

BF&M Limited

Ticker: BFM - BH
Sector: Financials - Insurance

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

Share Price (10/31/08):	\$17.25
Stock Rating:	Buy
Risk Profile:	Moderate
1-Year Price Target:	\$20.00
1-Year Implied ROR:	20.6%

Annual Dividend:	\$0.80
Current Yield:	4.6%
Payout Ratio:	24%
Ex-Dividend Date:	12/26/08
Frequency:	Quarterly

Shares O/S:	8.2m
Market Cap:	\$141.9m
BSX Weight:	7.2%
Book Value:	\$18.49
Price/Book:	0.93x

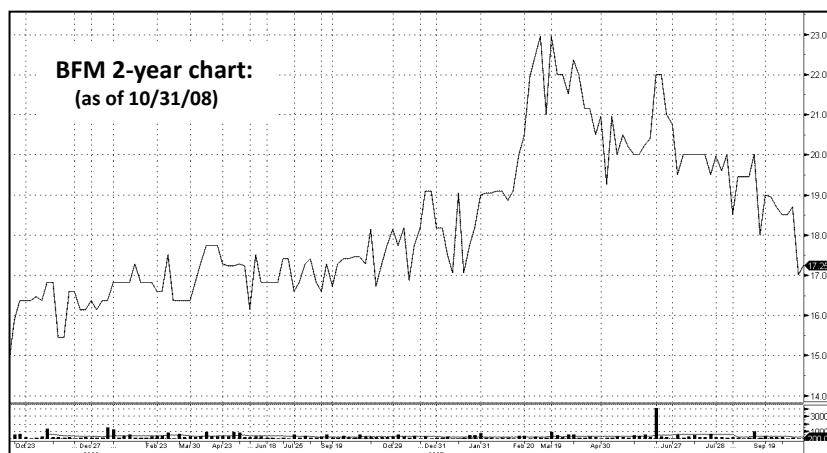
52-Week High:	\$22.95
52-Week Low:	\$16.86
Avg. Monthly Volume:	17.4k

Current P/E Ratio:	5.2x
Shareholder's Equity:	\$152.1m
Total Assets:	\$682.2m
Return on Equity:	19.5%
Return on Assets:	4.2%

Earnings Snapshot	2005	2006	2007	2008E	2009E
EPS:	\$2.24	\$3.00	\$3.33	\$2.19	\$2.54
YoY Growth:	68.5%	34.2%	11.0%	(34.2%)	16.0%
P/E Ratio:	7.5x	5.5x	5.5x	7.9x	8.0x
Fiscal YE Price:	\$16.82	\$16.36	\$18.18		

Notes:

- BFM distributed a 1-for-10 stock dividend in Feb. 2008. Per-share figures have been adjusted accordingly.
- BFM raised its annual dividend by \$0.16 in Feb. 2008.



Company Description

BF&M Limited is a Bermuda-based insurance company operating in all major insurance sectors, both domestically and internationally. The company's main foreign subsidiary, 52%-owned ICBL, operates in Barbados. The company also provides traditional financial services, including pension and asset management, and owns a portfolio of commercial real estate in downtown Hamilton.

BF&M's segmented revenue and earnings for the fiscal 2007 year are as follows (in millions):

<u>Business Segment</u>	<u>Revenue</u>	<u>Earnings</u>	<u>Net Margin</u>
Health, Life, Annuity & Pension	\$106.4	\$9.4	8.9%
Property & Casualty	\$30.1	\$13.4	44.6%
Barbados Operations	\$38.7	\$2.6	6.8%
Real Estate	\$3.2	\$1.7	43.8%
Corporate and Other	\$1.3	\$0.2	13.4%

BF&M Limited

2007 Results

BF&M reported 2007 earnings of \$27.3 million, or \$3.33 per share - an 11.0% increase from the \$3.00 EPS reported in fiscal 2006 (post the 1-for-10 stock dividend.) This profit compares favourably to our earnings estimate of \$2.85 per share and was gained amidst a tumultuous operating environment for financial companies, including insurers.

Fiscal 2007 was effectively a “banner year” for the company. Gross underwriting premiums grew by 9.7% year-on-year, from \$178 million to \$195 million. Total assets rose by 12.3%, from \$574 million to \$645 million. Shareholder’s equity grew by over \$30 million, or 12.3%, from \$110 million to \$140 million. Return on equity was a robust 21.8%, although lower than the 24.3% reported in 2006.

BF&M announced that the parent company and its subsidiaries have “no direct exposure to the sub-prime mortgage market and thus have weathered this volatile investment climate very nicely.”

Half-Year 2008 Results

BF&M announced six-month earnings of \$13.2 million, or \$1.60 per share, a year-on-year increase of 9.2%. New “mark-to-market” accounting rules served to decrease earnings by over \$4.5 million, although this effect was largely offset by a corresponding decrease in the fair value of actuarial liabilities supported by these investments. Gross premiums written for the half year period increased 8% year-on-year to \$108.5 million, while operating expenses increased 13% to \$18.6 million. Total assets rose 10.7% to \$682.2 million. Return on equity for the period was 20%.

Forecast and Recommendation

BF&M Limited remains a first-rate financial institution with solid underlying fundamentals. The company’s insurance franchises continue to strengthen, both in Bermuda and internationally. Asset management has shown solid growth over the past few years, although we expect results to be down in fiscal 2008. ICBL (Barbados) has exhibited steady revenue growth and is starting to show more bottom-line contribution.

The company’s investment book remains conservative, but it has not been immune to the drastic downturn in asset prices over the past year. Similar to Argus Group, “mark-to-market” accounting rules will serve to significantly dampen BF&M’s year-end earnings for 2007. We project a 34% decline in EPS this year, followed by an earnings rebound in fiscal 2009, as the “credit crunch” eases and financial markets stabilize. We apply an 8.00x multiple to our 2009 EPS estimate of \$2.54 for a one-year target of \$20.00. BFM shares are rated Buy.