

BB Holdings Limited

Continued insider purchases provide canny clues as to why this peculiar bank sticks out from the crowd of otherwise crisis-ridden banking institutions

- Management team has purchased further shares
- Share consolidation should lead to the company buying back an estimated 1% of the outstanding share capital
- BB Holdings remains an extremely undervalued investment

Why you are well advised to politely turn down his Lordship's offer to purchase your shares

Dear Reader,

I am all too aware that even just the layout and look of this report is too unconventional to be of any interest to analysts, brokers and financial advisors. To get some proper exposure in the mainstream media and within the financial community, I'd have to start with going for an entirely different design and structure.

Then again, this website has never much cared about conventions, and instead prefers to focus on seeking-out the unconventional. If anything, I hoped that this would prove more entertaining for my dear readers.

After all, where else can you get an in-depth analysis of the likely thoughts and contemplations of a billionaire-turned-Lord, combined with an analysis of a share that the afore-mentioned billionaire seems very keen to lay his hands on.

Yet more insider purchases

It's relatively easy to research which company insiders have recently been purchasing shares of their own companies. The website of the London Stock Exchange (www.londonstockexchange.com) is painfully slow and not very user-friendly, but at least it contains quite a bit of useful data.



That said, the table set out below is far from being secret information. Anyone who is willing to spend a bit of time doing research could put together an overview of the recent insider purchases that took place in shares of BB Holdings. Then again, hardly anyone follows this share to begin with. And of those who follow it, even fewer are likely to make a concerted effort to collect such data.

Date	Buyer	Position	Shares	Price GBP	Amount GBP
29/12/2008	Philip Osborne	Director	150	1.58	237
17/12/2008	Lord Ashcroft	Chairman	22.500	1.95	43,875
17/12/2008	Lord Ashcroft	Chairman	50.000	1.91	95,500
17/12/2008	Lord Ashcroft	Chairman	80.000	1.80	114,000
05/11/2008	Lord Ashcroft	Chairman	40.000	2.01	80,400

Table: An overview of the recent insider purchases at BB Holdings

It was in my extensive report on BB Holdings (published on 14 August 2008), that I first pointed out how company insiders are gradually mopping up the shares that come onto the market. This trend has continued unabated since my report first became available. It couldn't be any clearer that some well-informed investors are keen on gradually increasing their stake in the company.

And what better sign for the future of a company, than that of the management team regularly investing a part of their personal savings into the very company that they manage?

It might surprise you, but there is indeed something even better, than insider purchases.

Lord Ashcroft has now launched a concerted effort to reduce the free-float further. The company, of which he already owns 73.1%, is likely to pull-off quite an amazing stunt of financial engineering. My estimate is, that during January, about 1% of the entire company will be bought back by the company using a little-known but extremely smart way of doing it.

Who actually noticed the December 29th announcement?

It was in the midst of the festive season, that BB Holdings made an announcement that only those who are well versed with legal texts could actually make any sense of. Those who did make the effort of trying to read it all the way through, found yet another sign for Lord Ashcroft's particular interest in BB Holdings.

Just like almost every London-listed company, BB Holdings has a register showing by whom its shares are held. Such analysis of a company's shareholder structure can easily be bought from a number of data providers.

That's why the company's management can tell that of its 3,200 shareholders, more than 70% own less than 250 shares. That's about 2,240 shareholders owning shares worth less than GBP500. Or to put it another way, the majority of shareholders own too few shares to even bother trying to sell them in the market. The brokerage fees would simply be too high.

If you take a look at the history of BB Holdings, you will quickly notice what this fragmented shareholder structure stemmed from. BB Holdings was spun off from Carlisle Holdings, i.e. every shareholder of Carlisle Holdings received shares in BB Holdings a few years back. It wasn't that these investors bought tiny number of shares in the open market; instead they were simply given them for free as part of a restructuring of Carlisle Holdings.

Anyone who dislikes having such minor positions cluttering their brokerage account, will now have a way of getting rid of it without having to pay any trading commissions. The company is going to buy back all of these shares. To be precise, most of these small-time shareholders will more or less be forced to sell their shares.

Existing shareholders of BB Holdings now need to pay particular attention

BB Holdings is carrying out a so-called share consolidation. Put another way, anyone who doesn't own a certain minimum number of shares is effectively kicked out of the company and paid a market price-based compensation for the shares thus confiscated.

If you own less than 250 shares, you'll soon find yourself evicted from BB Holdings. Mind you, the company is going to pay a compensation based on the share price of January 30th. Nonetheless, small-time shareholders of BB Holdings will soon find the shares missing from their accounts.

The way to do this, is to consolidate 250 old shares into 1 new share. So anyone who owns between 1 and 249 shares, will not own enough shares to qualify for being given one of the new shares.

Those who own a number of shares that cannot be divided by 250, will also lose a part of their shareholding. If you own 270 shares, you'll be given 1 new share as well as compensation for selling 20 of the old shares.

To add further to an already complex transaction, the company will immediately thereafter carry out a 1:250 split. In other words, anyone who owns 520 shares will at first hold 2 shares and receive compensation for 20 old shares, and then see his 2 shares split back into 500 shares.

Can anyone still follow?

It's actually pretty easy to figure out what this transaction is all about. By forcefully buying back 20 shares here and 70 shares there, and by so doing in the case of several thousand shareholders, the company actually

gets to buy back a considerable number of shares. Undervalued-Shares.com did a rough calculation of the likely outcome. Chances are, that BB Holdings will buy back around 580,000 shares, equivalent of about 1% of the entire share capital.

Because it will have to pay the market price of January 30th, the company does not currently have any interest in seeing the share price rise. Even if the share price rose by just 20 Pence, BB Holdings would have to come up with an additional GBP120,000 (based on the estimated number of shares).

The real beauty of this move is, that BB Holdings has a book value of GBP3.78 per share. This compares to a current share price of GBP2.00. In other words, the company is buying back shares below book value.

Aficionados of balance sheet voodoo will know, that BB Holdings will have to book an extraordinary profit if these shares are subsequently taken out of circulation. The extraordinary profit amounts to the difference between the purchase price and the higher book value. In other words, BB Holdings could easily book an extra profit of about GBP1m.

Besides that, the percentage stake of the remaining shareholders will rise, once these shares are taken out of circulation. Lord Ashcroft is unlikely to lose a single share to this consolidation measure. So he will have a larger percentage stake, and he will own it in a bank that just made a nice extraordinary profit from pulling a stunt on its less well-informed small-time shareholders.

Is it magic?

Such share consolidations are actually not that uncommon on Anglo-Saxon stock markets. Usually, they are done under the mantle of the company wanting to reduce administration costs. In this case, however, the bigger picture looks entirely different. Yes, BB Holdings will save some costs from having fewer shareholders to look after. But the primary motivation is likely to be something entirely different. This move fits perfectly into the ongoing efforts of Lord Ashcroft, to increase the stake that he owns in the bank.

And how is the actual business doing?

Lord Ashcroft is probably one of the very few remaining bank owners anywhere in the world, who is still happy with his stake and keen to increase it further. Most other bank owners are currently licking their wounds, thanks to the world's worst banking crisis since 1929 having taken place during the last months of 2008. The major shareholder of BB Holdings, on the other hand, currently seems more worried about maximizing his stake.

The company's most recent announcements point towards this actually being quite a good decision.

BB Holdings last published figures for the 6-month period ending 30th September 2008. You can download the entire Interim Report by visiting: <http://www.bbholdingslimited.com>

Unfortunately, the management didn't nearly put as much time and effort into explaining its last set of figures, as it did on preparing the share consolidation scheme. All that is currently known is, that both parts of the company did rather well during the first half of fiscal 2008/09 (which ends 30th March 2009) The net interest income rose from US\$24.2m to US\$30.7m. The operative profit of the banking division rose from US\$20.7m to US\$ 25.6m. The palm oil division, Numar, also performed well. The part of Numar's profits that are attributable to BB Holdings rose from US\$8.4m to US\$13m.

The after-tax profit of the group rose from US\$27.5m to US\$36m. That's US\$0.61 per share, compared to US\$0.47 per share during the previous year's period.

Needless to say, the one big question on everyone's mind is how BB Holdings performed during that crucial year-end quarter when the banking world fell to bits?

A definitive answer will have to wait until after the company publishes its next set of results. However, we can certainly already draw a few initial conclusions.

Lehman Brothers went bust on 16th September. As per 30th September, BB Holdings has not had any negative effects from the banking crisis that ensued immediately after Lehman went under.

The palm oil subsidiary is hard to gauge. Numar did profit heavily from the rising price for palm oil, and just like the price for almost every other commodity, it has come down in price recently.

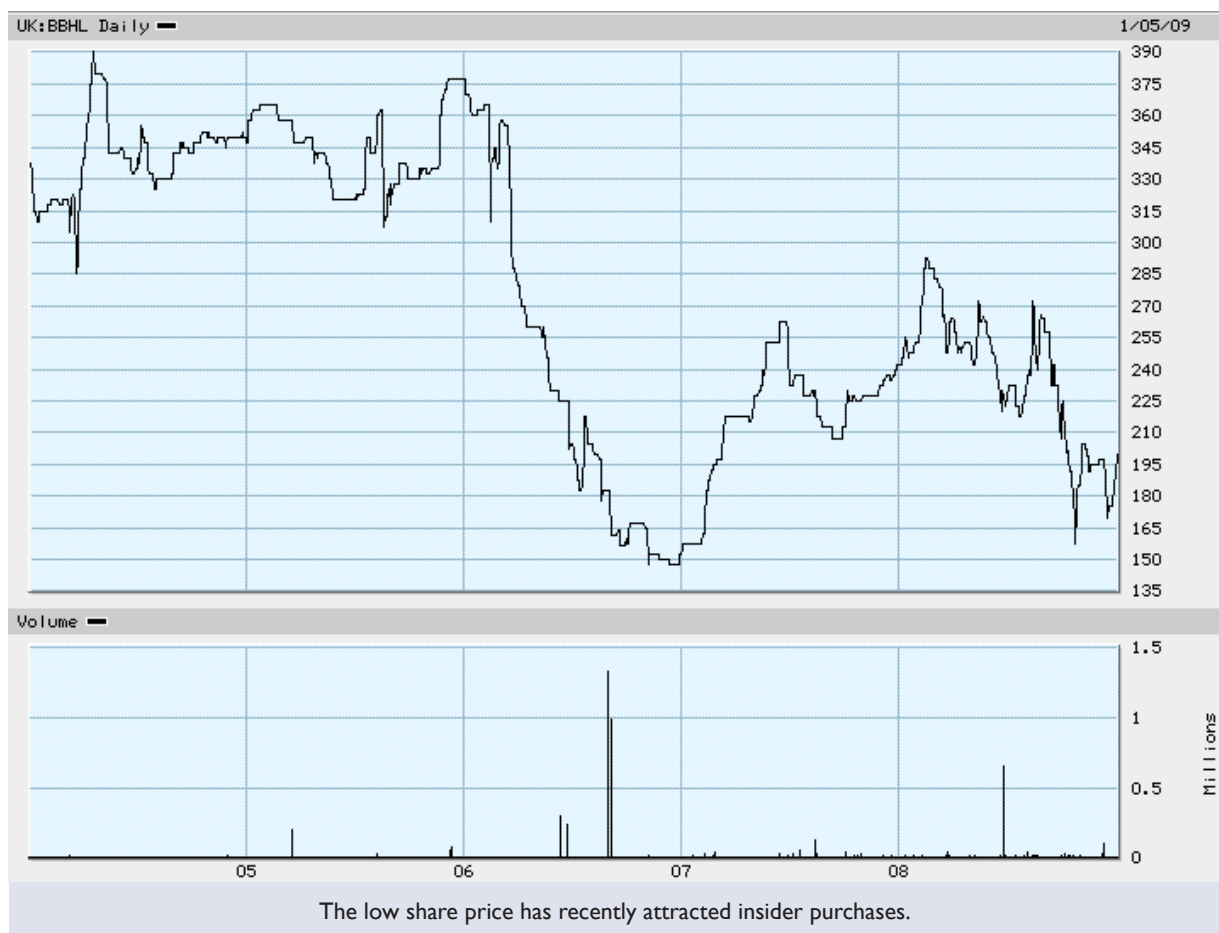
However, if there were any catastrophic problems in any one of these two divisions, would the company, the management team and Lord Ashcroft himself be so keen to gobble up more shares?

It's more likely than not, that BB Holdings is still faring rather well. Not quite as well as during the 2007/08 hey-days. But still well enough to be an incredibly undervalued share based on the current share price.

What about the currency side?

During the final quarter of 2008, the British Pound experienced its steepest decline since the 1992 currency devaluation. For investors from the Euro-zone, holding Pound-denominated shares like BB Holdings led to currency losses. Ditto for investors from the US Dollar zone. The Pound also lost massively compared to the US Dollar.

Bizarrely, these currency escapades also lead to the share becoming even more undervalued when basing an analysis on the company's fundamentals. BB Holdings does its business (and accounting) in US Dollars. The interim profit of US\$0.61 per share was equivalent to GBP0.34 on September 30th. With where the currencies are standing now, it'd be equivalent to GBP0.42. In other words, currency fluctuations lead to the company's profit being 24% higher when converted into Pounds. Based on a current share price of GBP2, even just the 6-months' figures provide BB Holdings with earnings that suffice to give the share a p/e of 5. That'd be based on an assumption that the company wasn't going to achieve any earnings during the 2nd half of the year. Because BB Holdings is likely to actually make further earnings during the 2nd half of its fiscal 2008/09 year, the p/e for this year is likely to be below 3.



The book value per share has also increased thanks to the currency fluctuations. It's now GBP223.7m, compared to GBP180m at the end of September. The shares' book value now amounts to GBP3.78, or 89% above the current share price of GBP2.00.

The share is as undervalued as ever

It's all too easy to come up with further doom-and-gloom scenarios for 2009. If you like truly colourful predictions, check out the latest news about the rumblings underneath Yellowstone National Park. The entire Yellowstone area is actually the largest volcano caldera on earth, with (some say) an eruption being long overdue. If that happens, even those investment bankers who recently stocked up on canned beans and ammunition will have a hard time surviving this year. Check <http://volcanoes.usgs.gov/yvo/activity/> for the most up to date details and for an in-depth answer to the question of why the entire world might soon go up in smoke (or, to be more precise, covered in ash).

However, anyone who believes that the point of maximum pessimism is also the best point for investing, should do it like our favourite Lord – and buy more shares in BB Holdings.

Whenever a major shareholder is that interested in increasing his stake, chances are that it's better to follow his example rather than to sell out to him at the current price. In the past, placing a bet on Lord Ashcroft having an extremely good sense for lucrative investments, proved right more often than it proved wrong.

For all further detailed analysis, all we can currently do is sit and wait for the company's next announcement of quarterly figures. Needless to say, by then BB Holdings will have already bought out quite a few of its small-time shareholders.

Honi soit qui mal y pense!

From a subtropical island far away from the Caribbean's banking havens,



Swen Lorenz
Undervalued-Shares.com

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