

**West Indian Tobacco Limited Company**

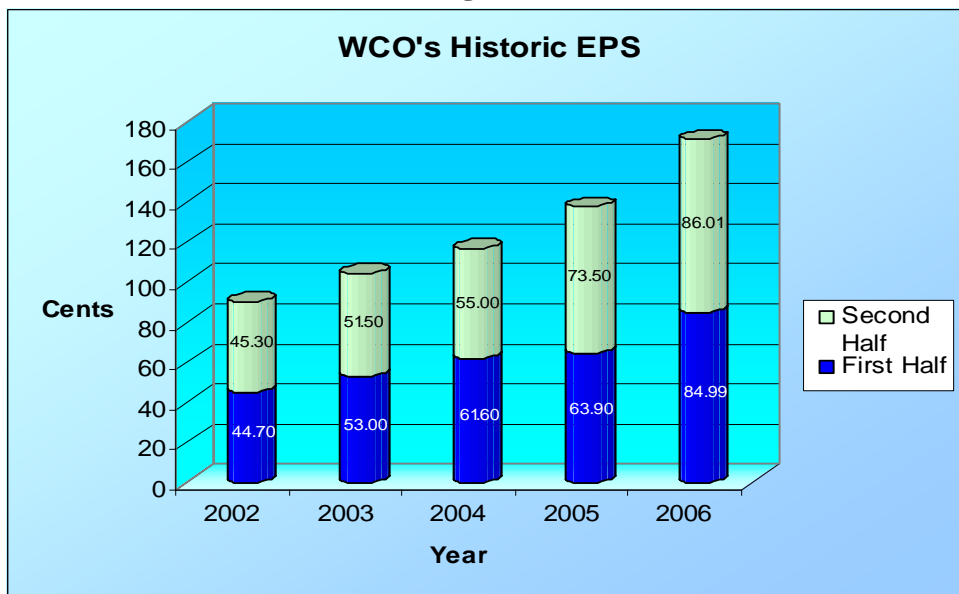
	<u>WCO</u>
<b>RECOMMENDATION</b>	<b>BUY</b>
<b>Current Price</b>	\$24.99
<b>Target Price</b>	\$30.00
<b>Running EPS</b>	\$1.71
<b>Projected EPS</b>	\$2.00
<b>P/E at Projected EPS</b>	12.50 times
<b>Projected Dividend</b>	\$1.96
<b>Dividend Yield</b>	7.84 per cent
<b>Return on Assets</b>	<i>Balance Sheet not yet disclosed</i>
<b>Return on Equity</b>	<i>Balance Sheet not yet disclosed</i>

**Results for the Year Ended December 31, 2006**

**Earnings Per Share**

West Indian Tobacco Company Limited (WCO) reported Earnings Per Share (EPS) of \$1.71 for the year ended December 31, 2006. This EPS was in line with expectations and was driven by increased sales performance in both the domestic and contract manufacturing markets. The Company also benefited from improved productivity in Operations. As can be seen from Figure 1, this is the fifth consecutive year of growth for this Company. For this year, the two halves brought in approximately the same amount of earnings per share as 84.99 cents was earned per share in the first half compared to 86.01 cents per share in the second half (See Figure 1).

**Figure 1**





### Financials

WCO's successful bottom line was driven by its core operations as Net Turnover rose 14.89 per cent to \$446.032 million. In comparison to Net Turnover, Cost of Sales rose by a smaller margin of 7.53 per cent to \$129.457 million resulting in an increase in Gross Profit of 18.20 per cent to \$316.605 million. The Company's Gross Profit Margin moved from 69.00 per cent (2005) to 70.98 per cent (2006).

Expenses were generally controlled with Administrative Expenses rising 10.84 per cent to \$55.656 million while Other Operating Expenses rose 10.66 per cent to \$57.500 million. Distribution Costs however rose 18.63 per cent to \$8.219 million. The mix of top line growth and operating expenditure control resulted in a 22.97 per cent increase in Operating Profit to \$195.230 million. The Company's Operating Profit Margin rose from 40.89 per cent in 2005 to 43.77 per cent in 2006.

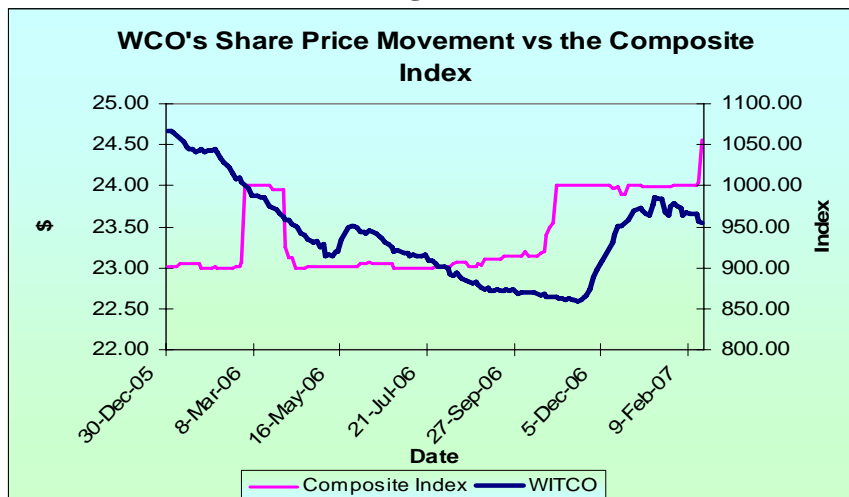
To a lesser significance were increases in Interest Income (up 332.88 per cent to \$1.909 million) and Finance Costs (up 125.22 per cent to \$2.777 million). The net of these two items did little to affect the bottom line.

Ultimately, Profit Before Tax rose 23.04 per cent to \$194.362 million while the Effective Tax Rate fell marginally from 26.73 per cent to 26.05 per cent. Profit After Tax increased 24.18 per cent to \$143.733 million while its Net Profit Margin rose from 29.81 per cent (2005) to 32.22 per cent (2006).

### Share Price

With two exceptions, WCO traded flat for the majority of the year trading as high as \$24.00 and as low as \$23.00. The rise in the beginning of the year came shortly after the release of WITCO's year end results for 2005 in which its EPS rose 17.84 per cent. Subsequent to that, it retracted its positive strides and there was not much movement in the price until the end of the year when it once again rose to \$24.00 (See Figure 2). This year, the share has traded as high as \$24.99 which is its current close.

Figure 2

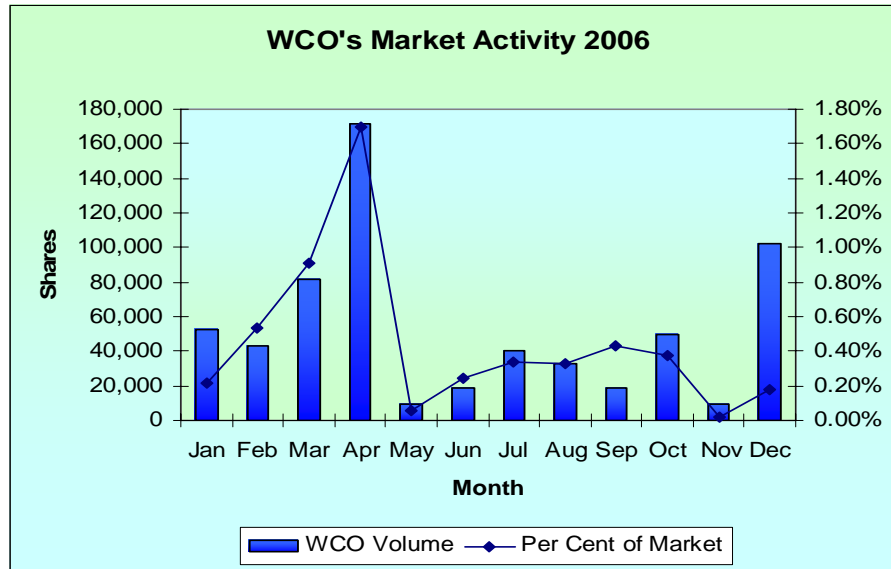




### Market Activity

Over the year, WCO has seen little activity on the market accounting for less than 1.80 per cent of shares traded in a given month (See Figure 3). Such activity is as a result of the fact that over 60 per cent of this Company's issued share capital is held by substantial interests.

Figure 3



### Dividends

The Directors will recommend a final dividend of 85 cents per share at its Annual Meeting on Thursday March 29, 2007. If approved, this will bring the total dividends paid for the year to \$1.68 per share and would mean that WCO's Dividend Payout Ratio stands at 98.25 per cent. Once approved, the final dividend will be paid on April 17, 2007 to shareholders on record as at April 11, 2007.

### Outlook & Recommendation

Given these commendable results and the continued positive outlook for the economy, WISE is forecasting an EPS of \$2.00 for the year ended December 31, 2007. At this forecast and the current price of \$24.99, WCO is trading at a price/earnings ratio of 12.50 times. Given that this share trades as high as 15 times earnings which would mean that its target price is \$30.00, we continue to recommend a BUY on this share.



West Indies Stockbrokers Ltd.  
 1<sup>st</sup> Floor, Albion Plaza,  
 22-24 Victoria Avenue,  
 Port of Spain.  
 Tel: 625-9473; Fax: 627-5002

Equity Research Team  
 Sreshtha Tewari (Ext 2225)  
[sreshthat@wisett.com](mailto:sreshthat@wisett.com)  
 Gia Singh (Ext 2264)  
[gias@wisett.com](mailto:gias@wisett.com)

**Figure 4**

WCO's Historical Financial Data (2003-2006)							
	YE 2006 \$'000	% Change (2005- 2006)	YE 2005 \$'000	% Change (2004- 2005)	YE 2004 \$'000	% Change (2003- 2004)	YE 2003 \$'000
<b>Net Turnover</b>	630,631	62.44%	388,227	15.65%	335,688	14.03%	294,394
<b>Gross Profit</b>	316,605	18.20%	267,859	15.63%	231,645	17.23%	197,604
<b>Operating Profit</b>	195,230	22.97%	158,756	14.49%	138,666	14.07%	121,560
<b>Profit after Taxation</b>	143,733	24.18%	115,748	17.87%	98,197	11.51%	88,062
<b>Earnings Per Share</b>	171.0	24.45%	137.4	17.84%	116.6	11.58%	104.5
<b>Price at Year End</b>	\$ 24.00	4.26%	\$ 3.02	3.00%	\$ 22.35	12.26%	\$ 19.91
<b>Price/Earnings Ratio</b>	14.04		16.75		19.17		19.05
<b>Dividend</b>	\$ 1.68	24.44%	\$ 1.35	18.42%	\$ 1.14	10.68%	\$ 1.03
<b>Dividend Payout Ratio</b>	98.25%		98.25%		97.77%		98.56%
<b>Dividend Yield</b>	7.00%		5.86%		5.10%		5.17%
<b>Net Asset Value</b>	***		1.99		1.77		1.68
<b>Market to Book Ratio</b>	***		11.6		12.6		11.9
<b>Shares Outstanding</b>	84,240,000		84,240,000		84,240,000		84,240,000
*** Information not yet available							

This document is based on information obtained from sources, which we believe to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, West Indies Stockbrokers Limited. Expressions of opinion herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell securities. West Indies Stockbrokers Limited and or their officers, directors, and employees may own or have positions in any of the securities mentioned herein, and may from time to time add or dispose of any such securities. This document is for the information of clients only and is not for publication in the Press or elsewhere without the permission of West Indies Stockbrokers Limited. WISE is a subsidiary of RBTT Financial Holdings Limited

West Indies Stockbrokers Limited, 1<sup>st</sup> Floor Albion Plaza, 22-24 Victoria Avenue, Port of Spain, Trinidad (868) 623-4861 Fax (868)-627-5002 e-mail: [info@wisett.com](mailto:info@wisett.com) Member of the Trinidad and Tobago Stock Exchange Ltd.