

Kentucky Fried Chicken (Bermuda) Limited

Ticker: KFCB - BH

Fiscal Year-End: Jan. 31, 2008

Sector: Consumer Products

Web Site: none

Share Price (10/31/08):	\$6.00
Stock Rating:	Hold
Risk Profile:	Moderate
1-Year Price Target:	\$6.00
1-Year Implied ROR:	6.7%

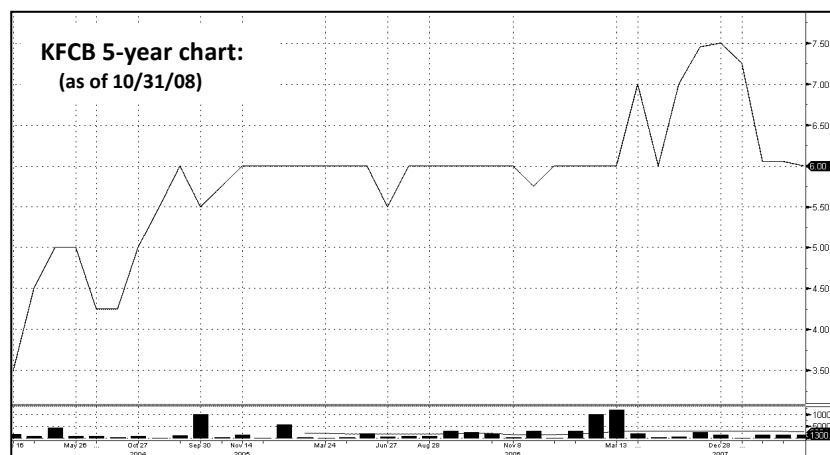
Annual Dividend:	\$0.40
Current Yield:	6.7%
Payout Ratio:	76%
Ex-Dividend Date:	01/09/09
Frequency:	Quarterly

Shares O/S:	592k
Market Cap:	\$3.6m
BSX Weight:	0.2%
Book Value:	\$4.43
Price/Book:	1.36x

52-Week High:	\$7.50
52-Week Low:	\$6.00
Avg. Monthly Volume:	1.8k

Current P/E Ratio:	11.5x
Shareholder's Equity:	\$2.6m
Total Assets:	\$3.0m
Return on Equity:	11.8%
Return on Assets:	10.4%

Earnings Snapshot	2006	2007	2008	2009E	2010E
EPS:	\$0.86	\$0.66	\$0.52	\$0.58	\$0.60
YoY Growth:	4.5%	(23.3%)	(21.2%)	11.5%	3.4%
P/E Ratio:	7.0x	9.1x	14.4x	10.3x	10.0x
Fiscal YE Price:	\$6.00	\$6.00	\$7.50		



Company Description

Kentucky Fried Chicken (Bermuda) Limited (KFCB) is engaged in the sale of fast food products under a franchise agreement with its parent company, Kentucky Fried Chicken International. The company remains the only popular American franchisee in Bermuda, operating for the 39th year at its location on Queen Street in downtown Hamilton.

Kentucky Fried Chicken (Bermuda) Limited

2008 Results

KFC Bermuda reported a moderate 1.4% increase in revenue to \$4.8 million for 2008. Gross margin declined from 76.6% to 75.1%, resulting in profits that were essentially flat year-on-year, despite the slightly improved revenue. A two-week closure in April for renovations helps to explain the company's slow sales growth and lower gross margins. Operating expenses increased 2.3% to \$3.4 million, which was faster than sales growth and therefore resulted in a 21% decline in net income. Earnings totaled \$310,009, or \$0.52 per share, vs. \$392,588, or \$0.66 per share, in 2007.

Half-Year 2009 Results

Earnings for the first half of 2009 increased 30% to \$140,000 mainly due to the two-week closure in the first half of fiscal 2008. Revenues increased by \$156,000 for the same reason. Maintenance and payroll expenses decreased by a total of \$46,500, but overall operating expenses rose by over \$21,000 during the first half of 2009. Book value as of July 31, 2008, was \$4.54 per share.

Forecast and Recommendation

Although KFC Bermuda generates relatively stable free cash flow and pays a respectable dividend (current yielding 6.7%), we see very little organic growth potential for KFC Bermuda. It is also likely that the company will continue to be affected by the inescapable rising utility costs in Bermuda. We therefore recommend a Hold on KFCB shares and a target price of \$6.00, which is based on a 10.0x multiple of our fiscal year 2010 EPS estimate of \$0.60.