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On the Local Manufacturing & Distribution Sector and the Pandemic

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ANALYST INSIGHT

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On the Local Manufacturing & Distribution Sector and the Pandemic

Jamaica's Manufacturing and Distribution (M&D) sector has felt and, in some ways, continues to feel the impact of the COVID-19 pandemic. While some companies have shown resilience during the pandemic, others have already begun to recover, indicated by the JSE Manufacturing and Distribution Index, which enables investors to invest in all the manufacturing and distribution companies that are listed on both the Main and Junior Markets. As at June 11, 2021, the M&D index value was 104.92, an increase above its pre-covid level of 14%. From some of our main market participants, we observe that their twelve-month-trailing (TTM) earnings have surpassed their TTM pre-covid levels. These companies have also seen a slight increase in their Price-to-Earnings (PE) ratio over their pre-covid levels, indicating that investor confidence in the trajectory of these companies has strengthened.

However, we observe that both Berger Paints and Seprod's PE ratios have increased exponentially from their pre covid levels, by approximately 304% and 450%, respectively. This is in part due to a significant decline in the TTM earnings for both Berger (-64%) and Seprod (-95%) when compared to their pre-covid earnings.

Notably, for the first quarter ended March 31, 2021, Berger recorded an increase in revenues of 18% over the corresponding period of the prior year. Their gross profit margin improved by 3% to end the period at 41%, operating profit margins also increased by 1% to end the period at 24% and finally Berger's profits increased from a loss of J$41 million to a profit of J$8.2 million. These improvements in the company's profitability ratio are on the back of increasing overall revenues showcasing a strong fundamental push to the path of recovery.

For the three (3) months ended 31 March 2021, the Seprod Group achieved revenues of J$9.58 billion, an increase of J$443 million or 5% over the corresponding period in 2020. Seprod's gross profit margin declined by 2% to end the period at 28%, this was due to the Group experiencing a higher cost of goods sold (COGS) as a result of the ongoing threat of COVID-19. Specifically, COGS increased by 8% to end the period at J$6.8 billion. Seprod's Operating profit margin also declined by 2% to end the period at 10%. The Group's net profit of J$546 million decreased by J$86 million or 14% versus the corresponding period in 2020. The decreased profitability was primarily driven by an increase in their operating costs and by supply chain challenges.

The current environment remains uncertain due to the sustained effects of the COVID-19 pandemic. However, with the global vaccination drive and select world markets slowly re-opening for business, there is cautious optimism for both these companies.

Year to date, the Main Market Index increased by 7.79% while the Junior Market improved by 25.89%. Though the Main Market underperformed relative to the Junior market, the driver of this underperformance has largely been the financial sector. This is made very clear once we look at several large cap non-financial companies that have performed well despite the pandemic including Grace Kennedy, Seprod, Caribbean Cement and Jamaica Broilers.

The BoJ has highlighted its expectation for the Jamaican economy to expand in the second half of 2021, supported by government infrastructure projects and normalization in the mining sector following the closure of a large production plant in 2019. This infrastructure spend will have positive tailwinds for Caribbean Cement Company, which we've highlighted in our most recent equity analysis of the stock.

Additionally, while Jamaica's vaccination efforts have been below optimal, the US and the UK are well underway with vaccine administration which bodes well for our local tourism and remittance industries, both of which are major sources of income for the economy. With that said, the trajectory of the local economy is improving which should act as a tailwind for the Manufacturing & Distribution industry. we expect manufacturers to perform well, building on cost efficiencies developed and overseas consumer markets etched out during the pandemic. Additionally, segments of the manufacturing space that had a more muted performance throughout 2020 on the back of the closure of Tourism, Entertainment and Schools, are expected to rebound with these industries. Wisynco and Jamaica Producers are two such examples of companies that would benefit tremendously from an upturn in the economy. Altogether, we believe the local stock market remains poised for growth. However, the nature of our market is such that investors are reactive as opposed to proactive which presents an opportunity for investors willing to invest before the rebound materializes.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market increased week-over-week. The JSE Combined Index increased by 0.44%, the Main Market Index increase by 0.51%, the JSE All Jamaican Composite Index grew by 0.63%, the JSE Junior Market Index declined by 0.33%, and the JSE USD Equities Index increased by 0.22%.

During the week, Jetcon Corporation Limited was the largest gainer, rising by 56.88% to close at J$1.71. The biggest loser was 123 Student Living Jamaica Limited Variable Preference which fell by 24.05% to close at J$6.00.

Year to Date, The Junior Market Index (+25.89% YTD) continues to outpace its Main Market counterpart (+7.79% YTD.)

As of Friday June 11thth, 2021, Overall Market activity resulted from trading in 110 stocks of which 52 advanced, 49 declined and 9 traded firm. Market volume amounted to 96,385,908 units valued at over $1,456,785,730.51. Mailpac Group Limited was the volume leader with 18,555,180 units (19.25%) followed by Wigton Windfarm Limited Ordinary Shares with 13,145,025 units (13.64%) and with 5,045,240 units (5.23%) . Transjamaican Highway Limited

Revisiting relevant news during the week:

Scotiabank Group during its second quarter or six-month period ended April 30 posted increased net profits of $4.5 billion — up 11.5 per cent or $463 million more than in the corresponding quarter last year.

https://www.jamaicaobserver.com/business-report/scotia-profits-jump-11-5-per-cent_223496?profile=1056

THERE has been a jump in government revenue collections during the month of April, which amounted to $75.73 billion, up $3.41 billion more than projection. https://www.jamaicaobserver.com/business-observer/jump-in-revenue-collections-for-april-grants-underperformed-the-budget-by-222-8-million_223298?profile=1056

Less than two years after becoming the largest shareholder in Sagicor Financial Company (SFC), JMMB Group Limited (JMMBGL) has added another one of its board members to SFC's board as the company's stake in the financial conglomerate has increased from 22.52 per cent to 22.68 per cent.

JMMB initially acquired its 22.52 per cent SFC stake on December 5, 2019, when it converted 33,213,764 Class B shares in Alignvest Acquisition II Corporation (ALC) on a one-for-one basis into SFC shares. JMMBGL acquired these shares via a private placement at a cost of US $250 million ($34.40 billion) or CAD $332.14 million on a converted price.

https://www.jamaicaobserver.com/business-observer/jmmb-adds-new-board-member-to-sagicor-financial-company-company-stake-in-regional-insurer-increases-from-share-buyback_223121?profile=1056

Index	11/6/2021	4/6/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	426,420.61	424,268.23	395,614.93	0.51%	7.79%
JSE Junior Market	3,327.84	3,339.02	2,643.38	-0.33%	25.89%
JSE Combined Market	428,195.85	426,322.49	392,435.92	0.44%	9.11%
JSE USD Equities Market	200.95	200.51	186.30	0.22%	7.86%

INTERNATIONAL DEVELOPMENTS

A sharp decrease in longer-term bond yields appeared to help push the S&P 500 Index to a record high in a week of relatively light summer trading. The decline in yields favored growth stocks by reducing the implied discount on future earnings while weighing on financials by threatening bank lending margins. The technology-heavy Nasdaq Composite Index outperformed and marked its fourth consecutive weekly gain, while the narrowly focused Dow Jones Industrial Average recorded a modest loss. Health care stocks led within the S&P 500, boosted by gains in Biogen. The drugmaker's shares rose sharply after the Food and Drug Administration surprised some by granting broad authorization to its new Alzheimer's disease treatment, Aduhelm.

Interest rates and inflation seemed to continue to dominate sentiment. The yield on the benchmark 10-year U.S. Treasury note decreased throughout most of the week, seemingly pushed lower by recent assurances from Federal Reserve policymakers that they would keep monetary policy highly accommodative for "some time" and that the recent spike in inflation would prove temporary. On Thursday, yields jumped briefly after the Labor Department reported that core (less food and energy) consumer prices had risen 0.7% in May, well above the consensus estimate of 0.4%. The annual headline print reached a 13-year high of 5.0%, while the one-month reading totaled 0.6%, due in large part to a jump in used car prices.

Longer-term inflation expectations appeared to remain contained, however. The University of Michigan's survey of consumer sentiment, released Friday, showed that Americans expected prices to rise 4% in the current year, versus the previous month's read of 4.6%.

https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Top Things to Watch in Markets in the Week Ahead

1. FED Meeting- nvestors will be zeroing in on the Fed's statement at the conclusion of its two-day policy meeting on Wednesday against a background of persistent concerns over whether inflation spikes could pressure the central bank to start tapering its stimulus sooner than expected.

2. US Economic Data- Away from Fed meeting, the U.S. is to release May data on retail sales and producer price inflation on Tuesday. Also out on Tuesday is industrial production data which will be closely watched amid issues over supply constraints and labor market shortages. This could translate into increases in producer price inflation.

3. China Economic Data- China is set to publish May industrial production and retail sales data on Wednesday, giving investors an updated insight on the economic outlook for the world's second-largest economy. Both numbers are expected to slow from the previous month, as domestic consumption remains sluggish.

https://finance.yahoo.com/news/top-5-things-watch-markets-062333855.html

Index	11/6/2021	4/6/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,479.60	34,756.39	30,606.48	-0.81%	12.65%
S&P 500	4,247.44	4,229.89	3,756.07	0.41%	13.08%
NASDAQ 100	13,998.30	13,770.70	12,888.28	1.65%	8.61%
FTSE 100	7,134.06	7,069.04	6,460.52	0.92%	10.43%
Euro Stoxx 50	4,126.70	4,089.38	3,552.64	0.91%	16.16%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciated by 0.44% against the U.S. Dollar week on week to settle at $150.54 as at close of trade Friday, relative to $149.87 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately 5.53 %.

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 April 2021, point-to-point was recorded at 3.8%.

Currency Pair	11/6/21	4/6/21	31/12/20	Wk/Wk	Year-to-Date
JMD: USD	150.54	149.87	142.65	0.44%	-5.53%
JMD:CAD	125.36	125.22	111.41	0.11%	-12.52%
JMD:GBP	212.71	212.61	193.66	0.05%	-9.84%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.76%, the FX Bond Portfolio has increase by 1.05%, the F.X. Growth Portfolio increased by 2.92%, the Real Estate Portfolio remained flat and the Capital Growth Fund has grown by 8.30%.

- 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 increased by 3.15% year to date.

- As at June 11th, 2021, the Capital Growth Fund has delivered a YTD return of 8.30% relative to the JSE Combined and Main Market Indices which posted returns of 9.11% and 7.79%, 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	9/6/2021	2/6/2021	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	91.91	91.90	0.01%	8.30%	17.63%	-
Money Market	15.0359	15.0248	0.07%	1.76`%	3.96%	2.47%
Income Portfolio	100.00	100.00	-	-	-	2.55%
FX Bond Portfolio (US$)	1.3705	1.3607	0.72%	1.05%	6.38%	2.37%
Real Estate Portfolio	5,834.82	5,802.42	0.55%	0.00%	-2.65%	-
FX Growth Portfolio	1.0277	1.0300	-0.22%	2.92%	14.43%	-

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Equities

Stock Ticket	Stock Information (As at June 11th , 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.42 P/B: 3.88x Price: J$15.42 Div Yield: 1.23%	**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: 16.42x P/B: 2.86x Price: J$5.59 Div Yield: 1.11%	**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: 14.89x P/B: 2.03x Price: J$3.86 Div Yield: 1.32%	**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
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UNDERWEIGHT
Reduce exposure in your portfolio to less than 5% for this particular asset

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SEP Seprod Limited	P/E: 18.17x P/B: 3.09x Price: J$71.22 Div Yield: 0.84%	**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: 18.10x P/B: 1.16x Price: $36.22 Div Yield: 2.18%	**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: 18.50x P/B: 1.18x Price: US$0.26 Div Yield: 3.03%	**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: 13.48x P/B: 0.65x Price: J$15.27 Div Yield: 2.35%	**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: 19.74x P/B: 0.95x Price: US$0.15 Div Yield: 1.66%	**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: 25.09x P/B: 6.15x Price: J$94.33 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: 20.67x P/B: 6.36x Price: J$3.10 Div Yield: 2.39%	**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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Mailpac Mailpac Group Limited	P/E: 19.89x P/B: 6.36x Price: J$3.58 Div Yield: 4.19%	**OVERWEIGHT** Having raised just under $500 million in its November 2019 junior market initial public offering (IPO), by March of 2020 the global economy was grappling with the COVID-19 crisis. This posed both a challenge and an opportunity for the Mailpac Group given the sudden and immediate need for e-commerce capabilities in light of social distancing and other non-medical interventions to reduce the spread of the virus. That the company was able to generate $1.7 billion in revenue during 2020 is demonstrative of the management's agility and competence of the company's leadership. They were able to pivot in building both scale and capacity, which are likely to sustain Mailpac's performance prospectively, given the likely scenario that e-commerce is likely to become more enconsced among Jamaica consumers, across various social classes.

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