

# BF&M Limited

Ticker: **BFM - BH**  
Sector: **Financial**

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

Share Price (09/30/07): \$18.40  
Stock Rating: Strong Buy  
Risk Profile: Low  
1-Year Target Price: \$23.00  
1-Year Implied ROR: 28.5%

Annual Dividend: \$0.64  
Current Yield: 3.48%  
Payout Ratio: 18%  
Ex-Dividend Date: 12/27/07  
Frequency: Quarterly

Shares O/S: 7.42m  
Market Cap: \$136.4m  
BSX Weight: 4.79%  
Book Value: \$17.02  
Price/Book: 1.08x

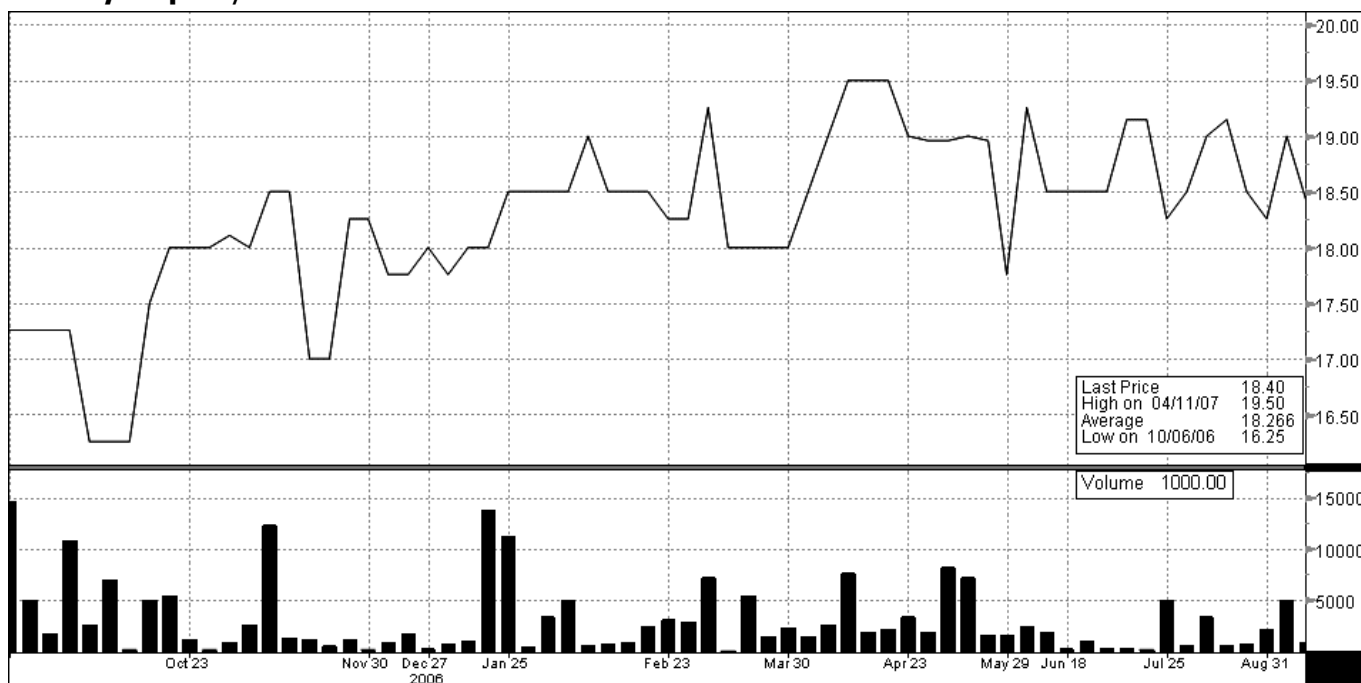
52-Week High: \$19.50  
52-Week Low: \$16.25  
Avg. Monthly Volume: 16,200

Current P/E Ratio: 5.04x  
Shareholder's Equity: \$126.2m  
Total Assets: \$616.1m  
Return on Equity: 21.6%  
Return on Assets: 4.2%

	2004	2005	2006	2007E
EPS:	\$1.46	\$2.32	\$3.65	\$2.85
YoY Growth:	3.5%	58.9%	57.3%	(21.9%)
P/E Ratio:	10.51x	7.97x	4.93x	8.00x
Fiscal YE Price:	\$15.35	\$18.50	\$18.00	

Notes: BFM raised its annual dividend by \$0.08 in March 2007  
BFM distributed a rights offering in May 2006 at \$15.15 per share

**BFM 1-year price/volume chart:**



## BF&M Limited

### Company Description

BF&M Limited is a Bermuda-based insurance company operating in all major insurance sectors, both domestically and internationally. 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 latest fiscal period are as follows (in millions):

<u>Business Segment</u>	<u>Revenue</u>	<u>Earnings</u>	<u>Gross Margin</u>
Health, Life, Annuity & Pension	\$91.3	\$10.1	11.1%
Property & Casualty	\$26.5	\$11.1	41.7%
Real Estate	\$ 3.2	\$ 1.7	43.8%
Barbados Operations	\$36.2	n/a	n/a
Corporate and Other	\$ 1.3	\$ 1.1	82.6%

### 2006 Results

BF&M Limited reported excellent financial results for 2006, with net earnings increasing 41% to a record \$23.9 million and revenue rising 43% to a record \$158 million. A variety of factors contributed to the company's strong performance in 2006, including:

- A lack of major catastrophes and below-average claims relating to the property & casualty division, especially marine and motor claims.
- Increased margins in the motor division due to stricter underwriting policies, moderate rate increases, and larger deductibles.
- Strong investment income, which benefited from outstanding capital market conditions.
- An accounting consolidation resulting from BF&M's majority stake in the Insurance Corporation of Barbados Limited (ICBL). This change makes year-on-year income statement comparisons somewhat difficult. Disregarding the \$36.2 million in sales generated from the Barbados operations, BF&M's 2006 revenue is reduced to \$122.3 million, which represents an 11% increase over 2005 revenue of \$110.5 million.

### Half-Year 2007 Results

BF&M recently reported six-month earnings for 2007 of \$12.1 million, or \$1.63 per share, which is a 26% improvement on 2006 half-year earnings of \$9.6 million. This increase related principally to contributions made from the company's newer divisions – its Barbados subsidiary (ICBL) and its offshore life insurance group catering to high-net-worth individuals (BIISL). A weaker U.S. bond market hindered second quarter results, and will continue to do so for the near term. On the whole, these results strike us as commendably strong.

### Forecast and Recommendation

While 2006 was a record year for BF&M, it is unrealistic to expect the same level of revenue and profit growth going forward. Indeed, much of last year's earnings progress was due to a large acquisition, combined with friendly conditions in global capital markets. As ever, BF&M's near-term prospects will depend on a mild hurricane season and favourable margins in the Property & Casualty division. Similar to Argus, we expect an increased variability in year-end net income, owing to the company's stated compliance with new "mark-to-market" accounting provisions – where securities designated as "held for trading" must be shown at market value, with gains or losses reflected in reported net income.

Due to these factors, we find it prudent to take a more muted earnings outlook for 2007, with an earnings expectation of \$2.85 per share. We apply an 8.0x multiple to this estimate and arrive at a price target of \$23. BF&M shares appear undervalued based on a variety of metrics and are recommended as a "strong buy". We would note that the company maintains ample room to raise its dividend, with a current payout ratio of just 18%.