

BELCO Holdings Limited

Ticker: BELCO - BH
Sector: Utility

Fiscal Year-End: Dec. 31, 2006
Web Site: www.belco.bm

Share Price (09/30/07): \$21.50
Stock Rating: Hold
Risk Profile: Low
1-Year Target Price: \$23.00
1-Year Implied ROR: 10.9%

Annual Dividend: \$0.85
Current Yield: 3.95%
Payout Ratio: 40%
Ex-Dividend Date: 12/13/07
Frequency: Quarterly

Shares O/S: 10.29m
Market Cap: \$221.3m
BSX Weight: 7.77%
Book Value: \$28.07
Price/Book: 0.77x

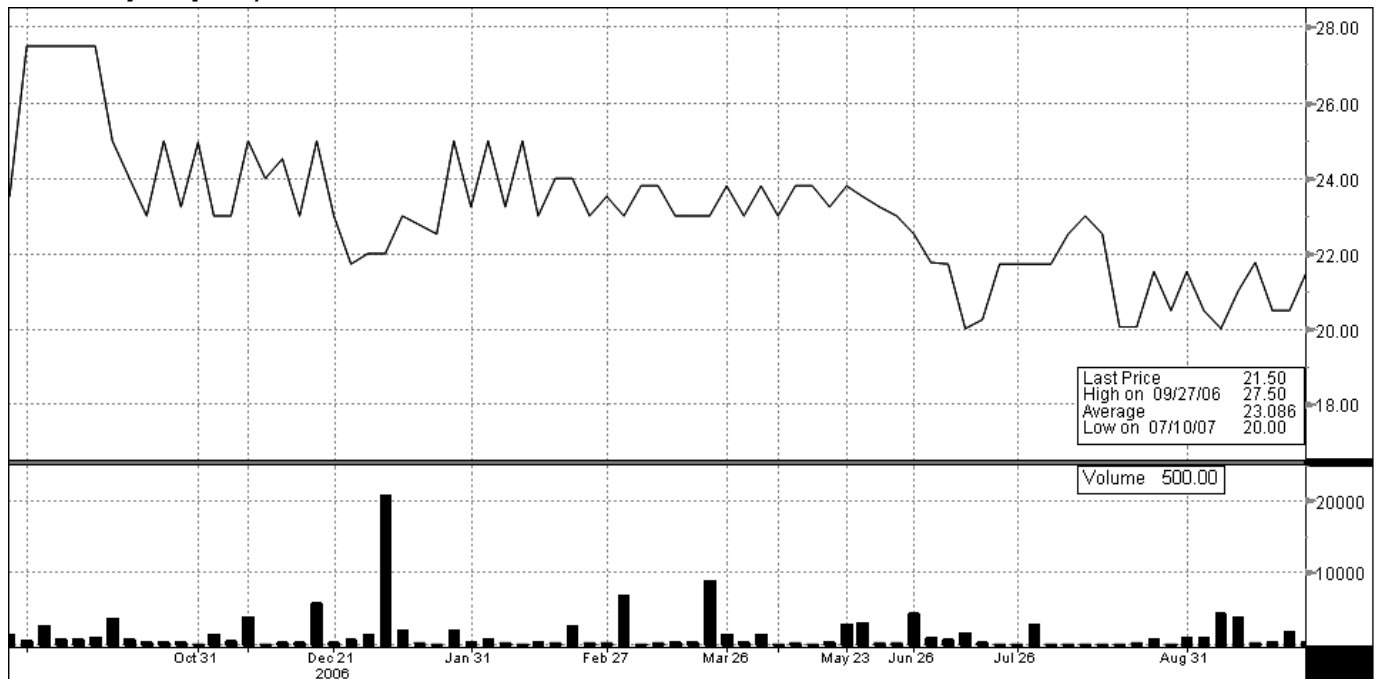
52-Week High: \$27.50
52-Week Low: \$20.00
Avg. Monthly Volume: 9,800

Current P/E Ratio: 10.24x
Shareholder's Equity: \$289.0m
Total Assets: \$327.2m
Return on Equity: 7.6%
Return on Assets: 6.6%

	2004	2005	2006	2007E
EPS:	\$1.81	\$1.99	\$2.10	\$2.12
YoY Growth:	6.5%	9.9%	5.5%	1.0%
P/E Ratio:	11.55x	10.14x	10.95x	11.00x
Fiscal YE Price:	\$20.90	\$20.18	\$23.00	

Notes: BELCO raised its annual dividend by \$0.04 in August 2007
BELCO distributed a 2-for-1 stock split in August 2006

BELCO 1-year price/volume chart:



BELCO Holdings Limited

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.

2006 Results

BELCO reported consolidated net income from operations of \$21.6 million in 2006, an increase of 5.9% over operating earnings in 2005. Revenue for the year was \$184 million, up 11.2% over 2006 revenue of \$166 million. Hurting BELCO's bottom line was a substantial increase in energy supply costs, as average fuel input prices climbed 21.6%, or \$14.10 per barrel of oil, from \$65.26 in 2005 to \$79.36 in 2006. These costs were partially offset by increased production efficiencies that resulted in savings of \$2.25 million. The Bermuda Gas division struggled in 2006, posting net earnings of only \$717,000, down 34.5% from 2005 profits of \$1.1 million.

Half-Year 2007 Results

BELCO recently reported half-year 2007 earnings of \$9.8 million, or \$0.95 per share, a 17% increase over 2005 half-year income of \$8.4 million. Total electricity sales increased 2.8% year-on-year, due to 715 new household metered connections and a significant 3.3% increase in large demand customers. Operating expenses were 2.8% above the first six months of 2006. Net income for Bermuda Gas increased 68% year-on-year, with appliance sales rising 45% due predominantly to a more favourable showroom location. Overall, we found these results to be solid and in line with our expectations.

Forecast and Recommendation

The BELCO plant fire of July 15, 2005, along with the resulting blackout, underscore the delicate nature of Bermuda's centralized electrical grid. Given the company's projection of an annualized 1.5% increase in electricity demand over the next 20 years, BELCO will need to accommodate the installation of 40MW in new generating capacity by 2010. The company's future plan could include the following components:

- The purchase of 20MW in ocean current-generated energy from Current-to-Current Bermuda Limited, which is expected to be available by mid-2009.
- The construction of smaller "distributed" generation sites outside of the Pembroke station. Though costly, such facilities could generate alternative revenue streams from production by-products, such as steam and water used to heat or cool water for commercial use.
- The expansion of the company's current contract with Government at Tyne's Bay.
- The purchase of power from residential small-scale renewable installations.

Unlike most other publicly traded companies, BELCO stands accountable to two unique groups of stakeholders. Firstly, we have Government, the commercial sector, and the general public – to whom it must be a safe, cost-effective, and reliable supplier of electricity. Secondly, the shareholders of BELCO – to whom it must provide steady revenue and earnings growth, in addition to periodic dividend increases. BELCO currently sits at a crossroads, with a future infrastructure plan that will require a host of capital outlays and funding decisions – expensive undertakings for which neither group of stakeholders will be willing to bear a significant brunt of cost. Consequently, we find it prudent to "sit on the sidelines" for the moment. Of further note, the company has been dealing with rising fuel input costs. BELCO does not currently institute a hedging program, nor does the near-term possibility appear likely, given the recent price appreciation in WTI crude.

By applying an 11.0x multiple to our fiscal 2007 earnings estimate of \$2.12, we generate a one-year price target of \$23.00. LOM rates BELCO stock as a "hold".