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# A New Dawn Beckons: Why Now is the Time to Invest in Local Equities

**December 14th , 2020**


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# ANALYST INSIGHT

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## A New Dawn Beckons: Why Now is the Time to Invest in Local Equities

### S&P Global Ratings affirms Jamaica's Rating and Outlook

After an 18% decline in Q2 GDP, On December 8th, S&P Global Ratings affirmed its B+ long-term foreign and local currency sovereign credit ratings, its 'BB-' transfer and convertibility assessment while maintaining its negative outlook for Jamaica. By any measure, this is a phenomenal performance by a country that just 7 years earlier was teetering on the edge of a fiscal cliff. The S&P Rating action took into consideration the significant economic decline, which materialized due to the COVID-19 pandemic. According to the agency, the pandemic, the economic contraction it has fostered, and the deterioration in public finances and external accounts drive the negative outlook. Notwithstanding, the agency highlights the government's commitment to resuming fiscal consolidation as a positive and expects growth to continue in 2021 and 2022. The implied, yet the resounding message is that institutions matter to strong economic performance, and ultimately, to risk asset performance.

### The Inflexion Point is High

Let's begin to put this into perspective. Once we compare our local economy and the stock market to its international counterparts, particularly those in the developed world, we can all agree that Jamaica tends to lag. So, let's take the US for example, Year to Date (YTD), all the major US stock indices have outperformed – totally forgetting the March sell-off. Of course, the comparison isn't an apples-to-apples scenario since, well, the US is the global reserve currency so the central bank can print money like there's no tomorrow once inflation remains subdued. So, in the Jamaican context, we don't have the benefit of extreme liquidity. Is this a drawback for the stock market? Well, it depends but our thought at this moment is no. The recent S&P rating comes on the heels of perhaps the worst period Jamaica has faced in a long time from both a health and economic perspective – remember, we almost completely stopped the economy. Tourism, our bread and butter, for the most part, been in the doldrums since. However, the UK has already started its vaccination process, and the US has begun its own distribution among frontline workers. Our tourism industry depends significantly on these two nations, which are in the lead for vaccination, and therefore further means we can indeed start to think about a timeline for a definite end to the COVID-19 virus and consequently when a rebound could likely materialize.

### The Stock Market Cornucopia

If we follow the logic that a vaccinated USA and UK is a positive for the Jamaican tourism industry and couple this with S&P's rating affirmation then our stock market, which has lagged those in the developed world at more than -20% YTD decline, is perhaps poised for a rebound anytime now. So, why the lag then?: This is where we get into market psychology—our market moves, not just on expectations but on historical performance, sentiments and fear. However, the intelligent investor, having 'read the tea leaves' front, runs the crowd to buy very good assets at very steep discounts to their fundamental values.

### The Intelligent Investor

Now, throughout this tumultuous year, there have been consistent questions about the shape of the recovery. We've heard V, U, L, W, K? We are sure there are more. Within our local context, we believe what really matters is what we've noted above, concrete indications of our nation moving towards a recovery, however fragile at this point. We believe the vaccination (its distribution) and an S&P rating which is not a downgrade, are just two things that have materialized this past week that provide a filip for cautious optimism for a recovery in local risk assets. The role of the intelligent investor is, therefore, to "follow the breadcrumbs" and look beyond the market psychology. In fact, it would be wise to go in the opposite direction of the market, particularly at this moment. In the last few weeks, we've seen the combined market appreciate marginally, and now we're down -23.14% YTD coming from a range of about -25% to -27%.

We believe the inflexion point upwards draws near and now is, therefore, an excellent opportunity to invest in the market. The Barita Capital Growth Fund provides direct exposure to the local market, investing in companies we believe have a combination of an experienced and strategic management team, solid balance sheets and a poised to catapult as we enter into the recovery.

# LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market closed lower week-over-week. The Main Market Index declined by 1.06%, the JSE All Jamaican Composite Index decreased by 1.03%, the JSE Junior Market Index increased by 2.13%, the JSE Combined Index decreased by 0.84%%, and the JSE USD Equities Index decreased by 0.64%.

Ciboney Group was the largest gainer, rising by 57.14% to close at J$0.22. The biggest loser was 1834 Investments Limited falling by 16.33% to close at J$0.82

Year to date, all the major equity indexes are still down by high double digits (see, the table below); and three months since March, has been relatively flat.

Overall Market activity resulted from trading in 100 stocks of which 42 advanced, 49 declined and 9 traded firm.

Market volume amounted to 156,698,804 units valued at over $478,544,167.92. Mailpac Group Limited was the volume leader with 60,713,206 units (38.75%) followed by Transjamaican Highway Limited with 34,113,028 units (21.77%) and QWI Investments Limited with 21,371,998 units (13.64%).

This creditable performance came in spite of the many challenges to JBG operations across the Caribbean region and the United States of America. For the comparable period last year, the pre-tax profit was $823.4 million.
http://www.jamaicaobserver.com/sunday-finance/85-jump-in-jamaica-broilers-pre-tax-profit-for-the-half-year-period-haitian-operations-continue-to-drag-on-the-group-s-financial-performance_209715?profile=1056

Food and logistics conglomerate Jamaica Producers Group, JP, will pay out $224 million in dividends to shareholders in mid-January, its largest since 2015.

The distribution at 20 cents per share represents a yield of under 1.0 per cent on the stock price, which closed at $21.36 on Wednesday. The JP stock is trading off its January high of $28.50 but is doing better than when the pandemic was detected in March. The stock then fell to $15.

http://jamaica-gleaner.com/article/business/20201211/fuelled-cash-disposals-jp-gives-generously-shareholders

n a move to make buying local easier for shoppers this Christmas, and consequently drive sales for small and micro ventures, businesswoman Angelie Spencer has partnered with the National Commercial Bank Jamaica Limited, NCB, and video company M-One Productions, to create a single platform that links buyers to the business page of hundreds of local entrepreneurs.

Typically, users of social media platforms would individually select business pages that match their lifestyle to follow. But Spencer's online platform, called Shop Local JA, will instead expose users to micro and small businesses across several industries, at the click of a button.

http://jamaica-gleaner.com/article/business/20201213/banks-play-e-commerce-santa-xmas

| Index | 11/12/2020 | 4/12/2020 | 31/12/2019 | Week/Week | Year-to-Date |
|---|---|---|---|---|---|
| JSE Main Market | 392,235.25 | 396,423.72 | 509,916.44 | -1.06% | -23.08% |
| JSE Junior Market | 2,550.79 | 2,496.22 | 3,348.97 | 2.19% | -23.83% |
| JSE Combined Market | 388,337.07 | 391,611.75 | 505,253.98 | -0.84% | -23.14% |
| JSE USD Equities Market | 187.55 | 188.75 | 226.23 | -0.64% | -17.10% |

# INTERNATIONAL DEVELOPMENTS

U.S. producer prices barely rose in November, supporting views that inflation would remain benign in the near term as a flare-up in new Covid-19 infections restrains the labor market and demand for services.

The producer price index for final demand edged up 0.1% last month after increasing 0.3% in October, the Labor Department said on Friday. That was the smallest gain since April. In the 12 months through November, the PPI advanced 0.8% after increasing 0.5% in October.

Economists polled by Reuters had forecast the PPI gaining 0.2% in November and rising 0.8% on a year-on-year basis.

A 0.4% increase in the price of goods accounted for the rise in the PPI. Goods increased 0.5% in October. Services were unchanged after rising 0.2% in October.
https://www.cnbc.com/2020/12/11/us-producer-prices-november-2020.html

European Commission President Ursula von der Leyen said Sunday that Brexit trade talks with the U.K. will be extended beyond Sunday's deadline, adding that "we think it is responsible at this point to go the extra mile."

Von der Leyen spoke with British Prime Minister Boris Johnson via telephone on Sunday before releasing a joint statement. Both have now mandated their negotiating teams to continue their work.
https://www.cnbc.com/2020/12/13/brexit-trade-talks-will-continue-past-sunday-deadline.html

Congress remains at an impasse over a coronavirus stimulus package. Republican Senate leaders rejected a $908 billion aid package, proposed by a bipartisan group of lawmakers.

The U.S. House of Representatives approved a one-week extension to the current government relief funding on Wednesday, in a bid to give lawmakers more time to agree a next package. However, House Speaker Nancy Pelosi suggested on Thursday that negotiations could run through the holiday period
https://www.cnbc.com/2020/12/11/us-bonds-treasury-yields-move-as-stimulus-deadlock-continues.html

| Index | 11/12/2020 | 4/12/2020 | 31/12/2019 | Week/Week | Year-to-Date |
|---|---|---|---|---|---|
| Dow Jones | 30,046.37 | 30,218.26 | 28,538.44 | -0.57% | 5.28% |
| S&P 500 | 3,663.46 | 3,699.12 | 3,230.78 | -0.96% | 13.39% |
| NASDAQ 100 | 12,375.41 | 12,528.48 | 8,733.07 | -1.22% | 41.71% |
| FTSE 100 | 6,546.75 | 6,550.23 | 7,542.44 | -0.05% | -13.20% |
| Euro Stoxx 50 | 3,485.84 | 3,539.27 | 3,748.47 | -1.51% | -6.92% |

# Local Economic Conditions

## USD Foreign Exchange Market

- Our local currency appreciated by 0.37% against the U.S. Dollar week on week to settle at $144.46 as at close of trade Friday, relative to $145 per US$1.00 at the end of the prior. Year to date depreciation has been -8.97%.

- To aid in the liquidity in the domestic market since the onset of the pandemic, the Bank of Jamaica (BOJ) reduced the Jamaica dollar and foreign currency cash reserve requirement cash reserve requirements of Deposit-Taking Institutions, instituted bond buying programmge for GOJ and BOJ securities and instituted special repurchase facility for credit unions.

- It is estimated that collectively the BOJ has injected over J$57 billion into the market to allow for adequate functioning of the foreign exchange market. The BOJ also commissioned a Foreign Exchange Swap Arrangement which has been heavily used by authorized dealers (ADs) as a means of obtaining much coveted US dollar.

| Currency Pair | 11/12/20 | 4/12/20 | 31/12/19 | Wk/Wk | Year-to-Date |
|---|---|---|---|---|---|
| JMD: USD | 144.46 | 145.00 | 132.57 | 0.37% | -8.97% |
| JMD:CAD | 112.46 | 112.58 | 100.70 | 0.11% | -11.67% |
| JMD:GBP | 191.00 | 196.10 | 170.64 | 2.60% | -11.93% |

## Unit Trust Performance

- The Money Market Fund increased 3.20% year to date (YTD), the FX Bond Portfolio produced a yield of 1.78%, the F.X. Growth Portfolio increased by 9.17% year to date, and the Real Estate Portfolio increased by 7.89% YTD. The Capital Growth Fund declined by -14.18% YTD compared to the JSE Combined Index which declined by -23.14% over the same period.

- Barita's Collective Investment Schemes ("CIS") offer the opportunity for investors to remain invested in the market at this delicate stage of the market cycle; moreover, there is a diversification benefit and opportunity to have a professional portfolio manager make the best-in-class professional judgements on your behalf.

- The F.X. Growth Portfolio, which is benchmarked against the S&P 500, has appreciated by 9.17% year to date relative to S&P 500's performance of 13.39% . This fund helps investors to gain exposure to the U.S. equities market, without taking on the risk of directly investing in a single company.

- The Capital Growth Fund suffered the same fate as our local equity market but remains above the year to date performance of the combined index. This is as attractive as securities were also sold significantly during the March sell-off and represented an attractive entry point to be capitalized on. The FX Bond Portfolio remains an attractive fixed-income portfolio, especially taking into consideration the large retreat from emerging market (E.M.) securities. With investors seeking "safe haven" in a more developed market (D.M.) securities and essentially selling down their positions in E.M. securities, opportunities were exposed for our fund managers to capitalize on.

**"Given a 10% chance of a 100x payoff, you should take the bet every time"– Jeff Bezos**

# CONCLUSION

| Unit Trust Fund | 10/12/2020 | 2/12/2020 | Week/Week Return | Year-to-Date Return | 1 Year Return | Yield |
|---|---|---|---|---|---|---|
| Capital Growth | 83.06 | 82.94 | 0.14% | -14.18% | -9.78% | - |
| Money Market | 14.8205 | 14.8082 | 0.08% | 3.16% | 3.20% | 2.37% |
| Income Portfolio | 100.00 | 100.00 | - | - | - | 2.25% |
| FX Bond Portfolio (US$) | 1.3430 | 1.3290 | 1.05% | 0.06% | 0.46% | 1.78% |
| Real Estate Portfolio | 5,550.46 | 5,426.07 | 2.29% | 7.89% | 6.66% | - |
| FX Growth Portfolio | 0.9779 | 0.9745 | 0.35% | 9.17% | 12.31% | - |

- On December 8th, S&P Global Ratings affirmed its B+ long-term foreign and local currency sovereign credit ratings, its 'BB-' transfer and convertibility assessment while maintaining its negative outlook for Jamaica. In short, the important point to note from the update is that S&P maintained its previous rating for Jamaica.

- If we follow the logic that a vaccinated USA and UK is a positive for the Jamaican tourism industry and couple this with S&P's rating affirmation then our stock market, which has lagged those in the developed world at more than -20% YTD decline, is perhaps a cornucopia of returns

- We believe the inflection point is nigh and now is therefore a great opportunity to invest in the market. The Barita Capital Growth Fund provides direct exposure to the local market, investing in companies we believe have a combination of an experienced and strategic management team, solid balance sheets and a poised to catapult as we enter into the recovery.

# Investment Playbook

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## Equities

| Stock Ticket | Stock Information (As at December 11, 2020) | Analyst Outlook |
|---|---|---|
| **WISYNCO** Wisynco Group Ltd | P/E: 25.84X<br>P/B: 4.40X<br>Price: J$16.28<br>Div Yield: 0.55% | **OVERWEIGHT**<br>The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors Wisynco. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, Wisynco's business will thrive in this environment. |
| **LASM** Lasco Manufacturing | P/E: 13.59X<br>P/B: 2.15X<br>Price: J$3.76<br>Div Yield: 0.0% | **OVERWEIGHT**<br>The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors LASM. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASM's business will thrive in this environment. Given that more restrictive curtailment measures do not seem likely, LASM is likely to perform better than in the April - June quarter. The national curfew measures were particularly restrictive and, therefore, negatively impacted LASM's revenue growth. |
| **LASD** Lasco Distributors | P/E: 13.39X<br>P/B: 1.83X<br>Price: J$3.25<br>Div Yield: 0.0% | **OVERWEIGHT**<br>The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those who were furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors as LASD. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASD's business will thrive in this environment. |

### Ratings Definitions

**OVERWEIGHT/BUY**
Exposure to this asset should be between 5% and 10% of your total portfolio

**MARKETWEIGHT/HOLD**
Exposure to the asset should be equal to 5% of your total portfolio

**UNDERWEIGHT**
Reduce exposure in your portfolio to less than 5% for this particular asset

**SELL**
Reduce exposure in your portfolio to zero

# Investment Playbook

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## Equities

| Stock Ticker | Stock Information (As at December 11, 2020) | Analyst Outlook |
|---|---|---|
| **KWL** Kingston Wharves Ltd | P/E: 28.49X<br>P/B: 2.43X<br>Price: J$47.19<br>Div Yield: 0.66% | **MARKETWEIGHT**<br>KWL had already made significant investments to capture more wallet share in international trade: KWL invested in a Global Auto Logistics Centre, which houses both new and used vehicles for domestic and international transporters. KWL also invested heavily in the Total Logistics Facility, which comprises international standard equipment to manage cargos' haulage. KWL also developed technological resources to improve the clearance and registering speed of cargos, allowing for comprehensive and adequate cargos management. |
| **JBG** Jamaica Broilers Group | P/E: 16.34X<br>P/B: 1.97X<br>Price: J$28.11<br>Div Yield: 0.64% | **OVERWEIGHT**<br>JBG's main strategy moving forward is to continue to grow and diversify its food businesses abroad by gaining market share. The company sees opportunities in the USA (Wincorp International in Florida and International Poultry Breeders in Georgia and Arkansas) and continues to see opportunities to expand investments in the country. JBG continues to maintain a unique and strong position in the Jamaican market (Best Dressed, Hi-Pro and Reggae Jamin') and Haiti (Le Chic Poulet). The company has a fair presence in the Haitian market, and it is expanding within the United States especially under "The Best Dressed Chicken" brand which provides significant opportunities for growth as well supporting its operations in the Caribbean. |
| **CCC** Caribbean Cement Company | P/E: 19.13X<br>P/B: 4.59X<br>Price: J$57.00<br>Div Yield: 0.0% | **OVERWEIGHT**<br>Their ability to generate revenues during this period will be based on CCCs ability to generate business outside of Jamaica (which accounts for the majority of revenue). The increased synergy between CCC and their ultimate parent company CEMEX S.A.B de C.V (Cemex), giving them access to a wider market, will become fruitful in the current downpour being experienced globally, especially in the context of the domestic economic fallout of COVID-19. This bodes well for the future growth prospects of CCC over the short and medium-term. The recent restructuring of the company to acquire additional assets from its parent company through debt while also repurchasing redeemable preference shares will be a drag on earnings with if revenue generation is impacted. |

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**UNDERWEIGHT**
Reduce exposure in your portfolio to less than 5% for this particular asset

**SELL**
Reduce exposure in your portfolio to zero

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## Equities

| Stock Ticker | Stock Information (As at December 11, 2020) | Analyst Outlook |
| --- | --- | --- |
| **SEP** Seprod Limited | P/E: 12.68X<br>P/B: 2.92X<br>Price: J$66.94<br>Div Yield: 0.76% | **OVERWEIGHT**<br>Seprod has undergone significant structural changes within the last 5-years aimed at improving the underlying performance of the company. Within this period, particular emphasis has been placed on optimizing the distribution, warehousing and logistics capabilities of the company. This gradual, multi-year, improvement was accomplished through reinvestment within the organization coupled with strategic acquisitions aimed at increasing the distribution reach and quality of the company. Another major change was the closure of the Group's loss-making sugar division; a move that enhanced shareholder value. These changes have positioned Seprod to deliver robust growth through an expansive product mix and access to consumer markets both locally and regionally. |

## Ratings Definitions

**OVERWEIGHT/BUY**
Exposure to this asset should be between 5% and 10% of your total portfolio

**MARKETWEIGHT/HOLD**
Exposure to the asset should be equal to 5% of your total portfolio

**UNDERWEIGHT**
Reduce exposure in your portfolio to less than 5% for this particular asset

**SELL**
Reduce exposure in your portfolio to zero