Argus Group Holdings Limited

Ticker: AGH - BH
Sector: Financial

Fiscal Year-End: March 31, 2007
Web Site: www.argus.bm

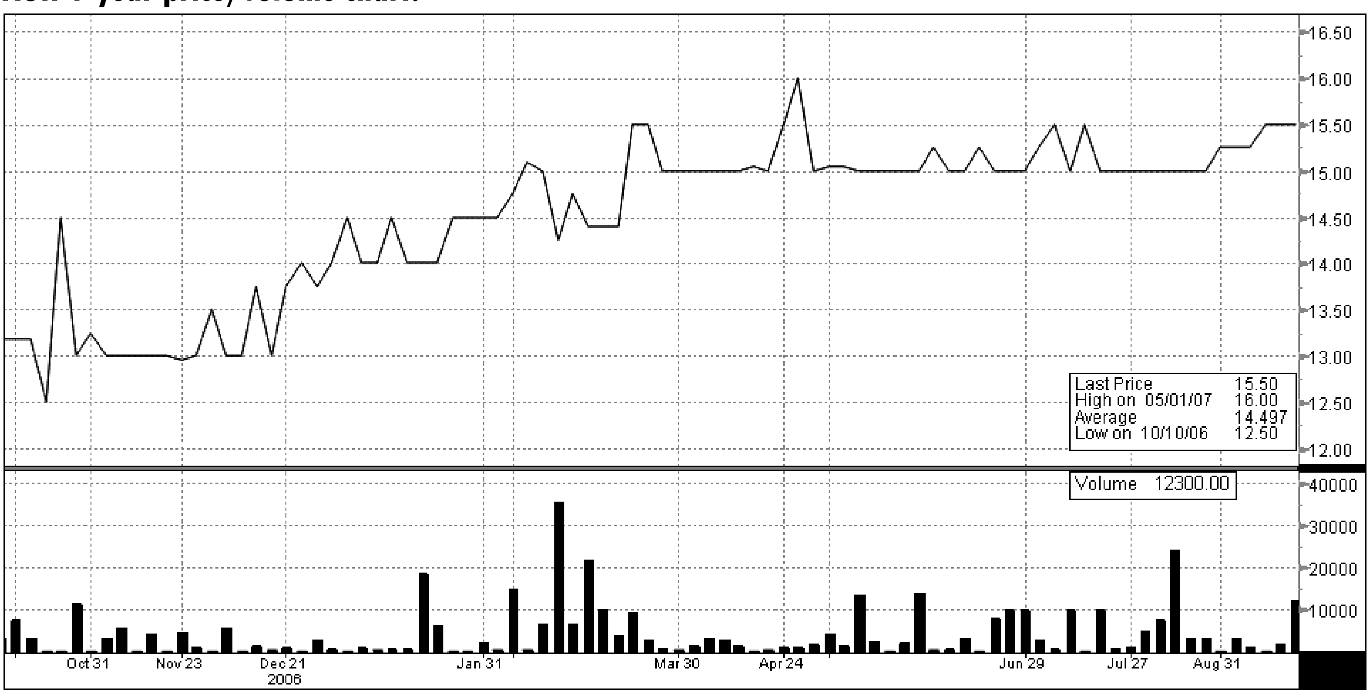
Share Price (09/30/07):	$15.50	**Annual Dividend:**	$0.64	**Shares O/S:**	19.42m
Stock Rating:	Buy	**Current Yield:**	4.13%	**Market Cap:**	$301.0m
Risk Profile:	Low	**Payout Ratio:**	33%	**BSX Weight:**	10.57%
1-Year Target Price:	$18.00	**Ex-Dividend Date:**	12/27/07	**Book Value:**	$9.14
1-Year Implied ROR:	20.3%	**Frequency:**	Quarterly	**Price/Book:**	1.70x

52-Week High:	$16.00
52-Week Low:	$12.50
Avg. Monthly Volume:	31,700
Current P/E Ratio:	8.07x
Shareholder's Equity:	$177.5m
Total Assets:	$535.8m
Return on Equity:	20.8%
Return on Assets:	6.9%

	2005	2006	2007	2008E
EPS:	$0.91	$1.41	$1.92	$1.80
YoY Growth:	5.8%	54.9%	36.2%	(6.2%)
P/E Ratio:	12.08x	9.35x	7.81x	10.00x
Fiscal YE Price:	$10.99	$13.18	$15.00	

Notes: AGH raised its annual dividend by $0.08 in October 2007
AGH distributed a 1-for-10 stock dividend in October 2007

AGH 1-year price/volume chart:



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Company Description

Argus Group Holdings (AGH) provides a broad range of insurance, retirement, and financial products and services dedicated to the needs of both individuals and businesses. The company's segmented revenue and earnings for the latest fiscal period are as follows (in millions):

Business Segment	Revenue	Earnings	Gross Margin
Insured Employee Benefits	$76.6	$ 9.5	12.4%
Life and Pensions	$45.5	$21.9	48.0%
Property & Casualty	$28.2	$ 5.3	18.9%
All Other	$ 3.5	$ 0.2	5.7%

In December 2006, Argus Group acquired the entire share capital of Tremont International Insurance Limited for a total consideration of $8.8 million. The company is engaged in variable annuities and life insurance policies, with a focus on hedge fund strategies, and has been amalgamated into the Group's International Life Division.

2007 Results

Argus reported record earnings for fiscal year-end 2007 of $37 million, representing an increase of 37% over the previous year. Revenue climbed almost 15% to a new high of $154 million. The company's strong growth was due to a variety of factors, including:

- The continued outperformance of Argus Group's "shining star", the Life and Pension Division, which returned $22 million, or nearly 60% of total earnings. Investment income for this segment benefited handsomely from a strong capital markets environment.
- The acquisition of new business and an improvement in underwriting ratios due to rising premiums, combined with moderate increases in deductibles and stricter risk selection.
- The lack of catastrophic events and a below-average level of overseas medical claims. Claims and adjustment expenses rose just 4% in 2007, as compared to a 20% jump in 2006.

Forecast and Recommendation

Argus Group Holdings, like its competitor BF&M, has compiled an impressive track record of revenue and earnings growth over the past two fiscal years. We anticipate some instability in future earnings due to three main factors:

- The company's adoption of new Canadian accounting provisions, specifically the "mark-to-market" rule, which mandates the inclusion in net income of securities classified as "held for trading". For example, if the value of the company's equity portfolio were to decline significantly during a market downturn, this decrease would be reflected in reported net income figures.
- The possibilities of both catastrophic events (hurricanes, windstorms) and of increases in the levels of domestic motor claims and overseas medical claims.
- A continued volatility in global capital markets, specifically the tightening of credit spreads due to liquidity concerns, and an ensuing "flight to quality" into safer, lower-yielding investments.

Going forward, we expect a more normalized growth rate for Argus due to a marginal increase in expenses and slightly less-favourable underwriting ratios. Notwithstanding some concerns, Argus is well-positioned to continue on its path of sustainable growth, both through organic measures and through strategic acquisitions. With a current payout ratio of just 33%, the company has ample room to raise its dividend, despite our expectations for greater variability in future earnings.

By applying a 10.0x multiple to our fiscal 2008 earnings-per-share estimate of $1.80, we generate a target price of $18.00. LOM rates AGH stock as a "buy". We note that the company recently announced a dividend increase of $0.08 per annum and a 1-for-10 stock dividend payable to shareholders of record October 4, 2007.