Is the bear finally giving a reason to smile?
The prices used for the analysis of the shares was that as at Wednesday, 3rd May, 2006.

Since May 17, 2005, the Stock Market has been on a downslide. Though this movement was originally anticipated due to the over-valuation of several of the Companies, the duration of the downswing has outlived its welcome. Now, almost one year later, stocks are experiencing the opposite fate due to the prolonged bearish market conditions. There are now companies that are undervalued or that are trading at the lower threshold of the price/earnings ratio which they usually trade. Because of the rate at which the prices of some of the companies fell however, there is still some hesitance to re-enter the market together with the fact that the institutional presence previously characteristic of the market is yet to see any re-birth.

There are however, very attractive buys cropping up on the market due to the prices that some of the shares have been driven to resulting in some shares trading at lower than traditional price/earnings multiples. This week's article seeks to outline some of the buys on the market using valuation methods discussed in previous articles and to explain the reasons for the buy rating.

Sagicor Financial Limited
Sagicor recently posted extremely good results for the year ended December 31, 2005 with its Earnings Per Share growing 100 per cent in part due to large gains in its investment income and ended the year 2005 having expanded into new geographic markets such as Jamaica and the United States and also into new product markets. Being a fairly young Company, formed about four years ago there is not a lot of historical information on it. However, since its listing on the Trinidad & Tobago Stock Exchange (August 2004), this share has traded as low as $11.75 and as high as $15.50.

At the current price of $12.50, this share is trading at a price/earnings ratio of 7.76. However, subtracting the impact of the exceptional gain of BDS$27.1 million on the earnings per share (EPS) results in an EPS of approximately TT$1.30. A price/earnings trading band of 10 to 12 would suggest that Sagicor has the potential to trade between TT$13.00 to $15.60. At a projected level of growth of 15 per cent for this year, which is an Earnings Per Share of approximately $1.50, this share has the potential to trade between $15.00 (at 10 times earnings) and $18.00 (at 12 times earnings).

In addition, this share is also trading at an attractive market value to book value ratio of 1.07 which adds to the testimony that there is indeed growth for this company as market to book ratio of less than 2.00 is considered low. The Group is also sailing on the distinction of a financial strength rating of BBB+ as rated by Standard & Poor's which is well within investment grade.

Ansa McAl Limited

Figure 1

AMCL	2005	2004	2003	2002	2001
Return on Equity	21.98%	18.81%	16.82%	17.36%	18.13%
Profit Margin Ratio	15.28%	13.04%	10.06%	9.07%	8.52%

Ansa McAl is one of the veterans of the stock market and the Company remains a strong institution with impressive earnings and a moderate market to book ratio of 3.01.

Ansa McAl's average earnings per share growth for the past five years stands at a very impressive 27.53 per cent. As can be seen from Figure 1, the Group's profit margin ratio has been growing steadily for the past five years which bodes well for the Company as it suggests the Company's ability to sustain and enhance its profit in the future. In addition, this is a direct positive indication of how much of the revenue is retained as profit for the Company's shareholders.

This Company continues to put measures in place to improve capacity and quality as is evident in the improvement of its three breweries last year in order to support local demand and the Company's export drive. In addition, the Group's expansion drive has indeed reaped rewards in 2005 aiding in the growth of the Company's earnings per share of 45.00 per cent.

Ansa McAl is currently trading at $41.56 which is at a price/earnings multiple of 15.92. Given that this share usually trades within a price/earnings multiple band of 16-18 this would suggest that this Company has the potential to trade between $41.76 to $46.98. Projecting growth of 20.00 per cent on last year's earnings per share, which would mean expected earnings per share of $3.13, this would suggest a targeted price of $50.11 at the lower multiple of 16 and $56.34 at the higher multiple of 18.

Ansa McAl carries the merit of surpassing is targets of Vision 2006 one year early. The Company's "Vision 2010" target of $5.00 earnings per share and a share price of $100.00 equals a price/earnings multiple of 20. However, using a more traditional multiple of 16 due to the fact that we do not know what the market conditions would be at that time, this would suggest a targeted price of $80.00 for 2010 and as such, an average growth rate of 18.31 per cent over the next five years. Hence, given the diversity of this Group and the fact that the Group has a number of projects in the pipeline, the medium to long term profitability of this share is also attractive.

RBTT Financial Holdings Limited

Figure 2

RBTT	2005	2004	2003	2002	2001
Return on Equity	22.04%	25.85%	22.47%	22.25%	22.74%
Profit Margin Ratio	33.10%	31.89%	28.30%	29.06%	36.09%

We currently await RBTT's results, while there have been some hiccups for this financial year (April 2005 to March 2006), being one of the leaders of the industry and one of the more stable companies on the market, we do not expect this to continue and RBTT indeed remains one of the better valued shares on the market and within its own sector trading at a moderately low market to book ratio of 2.33. In addition, this Company has performed well historically with healthy sustainability of profits and retention for the stockholders (as can be seen by the return on equity and profit margin ratio from Figure 2). Even more encouraging is the fact that RBTT's dividend payout ratio has historically been over 40 per cent and the Company's dividend yield is above 4 per cent which is also the highest in its sector.

At the current price of $28.32, the company is currently trading at a running price/earnings ratio of 9.90. For argument sake, assuming that this year end (March 2006) will be flat, this will result in a price/earnings ratio of 10.57. RBTT's average growth in earnings per share for the past five years (assuming flatness this year), would be approximately 18 per cent. Using a more conservative forecast figure of 15 per cent, given that this share usually trades within a 11 to 15 price/earnings ratio, this would set a target price of $33.88 at a price/earnings multiple of 11 times which is approximately a 20 per cent return. The current soft market conditions and expected flatness have given investors a candid opportunity to invest in a stable company with high growth potential, at a relatively low price that prevailed in the year 2003.

National Commercial Bank (Jamaica)

In the last year, National Commercial Bank has traded as high as $2.30 and as low as $1.39. Since 2002, when AIC acquired the majority shareholding in this Company, there has been a great initiative to improve the Company's operating infrastructure. Amidst a tough economy, NCBJ grew its operating income 28 per cent in 2005 and improved its profitability by 33.24 per cent through expanded revenue streams, cost control and prudent risk management. The Company's market to book ratio stands at a low of 2.06. Also boding well for the Company is the fact that the Group is no longer affected by losses concerning the Dyoll Group as Dyoll is no longer part of NCBJ's insurance services.

The impairment loss on the investment in the Dyoll Group for the year ended 2005 was JCA$236.359 million which eroded approximately JCA 9.58 cents from the Earnings Per Share. Hence, the Earnings Per Share would have been JCA$1.84. Given that this share usually trades at a price/earnings multiple band of 10 to 12 times, this would suggest that this share should be trading between TT$1.78 to TT$2.13. This company is currently trading at TT$1.70. In Jamaica, this share has traded as high as JCA$21.90 and as low as JCA$14.25 in the last 52 weeks. However, due to the soft market conditions of this market, it has traded between JCA$16.00 to JCA$18.00 in the past couple weeks.

Projecting 15 per cent growth on the adjusted earnings per share of JCA$1.84, would result in a project earnings per share of approximately JCA$2.10 (TT$0.20) which would indicate a targeted trading range of $2.03 to $2.40. Hence, given this information it is evident that this Company remains undervalued at the current price of TT$1.70 with the prevailing soft market conditions and it is for this reason that this share is considered a buy.

Figure 3 shows a summary of the current and potential prices for the shares under review.

Figure 3

Share	Price as at 03/05/06	Current P/E	Projected EPS (one year)	Projected Price at lower P/E	Projected Price at higher P/E
Sagicor	$12.50	7.76	$1.30	$15.00	$17.94
Ansa McAl	$41.56	15.92	$3.13	$50.11	$56.34
RBTT	$28.32	9.90 (running)	$3.08	$33.88	$46.20
NCBJ	$ 1.70	8.50 (running)	$0.20	$ 2.03	$ 2.40

Though some may find themselves in unfortunate circumstances due to the soft market conditions, these conditions have in fact created candid opportunities to acquire shares at reasonable or what some may even term as ‘bargain’ prices with possible returns of approximately 20 per cent on all of the shares under review. With attractive prices translating into low price/earnings multiples and the potential for growth, after a long period of what seemed like hopelessness, I hope the bear is finally giving investors a reason to smile.