



ADDITIONAL PUBLIC OFFERING ANALYSIS: BARITA INVESTMENTS LTD.

SEPTEMBER 8, 2021.

COMPANY PROFILE

Barita Investments Limited (Barita) was founded by Rita Humphries-Lewin in 1977 and has the distinction of being one of the oldest stock-broking companies in Jamaica. As at the time of writing, Barita's largest shareholder was Cornerstone Financial Holding Company (Cornerstone), having acquired a majority stake in the company in 2018. Today, Cornerstone owns approximately 74.3% of Barita's outstanding common/ordinary shares.

Barita is licensed by the FSC as a Securities Dealer, is a member dealer of the JSE and is a Primary Dealer and Cambio Dealer for the Bank of Jamaica (BOJ) serving its clients through its offices located in Kingston, Mandeville and Montego Bay. Barita's range of product and service offerings includes:

- Cambio Trading
- Fixed Income Trading
- Stock Brokerage
- Pooled Fund Management
- Structured Products
- Retirement Planning
- Wealth Management
- Investment Banking

Additionally, through a subsidiary, Barita Unit Trusts Management Company Limited (BUTM), Barita offers six (6) unit trust products to clients investing in the fixed income, equities and real estate asset class. As at September 30, 2020, the company managed over J\$290B in assets with a team consisting of approximately 153 members.

OFFER SUMMARY

Issuer	Barita Investments Ltd.
Shares Offered	The company is offering up to 125,000,000 new ordinary shares of which 112,500,000 shares approx. 90.0%) are reserved . If fully subscribed, the offer is expected to raise J\$10.0B gross. The Directors reserve the right to elect to upsized the number of New Ordinary Shares made available for subscription shall not exceed 187,500,000 additional New Ordinary Shares in the event that the Invitation is oversubscribed.
Share Price and Minimum Subscription	Barita is inviting investors to apply for a minimum of 300 shares , increasing in increments of 100 at the following prices: <ul style="list-style-type: none"> * Cornerstone Investors and Key Investors at J\$80.00 per share * Existing shareholders and Barita Clients at J\$80.00 per share * Non-Reserved Share Applicants at J\$80.00 per share
Use of Funds	The Issuer intends to use the proceeds of the offer to: <ul style="list-style-type: none"> * To add capacity to the Company's principal investments portfolios to include investments in (J\$4.0B): Private Equity Private Credit Infrastructure Alternative Investments * Expanding local and regional footprint (J\$4.12B) * Expanding Investment Banking underwriting capacity and support expansion into the region (J\$1.68B) * Transaction fees (J\$0.2B)
Offer Opening Date	9:00AM on September 6, 2021
Offer Closing Date	4:00PM on September 21, 2021
Share Allotment	The Board, however, reserves the right to extend the period in which the invitation remains open. The company intends to allocate shares by September 27, 2021

ANALYST'S OPINION

RATING	OFFER PRICE	ESTIMATED FAIR VALUE	POTENTIAL RETURN
BUY	J\$80.00	J\$118.43	48.04%

Over the past three (3) years Barita has outperformed its peers, delivering significant returns on shareholders equity and total assets during that period.

HISTORICAL RETURNS OF PUBLICLY LISTED BROKERAGE HOUSES								
Brokerage Houses	Return on Shareholder's Equity				Return on Total Assets			
	2018	2019	2020	Average	2018	2019	2020	Average
Barita Investments Ltd.	12.40%	20.50%	17.80%	16.90%	2.10%	5.70%	4.90%	4.23%
Victoria Mutual Investments Ltd.	15.13%	17.09%	10.07%	14.10%	1.91%	2.55%	1.58%	2.01%
Proven Investments Ltd.	7.26%	7.79%	31.60%	15.55%	0.94%	1.14%	4.85%	2.31%
Mayberry Investments Ltd.	2.39%	9.31%	-3.61%	2.70%	0.59%	2.11%	-1.02%	0.56%

As at respective year ends.

Barita achieved these results by utilising cheap capital it raised through share offerings to further upscale its operations. The company flexed its marketing muscles and showcased its investment acumen for the purpose of attracting investors to its funds. This helped to grow Barita's funds under management by 56% from J\$180B to J\$280B between September 2019 and September 2020. Barita diversified its operations, investing in and mobilising its Investment banking unit to originate both private and public deals. The most publicly notable of these deals was Derrimon Trading Limited's APO at the beginning of the year. The company's actions resulted in net profit growing to J\$3.67B in the nine months of operation in FY 2021, surpassing the J\$2.00B earned in the corresponding period of the previous financial year by approximately 83%.

All other things being equal, it is our opinion that Barita is likely to continue to utilize the winning formula it has employed in previous years to continue to deliver value to its shareholders. It is our opinion that the injection of additional equity capital from this APO should help to further increase Barita's Management's ability to upscale the business and deliver value to shareholders. Additionally, Barita's low leverage relative to its peers, implies that the company has the opportunity, if its management so chooses, to accelerate growth even further by utilizing debt in conjunction with its equity capital. However, based on the intended use of capital we think this strategy may be unlikely in at this moment, but remains a potential strategy the firm's management may opt to pursue in the future.

BROKERAGE/FUND MANAGEMENT INDUSTRY LEVERAGE RATIO	
Brokerage Houses	Financial Leverage (Times)
Barita Investments Ltd.	2.78
Victoria Mutual Investments Ltd.	6.29
Proven Investments Ltd.	5.43
Mayberry Investments Ltd.	3.48
Peer Average	5.07

A lower ratio equates to being less levered (i.e. less debt utilised in funding base)

We estimated the fair value of Barita at J\$118.43, implying a potential 48.04% upside relative to the offer price of J\$80.00 per share. Consequently, we are recommending the offer as a BUY.

COMPETITIVE FORCES ANALYSIS

The competitive landscape will be analysed utilizing the Porter's Five Forces model. Porter's model focuses on five competitive forces that shape every industry, and attempts to assess an industry's strengths and weaknesses by assessing the competitive intensity of the operating landscape. Using that information, we will attempt to rate the attractiveness, and by extension the potential profitability, of a company operating in that particular industry. The model focuses on the following potential threats:

				
Competition	New entrants	Buyers	Suppliers	Substitutes
High	Low	Low to Moderate	Moderate to High	Moderate to High
<ul style="list-style-type: none"> The Fund Management sub-sector of the Financial Services sector is highly competitive. There are numerous other large firms competing in the same space offering relatively identical products and services. Consequently, pricing throughout the industry is relatively homogeneous with no one firm possessing superior pricing power relative to the others. By extension, Barita's pricing Power is also restrained by the highly competitive, 	<ul style="list-style-type: none"> The Financial Services sector is one of the most stringently regulated industries throughout the world. In Jamaica, in order for firm's to operate in the industry they are required to be gain licencing through the Financial Service Commission, or The Bank of Jamaica, and/or the Jamaica Stock Exchange or some combination of the three. Additionally, achieving the regulatory pre-requisites are likely to come at considerable expense. Therefore, the licencing and capital requirements act 	<ul style="list-style-type: none"> Buyers have limited pricing power as industry's pricing is relatively homogeneous. However, that being said, between services providers is relatively low, allowing buyers to move from one provider to another relatively easily. 	<ul style="list-style-type: none"> Barita's primary suppliers consist of suppliers of capital. Market liquidity, and by extension interest rates, are a key determinants of the availability and the cost of capital. Despite the economic fallout from the Pandemic, interest rates remain relatively very low. However, market liquidity has been declining, and as a consequence, the cost of capital could increase. Additionally, global inflation is rising & monetary authorities could increase interest rates in response to curtail inflation, this could increase 	<ul style="list-style-type: none"> The commercial banking sector, despite generally aiming to preserving capital for investors as opposed to growing it, presents itself as a viable substitute to Barita's offering. The safety of deposits in commercial banks is a viable alternative to investing, particularly as market volatility increases. Additionally, Commercial Bank loans are a viable substitute to raising capital on capital

homogeneous industry.	as a significant moat, reducing the threat of new entrants.		<p>the cost of capital.</p> <ul style="list-style-type: none"> As economic conditions deteriorate, investor sentiment, a key determinant of the cost of capital, shifts negatively. With the pandemic showing no signs of slowing down more than a year and a half after it began, investor and risk sentiment may begin to wane causing a decline in capital markets and an increase in the cost of capital. 	markets, threatening Barita's Investment Banking activities.
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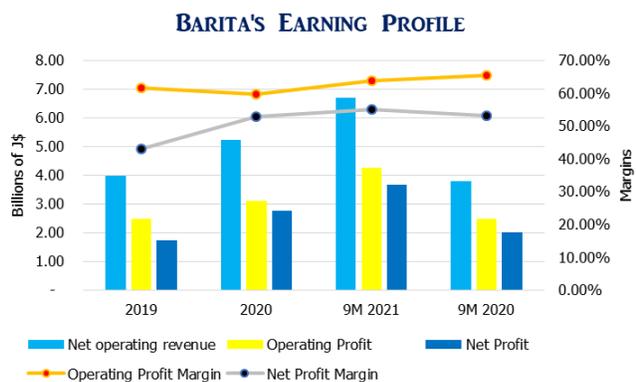
Based on the factors previously outlined, it is our opinion that on aggregate, the Porter's model would indicate that Barita faces **moderate threats**. However, the company does face significant threats from numerous competing firms who offer identical products and services, limiting Barita's pricing power. . The Primary differentiating factor between the firms is the level of service delivery and execution.

FINANCIAL ANALYSIS

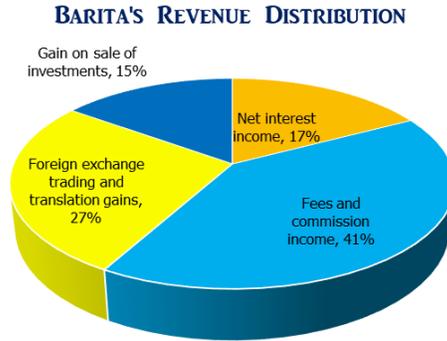
Profitability Review

Despite operating in a highly competitive industry and facing significant macroeconomic challenges and uncertainties due to the COVID-19 pandemic, Barita continued on its extraordinary growth trajectory, surpassing its FY 2020 performance in only nine months of FY 2021 (9M 2021).

During the nine month period, Barita reported earning J\$6.69B in net operating revenue, surpassing the corresponding period of the previous financial year by 77.07% or J\$2.91B. With interest rates at historic lows, Barita optimized its earnings to focus on non-interest income. Consequently, the majority of revenue, approximately 83% or J\$5.53B, was non-interest income. Fee and commission income contributed J\$2.72B to revenue during the nine month period, almost doubling relative to the



corresponding period of the previous financial year. The performance reflected the strong performance of the company's newly formed investment banking division, which acted: as the primary broker in Derrimon Trading Limited's J\$7.00 APO in January 2021, structured private equity and private transactions. The performance also reflected well on the company's asset management team whose astute management of portfolios helped to attract investors and also helped the company to realise gains on trades. This was reflected in the Foreign exchange trading line, which continued to be a major source of revenue for Barita, as the company booked J\$1.78B in trading gain from foreign exchanging during in the nine month period. This was more than four (4) times what was booked in the corresponding period of the previous financial year and reflects the company's active management of foreign currency assets. However, the growth in net operating revenue was curtailed by a 9.33% decline in investment trading activity. This was attributable to the slowing of local capital market activity in response to economic uncertainty, and volatility in international markets.



Barita's operating expenses grew in conjunction with revenue, increasing by 86.57% to J\$2.43B in 9m 2021, reflecting the growth of the business. Staff expenses were a major contributor to the growth in operating expenses as the company expended J\$929.91M on staff. This was a 67.62% or J\$375.13M increase relative to the corresponding period of the previous financial year and reflected the growth in the Barita staff compliment as the expanded its human capital capabilities by on-boarding new staff. During the course of the year Barita staff compliment increased by 24% YoY TO 162 team members including the addition of a project management team, a strategy and analytics unit and the expansion of the company's information technology team. Administrative expenses also grew significantly during the period, growing 85.62% or J\$629.48M to J\$1.36B at the end of 9M 2021. The company impairment more financial assets during the period, which is somewhat expected given the significant growth in Barita's balance sheet, growing to J\$137.68M at the end of 9m 2021, relative to J\$13.72M at the end of 9m 2020. The growth in the impairment of financial assets reflected the economic uncertainty and market volatility



stemming from the COVID-19 pandemic. Despite the increase in operating expenses during the period, management held the operating efficiency ratios at an impressively low level; approximately 36% at the end of 9m 2021, i.e. only 36% of net operating revenue was utilised to cover the firm's operating expenses.

Barita's performance in 9M 2021, culminated with the company reporting net profit of J\$3.67B for the period, which was an 83.14% or J\$1.67B improvement relative 9M 2020 as the group's effective tax rate declined from 19.00% to 14.62%. The company's net profit translated into a return on Average equity of 17.3% in 9M 2021 relative to an 18.7% in the 9m 2020.

Balance Sheet Review

Since being acquired by Cornerstone Financial Holding in August 2018, Barita's funding base has increased significantly as the company increased its Share Capital by means of two (2) successful Rights Issues in 2019 and an Additional Public Offerings (APO) of shares which raised approximately J\$13.0B in September 2020. Consequently, Barita's Share Capital rose from a meagre J\$0.74B at the end of FY 2018 to J\$24.15B at the end of Q3 2021; approximately 32 times larger than the share capital at the end of FY 2018.

After each successful capital raise, Barita's management aggressively deployed capital in earning assets. Prior to last year's APO (i.e. the end of Q3 2020), Barita held J\$52.07B in total assets. In the space of one year, Barita's management team grew total assets by 61.72% or by J\$32.13B to J\$84.20B at the end of Q3 2021. The company achieved this growth by using the capital to buy securities, which it then pledged as collateral for money market loans whose proceeds were used to buy more securities (i.e. using a money market leverage). This can be seen best in the growth Barita's pledge assets which grew by 68.76% between Q3 2020 and Q3 2021 from J\$30.79B to J\$51.97B. This clever use of leverage and the aforementioned access to equity capital is the foundation on which Barita's solid earnings performance was built.

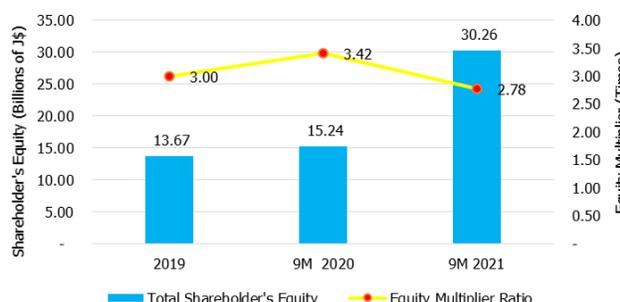
Between the end of 9M 2020 and 9M 2021 Barita's total liabilities grew by 46.47% or J\$17.11B to J\$53.94B. A 50.34% or J\$15.47B increase in Securities sold under Repurchase Agreement, a form of short term secured debt, to J\$46.21B was the primary contributing factor to the expansion of Barita's liabilities, and its utilisation helped to expand Barita's balance sheet.

At the end of Q3 2021, shareholder's equity stood at J\$30.26B, a 61.71% increase

BARITA'S HISTORICAL TOTAL ASSETS & TOTAL LIABILITIES



BARITA'S HISTORICAL SHAREHOLDER'S EQUITY & EQUITY MULTIPLIER



relative to the end of Q3 2020. The aforementioned capital raise via its APO in September 2020 was the primary contributor to the increase in Barita's shareholder's equity. Supplementing the APO contribution was the strong earnings performance of the company which contributed J\$1.92B to Retained Earnings, growing the sum by 48.47% between the end of Q3 2020 and Q3 2021 to J\$5.87B. As a consequence of the increase in Shareholder's equity, the company's equity multiplier (or financial leverage) ratio declined, indicating the use of equity capital, relative to debt financing, increased. During the one year period between the end of Q3 2020 and the end of Q3 2021 Barita's equity multiplier declined from 3.42 times to 2.78 times.

COMPANY VALUATION

The valuation exercise is aimed at determining the potential fair value of Barita based on our forecasted financial performance of the company. We forecasted Barita's FY 2022's net profit at J\$6.87B attributable to the continued astute management of the company's portfolios, growth in the balance sheet and expansion of profitable business lines.

To arrive at a fair value we utilised a Price to Earnings (P/E) model and the Price to Book (P/B) Model. On average over the past twelve months, Barita traded at a premium relative to its peers, trading at an average P/E and P/B multiple of 22.93 times earnings and 3.25 times book. Contrastingly, Barita's peer group traded at a much lower average P/E and P/B multiple, approximately 14 times earnings and 1.4 times book value, on average over the past twelve months. Barita's higher multiples, in our opinion, are attributable to the higher growth rate of Barita, relative to its peers, being rewarded by investors being willing to pay more for its shares. Assuming that the current APO offer proves successful, Barita will raise approximately J\$10.0B from the offer, assuming the offer is not upsized. The injection of that capital, in our opinion, is likely to prolong Barita's growth cycle justifying the premium at which Barita's shares trade. Consequently, forecasting Earnings per Share (EPS) and Book Value per Share (BVPS) at J\$5.40 and J\$34.81, respectively, at the end of FY 2022, **we estimate Barita's fair value at J\$118.43 per share** by averaging the two methodologies. The offer price of J\$80.00 per share suggests that the **shares are being offered at a 32.45% discount relative to our estimated fair value.**

RISKS TO VALUATION

- 1) Barita is a cyclical company operating in the financial services industry. Consequently, the group is highly sensitive to changes in economic conditions; both positive and negative. Therefore changes in **economic conditions**, such as unemployment, inflation, etc. could materially affect the operations of the business negating our forecasts.
- 2) Barita's portfolio is exposed to various securities exposing the portfolio to both **Market Risk and Credit default Risk**. Adverse market movements or a counterparty or creditor defaulting could negatively impact Barita's earnings.
- 3) The financial services sector faces significant **regulatory risk**. The potential exists that the implementation of new regulations may affect the company operations by either forcing them to cease profitable activity or by increasing the cost of doing business (i.e. cost of compliance, opportunity losses, etc.).

- 4) The implementation of more **stringent strategies intended to curtail the spread of the Novel-coronavirus** by the Government could curtail business activity negatively impacting operating activity and earning potential.
- 5) The company's earnings outlook could improve with the introduction of new products and/or services.
- 6) **For a comprehensive view of the risks associated with an investment in BARITA, we strongly encourage potential investors to review the, "Risk Exposure", section of the prospectus. The prospectus can be found [here](#).**

Disclaimer

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APPENDIX

Financial Statement Extract

000 of J\$	FY 2018	FY 2019	FY 2020	9M 2020	9M 2021
Income Statement					
Net interest income	422,288	650,999	882,589	836,545	1,153,007
Fees and commission income	505,210	847,372	1,827,376	1,393,457	2,719,447
Dividend income	31,779	30,670	8,677	8,206	877
Foreign exchange trading and translation gains	187,945	199,404	978,451	427,731	1,782,836
Gain on sale of investments	136,454	1,873,298	1,412,958	1,108,363	1,004,938
Other	20,987	378,031	103,918	2,601	26,565
Net operating revenue	1,304,663	3,979,774	5,213,969	3,776,903	6,687,670
Staff costs	(385,410)	(553,550)	(846,090)	(554,784)	(929,910)
Administration costs	(375,566)	(896,738)	(1,151,116)	(735,235)	(1,364,718)
Impairment of financial assets	-	(75,162)	(110,794)	(13,715)	(137,686)
Total Expenses	(760,976)	(1,525,450)	(2,108,000)	(1,303,734)	(2,432,314)
Operating Profit	543,687	2,454,324	3,105,969	2,473,169	4,255,356
Share of results of investment in associated con	-	-	-	-	41,805
Profit before taxation	543,687	2,454,324	3,105,969	2,473,169	4,297,161
Taxation	(180,446)	(741,543)	(347,440)	(469,889)	(628,405)
Net Profit	363,241	1,712,781	2,758,529	2,003,280	3,668,756
Balance Sheet					
Cash and Bank Balances	333,685	787,920	5,277,608	2,572,419	893,174
Securities Purchased Under Resale Agreement	3,935,491	14,678,974	8,039,603	2,515,468	7,913,928
Investment Securities	3,503,728	11,042,562	13,939,095	4,900,903	8,030,248
Pledged Assets	9,883,136	10,928,445	35,425,728	30,793,829	51,966,912
Investment in Associate	-	-	-	-	2,038,085
Interest Receivable	-	-	-	643,246	759,234
Receivables	437,019	748,517	2,986,408	3,834,878	4,372,649
Taxation Recoverable	6,701	-	183,299	53,422	53,422
Loans Receivable	403,064	751,846	1,717,229	2,074,291	2,887,247
Due from Related Parties	72,096	1,624,584	1,979,035	2,491,388	2,339,429
Property Plant and Equipment	243,533	353,275	609,821	666,606	1,172,205
Intangible Assets	9,090	33,531	18,399	9,757	22,173
Investments	55,000	55,000	55,000	1,512,002	1,512,388
Investment Property	-	-	203,400	-	-
Right-of-use Assets	-	-	256,588	-	238,033
Total Assets	18,882,543	41,004,654	70,691,213	52,068,209	84,199,127
Bank Overdraft	311	71,819	8,720	112,646	70,181
Notes Payable	-	-	611,947	3,325,176	4,772,691
Securitas Sold Under Repurchase Agreement	14,362,540	24,092,810	34,446,619	30,736,447	46,207,850
Payables	814,647	1,739,686	6,970,314	1,712,047	1,934,477
Due to Related Parties	8,348	77,711	273,744	577,407	222,324
Taxation Recoverable	44,612	730,500	-	94,771	411,326
Differed tax Liabilities	586,014	622,850	616,891	269,183	47,564
Lease Liability	-	-	282,298	-	274,067
Total Liabilities	15,816,472	27,335,376	43,210,533	36,827,677	53,940,480

Share Capital	740,427	10,699,381	24,146,554	10,880,313	24,146,554
Capital Reserve	93,133	111,466	111,466	111,466	127,376
Fair Value Reserve	910,697	685,248	25,054	72,291	(109,554)
Capital Redemption Reserve	220,127	220,127	220,127	220,127	220,127
Retained Earnings	1,101,687	1,953,056	2,977,479	3,956,335	5,874,144
Total Shareholder's Equity	3,066,071	13,669,278	27,480,680	15,240,532	30,258,647
Total Liabilities and Shareholder's Equity	18,882,543	41,004,654	70,691,213	52,068,209	84,199,127
Statement of Cash flows					
Cash Flow from Operating Activities	201,842	134,847	45,106	(2,652,549)	1,871,187
Cash Flow From Investing Activities	(16,636)	(21,025)	17,576	(90,084)	(332,509)
Cash Flow from Financing Activities	(49,050)	(49,046)	(114,117)	3,693,621	180,222

Shareholder Distribution

Prior to APO Offer

SHAREHOLDER	SHARES OWNED
Issued and fully paid Ordinary Shares (converted to stock units)	1,085,603,093
Issued Preference Shares	100,000,000
Total	1,185,603,093

Subsequent to APO Offer (no Upsize)

SHAREHOLDER	SHARES OWNED
Issued and fully paid Ordinary Shares (converted to stock units)	1,085,603,093
Issued Preference Shares	100,000,000
Total before subscription of shares in the Invitation	1,185,603,093
Non-Reserved Shares	12,500,000
Reserved Shares	112,500,000
Total after subscription of shares in the Invitation	1,310,603,093

Subsequent to APO if Upsize Option is exercised

SHAREHOLDER	SHARES OWNED
Issued and fully paid Ordinary Shares (converted to stock units)	1,085,603,093
Issued Preference Shares	100,000,000
Sub-total	1,185,603,093
Non-Reserved Shares	18,750,000
Cornerstone Investor and Key Investors	140,625,000
Existing Shareholders and Barita Clients	28,125,000
Total	1,373,103,093

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