

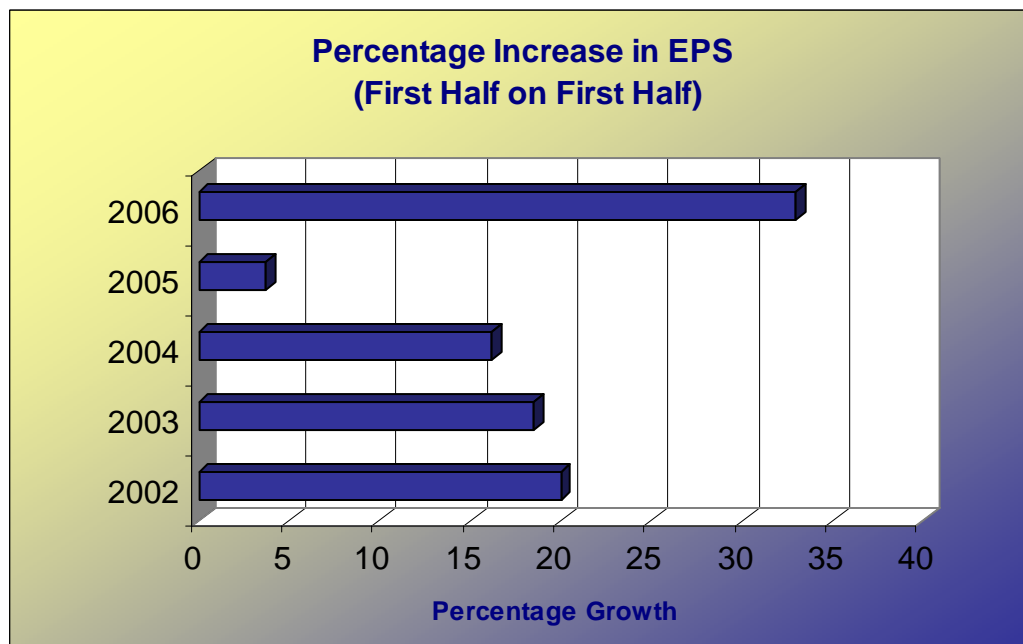
West Indian Tobacco Company Limited

	WCO
RECOMMENDATION	BUY
Current Price	\$23.00
Running EPS	\$1.58
Projected EPS	\$1.72
P/E at Projected EPS	13.37
Dividend Yield (FY 2005)	5.86 per cent
Return on Assets (Avg)	40.21 per cent
Return on Equity (Avg)	73.13 per cent

Results for the Half Year Ended June 30, 2006

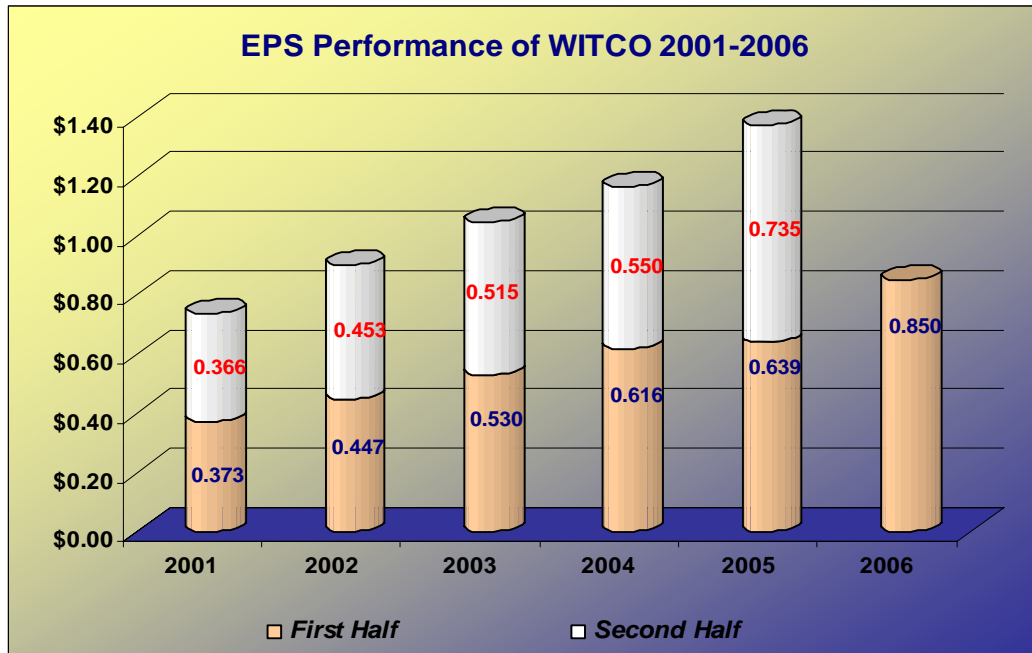
West Indian Tobacco Company Limited's (WCO) efforts to expand its cigarette manufacturing capacity and increase output has clearly brought success to the Company as it continues to report impressive growth. WCO's Earnings Per Share (EPS) grew remarkably by 33.09 per cent from 63.86 cents for HY 2005 to 84.99 cents for HY 2006. This is actually the largest growth the Company has had in its first half in the last five years. (See Graphs 1 and 2)

Graph 1





Graph 2



The successful bottom line was driven by WCO's core operations which saw an increase in Turnover of 12.28 per cent to \$303.688 million. The increase was on account of improved performance in the domestic market as well as the expansion in Caricom exports. This followed from the transfer of manufacturing from Carreras Group Limited (WCO's associate company in Jamaica).

A small increase in Excise Duties of 4.68 per cent lead to an increase in Net Turnover of 15.65 per cent to \$216.618 million. The low increase in Excise Duties was likely due to economies gained from the expansion of WCO's export markets. In comparison to Net Turnover, Cost of Sales increased by a smaller margin of 6.90 per cent which lead to growth in Gross Profit of 19.83 per cent to \$151.988 million. The Company's Gross Profit Margin grew from 67.72 per cent (HY 2005) to 70.16 per cent (HY 2006).

The major drivers of expenditure were Distribution Costs which rose 30.05 per cent to \$3.648 million and Other Operating Expenses which rose 16.89 per cent to \$28.144 million. Administrative Expenses rose minimally 0.63 per cent. The increase in Operating Costs did not harm Operating Profit as it grew 26.13 per cent to \$96.992 million. This resulted in an increase in WCO's Operating Profit Margin from 41.06 per cent (HY 2005) to 44.74 per cent (HY 2006).

During the year, Interest Income rose 246.15 per cent to \$0.630 million while Interest Expense rose 646.63 per cent to \$1.329 million. The hefty increase in Interest Expense is likely due in part



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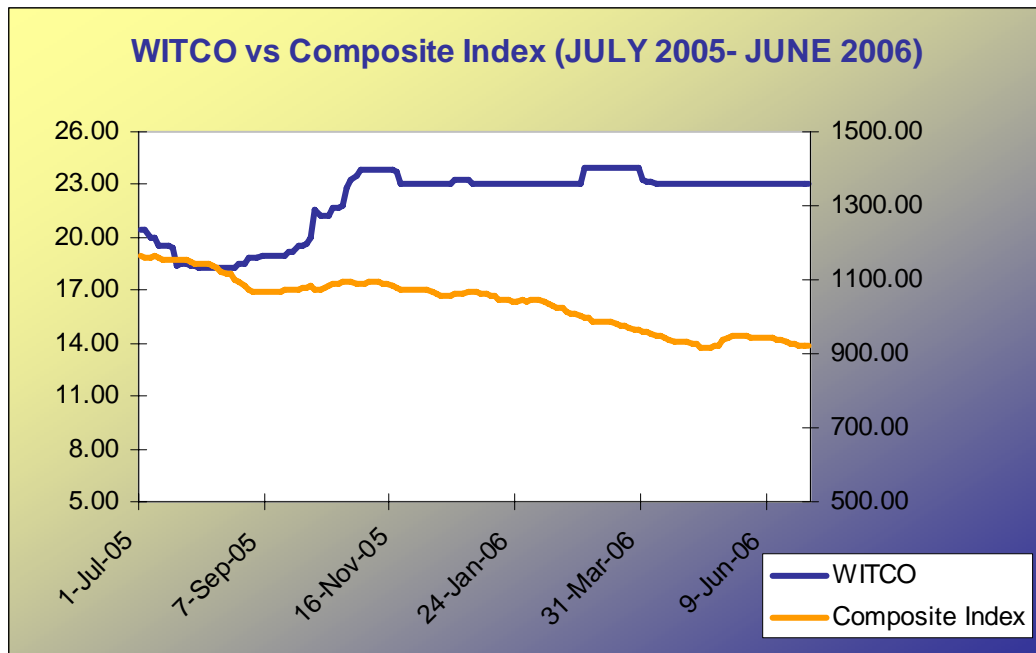
to costs arising out of Short-term borrowings of \$30.000 million. This was undertaken during 2005 to fund its expansion drive. The increase in Interest Expense however had a minimal effect on profit as Profit Before Taxation rose 25.22 per cent to \$96.293 million.

The Effective Tax Rate fell from 30.04 per cent in 2005 to 25.65 per cent in 2006 no doubt aided by the reduction in the Corporate Tax Rate from 30 per cent to 25 per cent. Profit After Taxation ultimately rose 33.08 per cent to \$71.597 million while the Company's Net Profit Margin rose from 28.72 per cent in 2005 to 33.05 per cent in 2006.

Given the strength of the economy together with increasing profitability margins the outlook for this Company is positive. Over the past five years WCO's trend has generally been to produce marginally smaller earnings in the second half in comparison to the first. However, given the strong economy together with the current high degree of consumerism there may be the possibility that the second half of this year could be better than the first. Hence, we are forecasting year end EPS of \$1.72 (\$0.87 in the second half). This represents a year on year growth rate of approximately to 25 per cent.

Over the last year, WCO has traded as high as \$24.00 and as low as \$18.28. While the Composite Index has continued on its downward trend for the first half of the year, WCO's price has seen minimal fluctuation, trading between \$23.00 and \$24.00. (See Graph 3) At the forecasted earnings of \$1.72 and the current price of \$23.00, WCO is currently trading at a price/earnings ratio of 13.37 times earnings. Given that this share usually trades between 14 to 17 times earnings this share is fundamentally a **BUY**.

Graph 3





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The Directors have approved a second interim dividend of 31 cents payable on August 15, 2006 to shareholders on record as at August 7, 2006. This brings the total dividends paid for the year so far to 51 cents. The usual high dividend payout ratio of this Company also adds to the attractiveness of this share.

Financial Data (2003-2006)

WITCO (Half Year Financials)	YE 2003 \$'000	% Change (2003-2004)	YE 2004 \$'000	% Change (2004-2005)	YE 2005 \$'000	HYE 2005 \$'000	HYE 2006 \$'000	% Change (2005-2006)
Net Turnover	294,394	14.03%	335,688	15.65%	388,227	270,476	303,688	12.28%
Gross Profit	197,604	17.23%	231,645	15.63%	267,859	151,988	126,838	-16.55%
Operating Profit	121,560	14.07%	138,666	14.49%	158,756	76896	96992	26.13%
Profit after Taxation	88,062	11.51%	98,197	17.87%	115,748	53798	71597	33.08%
Earnings Per Share	104.5	11.58%	116.6	17.84%	137.4	63.9	85.0	33.02%
Price/Earnings Ratio	19.1	0.61%	19.2	-12.59%	16.8	17.8	14.5	-18.61%
Dividend	103	10.68%	114	18.42%	135	36	51	41.67%
Dividend Payout Ratio	98.56	-0.81%	97.77	0.49%	98.25			
Dividend Yield	5.17	-1.40%	5.10	14.97%	5.86			
Net Asset Value	1.68	5.36%	1.77	12.43%	1.99			
Market to Book Ratio	11.9	5.88%	12.6	-7.94%	11.6			
Shares Outstanding	84,240,000		84,240,000		84,240,000	84,240,000	84,240,000	

* Running EPS used to calculate P/E for Half Year Financials

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