

Neal & Massy Holdings Limited (NML)

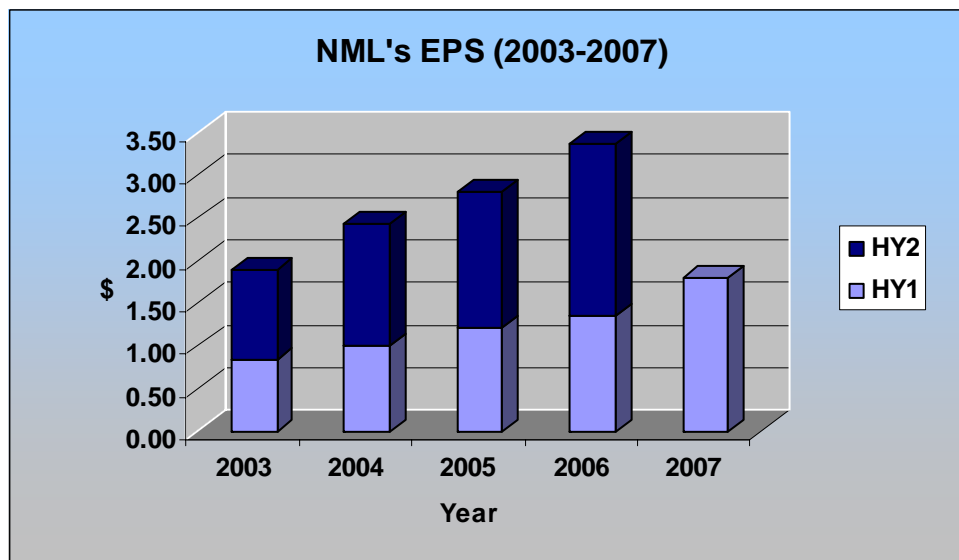
	<u>NML</u>
RECOMMENDATION	BUY
Current Price	\$45.50
Running EPS	\$3.81
Projected EPS	\$4.00
P/E at Projected EPS	11.38 times
Dividend Yield	2.64%
Return on Assets	10.14%
Return on Equity	21.99%

Results for the Half Year Ended March 31, 2007

Earnings Per Share

Neal & Massy Holdings Limited (NML) continues to report impressive results, as the Group closed the Half Year Ended March 31, 2007 with Earnings Per Share (EPS) of \$1.80. This figure was up by an outstanding 32.35 per cent or \$0.44 on the corresponding Half Year period for FY06. Also, for the first time, the Group reported quarterly earnings of which the EPS for Q207 stood at \$0.95 compared to \$0.72 for Q206 - also a substantial increase of 31.94 per cent. When compared to the first quarter of FY07, the EPS for Q207 was up by 11.76 per cent or \$0.10. The Group has shown an increasing First Half EPS over the last five years with a substantial average growth rate of 21.58 per cent. (See Graph 1)

Graph 1





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Financials

Group Third Party Revenue for the Half Year stood at \$2.47 billion compared to \$1.96 billion for the same period in FY06, an increase of 26.35 per cent or \$515.61 million. Q207 on Q206, this figure was up by 25.85 per cent or \$255.11 million from \$986.72 million to \$1.24 billion. NML’s new acquisitions accounted for \$195 million (36 per cent) of the incremental revenue while other subsidiaries contributed the remaining 64 per cent. The Retail business unit was the largest contributor to Revenue and grew by 16 per cent over the corresponding period, while the Energy Business Unit and Finance and Other contributed the least to Revenue. However, while Finance and Other was a small contributor, it showed enormous growth on the comparable period of FY06, up by 180 per cent. The Automotive Business Unit continues to be the second largest revenue driver, up by a considerable 22 per cent on HY06.

HY07 on HY06, Operating Profit was up by 25.56 per cent from \$163.70 million to \$205.55 million; while Q207 on Q206 this figure saw an increase of 17.18 per cent moving from \$88.78 million to \$104.04 million.

NML’s associate companies showed significant growth over the previous year, as Share of Results of Associated Companies amounted to \$31.72 million for HY07 compared to \$16.19 million for HY06- an increase of 95.92 per cent or \$15.53 million. Additionally, for Q207, this figure was \$21.49 million, up by an outstanding 218.75 per cent or \$14.75 million on the same period for FY06. Barbados Shipping & Trading Company (BS&T) was the largest contributor to the Share of Results from Associated Companies adding \$20.11 million to the bottom line, an increase of 62 per cent on the corresponding period. While, NM Wood Group Limited showed the largest growth moving from a contribution of \$0.58 million to \$2.34 million - a 307 per cent increase.

Profit Before Taxation ended the Half Year under review at \$237.26 million, an increase of 31.89 per cent or \$57.38 million on the same figure for the Half Year Ended March 31, 2006. The Effective Tax Rate for HY07 was 27.43 per cent compared to a Tax Rate of 28.50 per cent for HY06. Thus, Profit After Taxation amounted to \$172.19 million, an increase of 33.87 per cent or \$43.57 million on the corresponding half year period in FY06.

Table 1 shows NML’s Half Year Financial Data Comparison for 2006 to 2007.

Table 1

NML's Financial Data for Half Year (2006-2007)						
	Q2 2007 \$'000	% Change Q2'06- Q2'07	Q2 2006 \$'000	HY 2007 \$'000	% Change HY'06- HY'07	HY 2006 \$'000
Group Third Party Revenue	1,241,828	25.85%	986,718	2,472,381	26.35%	1,956,769
Operating Profit	104,039	17.18%	88,784	205,547	25.56%	163,700
Share of Results of Associated Companies	21,487	218.75%	6,741	31,717	95.92%	16,189
Profit Before Taxation	125,526	31.41%	95,525	237,264	31.89%	179,889
Taxation	(34,078)	22.15%	(27,899)	(65,077)	26.93%	(51,268)
Profit After Taxation	91,448	35.23%	67,626	172,187	33.87%	128,621
Earnings Per Share (Basic)	\$0.95	31.94%	\$0.72	\$1.80	32.35%	\$1.36



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Table 2 shows NML's Year End Financial Data Comparison for 2003 to 2006.

Table 2

NML's Financial Data for Year End (2003-2006)							
	YE 2006 \$'000	% Change '05-'06	YE 2005 \$'000	% Change '04-'05	YE 2004 \$'000	% Change '03-'04	YE 2003 \$'000
Revenue	4,201,974	18.25%	3,553,613	16.69%	3,045,336	8.93%	2,795,791
Operating Profits	419,943	21.02%	347,001	15.65%	300,047	38.48%	216,668
Finance Costs	(18,401)	115.44%	(8,541)	47.37%	(16,229)	22.56%	(13,242)
Share of Profit of Associated Companies	31,920	5.75%	30,184	11.10%	33,951	16.83%	29,060
Profit Before Income Tax	433,462	17.58%	368,644	16.01%	317,769	36.68%	232,486
Income Tax Expense	(114,976)	10.93%	(103,650)	18.22%	(87,677)	76.79%	-49,595
Profit for the Year	318,486	20.19%	264,994	15.17%	230,092	25.81%	182,891
Diluted EPS	\$3.36	20.00%	\$2.80	15.23%	\$2.43	27.89%	\$1.90
Market Price @ Financial Year End	\$37.10	-21.86%	\$47.48	35.08%	\$35.15	52.83%	\$23.00
P/E Ratio @ Financial Year End	11.04		16.96		14.47		12.11
Dividend	\$1.05		\$0.88		\$0.76		\$0.67
Dividend Payout Ratio	31.25%		31.43%		31.28%		35.26%
Dividend Yield	2.83%		1.85%		2.16%		2.91%
Net Asset Value	\$17.77		\$15.42		\$13.39		\$11.72
Market to Book Ratio	2.09		3.08		2.63		1.96
Return on Equity	21.60%		20.71%		19.34%		16.83%
Return on Assets	10.32%		10.33%		9.49%		7.83%
Shares Outstanding	88,822,000		88,822,000		88,822,000		88,822,000

Planned Merger

On May 15, 2007, the Board of Directors of Neal & Massy Holdings Limited and Barbados Shipping & Trading Company Limited (BST) announced plans to merge their respective entities. The decision, however, is still subject to approval by the shareholders of both companies. The NML Shareholders Meeting is carded for June 25, 2007 while the BST Shareholders Meeting will be held on June 27, 2007.

Should the proposed merger obtain the necessary approvals, shareholders of NML and BST will be shareholders of the combined enterprise, which will be called "Neal & Massy, BS&T Group Limited". After the merger, the combined Group will have annual revenues of over US\$1Billion, complemented by a strong capital and asset base.

Acquisitions

On May 24, 2007, Neal & Massy Energy Limited (NMEL) announced that the company acquired Rotating Equipment Services Limited (RESL) from its shareholders. RESL has been the premier provider of field services for compressors and pumps on offshore oil and gas platforms. RESL is also the leading provider of repairs and installations of rotating equipment for major methanol and ammonia producing plants in Point Lisas since 2002.



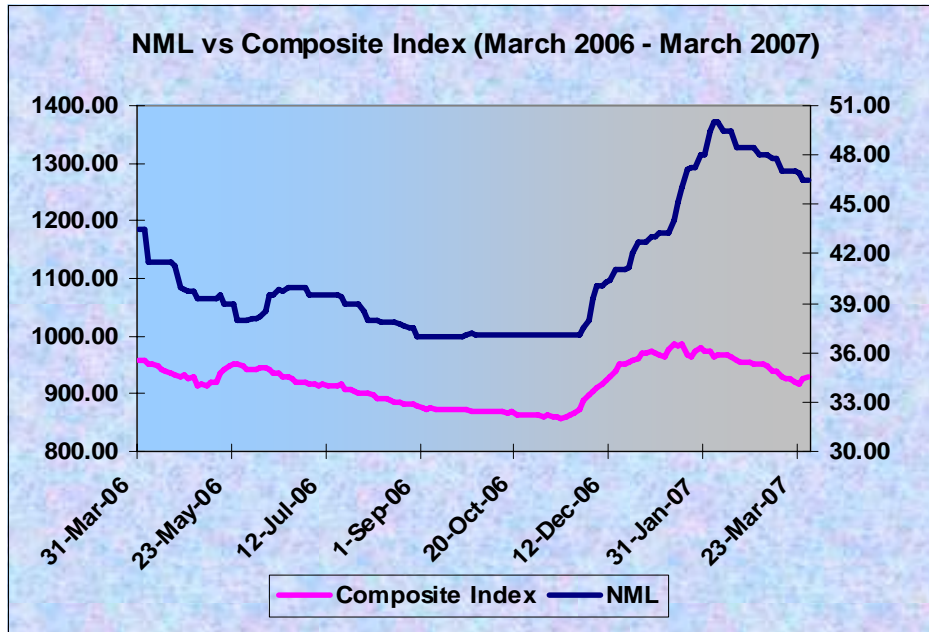
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Share Price

Over the period March 2006 to March 2007, NML traded as high as \$50.00 and as low as \$37.00. As can be seen in Graph 2 below, the share price of NML and the Composite Index have generally followed the same pattern. NML's share price peaked at \$50.00 on February 6, 2007 and subsequently started to decline. The shares of NML, as at March 31, 2007, closed at a price of \$46.50 (See Graph 2).

Graph 2



Dividends

The Board of Directors has approved the payment of an Interim Dividend of 36 cents (31 cents-2006). This dividend will be paid on June 04, 2007 to shareholders on the Register of Members at the close of business on May 22, 2007.

Recommendation

With the planned merger imminent, we are maintaining our forecasted EPS of \$4.00 for FY07, which at the current price of \$45.50, translates into an attractive price to earnings multiple for this share of 11.38 times. Additionally, using a multiple of 14 times and based on the forecasted EPS of \$4.00, we have estimated a target price of \$56.00 or a return of approximately 23 per cent at the current share price. We therefore continue to recommend a **BUY** on this share.

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