MAKING MONEY WORK FOR YOU.

On the Local Financial Sector and the Pandemic

June 7th , 2021

ANALYST INSIGHT

Awah Muirhead
Senior Investment Strategy Analyst

On the Local Financial Sector and the Pandemic

Background

Throughout the COVID-19 pandemic, the performance of many companies has been altered considerably – some have benefited immensely while others have faltered. In aggregate, the stock market has not only "priced in" the financial performance of these companies, but the uncertainties surrounding their trajectory. Notwithstanding, after 15 months of the "new normal", uncertainty has somewhat dimmed and many companies have learned to maneuver within the new circumstances and in some cases, even thrive. The Junior Market, for instance, which is Jamaica's marker for the performance of small-cap stocks has appreciated by 26.3% since the start of 2021; thereby returning to its pre-pandemic range. Noteworthy, however, average volumes traded remain below the 2019 period by 24.5%, signaling that a fairly sizable share of the investment community remains on the sidelines, despite the rebound. Further to this point, the overall market remains subdued (down approximately 15.6% relative to its pre-pandemic level), largely on account of the financial sector which represents the majority of the market's capitalization. This performance has been within the context of a weak economic backdrop, constrained by the pandemic. However, with the expectation of a more buoyant economy going forward, it's important to determine if the financial sector has untapped value to be unearthed by investors.

The Strength of the Financial Sector

According to the Bank of Jamaica's (BoJ's) March 2021 Quarterly Monetary Policy Report, "The financial system has remained generally resilient throughout the pandemic.". Consistent with this statement, the Aggregate Financial Stability Index (AFSI) demonstrated improvements, increasing to 0.51 at the end of the September 2020 quarter, from 0.46 at the end of June. As it relates to the commercial banks, the main area that has shown some weakness relates to asset quality wherein Non-Performing Loans (NPLs) as a percent of gross assets has increased to 1.4% as at March 2021 relative to 1.1% pre-pandemic (Dec 31, 2019). Notwithstanding, liquidity has remained elevated with the ratio of average liquid assets as a percent of average prescribed liabilities strengthening to 27.2% as at March 2021 relative to the pre-pandemic level of 25.7%. Further, as at March 2021, Capital Adequacy remains in line with its pre-pandemic level at 13.6%, despite the effects of the pandemic.

Pre-empting the Market

A strengthening of the financial sector sets the stage for more robust earnings performance, which is what drives markets. Already, the aggregate data suggests an improvement is underway with pre-tax profit margin for the March 2021 quarter amounting to 14.88% for commercial banks, ahead of the 2020 calendar year's 11.00%, as reported by the BoJ. Further, in the June and September 2020 quarters, pre-tax profit margin fell to 7.52% and -0.82%, respectively. Benchmarking against these two quarters implies that the profitability over the upcoming June and September 2021 quarters should be more robust, supported by an improving economy. Now, herein lies the opportunity – for comparison purposes, if we take an international perspective, we notice that stock markets in developed nations are typically touted as a "discounting mechanism"; a phrase that sums up the nature of market participants to pre-empt earnings. As such, prices typically move before earnings – rarely after. Broadly speaking, this is lacking in our local market as investors seem to position on lagging data which, creates obvious winners and losers, depending on who buys first or last, which is a flaw. Furthermore, if we consider the current pricing, Financials are priced at an average P/E and P/B of 18.5x and 1.7x, respectively. This compares favorably to the Manufacturing sector that is priced at an average P/E and P/B of 30.8x and 4.4x, respectively, suggesting that financials are cheaper. With that said, by pre-empting the market as is done overseas, an intelligent investor could gain far more.

Cyclicality in a Recovery – *International Perspective*

Continuing with the international comparison, at this stage, the United States has new daily COVID-19 cases averaging 14,124 per week, in line with March 2020, long before the pandemic became dire. It's important to highlight this because the US is now at the initial stages of its economic recovery, fuelled by its vaccination efforts coupled with strong fiscal and monetary policy intervention. Importantly, the result has been rapid growth in the financial sector. Specifically, since the start of 2021, the S&P's financial sector has grown by 30.04%, second only to the energy sector. **Why does this matter?** Well, we believe this could also transpire in Jamaica on the back of an economic recovery. Essentially, while most companies benefit from an economic recovery, the financial sector benefits far more due to its cyclicality. This expectation for a recovery is further enhanced by the GoJ's own efforts to catalyze growth through the SERVE programme which should inject $60 billion into the economy, $31.1 billion of which will be targeted towards growth-inducing infrastructure programmes.

Concluding Thoughts – *The stage of the Recovery*

Based on the BoJ's forecast, real GDP is estimated to have contracted in the range of 5% - 7% in the March 2021 quarter, markedly better than the three previous quarters. The bank projects that following this contraction, the economy should rebound in subsequent quarters. Consequently, for FY2021/22, the BoJ projects real GDP growth in the range of 5% - 8% and a return to pre-pandemic real GDP by the March 2022 quarter. This indicates that, barring any material adverse event such as a catastrophic hurricane, Jamaica is on the cusp of an upward growth trajectory. Within that vein, the economic recovery should serve to improve the performance of the financial sector. Similarly, the underlying risks that have persisted such as slightly elevated NPLs, should be tempered within this economic backdrop. Along those lines, we believe a pre-emptive addition of financial services stocks to an investor's portfolio is beneficial, ahead of the economic recovery.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market increased week-over-week. The JSE Combined Index increased by 0.50%, the Main Market Index increase by 0.52%, the JSE All Jamaican Composite Index grew by 0.44%, the JSE Junior Market Index improved by 0.29%, and the JSE USD Equities Index declined by 1.93%.

During the week, Main Event Entertainment Group was the largest gainer, rising by 20.55% to close at J$5.28. The biggest loser was TTech Limited which fell by 18.75% to close at J$5.07

Year to Date, The Junior Market Index (+26.32% YTD) continues to outpace its Main Market counterpart (+7.24% YTD.)

As of Friday June 4thth, 2021, overall market activity resulted from trading in 107 stocks of which 57 advanced, 44 declined and 6 traded firm. Market volume amounted to 106,466,512 units valued at over $1,303,365,693.30. Wigton Windfarm Limited Ordinary Shares was the volume leader with 12,054,457 units (11.32%) followed by Future Energy Source Company Ltd Ordinary Shares with 11,925,248 units (11.20%) and Sterling Investments Limited with 11,856,806 units (11.14%)

Revisiting relevant news during the week:

EVEN against the backdrop of the worst economic downturn in modern history, companies in the construction sector in Jamaica and across the world are experiencing growth.

https://www.jamaicaobserver.com/sunday-finance/construction-based-companies-flourish-in-covid-19-environment-cement-hardware-lumber-and-painting-entities-show-increases-in-revenues-profits_223124?profile=1056

Despite the financial constraints caused by COVID-19 in 2020, it was not enough to stop growth in the insurance sector, which continues to rebound from the pandemic.
https://www.jamaicaobserver.com/sunday-finance/jamaica-s-insurance-sector-grew-in-2020-despite-covid-19-set-back-jump-in-number-of-policies-while-policyholders-in-2020-sought-higher-insurance-coverage_223122?profile=1056

ir-conditioning company CAC 2000 and Tropical Battery Company Limited have joined forces to form a new company, Enervate Limited.

The joint venture company is duly incorporated under the guidelines of the Companies Office of Jamaica on April 29, 2021. Enervate, which is in the business of energy-saving solutions, officially started offering its product and services as of Tuesday, June 1, 2021.
https://www.jamaicaobserver.com/business-report/tropical-battery-cac-2000-establish-new-company-enrvate-limited_223022?profile=1056

Despite the economic fallout in the tourism sector and general commuting segments of the population, Lasco Distributors Limited (LASD) experienced a four per cent rise in revenue to $20.29 billion with net profit increasing by 25 per cent to $909.48 million for the 2021 financial year (FY) ending March 31.

https://www.jamaicaobserver.com/business-report/lasco-distributors-expansion-plans-to-start-shortly-this-after-a-profit-increase-of-25-per-cent_223033?profile=1056

Index	4/6/2021	28/5/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	424,268.23	422,066.55	395,614.93	0.52%	7.24%
JSE Junior Market	3,339.02	3,329.50	2,643.38	0.29%	26.32%
JSE Combined Market	426,322.49	424,190.62	392,435.92	0.50%	8.63%
JSE USD Equities Market	200.51	204.45	186.30	-1.93%	7.63%

INTERNATIONAL DEVELOPMENTS

he major indexes closed moderately higher in a shortened trading week, with markets closed Monday in observance of Memorial Day. Energy shares performed best within the S&P 500 Index as oil prices reached their highest level in two years. Consumer discretionary shares lagged, weighed down by a decline in Tesla. Trading volumes were generally light, as is typical of the start of the summer holiday season. T. Rowe Price traders noted that volumes would have been lighter still if not for concentrated buying and selling by retail investors of what some have termed "meme" stocks—smaller-cap, consumer-oriented shares actively discussed on social media. Shares of theater chain AMC experienced particularly heavy trading and volatility.

After increasing early in the week, the yield on the benchmark 10-year U.S. Treasury note fell back on Friday following the May payrolls report. (Bond prices and yields move in opposite directions.) The broad municipal bond market outperformed Treasuries over much of the week, and our muni traders reported improvement in secondary market trading volumes as the week progressed. According to the latest data from Lipper, municipal bond funds industrywide received net inflows of nearly USD 1 billion for the week ended June 2, including strong flows into tax-exempt high yield portfolios.

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. Inflation Threat- All eyes will be on the latest CPI data on Thursday, after a much stronger than expected inflation number sparked a selloff last month, as many worried rising price pressures could force the Fed to begin unwinding stimulus soon.

2. Infrastructure Deal - Market participants will be closely following negotiations between Democrats and Republicans in Washington over President Joe Biden's proposed $1.7 trillion infrastructure deal.

3. ECB Dilema- The ECB meets on Thursday and will release its updated growth forecasts for 2021 and 2022. Policymakers will debate whether to prolong their support for the euro zone recovery through emergency stimulus, a decision that will hinge on how strong they believe the region's economic recovery is.

4. UK GDP - With the planned full reopening of the UK economy on June 21 looking increasingly doubtful investors will be paying close attention to Friday's figures on monthly GDP growth.

https://finance.yahoo.com/news/top-5-things-watch-markets-065918236.html

Index	4/6/2021	28/5/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,756.39	34,529.45	30,606.48	0.85%	13.56%
S&P 500	4,229.89	4,204.11	3,756.07	0.69%	12.61%
NASDAQ 100	13,770.70	13,686.51	12,888.28	0.83%	6.85%
FTSE 100	7,069.04	7,022.61	6,460.52	0.70%	9.72%
Euro Stoxx 50	4,089.38	4,070.56	3,552.64	0.46%	15.11%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciated by 0.21% against the U.S. Dollar week on week to settle at $149.87 as at close of trade Friday, relative to $149.55 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately 5.06%.

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	4/6/2021	28/5/2021	31/12/2020	Week/ Week	Year-to-Date
JMD: USD	149.87	149.55	142.65	0.21%	-5.06%
JMD:CAD	125.22	124.99	111.41	0.18%	-12.39%
JMD:GBP	212.61	213.67	193.66	0.49%	-9.79%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.68%, the FX Bond Portfolio has increase by 0.33%, the F.X. Growth Portfolio increased by 3.15%, the Real Estate Portfolio has decreased by 0.57% and the Capital Growth Fund has grown by 8.29%.

- 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 May 28th, 2021, the Capital Growth Fund has delivered a YTD return of 8.29% relative to the JSE Combined and Main Market Indices which posted returns of 7.24% and 8.63%, 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	2/6/2021	26/5/2021	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	91.90	92.09	-0.21%	8.29%	17.89%	-
Money Market	15.0248	15.0199	0.03%	1.68%	3.80%	2.39%
Income Portfolio	100.00	100.00	-	-	-	2.53%
FX Bond Portfolio (US$)	1.3607	1.3573	0.25%	0.33%	6.60%	2.24%
Real Estate Portfolio	5,802.42	5,784.39	0.31%	-0.56%	-17.91%	-
FX Growth Portfolio	1.0300	1.0234	0.64%	3.15%	17.83%	-

Barita
MAKING MONEY WORK FOR YOU.

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticket	Stock Information (As at June 4th, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.03 P/B: 3.81x Price: J$15.14 Div Yield: 1.25%	**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: 16.84x P/B: 2.93x Price: J$5.59 Div Yield: 1.09%	**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: 15.63x P/B: 2.13x Price: J$4.05 Div Yield: 1.26%	**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

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

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

SELL
Reduce exposure in your portfolio to zero

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at June 4th, 2021)	Analyst Outlook
SEP Seprod Limited	P/E: 18.63x P/B: 3.17x Price: J$73.01 Div Yield: 0.82%	**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: 17.77x P/B: 1.13x Price: $35.57 Div Yield: 2.21%	**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.

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 June 4th, 2021)	Analyst Outlook
PROVENUS Proven Investments Limited	P/E: 18.66x P/B: 1.19x Price: US$0.26 Div Yield: 3.01%	**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: 13.27x P/B: 0.29x Price: J$15.13 Div Yield: 2.37%	**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.

Ratings Definitions

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

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

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

SELL
Reduce exposure in your portfolio to zero

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at June 4th , 2021)	Analyst Outlook
CCC Caribbean Cement Company	P/E: 90.39x P/B: 5.89x Price: J$90.39 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: 20.07x P/B: 6.17x Price: J$3.01 Div Yield: 2.46%	**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.

Ratings Definitions

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

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

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

SELL
Reduce exposure in your portfolio to zero

Investment Playbook

Barita
MAKING MONEY WORK FOR YOU.

Equities

Stock Ticker	Stock Information (As at June 4th , 2021)	Analyst Outlook
CPFV Eppley Caribbean Property Fund SCC	P/E: 28.21x P/B: 0.72x Price: J$42.01 Div Yield: 6.43%	**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.
Mailpac Mailpac Group Limited	P/E: 20.83x P/B: 17.85x Price: J$3.75 Div Yield: 4.00%	**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.

Ratings Definitions

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

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

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

SELL
Reduce exposure in your portfolio to zero