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Colonial Pipeline Hack Unveils Risk of Cyberattacks

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ANALYST INSIGHT

Awah Muirhead
Senior Investment Strategy Analyst

Colonial Pipeline Hack Unveils Risk of Cyberattacks

Background

The Colonial Pipeline, operated by the Colonial Pipeline Company, is the largest pipeline system for refined oil products in the US. On Saturday, May 8th, 2021, the Company released a statement, confirming reports that ransomware hackers hacked into its network and disrupted the flow of refined oil to end-users. This marks the largest cyberattack that has hit the US Energy system in history as the Colonial Pipeline services approximately 45% of the fuel utilized by the US' East Coast. According to the US government, the cyberattack was carried out by an organized crime group called "Darkside" and later reports indicate that the company paid the ransom of US$5 million. The recent attack highlights the vulnerability of key assets, not just in the US, but for many countries and companies globally. This brings to the fore the pivotal role cybersecurity plays in a digital world. In this article, we look at the implications of the Colonial Pipeline shutdown and how this event has shone a light on the growing threat of cyberattacks.

Panic Induced "Shortage"

Now, following the reports of the pipeline hack, consumers flooded gas stations to hoard gasoline. The natural implication from this was an increase in gas prices as supply tanked and demand skyrocketed. In truth, however, this was a "knee-jerk reaction" as the US' gasoline inventory as of May 7, 2021, was sufficient to last 26.5 days as reported by the Wall Street Journal. Essentially, the "shortage" was panic-driven as motorists pre-emptively decided to fill up; thereby creating shortages at the pumps while the system, on a whole, had more than enough stored gasoline. Notably, while the restoration was gradual, as of Saturday, May 15th, the company has confirmed that its entire system has returned to normal operations.

Jamaica

Locally, Petrojam has reported that Jamaica's gas supplies remain sufficient. Notwithstanding, local gas prices have increased quite quickly, reflective of the price increase witnessed in the US. General Manager of Petrojam, Winston Watson, indicated that while the shortage in the US has not affected Jamaica's gas supplies, price increases in the US also affect Jamaica. This comes on the back of already heightened prices which have been increasing almost continuously since the start of the year. Specifically, between December 31, 2020, and May 13, 2021, the price of "Gasolene 87" and "Gasolene 90", as reported by Petrojam, have increased by 34%. Importantly, this uptrend in prices has also been seen in Pretrojam's reference price, the US Golf Coast Spot Price, which has increased by 51% between December 31, 2020, and May 10, 2021.

The Larger Issue

The cyberattack on Colonial has unearthed the fact that many companies have been victims of ransomware and related cyberattacks. However, most companies stay silent and pay the ransom to keep things quiet. The recent attack, however, has been a major catalyst for new efforts in Congress to require critical companies to inform the government once they've been hacked. Even Republicans have indicated support for cybersecurity regulations; a stark contrast to their position on the last effort to pass meaningful cybersecurity legislation. This, we believe is a key point; if cyberattacks are not reported then investigations are not conducted. This, in effect, fuels more ransomware as hackers are essentially paid to continue what has become a highly paid illicit activity. This issue flows well beyond the borders of the US and has implications globally. Specifically, ransomware cost is estimated to total US$20 billion in 2021, 57 times more than it was in 2015 (rapid growth), as reported by Cybercrime Magazine. More broadly, cybercrimes are estimated to inflict damages amounting to US$ 6 trillion in 2021 – a sum that dwarfs the GDP of Japan.

Concluding Thoughts

The recent attack on the Colonial Pipeline demonstrates the severity of cyberattacks. Moreover, it has brought to the fore, the fact that many companies that have been victims of cyberattacks typically pay ransoms, and in many cases, these incidents go unreported. Therefore, the costs of these attacks are embedded in the income statements of many companies and are borne by shareholders who are completely unaware. Further, the financial implication of cyberattacks represents just one aspect of the loss as companies can suffer severe, irreversible reputational damages depending on the specific circumstance surrounding the attack. Therefore, as the US is now doing, more countries will need to strengthen regulations surrounding cybersecurity to protect shareholders and stakeholders, particularly now, as digitization intensifies, and the fourth industrial revolution materializes.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market decreased week-over-week. The JSE Combined Index decreased by 0;14%, the Main Market Index decreased by 0.35%, the JSE All Jamaican Composite Index grew by 0.59%, the JSE Junior Market Index improved by 2.39%, and the JSE USD Equities Index improved by 0.63%.

During the week, Portland JSX Limited was the largest gainer, rising by 46.27% to close at J$10.40. The biggest loser was Salada Foods Jamaica Limited which fell by 23.19% to close at J$7.22

Year to Date, The Junior Market Index (+25.66% YTD) continues to outpace its Main Market counterpart (+8.19% YTD.)

As of Friday May 14th, 2021, overall market activity resulted from trading in 109 stocks of which 56 advanced, 40 declined and 13 traded firm.

Market volume amounted to 137,019,724 units valued at over $793,304,086.89. Future Energy Source Company Ltd Ordinary Shares was the volume leader with 27,833,240 units (20.31%) followed by Wigton Windfarm Limited Ordinary Shares with 19,934,890 units (14.55%) and Sagicor Select Funds Limited - Financial with 10,550,435 units (7.70%) .

Revisiting relevant news during the week:

Jamaica is seeing a significant jump in flight bookings, particularly out of the United States, which is Jamaica's biggest source market. https://www.jamaicaobserver.com/sunday-finance/increase-in-flight-bookings-more-us-airlines-flying-to-jamaica_221529?profile=1056

The GraceKennedy (GK) Group is reporting strong results in the first quarter of 2021. For the three months ended March 31, 2021, the GK Group achieved revenues of J$31.39 billion, representing an increase of 8.8 per cent or J$2.54 billion over the corresponding period last year. Net profit attributable to stockholders was J$1.65 billion, 25.6 per cent or J$337.3 million higher than the same period last year. Earnings per stock unit for the period was J$1.67 (2020: J$1.33). https://www.jamaicaobserver.com/business-report/gracekennedy-delivers-strong-first-quarter-of-2021_221443?profile=1056

Fontana has recorded another positive quarter with net profit jumping by 333.7 per cent to $72.9 million for the March quarter, compared with $21.6 million which was recorded a year ago. https://www.jamaicaobserver.com/business-report/fontana-reports-333-7-jump-in-profits-for-march-quarter_221429?profile=1056

Jamaican-based real estate development and private equity outfit First Rock Capital Holdings is undergoing a massive expansion in the region with three major deals about to be inked.

The company, through its Costa Rican subsidiary, First Rock Capital LATAM SA, has closed on one already which is a real estate deal with two other deals about to be closed in Guyana.

https://www.jamaicaobserver.com/business-report-daily-biz/first-rock-expands-in-latin-america-closes-major-costa-rican-real-estate-deal-with-grupo-inmobiliario-del-parque-more-to-come-in-caribbean_221413?profile=1056

Index	14/05/2021	07/05/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	428,015.27	429,532.30	395,614.93	-0.35%	8.19%
JSE Junior Market	3,321.55	3,243.93	2,643.38	2.39%	25.66%
JSE Combined Market	429,604.72	430,207.64	392,435.92	-0.14%	9.47%
JSE USD Equities Market	213.07	211.74	186.3	0.63%	14.37%

INTERNATIONAL DEVELOPMENTS

Inflation in April accelerated at its fastest pace in more than 12 years as the U.S. economic recovery kicked into gear and energy prices jumped higher, the Labor Department reported Wednesday.

The Consumer Price Index, which measures a basket of goods as well as energy and housing costs, rose 4.2% from a year earlier. A Dow Jones survey had expected a 3.6% increase. The month-to-month gain was 0.8%, against the expected 0.2%.
https://www.cnbc.com/2021/05/12/consumer-price-index-april-2021.html

U.S. retail sales unexpectedly stalled in April as the boost from stimulus checks faded, but an acceleration is likely in the coming months amid record savings and a reopening economy.

The Commerce Department said on Friday the unchanged reading in retail sales last month followed a 10.7% surge in March, an upward revision from the previously reported 9.7% increase.
https://www.cnbc.com/2021/05/14/retail-sales-april-2021.html

Fewer Americans filed new claims for unemployment benefits last week, as companies held on to their workers amid the growing labor shortage that helped to curb job growth in April.

Initial claims for state unemployment benefits totaled a seasonally adjusted 473,000 for the week ended May 8, compared to 507,000 in the prior week, the Labor Department said on Thursday. Economists polled by Reuters had forecast 490,000 applications for the latest week.
https://www.cnbc.com/2021/05/13/weekly-jobless-claims.html

Top Things to Watch This Week:

1. **Earnings Reports**

2. **Oil and Gas Inventory Levels:** Following the shutdown of the Colonial Pipeline last week due to a cyberattack, the pipeline has been restored. But, there are still gas shortages throughout the Southeast, and prices are rising. That has prompted President Biden to waive rules around the Jones Act of 1920, which would allow non-U.S. ships to transport fuel to the America's refineries.

3. **U.S. existing home sales, mortgage applications and housing starts**

4. **Head of ECB's Speech:** Christine Largarde, former chair of the International Monetary Fund (IMF) will be speaking this week. This will provide a chance for investors to get perspective of monetary policy decisions for the European market at this stage of the pandemic.

Index	14/05/2021	07/05/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,382.13	34,777.76	30,606.48	-1.14%	12.34%
S&P 500	4,173.85	4,232.60	3,756.07	-1.39%	11.12%
NASDAQ 100	13,393.12	13,719.63	12,888.28	-2.38%	3.92%
FTSE 100	7,043.61	7,129.71	6,460.52	-1.21%	9.03%
Euro Stoxx 50	4,017.44	4,034.25	3,552.64	-0.42%	13.08%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency appreciated by 0.48% against the U.S. Dollar week on week to settle at $150.97 as at close of trade Friday, relative to $152.15 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately 5.84%.

Interest Rates and Inflation

- Since the onset of the pandemic in March 2020, market volatility has declined significantly. Notwithstanding, the BOJ maintains its position; supportive of the wider economy and continues to hold the policy rate at 0.50%.

- At this rate, based on its assessment, the BOJ notes that inflation will generally continue to remain within the target of 4.0% to 6.0% over the next two years.

- As at March 2021, point-to-point was recorded at 5.2%.

Currency Pair	14/05/2021	07/05/2021	31/12/2020	WoW	Year-to-Date
JMD: USD	150.97	152.15	142.64	0.78%	-5.84%
JMD:CAD	126.30	126.08	111.41	-0.17%	-13.36%
JMD:GBP	211.90	212.95	193.66	0.49%	-9.42%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.68%, the FX Bond Portfolio has decreased by 0.14%, the F.X. Growth Portfolio decreased by 0.91%, the Real Estate Portfolio has decreased by 0.10% and the Capital Growth Fund has grown by 9.17%.

- 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 Fund, which is benchmarked against the S&P 500, has decreased by 0.91% year to date.

- As at May 12th, 2021, the Capital Growth Fund has delivered a YTD return of 9.17% relative to the JSE Combined and Main Market Indices which posted returns of 9.47% and 8.19%, respectively.

- The FX Bond Portfolio remains an attractive fixed-income portfolio, particularly when viewed within the context of global interest rates which have declined significantly as central banks maintain low policy rates to drive the economic recovery.

"The individual investor should act consistently as an investor and not as a speculator."

— Ben Graham

Unit Trust

Unit Trust Fund	12/05/2021	06/05/2021	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	92.6533	91.9594	0.75%	9.17%	18.88%	-
Money Market	15.0244	15.0384	0.09%	1.68%	2.66%	1.69%
Income Portfolio	100.0000	100.0000	0.00%	-	-	2.34%
FX Bond Portfolio (US$)	1.3543	1.3604	-0.44%	-0.14%	7.58%	2.22%
Real Estate Portfolio	5,828.9885	5541.3392	5.19%	-0.10%	-6.03%	-
FX Growth Portfolio	0.9895	1.0165	-2.65	-0.91%	16.77%	-

– Daniel Crosby, Personal Benchmark: Integrating Behavioral Finance and Investment Management

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Investment Playbook

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Equities

Stock Ticket	Stock Information (As at May 14th, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 212.84 P/B: 4.02x Price: J$15.99 Div Yield: 1.19%	**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: 18.03x P/B: 2.95x Price: J$5.35 Div Yield: 1.13%	**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: 15.80x P/B: 2.24x Price: J$4.15 Div Yield: 1.23%	**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

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Stock Ticker	Stock Information (As at May 14th 2021)	Analyst Outlook
SEP Seprod Limited	P/E: 19.79x P/B: 3.37x Price: J$77.57 Div Yield: 0.77%	**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.
PROVENJMD Proven Investments Limited	P/E: 18.79x P/B: 1.20x Price: $37.62 Div Yield: 2.09%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.

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PROVENUS Proven Investments Limited	P/E: 19.06x P/B: 1.22x Price: US$0.27 Div Yield: 2.94%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.
SCIJMD Sygnus Credit Investments	P/E: 12.87x P/B: 0.28x Price: J$14.67 Div Yield: 2.44%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.
SCIUSD Sygnus Credit Investments	P/E: 19.61x P/B: 0.39x Price: US$0.15 Div Yield: 1.67%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.

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CCC Caribbean Cement Company	P/E: 21.73x P/B: 5.32x Price: J$81.72 Div Yield: 0.00%	**OVERWEIGHT** Throughout the COVID-19 pandemic, all industries have been affected by what has been a significant downturn in aggregate demand as the pandemic has created a need for persons to reduce travelling and physical interaction. Despite this setback which predominantly materialized in Q2 of 2020, the construction industry has rebounded significantly (7.0% in Q3 2020 and 6.2% in Q4 2020), ahead of many other industries and well ahead of the overall economy. This strong growth over the last two reported quarters has been a significant tailwind for Caribbean Cement and the company has consequently seen a significant increase in the demand for its product, well in excess of previous years. On the heels of what has been a great year for the company, management expects demand to increase further, fuelled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt.
LAB The Limners and Bards Limited	P/E: 19.87x P/B: 6.11x Price: J$2.98 Div Yield: 2.48%	**OVERWEIGHT** The Lab provides a unique opportunity for investors to get exposure to the first and only advertising and film production company listed on the Jamaica Stock Exchange (JSE). The Lab's business model is built on providing innovative solutions to clients through its main services including its brand/communication strategy, campaign concepts & execution, media buying, and film production. Throughout the pandemic, the company has repositioned its business to meet the demand of clients who needed digital solutions. Consequently, while many industries and companies faltered in 2020, The Lab reported strong top and bottom-line growth of 44.30% and 34.13%, respectively. This growth has continued into 2021, reflecting significant double-digit growth in two of the company's three operating segments. Against the backdrop of a strong, stable business model coupled with robust financial performance, we have issued an OVERWEIGHT recommendation for The Limners and Bards Limited.

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CPFV Eppley Caribbean Property Fund SCC	P/E: 29.55x P/B: 0.75x Price: J$44.00 Div Yield: 6.14%	**Overweight** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.

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