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GraceKennedy Limited

	GK
RECOMMENDATION	Long-Term Buy
Current Price	TT\$6.53
Current Running P/E	11.25 times
Running EPS	Jca\$6.04; TT\$0.58
Projected EPS (TT)	60-65 cents
Dividend Yield (FY 2005)	0.55 per cent
Return on Assets	3.72%
Return on Equity	14.22%

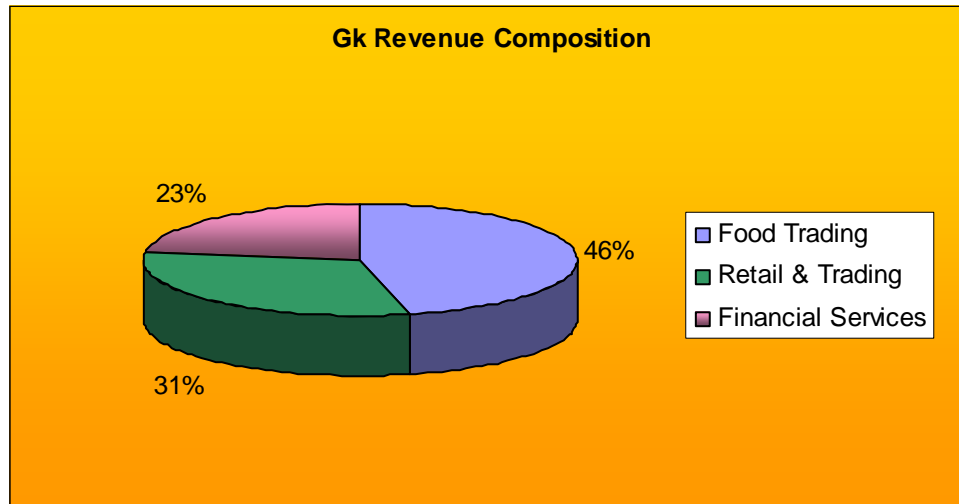
First Quarter ended March 31, 2006

All figures quoted in Jamaica Dollars

GraceKennedy had a disappointing first quarter in part due to the impact that the cement shortage in Jamaica has had on the purchasing power of consumers in that market. The cement shortage led to a number of construction projects being delayed. In an island with a population of approximately 2.6 million, the delay affected more than 100,000 people who suffered from reduced disposable income. In addition, one of the Company's subsidiaries, Hardware & Lumber was also a victim of the cement shortage as there was lack of demand for construction related materials. Hence, in part due to the lack of demand spawned by the cement shortage and the pressure put on Hardware & Lumber, Earnings Per Share fell 22 cents or 13.25 per cent from \$1.66 in 2005 to \$1.44 in 2006.

Revenue increased 8.00 per cent to \$8,776.531 million with the Food Trading Segment contributing over 46 per cent (see Figure 1). Though the Financial Services Segment contributed the least to Revenue, it grew 27.55 per cent from 2005 while the Food Trading Segment increased 5.30 per cent and Retail & Trading rose 1.68 per cent. The Food Trading and Retail & Trading Divisions were, of course the two Segments affected by the softening in overall consumer demand in the market place which pressured the Company's margins. The Companies within the Retail & Trading Division have continued their focus on cost containment in order to compensate for the downturn in sales.

Figure 1



Operating Income however decreased 11.48 per cent to \$515.859 million as a 9.51 per cent increase in Expenses to \$8,260.672 million countered the rise in Revenue. Other Income rose minimally 0.92 per cent to \$149.063 million leading to an 8.97 per cent decreased in Profit From Operations from \$730.473 million in 2005 to \$664.922 million in 2006. The Company's Operating Profit Margin fell from 8.99 per cent to 7.58 per cent.

Finance Income fell 15.97 per cent while Finance Expense rose 20.93 per cent and Share of Results of Associated Companies dropped 29.15 per cent to \$38.144 million. This ultimately lead to a 14.43 per cent decreased in Profit Before Tax from \$807.573 million in 2005 to \$691.018 million in 2006. The Company's Effective Tax Rate rose from 29.46 per cent to 30.00 per cent while Profit for the Period declined 15.09 per cent to \$483.712 million in 2006 from \$569.697 million in 2005.

During the quarter, the Company saw the listing of its coconut water in COSCO Stores in Canada which is expected to provide significant volumes. The Company also saw the launch of its "Caribbean Tradition" range of seasonings in Jamaica and Canada and the opening of its Hardware & Lumber mega store in Ocho Rios. Hi-Lo Food Stores (Ja.) Limited located in Montego Bay was closed.

Since last year, the share price of GK has been put under some downward pressure (See Figure 2) with the expectation of reduced growth in earnings. In Jamaica, it has traded as high as \$116.00 and as low as \$57.06. It is currently trading at \$62.00 in that market. In Trinidad, it is currently trading at TT\$6.53 while its 52 week high is TT\$12.50 and the 52 week low is TT\$6.00. The Directors have recently won approval from shareholders to offer a share buy-back.

In Jamaica, problems concerning the shortage of cement are expected to lessen from mid June when imported cement is carded to arrive and bring some relief to the sector. However, there is also the upcoming hurricane season and the impact it could have on GK. The Company has projected growth for 2006 between -5 per cent to 5 per cent, at the forecasted Earnings Per Share of 65 cents GK is trading at a price/earnings ratio of 10.04. Though there may be problems in the short term, given that

measurements are being put in place to control costs and become more efficient, in addition to Gk's expansion into new product lines, we recommend GK as a LONG-TERM BUY.

Figure 2

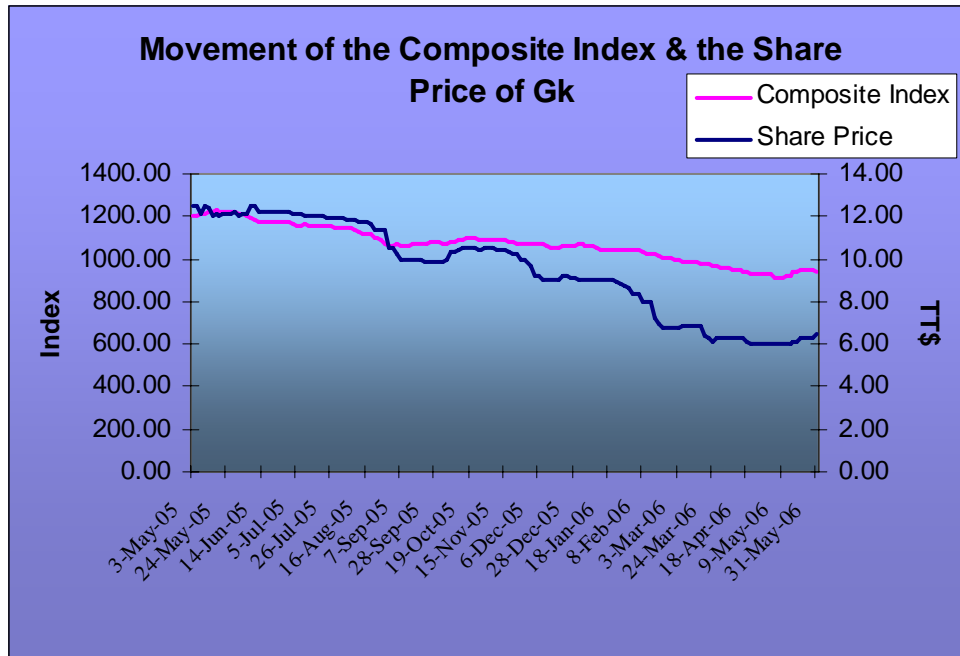


Figure 3

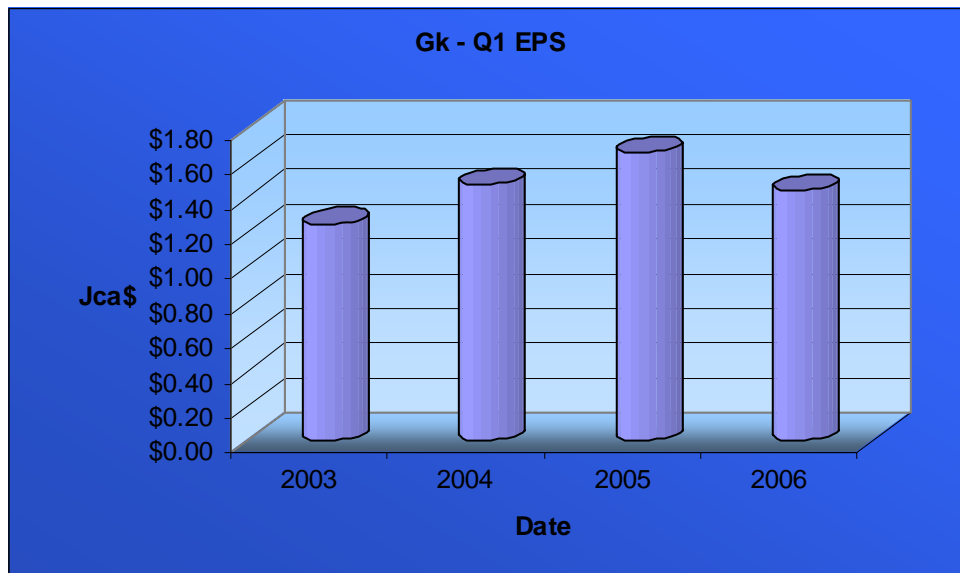




Figure 4

Grace Kennedy Limited - Financial Data							
	FY 2005 Jca\$'000	FY 2004 Jca\$'000	% Change		Q1 2006 Jca\$'000	Q1 2005 Jca\$'000	% Change
Revenues	33,031,615	30,703,792	7.58%		8,776,531	8,126,088	8.00%
Profit from Operations	2,895,405	2,931,694	-1.24%		664,922	730,473	-8.97%
Profit before Taxation	3,055,247	3,151,837	-3.06%		691,018	807,573	14.43%
Profit for the period	2,121,694	2,273,080	-6.66%		483,712	569,697	15.09%
Profit Attributable to Shareholders	2,074,936	2,171,368	-4.44%		476,790	552,616	13.72%
Earnings Per Share (basic)	6.38	6.73	-5.20%		1.46	1.70	14.12%
Earnings Per Share (diluted)	6.26	6.58	-4.86%		1.44	1.66	0.13253
P/E Multiple	15	18	16.67%				
Dividend	\$1.00	\$0.90	11.11%				
Dividend Payout Ratio	15.97%	13.68%					
Dividend Yield	1.07%	0.74%					
Net Asset Value	20,954,650	18,359,797					
Market to Book Ratio	1.45	2.17					
Shares Outstanding	327,226,678	318,226,678					

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