

The West Indian Tobacco Company Limited (WITCO)

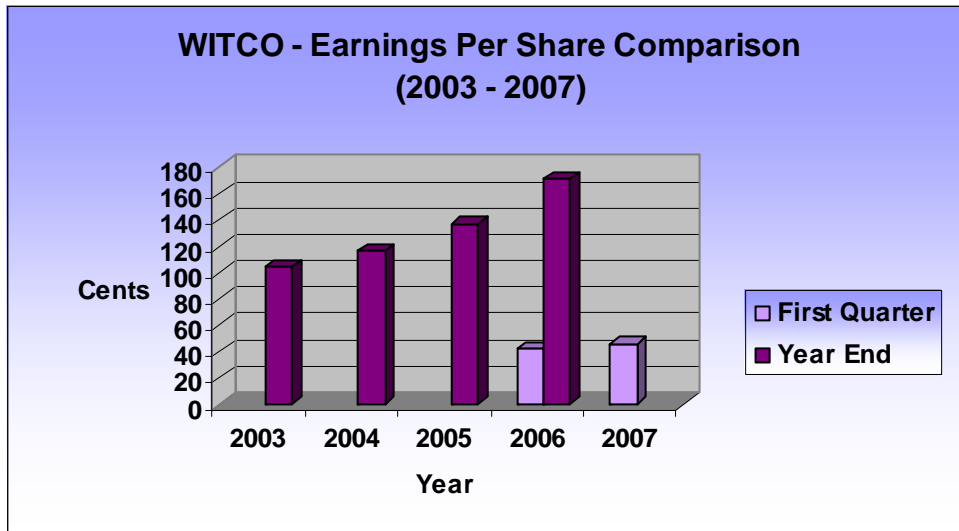
	WCO
RECOMMENDATION	BUY
Current Price	\$25.33
Running EPS	\$1.75
Projected EPS	\$2.00
P/E at Projected EPS	12.67 times
Dividend Yield	7.74 per cent
Return on Assets	42.55 per cent
Return on Equity	97.60 per cent

Results for the First Quarter Ended March 31, 2007

Earnings Per Share

For the First Quarter Ended March 31, 2007, The West Indian Tobacco Company Limited (WITCO) reported Earnings Per Share (EPS) of \$0.46, which was up on the comparable quarter of FY06 by 8.92 per cent or 4 cents (See **Graph 1** below). As stated by the Chairman, “the solid result was driven primarily by improved sales performance in both the domestic and contract manufacturing markets”.

Graph 1



Financials

Turnover for the period under review increased by 10.14 per cent or \$15.42 million over the same period last year, to end the quarter at \$167.53 million. However, the Company saw a larger increase in Excise which rose 16.18 per cent or \$6.95 million to \$49.92 million. As a result, Q107 on Q106, WITCO's Net Turnover saw a smaller increase of 7.76 per cent or \$8.47 million when compared to Turnover and ended the period at \$117.61 million. Additionally, Cost of Sales amounted to \$34.93 million, up by 7.26 per cent or \$2.37 million on the corresponding period of FY07. Consequently, Gross Profit for the quarter stood at \$82.68 million, up by 7.98 per cent or \$6.11 million on Q106. Also, it is interesting to note that for both Q106 and Q107, the Company maintained a Gross Profit margin of approximately 70 per cent.

WITCO successfully decreased Distribution Costs by 13.64 per cent or \$0.23 million to end at \$1.42 million; however Other Operating Expenses were not so easily controlled and increased by 10.38 per cent or \$1.57 million to \$16.64 million. Administrative Expenses saw a marginal increase of 1.56 per cent or \$0.19 million from \$11.96 million (Q106) to \$12.14 million (Q107). Consequently, Operating Profit stood at \$52.47 million and was up by 9.56 per cent or \$4.59 million.

The Company saw more significant increases in Interest Income and Interest Expense. Interest Income for the quarter was \$0.46 million, up by a significant 92.05 per cent or \$0.22 million on Q106, while Interest Expense grew by 65.49 per cent or \$0.32 million to end at \$0.80 million. Thus, Profit Before Taxation increased by 9.41 per cent or \$4.49 million on the corresponding period to end Q107 at \$52.13 million.

The Effective Tax Rate for the period under review was 26.04 per cent compared to a Rate of 25.70 per cent for Q106. Therefore, Profit After Taxation stood at \$38.56 million, up by 8.92 per cent or \$3.16 million on the corresponding quarter in FY06.

Table 1 shows a First Quarter Financial Comparison of WITCO for 2006 and 2007

Table 1

WITCO's First Quarter Financial Data (2006 and 2007)			
	Q1 07 \$'000	% Change '06-'07	Q1 06 \$'000
Turnover	167,525	10.14%	152,101
Excise	(49,916)	16.18%	(42,964)
Net Turnover	117,609	7.76%	109,137
Cost of Sales	(34,933)	7.26%	(32,568)
Gross Profit	82,676	7.98%	76,569
Distribution Costs	(1,424)	-13.64%	(1,649)
Administrative Expenses	(12,143)	1.56%	(11,956)
Other Operating Expenses	(16,638)	10.38%	(15,073)
Operating Profit	52,471	9.56%	47,891
Interest Income	459	92.05%	239
Interest Expense	(796)	65.49%	(481)
Profit Before Taxation	52,134	9.41%	47,649
Taxation	(13,575)	10.83%	(12,248)
Profit After Taxation	38,559	8.92%	35,401
Earnings Per Share	45.77	8.92%	42.02



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Table 2 shows a Year End Financial Comparison of WITCO over the period 2003-2006

Table 2

WITCO's Year End Financial Data (2003-2006)							
	YE 2006 \$'000	% Change '05-'06	YE 2005 \$'000	% Change '04-'05	YE 2004 \$'000	% Change '03-'04	YE 2003 \$'000
Turnover	630,631	12.81%	558,999	11.46%	501,512	11.21%	450,977
Excise	(184,599)	8.10%	(170,772)	2.98%	(165,824)	5.90%	(156,583)
Net Turnover	446,032	14.89%	388,227	15.65%	335,688	14.03%	294,394
Cost of Sales	(129,427)	7.53%	(120,368)	15.69%	(104,043)	7.49%	(96,790)
Gross Profit	316,605	18.20%	267,859	15.63%	231,645	17.23%	197,604
Distribution Costs	(8,219)	18.63%	(6,928)	2.42%	(6,764)	26.36%	(5,353)
Administrative Expenses	(55,656)	10.84%	(50,215)	21.69%	(41,263)	31.80%	(31,307)
Other Operating Expenses	(57,500)	10.66%	(51,960)	15.59%	(44,952)	14.14%	(39,384)
Operating Profit	195,230	22.97%	158,756	14.49%	138,666	14.07%	121,560
Interest Income	1,909	332.88%	441	-59.54%	1,090	2.83%	1,060
Finance Costs	(2,777)	125.22%	(1,233)	***	***	***	***
Profit Before Taxation	194,362	23.04%	157,964	13.03%	139,756	13.97%	122,620
Taxation	(50,629)	19.93%	(42,216)	1.58%	(41,559)	20.26%	(34,558)
Profit After Taxation	143,733	24.18%	115,748	17.87%	98,197	11.51%	88,062
Earnings Per Share	\$1.71	24.82%	\$1.37	17.09%	\$1.17	-22.00%	\$1.50
Market Price @ Financial Year End	\$24.00	4.26%	\$23.02	3.00%	\$22.35	12.26%	\$19.91
P/E Ratio @ Financial Year End	14.04		16.80		19.10		13.27
Dividend	\$1.68	24.44%	\$1.35	18.42%	\$1.14	10.68%	\$1.03
Dividend Payout Ratio	98.25%		98.54%		97.44%		68.67%
Dividend Yield	7.00%		5.86%		5.10%		5.17%
Net Asset Value	\$2.07	4.02%	\$1.99	12.43%	\$1.77	5.36%	\$1.68
Market to Book Ratio	11.59		11.57		12.63		11.85
Return on Equity	84.09%		73.13%		67.62%		68.04%
Return on Assets	43.30%		40.21%		37.38%		36.92%
Shares Outstanding	84,240,000		84,240,000		84,240,000		84,240,000



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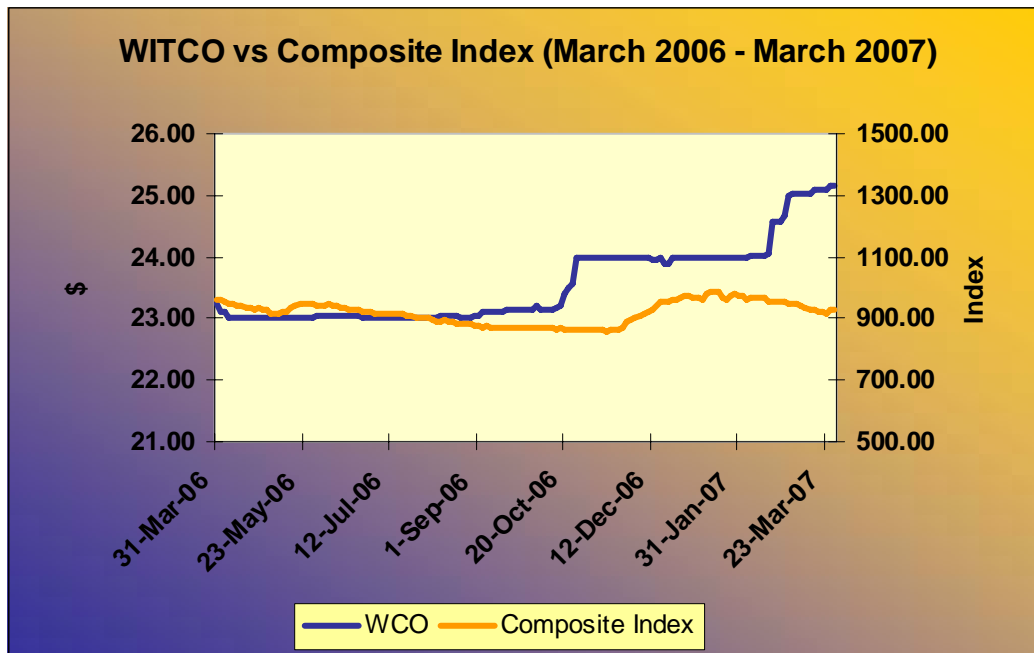
Dividends

The Directors have approved a first interim dividend of \$0.22 per share payable on May 21, 2007 to shareholders on record at the close of business on May 14, 2007. The Register will be closed on the 15th and 16th of May, 2007.

Share Price

Over the period March 31, 2006 to October 31, 2006, the share price of WITCO traded with minimal fluctuation between a low of \$23.00 and a high of \$24.00. After this, WITCO continued to trade around the \$24.00 mark for three months and then saw an upward trend from February 2007 to close the first quarter at \$25.15 (See **Graph 2** below). This rise came shortly after the release of WITCO’s year end results for fiscal 2006 in which its EPS rose 24.45 per cent.

Graph 2



Recommendation

WITCO is currently trading at a price of \$25.33 on the local market. We have forecasted an EPS of \$2.00 for the fiscal year ended 2007 and continue to maintain this forecast. At the current price and forecasted EPS, this share is trading at an attractive price to earnings multiple of 12.67 times. Additionally, using a multiple of 15 times and at the forecasted EPS of \$2.00, this share has an expected return of approximately 18 per cent on the current price or a target price of \$30.00. As such, we maintain our **BUY** recommendation.

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