

BELCO Holdings Limited

Ticker: BELCO - BH
Sector: Utilities

Fiscal Year-End: Dec. 31, 2007
Web Site: www.belco.bm

Share Price (10/31/08):	\$16.50
Stock Rating:	Hold
Risk Profile:	Low
1-Year Price Target:	\$17.00
1-Year Implied ROR:	8.2%

Annual Dividend:	\$0.85
Current Yield:	5.2%
Payout Ratio:	43%
Ex-Dividend Date:	12/12/08
Frequency:	Quarterly

Shares O/S:	10.3m
Market Cap:	\$169.8m
BSX Weight:	8.6%
Book Value:	\$28.71
Price/Book:	0.57x

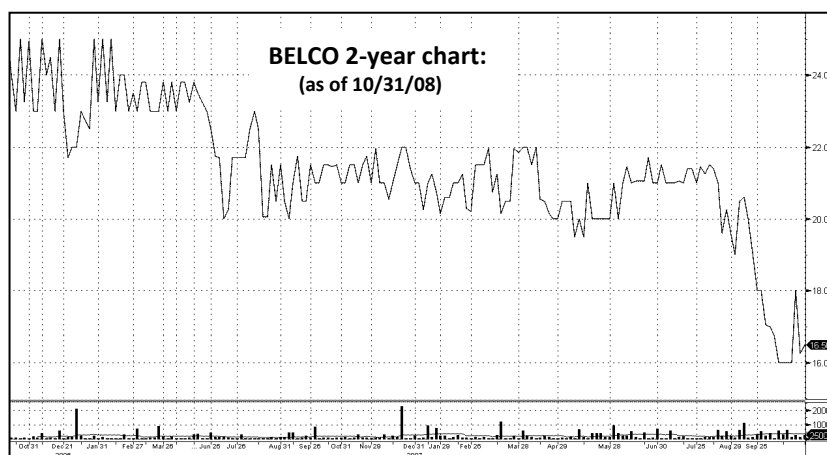
52-Week High:	\$22.00
52-Week Low:	\$16.00
Avg. Monthly Volume:	12.8k

Current P/E Ratio:	8.3x
Shareholder's Equity:	\$297.9m
Total Assets:	\$339.5m
Return on Equity:	6.9%
Return on Assets:	6.0%

Earnings Snapshot	2005	2006	2007	2008E	2009E
EPS:	\$1.99	\$2.10	\$1.98	\$1.48	\$1.84
YoY Growth:	9.9%	5.5%	(5.7%)	(25.3%)	24.3%
P/E Ratio:	10.1x	11.0x	10.6x	11.1x	9.0x
Fiscal YE Price:	\$20.18	\$23.00	\$21.00		

Notes:

- BELCO raised its annual dividend by \$0.04 in August 2007.



Company Description

BELCO Holdings Limited is the parent company of Bermuda Electric Light Company Limited and Bermuda Gas & Utility Company Limited. BELCO operates a 165 Megawatt generation plant in Pembroke, from which it supplies electricity to the Island's residential and commercial consumers. The Bermuda Gas division distributes propane gas for residential and commercial use and operates a service and appliance center with a new location on Church Street in downtown Hamilton.

In June 2008, BELCO announced the formation of PurEnergy Renewables – a subsidiary which will focus on hybrid combinations of renewable power technologies, including Solar Photovoltaic (PV), Solar Thermal Water Heating, and small wind turbines. PurEnergy plans to integrate new renewable-energy installations onto the grid in order to subsidize conventionally-generated power from BELCO's central plant and to provide consumers with customized designs to reduce their dependence on fossil fuels and allow for backup power in the event of prolonged electricity outages.

BELCO Holdings Limited

2007 Results

BELCO Holdings reported 2007 operating earnings of \$20.4 million, or \$1.98 per share, down 5.6% from 2006 earnings of \$21.6 million, or \$2.10 per share. Operating costs of \$1.8 million associated with inventory write-offs and \$684,000 related to cancellation penalties served to trim BELCO's 2007 profit figures. Without these one-time items, the company earned \$22.9 million, or \$2.22 per share – slightly above our EPS estimates.

Total electricity sales came in less than projected. Although the number of residential customers increased by 2.5% year-on-year, the average customer usage declined by 4kWh per month. The decline in consumption was the result of conservation efforts brought about by higher fuel costs (passed on to consumers through the Fuel Adjustment Rate) as well as milder summer temperatures.

Bermuda Gas posted net income of \$1.13 million, a 57.4% improvement on 2006 results. The earnings increase was attributed to a rise in propane revenues in addition to higher appliance sales.

Half-Year 2008 Results

BELCO announced 1H08 earnings of \$7.1 million, or \$0.69 per share, a decline of 27% from 2007 first half earnings of \$9.8 million, or \$0.95 per share. Higher fuel input costs continued to hurt the company's margins, as residential consumption fell by 5.4% and operating expenses rose by 5.0%.

Bermuda Gas experienced lower sales volumes and higher expenses during the first half, reporting just \$138,000 in profit as compared to \$758,000 for the year-ago period.

Forecast and Recommendation

BELCO's operating margins should rebound in the second half of 2008, as oil prices have fallen from a high of \$150 per barrel to the recent trading range of \$50-60 per barrel. Similarly, we expect better earnings from Bermuda Gas, as the division recently introduced a new sales team and improved its product service capabilities.

In order to meet Bermuda's growing energy demands, BELCO estimates near-term plant expansion costs of \$100 million as part of an estimated \$500 million infrastructure investment over the next 10 years. To put this number in perspective, BELCO's current market capitalization stands at \$170 million, with total assets of \$340 million and shareholder's equity of \$300 million. Government has recently established a new Ministry of Energy, which should provide assistance to BELCO with respect to the planning, approval, and funding of the company's future energy infrastructure projects. Although we commend BELCO's renewable energy initiatives, we do not expect significant financial contributions from the new PurEnergy subsidiary for at least a few years.

We apply a 9.0x multiple to our 2009 operating earnings estimate of \$1.84 per share, resulting in a one-year price target of \$17.00 and a recommendation of Hold. We would note that BELCO shares offer an attractive dividend yield of 5.15% and currently trade at a 40% discount to book value.