Research Report
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2009 Review and WISE Top Picks For 2010

The year 2009 will certainly be remembered as a challenging one with the effects of the global financial crisis sending world economies into a tailspin. Many countries experienced negative or minimal growth, increased budget deficits, high unemployment, reduced corporate earnings and weak consumer demand for goods and services. Closer to home, local companies did not remain unscathed from the impact of the global recession. The local and regional business communities were also affected by falling commodity prices, a fall in remittances, a reduction in tourist arrivals, a slowdown in the construction and manufacturing sectors and cutbacks in consumer spending to name a few. All of these factors subsequently contributed towards weakening investor confidence and dampening stock market sentiment.

In the wake of the effects of 2009, the year 2010 will undoubtedly prove to also be a trying year as companies try to recover from the previous year. As such, the general business community will need to find ways to reduce costs and improve operational efficiency in order to promote positive growth and hopefully, as a result, spur trading activity and increase opportunities for investors looking at the stock market.

A closer look at the local market will reveal that 2009 brought no reprieve for investors with the major indices registering declines across the board coupled with reduced trade volumes and values when compared to 2008. The Composite Index ended the year at 765.28, down 77.65 points or 9.21 per cent, the All T&T Index lost 4.81 per cent or 55.59 points for the period to close at 1099.16 and the Cross Listed Index suffered the greatest decline of 17.91 per cent or 11.77 points to close the year at 53.94. The Trinidad and Tobago Stock Exchange saw 76,910,642 shares traded on the First Tier Market in 2009, which was down a significant 42.56 per cent on the prior year's volume of 133,894,495 shares. The reduced trade volumes were matched by a fall in the total value of shares traded, which moved from $2,184,750,500.30 in 2008 to $1,470,420,764.60 in 2009. This represented a 32.70 per cent decline or $714,329,735.70.

In light of the above and despite the challenging climate that local corporations currently face, we believe that the following companies show potential for increased shareholder return and demonstrate potential for growth in 2010 – FirstCaribbean International Bank Limited (FCI), GraceKennedy Limited (GKC), Guardian Holdings Limited (GHL), National Enterprises Limited (NEL) and West Indian Tobacco Company Limited (WCO).

FirstCaribbean International Bank Limited
As a result of the general slowdown in the economy, the banking sector overall experienced lower demand for loans and increases in loan provisioning. Less consumer demand for goods and services meant that businesses were not stocking up on supplies, equipment and machinery resulting in reduced demand for commercial and corporate loans. The slowing of the economy also saw customers circumstances change, whether through loss of employment or reduced income. As such, the banks saw an increase in loan delinquencies as these customers were challenged in servicing their debt.

Against this economic backdrop, FCI, one of the leading commercial banks, was able to deliver sustainable results given the challenging market conditions. Total Income rose 3.21 per cent while Total Expenses rose 5.01 per cent. The bank's efficiency ratio, which is a measure used to gauge how effectively a bank is running, improved from 56.96 per cent in the previous year to 56.27 per cent in the current year. It is our view that FCI will continue to deliver sound results in the coming year. For fiscal 2009, FCI reported Earnings Per Share (EPS) of US$0.112 which translates to a historic P/E of 9.29 times. Based on our initial assessment of 5 per cent growth for fiscal 2010 and a multiple of 10 times, this stock has an expected return of approximately 13 per cent on the current price of $6.50.

GraceKennedy Limited

The Jamaican economy has been hard hit by the global recession. Two key factors that drive their economy namely tourism and remittances, both saw downturns in 2009. The Jamaican dollar has stabilized around the $88-89 mark for every one U.S. dollar, however the currency depreciated approximately 11 per cent in 2009.

In addition to the current economic situation in Jamaica, GKC was also faced with losses of US$19.93 million from unauthorized fixed income trades. In these turbulent times, the Group, at its Nine Months ended September 30, 2009, has managed to increase Revenue by 8.11 per cent, Operating Profit by 6.35 per cent and Profit Before Tax by 7.01 per cent. Additionally, while Jamaica saw an overall reduction in remittances, GKC's Money Services Segment achieved 3 per cent growth in revenue. The Group has also continued with its expansion plans opening two additional Hi-Lo Food Stores and its distribution centre is expected to be commissioned by the second quarter of 2010.

Despite these impediments, GKC was able to weather the storm which speaks to the resilience of the Group in the face of adversity. For the Nine Months (NM) ended September 30, 2009, GKC reported Diluted Earnings Per Share (EPS) of JMD5.51, an increase of 8.89 per cent on NM08. Using our estimates for fiscal 2009, the Group is trading at a forward P/E of 6 times. Based on a conservative 5 per cent growth for fiscal 2010 and a multiple of 7 times, this share has an expected return of approximately 20 per cent on the current price of $3.00.

Guardian Holdings Limited

As you will recall, GHL's performance for a period of time has been impacted by fair value losses and the underperformance of Zenith, its motor insurance business in the United Kingdom. These two issues have had negative effects on the Group's operations and have left investors with lost confidence in the Group.

Barring these obstacles, it is important to note that the Group's core businesses, life, health, property and casualty insurance as well as pensions and asset management, have continued to perform well resulting in a Net Profit After Tax of $241.88 million as at the Nine Months ended September 30, 2009.

We believe that the disposal and subsequent sale of Zenith, whose past performance has been a hindrance to the Group's bottom line, will augur well for the future of the Company. The crucial decisions taken thus far, the reorganization of operations to maximize synergies and the reduction of operational expenses in 2010 will position the Group for an improved performance in the coming year.

National Enterprises Limited

At the Half Year ended September 30, 2009, NEL registered a Profit After Tax of $229.20 million, a decline of 42.45 per cent when compared to the same period in the previous year. This was as a result of the drastic fall in commodity prices in 2009 which adversely affected the performance of Trinidad Nitrogen Company Limited (Tringen) and NGC NGL Company Limited (NGC NGL). It is expected, however, that energy prices will recover in the current year which in turn will improve the Company's revenue.

According to the Chairman, both Telecommunications Services of Trinidad and Tobago Limited (TSTT) and NGC Trinidad and Tobago LNG Limited (NGC LNG) are operating at acceptable profit levels and National Flour Mills Limited (NFM) has returned to profitability.

NEL continues to have one of the highest dividend payouts on the market. The current dividend yield is approximately 9 per cent. Based on our estimates for fiscal 2010, the Company is trading at a forward P/E of 9.17 times. At 10 times multiple, we anticipate capital appreciation of 9 per cent as well as an attractive dividend yield.

West Indian Tobacco Company Limited

WCO remains attractive not only because the Company consistently has a high dividend payout but up to its Nine Month financial results, has also managed to deliver strong earnings growth. Thus far, for fiscal 2009, WCO has had three successful quarters, reporting earnings growth of 26.92 per cent, 32.20 per cent and 31.75 per cent growth for the first, second and third quarters respectively, year on year.

Additionally, at the Nine Months ended September 30, 2009, the Company while increasing Revenue by 10.97 per cent when compared to the same period in the previous year, improved Operating Profit by 29.26 and overall Profit Before Tax was up by 30.27 per cent. This is a clear indication of the Company's ability to manage costs while growing the top line.

Based on our projections for fiscal 2009, WCO is trading at a forward P/E of 10.76 times. At an estimated 10 per cent growth rate for fiscal 2010, this share has an expected return of approximately 12 per cent on the current price. The current dividend yield is approximately 8 per cent.

Outlook

Internationally we are seeing signs of recovery however the road ahead remains treacherous with immense potential for another dip. In the local market it is expected that growth would resume in the third quarter albeit at a very slow rate of between 2 per cent and 3 per cent. The present low interest rate environment would continue for the foreseeable future. In this scenario the art of stock picking may be a perilous task. However we have a proven track record using methods honed over many years. Our theme this year are stocks which have good long term value but may have had short term hiccups and also stocks with high dividend yields.

We wish you all a profitable year in investing and look forward to talking to you.

(Statistics provided were based on share price and indices data available as at December 31, 2009)

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