The Christmas Tide Brings Cautious Optimism

December 21st , 2020

ANALYST INSIGHT

Haughton Richards, FRM
Senior Investment Strategist

The Christmas Tide Brings Cautious Optimism

Following on the heels of Barita's successful historic APO in the summer, the local capital markets is closing out the Christmas season and year in earnest, with at least three publicly known significant equity raises announced. Derrimon Trading Limited (DTL) and Sygnus Credit Investments Limited (SCI) are doing APOs, while Keys Insurance has announced its intention to do a renounceable rights issue. When we overlay these market activities with a slightly improving macroeconomic backdrop, we could conclude that cautious optimism is returning among local investors. This week we will give a brief overview of what 'Christmas Treats' the market has to offer before 2020 ends.

Sygnus Credit Investments Limited

SCI is a speciality private credit investment company dedicated to providing non-traditional financing to medium-sized firms across the wider Caribbean region. SCI's investment objective is to generate attractive risk-adjusted returns with an emphasis on principal protection by generating current income, and to a lesser extent, capital appreciation through investments primarily in Portfolio Companies using private credit instruments. They are currently seeking to raise US$22 million (J$3.3 billion) with the potential to upsize. The funds will go towards reducing their debt and also funding a US$40 million pipeline for which they've received board approval to execute on. In the current macroeconomic environment, which has been impacted by COVID-19, services of Sygnus is in high demand to provide flexible financing solutions to middle-market firms for which traditional forms of financing would find too high a risk. This offer gives investors a chance to invest in a growing company that operates in a niche market with low levels of competition and high upside potential. The shares are being offered to the general public for US$.1400 and J$16.30, while existing shareholders get a discount at US$.1270 and J$14.70. Only 196,372,431 shares are up for grabs with 90% being reserved and 10% available to the general public.

Derrimon Trading Limited

Since its inception in 1988, Derrimon Trading Limited (DTL) has been a distributor of consumer goods to the Jamaican market. Today, the company has grown to become a conglomerate with its primary business lines in Distribution, Retail and Wholesale and Other operation. The Derrimon Group includes the operations of Sampars, Woodcats, Caribbean Flavours and Fragrance, while distributing for international products. The company is seeking to raise J$3.5 billion which will be geared towards i) reducing debt, ii) funding vertically integrated acquisitions in the U.S., iii) expansion of local operations and iv) for working capital support. Among the many strengths Derrimon has, its ability to utilize debt to grow inorganically and to make those acquisitions accretive to the bottom-line is distinctive. Consequently, that feeds into their ability to create shareholder value in-line with and ahead of some of its main market peers, by the measure of return on equity (ROE). This APO is slated to give DTL the footing it needs to essentially become a larger version of itself, while also allowing for a wider shareholder base by making additional shares available to a wider cross-section of investors (such as institutional investors), given the already low shares float. The shares are being offered at J$2.40 to the general public with J$2.20 being the discounted price for existing shareholders. Just about 1,498,698,931 additional shares are up for grabs.

The aforementioned capital raises come at the end of a year that was filled with turbulences due to COVID-19. With domestic investor confidence indeed weakening in the market and market trading activity materially trailing that of last year. These opportunities will remind investors that the JSE is still filled with great potential for companies to raise capital, while providing an adequate avenue for investors to generate risk-adjusted returns in the low-interest rate environment. Other opportunities abound outside of the aforementioned capital raises and with a positive outlook for 2021 due to the ongoing distribution of vaccines, investing sooner rather than later is always better. Get talking to your Barita investment advisors about how to position yourselves heading into 2021 and potentially participating in these early Christmas gifts of an opportunity!

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market closed lower week-over-week. The Main Market Index declined by 1.08%, the JSE All Jamaican Composite Index decreased by 1.15%, the JSE Junior Market Index increased by 0.87%, the JSE Combined Index decreased by 0.94%, and the JSE USD Equities Index increased by 1.72%.

Mayberry Investments was the largest gainer, rising by 11.87% to close at J$6.50. The biggest loser was Blue Power Group falling by 19.06% to close at J$2.86

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 101 stocks of which 46 advanced, 44 declined and 11 traded firm.

Market volume amounted to 156,132,743 units valued at over $1,792,673,895.39. Mailpac Group Limited was the volume leader with 45,522,028 units (29.16%) followed by Wigton Windfarm Limited Ordinary Shares with 17,520,842 units (11.22%) and TransJamaican Highway Limited with 17,321,319 units (11.09%) .

The Statistical Institute of Jamaica (STATIN) is reporting a 0.6 per cent inflation rate for November as the Consumer Price Index (CPI) moved from 106.9 in the previous month to 107.6.
http://www.jamaicaobserver.com/sunday-finance/statin-reports-0-6-per-cent-inflation-rate-for-november_210286?profile=1056

Bank of Jamaica on Friday last announced its decision to hold the policy interest rate, the rate offered to deposit-taking institutions on overnight placements with BOJ, unchanged at 0.50 per cent per annum.
http://www.jamaicaobserver.com/sunday-finance/bank-of-jamaica-holds-policy-rate_210316?profile=1056

Sygnus Credit Investments Limited (SCI) is looking to raise US$32 million ($4.8 billion) in its additional public offering (APO) which is set to open this Friday.
http://www.jamaicaobserver.com/business-observer/sygnus-credit-eyes-bvi-new-deals-in-apo_210008?profile=1056

Distribution company Derrimon Trading is seeking to raise up to $4 billion from its additional public offering (APO) of shares, which goes on the market on January 6, 2021
http://www.jamaicaobserver.com/business-observer/derrimon-seeks-4-billion-from-apo-if-upsized-proceeds-to-reduce-debt-and-exploit-two-possible-us-acquisitions_210018?profile=1056

Montego Bay-based stevedoring company Cargo Handlers Limited is expanding beyond core business, investing cement distribution in western Jamaica.
http://www.jamaicaobserver.com/business-observer/cargo-handlers-expanding-into-cement-distribution-company-purchases-major-stake-in-mobay-based-cement-distributor_210011?profile=1056

Index	18/12/2020	11/12/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	387,995.08	392,235.25	509,916.44	-1.08%	-23.91%
JSE Junior Market	2,573.05	2,550.79	3,348.97	0.87%	-23.17%
JSE Combined Market	384,670.24	388,337.07	505,253.98	-0.94%	-23.87%
JSE USD Equities Market	190.78	187.55	226.23	1.72%	-15.67%

INTERNATIONAL DEVELOPMENTS

The major indexes reached record highs as expectations grew for the passage of another federal coronavirus relief package. Information technology stocks outperformed within the S&P 500 Index, helped by gains in Apple and Microsoft. Energy stocks lagged despite oil prices touching nine-month highs on strong demand from India and China. Trading volumes were muted through much of the week in advance of the rebalancing of the S&P 500, which electric carmaker Tesla was set to join the following Monday.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

After weeks of stalled negotiations, Congressional leaders on Sunday reached a hard-fought agreement on a $900 billion stimulus package that would send immediate aid to Americans and businesses to help them cope with the economic devastation of the pandemic and fund the distribution of vaccines.
https://www.nytimes.com/2020/12/20/us/politics/congress-stimulus-deal.html

The toll the virus is taking on economic activity also became clearer during the week. On Wednesday, the Commerce Department reported that retail sales contracted 1.1% in November, roughly triple the expected decline and the worst showing since April
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Jobless claims unexpectedly rose last week as states reimposed coronavirus restrictions as lawmakers struggle to push through new government aid, according to a Labor Department report Thursday.

The number of first-time unemployment-benefits filers totaled 885,000 in the week ending Dec. 12, the most since the week of Sept. 5. Economists polled by Dow Jones expected initial claims to fall to 808,000.

https://www.cnbc.com/2020/12/17/weekly-jobless-claims.html

Low levels of primary issuance, along with a year-end buying trend, drove investment-grade corporate bond credit spreads—the extra yield offered over Treasuries, and an inverse measure of the sector's relative appeal—tighter throughout the week. Trading volumes were lower than average, and expectations for issuance remain subdued through year-end. Solid equity gains supported the performance of high yield bonds, and credit spreads tightened across all quality tiers.
https://www.cnbc.com/video/2020/12/16/fed-chair-jerome-powell-on-equity-and-bond-markets-telling-two-different-stories.html

Index	18/12/2020	11/12/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	30,179.05	30,046.37	28,462.14	0.44%	6.03%
S&P 500	3,709.41	3,663.46	3,234.85	1.25%	14.67%
NASDAQ 100	12,738.18	12,375.41	8,733.07	2.93%	45.86%
FTSE 100	6,529.18	6,546.75	7,542.44	-0.27%	-13.43%
Euro Stoxx 50	3,545.74	3,485.84	3,748.47	1.72%	-5.41%

Local Economic Conditions

USD Foreign Exchange Market

- Our local currency appreciated by 0.19% against the U.S. Dollar week on week to settle at $144.19 as at close of trade Friday, relative to $144.46 per US$1.00 at the end of the prior. Year to date depreciation has been -8.76%.

- 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	18/12/2020	11/12/2020	31/12/2019	Week/ Week	Year-to-Date
JMD: USD	144.19	144.46	132.57	0.19%	-8.76%
JMD:CAD	111.87	112.46	100.70	0.53%	-11.09%
JMD:GBP	194.27	191.00	170.64	-1.71%	-13.85%

Unit Trust Performance

- The Money Market Fund increased 2.98% year to date (YTD), the FX Bond Portfolio produced a yield of 2.12%, the F.X. Growth Portfolio increased by 10.31% year to date, and the Real Estate Portfolio increased by 8.50% YTD. The Capital Growth Fund declined by -13.70% YTD compared to the JSE Combined Index which declined by -23.87% 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 10.31% year to date relative to S&P 500's performance of 14.67% . 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	17/12/2020	10/12/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	83.5259	83.06	0.56%	-13.70%	-8.76%	-
Money Market	14.8096	14.8205	-0.07%	3.09%	2.98%	2.31%
Income Portfolio	100.00	100.00	-	-	-	2.47%
FX Bond Portfolio (US$)	1.3526	1.3430	0.71%	0.78%	0.89%	2.12%
Real Estate Portfolio	5,581.94	5,550.46	0.57%	8.50%	4.81%	-
FX Growth Portfolio	0.9881	0.9779	1.04%	10.31%	12.65%	-

- SCI shares are being offered to the general public for US$.1400 and J$16.30, while existing shareholders get a discount at US$.1270 and J$14.70. Only 196,372,431 shares are up for grabs with 90% being reserved and 10% available to the general public.
- This offer gives investors a chance to invest in a growing company that operates in a niche market with low levels of competition and high upside potential.
- The shares are being offered at J$2.40 to the general public with J$2.20 being the discounted price for existing shareholders. Just about 1,498,698,931 additional shares are up for grabs.
- The company is seeking to raise J$3.5 billion which will be geared towards i) reducing debt, ii) funding vertically integrated acquisitions in the U.S., iii) expansion of local operations and iv) for working capital support. Among the many strengths Derrimon has, its ability to utilize debt to grow inorganically and to make those acquisitions accretive to the bottom-line is distinctive.

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticket	Stock Information (As at December 18th, 2020)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 25.19X P/B: 4.29X Price: J$15.87 Div Yield: 0.63%	**OVERWEIGHT** 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: 13.73X P/B: 2.18X Price: J$3.80 Div Yield: 0.0%	**OVERWEIGHT** 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: 13.02X P/B: 1.78X Price: J$3.19 Div Yield: 0.0%	**OVERWEIGHT** 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

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at December 18th, 2020)	Analyst Outlook
KWL Kingston Wharves Ltd	P/E: 28.15X P/B: 2.40X Price: J$46.63 Div Yield: 0.66%	**MARKETWEIGHT** 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: 16.54X P/B: 1.99X Price: J$28.45 Div Yield: 0.57%	**OVERWEIGHT** 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: 19.12X P/B: 4.58X Price: J$56.98 Div Yield: 0.0%	**OVERWEIGHT** 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.

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

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at December 18th, 2020)	Analyst Outlook
SEP Seprod Limited	P/E: 12.70X P/B: 2.93X Price: J$66.02 Div Yield: 0.76%	**OVERWEIGHT** 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