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Barita's Weekly Newsletter

November 19, 2021

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market decreased week-over-week. The JSE Combined Index decreased by 2.18%, the Main Market Index decreased by 2.12%, the JSE All Jamaican Composite Index decreased by 2.38%, the JSE Junior Market Index declined by 2.93%, and the JSE USD Equities Index declined by 2.06%. During the week, AMG Packing & Paper Ltd. was the largest gainer, rising by approximately 32.62% to close at J$2.26. The biggest loser was Carib Cement Ltd which fell by 25.43% to close at J$74.92.

Year to Date, The Junior Market Index (+26.67% YTD) continues to outpace its Main Market counterpart (-2.22% YTD) by a wide margin.

As of Friday November 19, 2021, Overall Market activity resulted from trading in 108 stocks of which 34 advanced, 66 declined and 8 traded firm. Market volume amounted to 102,198,467 units valued at over $1,352,961,677.52. Wigton Windfarm Limited Ordinary Shares was the volume leader with 10,919,473 units (10.68%) followed by Carreras Limited with 9,499,830 units (9.30%) and JMMB Group Limited with 8,437,513 units (8.26%) .

Revisiting relevant news during the week:

Barita Investments is to be reorganised as part of a new financial holding company (FHC) to satisfy Bank of Jamaica regulations. The company said it expects this reorganisation will be completed by the end of its next financial year — that is by or before September 30, 2022.
Barita to restructure

The World Bank is forecasting an increase in remittance levels for 2021, noting that this will be fuelled mostly by transfers to Latin America by migrants in the United States.
World Bank predicts lift in 2021 remittance totals

THE International Monetary Fund (IMF) says “further tightening” of monetary policy may be needed if the Bank of Jamaica (BOJ) is to bring inflation down from its eight-year high.
IMF warns on inflation

Sagicor Financial Corporation, a financial services provider in the Caribbean and the United States, reported its net revenue rose 94 per cent to US$781.9 million in its third quarter which ended September 30. Net income to shareholders amounted to US$50.4 million.
Sagicor Financial assets reach US$10 billion

Sterling Investments Limited (SIL) posted a 27.5 per cent year-on-year increase in the value of investment securities to $2.2 billion at the end of September. The company also grew its profit by 11 per cent on the back of an impressive rise in its interest income.
Sterling records strong growth

THE JMMB Group has said that its plans to exploit interest in the Central American market, though slowed by the novel coronavirus pandemic, continues to remain a part of its pipeline of projects for the future.
JMMB's quest to enter Central America limps but remains in pipeline

Index	19/11/2021	12/11/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	386,813.17	395,171.32	395,614.93	-2.12%	-2.22%
JSE Junior Market	3,348.31	3,449.28	2,643.38	-2.93%	26.67%
JSE Combined Market	391,678.97	400,424.14	392,435.92	-2.18%	-0.19%
JSE USD Equities Market	195.92	200.05	186.30	-2.06%	5.16%
JSE All Jamaican Composite Index	427,237.85	437,644.58	433,521.09	-2.38%	-1.45%

INTERNATIONAL DEVELOPMENTS

The major indexes ended the week mixed as investors weighed strong economic and profits data against inflation fears, ongoing supply strains, and a rise in coronavirus infections in some regions. Growth stocks handily outpaced value stocks, helping lift the Nasdaq Composite to another record intraday high on Friday. Sector returns also varied widely within the S&P 500 Index. A solid gain in Amazon.com shares and a partial rebound in Tesla boosted consumer discretionary stocks, while strength in Apple supported information technology shares. Energy stocks dropped alongside oil prices after China and the U.S. discussed releasing strategic reserves and U.S. inventories rose for the first time in five weeks. Financials were also weak. T. Rowe Price traders reported that market activity was generally subdued as the Thanksgiving holiday week approached.

Several signs that the economic expansion was regaining momentum seemed to support sentiment early in the week. On Tuesday, the Commerce Department reported that retail sales jumped 1.7% in October, the biggest gain since March, while September's increase was revised higher. Inflation was partly behind the increase—sales at gas stations rose 3.9%, for example—but early holiday shopping also appeared to be at work. Industrial production in October also rose much more than expected (1.6% versus around 0.7%), while a current measure of manufacturing activity in the New York region, reported Monday, came in well above expectations.

Global Markets Weekly Update | T. Rowe Price (troweprice.com)

U.S. Treasury yields ended Thursday little changed relative to last week's levels but decreased Friday morning on concerns that Germany could follow Austria in implementing another nationwide lockdown to fight COVID-19 (see below). The Treasury rally was broad-based along the yield curve, suggesting that investors expect the Fed to take a somewhat more patient approach toward rate hikes amid potentially slower economic growth.

Top 5 things to watch out for in the week ahead:

1. **Fed minutes:** On Wednesday, the Fed will publish the minutes U.S. Federal Reserve (Fed) Meeting Minutes Upcoming Release: Nov 24, 2021 of its November meeting, in which policymakers decided the U.S. economy was strong enough to start scaling back its pandemic-era asset purchase program, put in place to bolster the recovery.

2. **Biden's Fed Pick:** The White House said last week that President Joe Biden will likely decide before Thanksgiving whether to keep incumbent Fed Chair Jerome Powell in place for another term or promote current Fed Governor Lael Brainard to the position

3. **U.S. data dump:** The U.S. is to release a string of economic data on Wednesday before markets close for Thursday's holiday. The highlight will be figures on personal income and spending, which includes the core PCE price index, rumored to be the Fed's favored inflation gauge.

4. **Purchasing Manager's Index (PMI):** While November PMI data out of the U.S. is expected to show a modest uptick in business activity, similar surveys from the euro zone and the UK are expected to show activity in the manufacturing and services sectors is slowing. Rising infection numbers are leading to renewed restrictions in some parts of Europe, while spiking gas prices are fueling inflation, compounded by a global supply chain crunch.

5. **Black Friday:** The holiday shopping season gets underway in earnest on Friday, against a background of soaring inflation and supply shortages. There has been some concern that high inflation could eat into consumer spending, but a surge in October retail sales numbers indicated that Americans started shopping early to beat supply shortages.

Index	19/11/2021	12/11/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	35,601.98	36,100.31	30,606.48	-1.38%	16.32%
S&P 500	4,697.96	4,682.85	3,756.07	0.32%	25.08%
NASDAQ 100	16,574.46	16,199.88	12,888.28	2.31%	28.60%
FTSE 100	7,227.64	7,340.76	6,460.52	-1.54%	11.87%
Euro Stoxx 50	4,356.47	4,376.84	3,552.64	-0.47%	22.63%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciate by 1.03% against the U.S. Dollar week on week to settle at $156.87 as at close of trade Friday, relative to $155.27 per US$1.00 at the end of the prior week. Year to date, the Jamaican has depreciated by 0.07%.

Interest Rates and Inflation

- On September 30, 2021, the Bank of Jamaica's Monetary Policy Committee (MPC) unanimously voted to increase its policy rate by 1% to 1.5%. The justification was that the recent inflation out-turn had breached its annual point-to-point target earlier than expected, at 6.1 per cent, reflecting higher food prices, meals consumed from home, and increased prices for services such as education and transport.

- As at September 2021, point-to-point was even higher at 8.2%, 2.2% above the BoJ's inflation target upper bound of 6.0%.

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 3.00%, the FX Bond Portfolio has increased by 1.08%, the F.X. Growth Portfolio increased by 9.21%, the Real Estate Portfolio has decreased by 12.05% and the Capital Growth Fund has grown by 7.26%.

- 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 8.04% year to date.

- As at November 19th, 2021, the Capital Growth Fund has delivered a YTD return of 7.26%, which is above the -0.19% YTD growth of its benchmark, the JSE Combined Index.

- 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.

"Successful investing is about managing risk, not avoiding it."

– Benjamin Graham

Currency Pair	19/11/2021	12/11/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	156.87	155.27	142.65	-1.03%	-9.97%
JMD:CAD	124.07	123.72	111.41	-0.28%	-11.36%
JMD:GBP	211.84	203.74	193.66	-3.98%	-9.39%

Unit Trust

Unit Trust Fund	18/11/2021	12/11/2021	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	91.03	91.90	-0.94%	7.26%	11.43%	-
Money Market	15.2187	15.2149	0.02%	3.00%	2.69%	2.79%
Income Portfolio	100.00	100.00	-	-	-	2.99%
FX Bond Portfolio (US$)	1.3709	1.3723	-0.10%	1.08%	4.13%	2.14%
Real Estate Portfolio	5,132.19	5,345.42	-3.99%	-12.05%	0.46%	-
FX Growth Portfolio	1.0905	1.0788	1.08%	9.21%	14.85%	-

Even the intelligent investor is likely to need considerable willpower to keep from following the crowd.

- Benjamin Graham

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Investment Playbook

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Stock Ticket	Stock Information (As at November 19, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 19.50x P/B: 3.88x Price: J$ 16.57 Div Yield: 1.15%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors Wisynco. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, Wisynco's business will thrive in this environment.
LASM Lasco Manufacturing	P/E: 13.81x P/B: 2.35x Price: J$ 4.75 Div Yield: 1.28%	**MARKETWEIGHT** Our expectation is for the Company to continue on its growth trajectory, supported by the improving economic backdrop of the global economy, which may manifest in increased domestic demand for goods and services. With increased stopover arrivals and planned reopening of key industries such as entertainment and education (face-to-face teaching), there are sufficient catalysts to spur further growth in 2021. However, this isn't without challenges as the global supply bottleneck will manifest itself in LASD's margins, requiring management to remain prudent in their working capital management such that higher imported inflationary pressures are not corrosive to the bottom line. Our MARKETWEIGHT recommendation balances our outlook on the company against the potential upside embedded in our estimate of fair value (as per Barita's July 15, 2021 equity report) for the company.
LASD Lasco Distributors	P/E: 12.17x P/B: 1.59x Price: J$ 3.15 Div Yield: 1.62%	**OVERWEIGHT** Our expectation is for the Company to continue on its growth trajectory, supported by the improving economic backdrop of the global economy, which may manifest in increased domestic demand for goods and services. With increased stopover arrivals and planned reopening of key industries such as entertainment and education (face-to-face teaching), there are sufficient catalysts to spur further growth in 2021. However, this isn't without challenges as the global supply bottleneck will manifest itself in LASD's margins, requiring management to remain prudent in their working capital management such that higher imported inflationary pressures are not corrosive to the bottom line.

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SGJ Scotia Group Jamaica Limited	P/E: 9.92x P/B: 0.92x Price: J$34.32 Div Yield: 4.08%	**MARKETWEIGHT** SGJ's growth has slowed, even prior to the pandemic. Consequently, within the context of the pandemic, the Group reported a considerable net profit decline of 31.4% in FY2020. Notwithstanding, the most recent performance demonstrates that coming out of the pandemic, the Group will report relative growth in FY2021, predominantly reflecting lower ECL, FX gains given SGJ's position in the FX market, and gains from the extinguishment of debt. Beyond FY2021, however, we expect a slowdown in growth, as ECL reduction is tempered relative to FY2021 and as the Group no longer benefits from a gain on extinguishment of debt. Importantly, we also consider the Group's strong liquidity, capital adequacy, and consistent dividend payout which is at an attractive yield of 3.58%. Given its strong balance sheet and consistently above-average dividend yield, we believe SGJ is a good dividend income stock.
VMIL Victoria Mutual Investments Limited	P/E: 13.31x P/B: 2.01x Price: $6.12 Div Yield: 2.61%	**MARKETWEIGHT** On balance, we believe the upside seen by VMIL in Q1 2021 potentially represents the most Year-over-Year (YoY) upside the company will realize in FY2021 and should be the main driver of improved YoY profitability for the 2021 financial year. However, we believe the market dynamics will weigh on YoY performance, unless there's a significant improvement in business origination, beyond prior years, on the back of a strengthening economy or increased capital that can then be deployed towards growth initiatives. With that said, our MARKETWEIGHT recommendation balances the risks that remain against the potential upside embedded in our estimate of fair value (as per Barita's July 16, 2021 equity report) for the company.
JMMBGL JMMB Group Limited	P/E: 7.23x P/B: 1.15x Price: $38.01 Div Yield: 0.66%	**OVERWEIGHT** Despite the low interest rate environment, net interest income growth remains possible in FY 2022 if the Group increases growth in deposits which is a lower cost funding than repurchase agreements Moreover, our positive outlook on the Group is underpinned by expected improvements in noninterest income and share of profits from a rebounding Sagicor Financial Company (Given the anticipated growth, we believe the market is pricing JMMBGL at a discount to our estimate of its fair value).

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SEP Seprod Limited	P/E: 16.64x P/B: 2.60x Price: J$63.73 Div Yield: 0.94%	**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: 12.04x P/B: 1.00x Price: $33.06 Div Yield: 2.38%	**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: 12.05x P/B: 1.00x Price: US$0.23 Div Yield: 3.40%	**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: 7.90x P/B: 0.53x Price: J$18.90 Div Yield: 2.75%	**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: 11.35x P/B: 0.78x Price: US$0.13 Div Yield: 1.94%	**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: 15.54x P/B: 4.32x Price: J$74.92 Div Yield: 0.00%	**OVERWEIGHT** On the heels of what has been a good year for the company, management expects demand to increase further, fueled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt. In the most recent quarter, profitability declined, largely on the back of poor weather conditions and the company's planned machinery maintenance. Notwithstanding the recent quarter, the Company's outlook remains positive.
LAB The Limners and Bards Limited	P/E: 20.40x P/B: 6.11x Price: J$ 3.47 Div Yield: 2.13%	**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/AFFO: 22.79x Price: J$38.00 AFFO Yield: 4.39%	**OVERWEIGHT** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.
MAILPAC Mailpac Group Limited	P/E: 23.00x P/B: 14.82x Price: J$ 3.45 Div Yield: 4.35%	**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 ensconced among Jamaica consumers, across various social classes.

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GENAC General Accident Insurance Company Ltd.	P/E: 13.70x P/B: 2.26x Price: J$ 6.71 Div Yield: 3.22%	**OVERWEIGHT** We see several possible tailwinds that may bode well for both the insurance sector as a whole and GENAC specifically. Namely, the increasing domestic interest rates. This should support improved investment income of insurance companies like GENAC who would be able to generate greater returns on their insurance float. This, coupled with greater operational efficiency after consolidating regional companies, should further aid profitability going forward. We also note that GENAC will continue to benefit from its relationship with the Musson Group which will allow them to form strategic relationships with both the group's other entities and customers. This will be particularly useful as the company expands into regional markets as the Musson group is diverse with stakes in public and private business across the Caribbean.

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