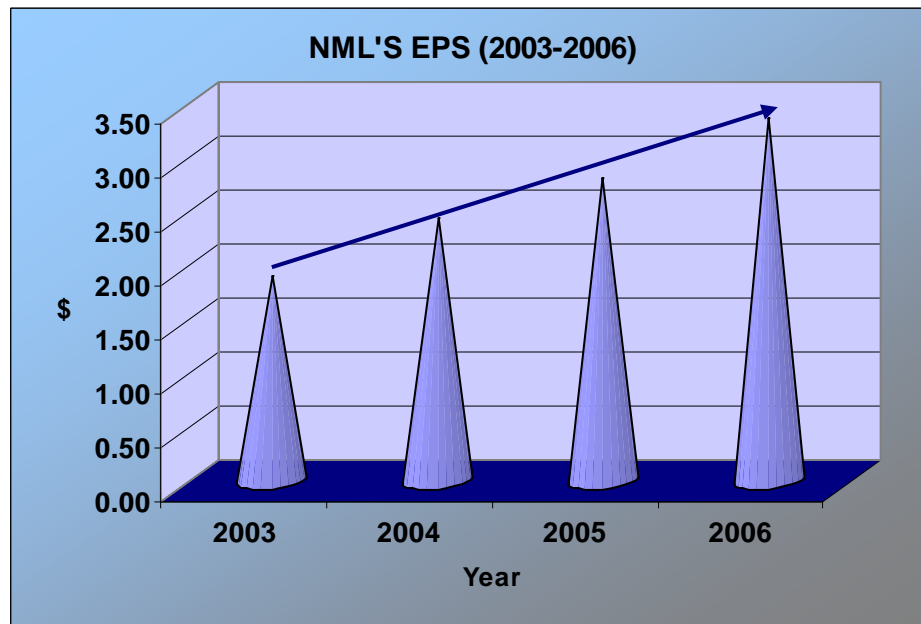
	<u>NML</u>
RECOMMENDATION	BUY
Current Price	\$41.00
Running EPS	\$3.36
Projected EPS	\$4.00
P/E at Projected EPS	10.25 times
Dividend Yield	2.93%
Return on Assets	10.32%
Return on Equity	21.60%

Results for the Year Ended September 30, 2006

Earnings Per Share

For the year ended September 30, 2006 Neal and Massy Holdings Limited (NML) reported Earnings Per Share (EPS) of \$3.37, which represents an impressive increase of 20.36 per cent or \$0.57 on the comparable EPS in 2005. This is in line with the Group's target of a 15 per cent increase in EPS per annum over a five year period which commenced in 2004. The Group has shown an increasing EPS over the last four years with a substantial average growth rate of 21.04 per cent. (See Graph1)

Graph 1

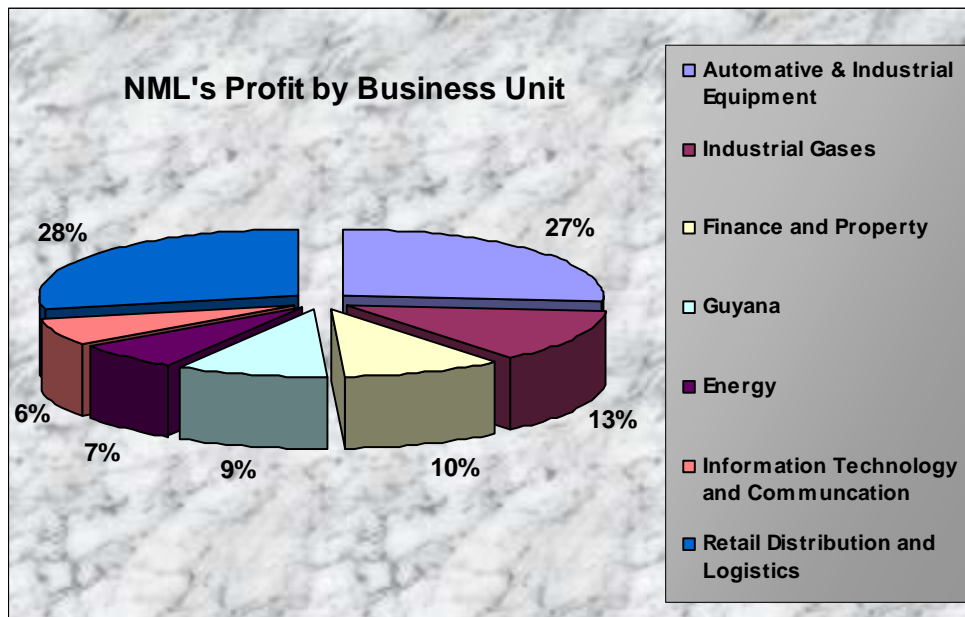


Financials

Neal & Massy continues to produce excellent top line growth with Group Third Party Revenue reaching a high of \$4.20 billion, up by a notable 18.25 per cent or \$648.36 million on the previous financial year. The Retail & Distribution Division of the Group continues to be the main Revenue driver, while the Automotive Division is second in line for highest contributor to the top line.

Operating Profit stood at \$401.54 million, a significant increase of 18.64 per cent on the corresponding period in 2005, while Profit After Taxation amounted to \$299.21 million up by an outstanding 20.19 per cent on the same period in 2005. The Group’s Operating Margin stood at 9.6 per cent for the period ended September 30, 2006 compared with 9.5 per cent in the previous year. The Effective Tax Rate for the period stood at 26.5 per cent while for the same period in 2005 the rate was 28.1 per cent. (See Graph 2 for NML’s Profit by Business Unit)

Graph 2



NML maintains a strong balance sheet with \$3.5 billion in Total Assets. Net Current Assets for the period under review amounted to \$620.66 million, an increase of \$3.96 million or 0.63 per cent on the corresponding period in 2005. While, the current ratio stood at 1.48 as opposed to 1.73 at the end of the financial year in 2005. This is mainly due to the fact that the Group leveraged the purchase of the most recent acquisitions with short term debt. It is the objective to convert some of this short term debt to medium term debt over the next financial year and as such there should be an improvement in the current ratio by the end of the financial year ended 2007.

Shareholder’s Equity stood at \$1.58 billion for the period under review; this was up by 15.18 per cent on the year ended September 30, 2005.



Table 1 shows NML's Financial Data Comparison over the period – 2003 to 2006.

Table 1

NML's Financial Data for Year End (2003-2006)							
	YE 2006 \$'000	% Change '05-'06	YE 2005 \$'000	% Change '04-'05	YE 2004 \$'000	% Change '03-'04	YE 2003 \$'000
Revenue	4,201,974	18.25%	3,553,613	16.69%	3,045,336	8.93%	2,795,791
Operating Profits	419,943	21.02%	347,001	15.65%	300,047	38.48%	216,668
Finance Costs	(18,401)	115.44%	(8,541)	47.37%	(16,229)	22.56%	(13,242)
Share of Profit of Associated Companies	31,920	5.75%	30,184	11.10%	33,951	16.83%	29,060
Profit Before Income Tax	433,462	17.58%	368,644	16.01%	317,769	36.68%	232,486
Income Tax Expense	(114,976)	10.93%	(103,650)	18.22%	(87,677)	76.79%	-49,595
Profit for the Year	318,486	20.19%	264,994	15.17%	230,092	25.81%	182,891
Diluted EPS	\$3.36	20.00%	\$2.80	15.23%	\$2.43	27.89%	\$1.90
Market Price @ Financial Year End	\$37.10	-21.86%	\$47.48	35.08%	\$35.15	52.83%	\$23.00
P/E Ratio @ Financial Year End	11.04		16.96		14.47		12.11
Dividend	\$1.05		\$0.88		\$0.76		\$0.67
Dividend Payout Ratio	31.25%		31.43%		31.28%		35.26%
Dividend Yield	2.83%		1.85%		2.16%		2.91%
Net Asset Value	\$17.77		\$15.42		\$13.39		\$11.72
Market to Book Ratio	2.09		3.08		2.63		1.96
Return on Equity	21.60%		20.71%		19.34%		16.83%
Return on Assets	10.32%		10.33%		9.49%		7.83%
Shares Outstanding	88,822,000		88,822,000		88,822,000		88,822,000

Contracts and Acquisitions (2006)

- **September 21, 2006-** The Neal and Massy Wood Group expanded its reach into the local energy market after agreeing to maintain all of bpTT's plant and operating equipment for the next five years. Neal and Massy Wood Group is a 50/50 joint partnership between Neal and Massy Energy and the Wood Group of companies. The contract is estimated to bring in revenues of US\$50 million per year for the Group.
- **September 8, 2006-** NML acquired 100 per cent of Insertech (Caribbean) Limited and Insertech Aruba N.V.
- **August 21, 2006-** NML acquired 60 per cent of the issued shareholding of Pres-T-Con Holdings Limited.

Plans for Financial Year 2007

- The Group has purchased an additional 6 acres of land in Morvant which will be used to create a "motor city" and improve service from the Automotive Division. Also, the division will be introducing a new line of high end vehicles to the market.
- Expansion of Retail Businesses, Hilo in particular will be increasing the number of stores in addition to the increased size of current stores.



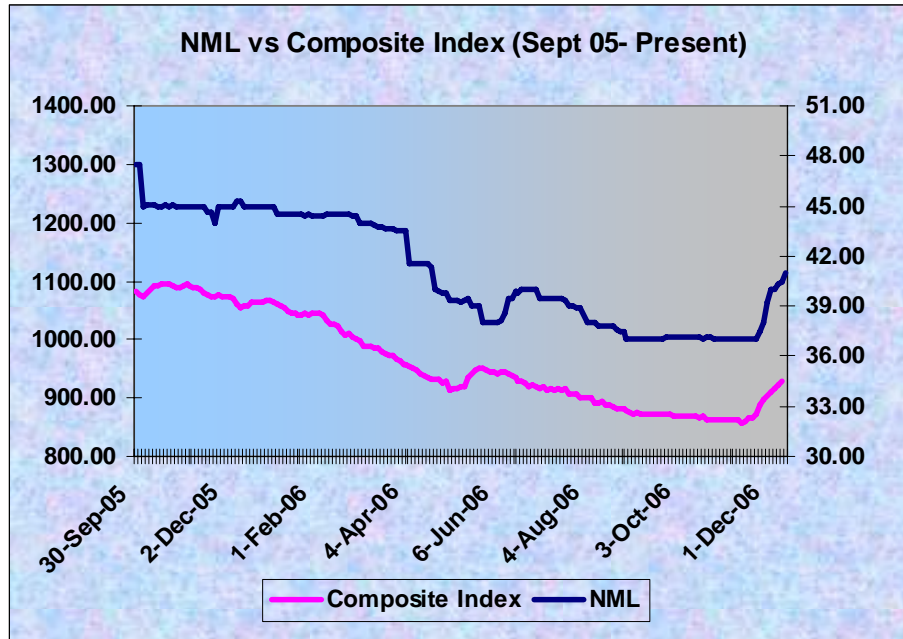
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Share Price

The share price of NML started the financial year 2006 at \$47.45 and trended downwards to a low of \$37.00 on August 30, 2006. The share price then traded in the range of \$37.00 to \$37.50 before beginning its ascent to the current price of \$41.00. The climb in price came shortly after the release of the excellent 2006 year end results. Also, as can be seen from the graph below there is a mirrored effect in the movement of NML’s share price and the Composite Index. This is due to the fact that Neal and Massy Holdings has a significant weighting impact on the Index. Thus, movements in the price of NML would have the effect of moving the Index in the same direction. (See Graph 3)

Graph 3



Dividends

The Board of Directors has declared a final dividend of 74 cents which brings the total dividend paid for the year to \$1.05, an increase of 19.3 per cent on the previous year. The dividend will be paid on January 19, 2007 to Shareholders on the Register of Members at the close of business on January 9, 2007.

Outlook & Recommendation

The shares of NML are currently priced at \$41.00 per share and with a Net Asset Value of \$17.11 per share; this share is trading at an attractive market to book ratio of 2.40. Additionally, given the excellent results of the Group and positive expectations of the Chairman, we are forecasting an EPS of \$4.00 for the financial year ended 2007, which represents growth in EPS of 18.69 per cent on the year ended 2006. At the price of \$41.00 and the forecasted EPS of \$4.00, these shares are trading at an attractive multiple of 10.25 times. We therefore maintain our recommendation of a **BUY** on this share.

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