Barita

MAKING MONEY WORK FOR YOU.

Weekly Newsletter

November 8, 2021

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LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market decreased week-over-week. The JSE Combined Index decreased by 0.39%, the Main Market Index decreased by 0.46%, the JSE All Jamaican Composite Index decreased by 1.10%, the JSE Junior Market Index advanced by 0.35%, and the JSE USD Equities Index declined by 1.42%. During the week, KLE Group Limited was the largest gainer, rising by approximately 71.23% to close at J$2.50. The biggest loser was Productive Business Solutions Ltd 9.75% cumulative redeemable Pref Shares which fell by 31.96% to close at J$70.76.

Year to Date, The Junior Market Index (+29.25% YTD) continues to outpace its Main Market counterpart (+1.65% YTD) by a wide margin.

As of Friday November 5, 2021, overall market activity resulted from trading in 111 stocks of which 56 advanced, 48 declined and 7 traded firm. Market volume amounted to 84,174,685 units valued at over $731,646,737.42. Mayberry Investments Limited was the volume leader with 21,693,681 units (25.77%) followed by Future Energy Source Company Ltd with 7,666,483 units (9.11%) and Supreme Ventures Limited with 7,215,569 units (8.57%)

Revisiting relevant news during the week:

In its latest overview of the insurance sector, the Financial Services Commission (FSC) noted that while Life insurers continue to dominate in terms of total assets, general insurers grew at a faster pace year over year.
Life Insurance dominate but general sector grows faster

As it plans for the next stage of growth by targeting 0ne million customers by 2025, the VM(Victoria Mutual) Group is planning on deepening the pension network through its branches and offerings to entities across the region.
VM Pensions expanding reach across Jamaica and region

Fitch and Moody's have hinted that their announced revised rating of Digicel might not be as favorable as expected. Fitch indicated that the improved credit worthiness of Digicel will be limited as a result of its aggressive maneuvers to restructure its debt pile twice in recent years.
Fitch and Moody's caution Digicel on pending credit rating

As the Development Bank of Jamaica awaits cabinet approval for the divestment of the Jamaica Mortgage Bank (JMB) they have selected Sagicor Investments Jamaica Limited to lead the privatization process.
DBJ taps Sagicor for JMB privatization

Regional ratings agency Caribbean Information and Credit Rating Services Limited (CAriCRIS) has reaffirmed JMMB group Limited's local currency credit rating of jmA+ and jmA for foreign currency. The ratings were supported by the groups strong brand equity and the diversification of its revenues
CariCRIS reaffirms good creditworthiness and positive outlook for JMMB

There are currently positive signs that the local bauxite mining companies are moving to improve production capacity and expand mining. This comes as the price of alumina has performed fairly well on the global market partly due to the current global supply chain issues.
Bauxite mining rally begins

Index	05/11/2021	29/10/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	402,122.99	403,965.02	395,614.93	-0.46%	1.65%
JSE Junior Market	3,416.44	3,404.40	2,643.38	0.35%	29.25%
JSE Combined Market	406,547.11	408,136.62	392,435.92	-0.39%	3.60%
JSE USD Equities Market	196.43	199.26	186.30	-1.42%	5.44%
JSE All Jamaican Composite Index	442,782.78	447,699.38	433,521.09	-1.10%	2.14%

INTERNATIONAL DEVELOPMENTS

Stocks posted impressive weekly gains as a relatively dovish Federal Reserve policy meeting, healthy economic data and a strong tail end to the earnings season all boosted sentiment toward equities. The Dow Jones Industrial Average, the S&P 500 Index and the Nasdaq Composite all reached record highs. Technology stocks and small caps were strong while growth shares outperformed value stocks. Energy stocks however were hurt by the Biden administration mentioning the possibility of releasing supply from the strategic petroleum reserve.

At Wednesday's conclusion of the Fed Reserve policy meeting the central bank stated it will slow bond purchases by USD $15 billion later this month and in December. Jerome Powell's post-meeting conference stressed that policymakers still expect the recent high inflation readings to moderate and will need much further improvements in the labor market before raising rates.

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

Economic data during the week were generally robust. The economy strengthened as the late-summer wave of the delta variant eased. Factory orders increased 0.2% in September, slightly more than consensus expectations. October employment report released on Friday also showed 531,000 jobs added which also beats consensus estimates. The unemployment rate fell to 4.6% while the Labor Department noted that they gained 235,000 more jobs in August and September than it originally estimated.

Treasury yield decreased amid the Fed indicating they will take a patient approach towards tightening. It was also noted that credit spreads (additional yield relative to similar-maturity Treasuries) widened early in the week amid busy new supply and weak demand from buyers in Asia.

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

1. **Inflation Data:** Data on producer price inflation for October is scheduled for release on Tuesday with consumer price inflation being released the day after. The CPI numbers are expected to hit their highest levels so far post-pandemic with economists projecting a 5.8% increase year on year.

2. **Fed Speakers:** Jerome Powell is scheduled to make two appearances during the week. The first at an online conference on gender and the economy on Monday and the second on diversity and inclusion in economics and central banking on Tuesday.

3. **Earnings:** Better than expected third quarter earnings boosted equities during the week along with a strong US Jobs report. The latest slew of earnings that could provide a catalyst for fresh market highs include Walt Disney, AstraZeneca and BioNTech.

4. **UK GDP:** After the Bank of England wrong-footed markets with its decision to keep interest rates on hold last week the UK is due to release data on third quarter growth on Thursday. GDP growth is expected to slow to 1.5%. Investors had anticipated that the BOE would be the first of the world's major central banks to hike interest rates after the COVID-19 pandemic.

5. **China:** The top leaders of the Chinese Communist Party are set to meet in Beijing from Monday through Thursday, where the decision-making central committee could give the go-ahead for an unprecedented third term for President Xi Jinping. This meeting comes at a time when growth in the world's second largest economy is faltering.

Index	05/11/2021	29/10/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	36,327.95	35,819.56	30,606.48	1.42%	18.69%
S&P 500	4,697.53	4,605.38	3,756.07	2.00%	25.07%
NASDAQ 100	16,359.38	15,850.47	12,888.28	3.21%	26.93%
FTSE 100	7,303.96	7,237.57	6,460.52	0.92%	13.06%
Euro Stoxx 50	4,363.04	4,250.56	3,552.64	2.65%	22.81%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency depreciated by 0.42% against the U.S. Dollar week on week to settle at $156.32 as at close of trade Friday, relative to $155.66 per US$1.00 at the end of the prior week. Year to date, the Jamaican has depreciated by 9.58%.

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 2.86%, the FX Bond Portfolio has increased by 2.10%, the F.X. Growth Portfolio increased by 8.34%, the Real Estate Portfolio has decreased by 6.83% and the Capital Growth Fund has grown by 8.94%.

- 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 8.34% year to date.

- As at October 22nd 2021, the Capital Growth Fund has delivered a YTD return of 8.94%, which is above the 3.60% 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	05/11/2021	29/10/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	156.32	155.66	142.65	-0.42%	-9.58%
JMD:CAD	125.54	126.56	111.41	0.80%	-12.68%
JMD:GBP	210.81	215.02	193.66	1.96%	-8.85%

Unit Trust

Unit Trust Fund	5/11/2021	29/10/2021	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	92.45	92.54	-0.09%	8.94%	15.56%	-
Money Market	15.1979	15.2097	-0.08%	2.86%	2.63%	2.41%
Income Portfolio	100.00	100.00	-	-	-	3.00%
FX Bond Portfolio (US$)	1.3847	1.3845	0.01%	2.10%	5.12%	2.10%
Real Estate Portfolio	5,436.48	5,376.04	1.12%	-6.83%	-0.26%	-
FX Growth Portfolio	1.0818	1.0571	2.34%	8.34%	15.02%	-

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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Equities

Stock Ticket	Stock Information (As at November 5, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 18.55x P/B: 3.69x Price: J$ 15.77 Div Yield: 1.21%	**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: 13.82x P/B: 2.35x Price: J$ 4.76 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: 14.29x P/B: 1.87x Price: J$ 3.70 Div Yield: 1.38%	**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.

Ratings Definitions

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Stock Ticker	Stock Information (As at November 5, 2021)	Analyst Outlook
SGJ Scotia Group Jamaica Limited	P/E: 10.41x P/B: 0.96x Price: J$36.00 Div Yield: 3.89%	**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: 17.20x P/B: 2.19x Price: $6.19 Div Yield: 2.58%	**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: 8.56x P/B: 1.13x Price: $37.05 Div Yield: 0.67%	**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: 16.51x P/B: 2.58x Price: J$63.23 Div Yield: 0.95%	**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: 12.20x P/B: 1.00x Price: $32.76 Div Yield: 2.40%	**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.

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PROVENUS Proven Investments Limited	P/E: 12.23x P/B: 1.00x Price: US$0.23 Div Yield: 3.42%	**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: 11.18x P/B: 0.75x Price: J$18.49 Div Yield: 1.85%	**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: 12.68x P/B: 0.86x Price: US$0.14 Div Yield: 1.77%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.

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CCC Caribbean Cement Company	P/E: 21.42x P/B: 5.95x Price: J$103.27 Div Yield: 0.00%	**OVERWEIGHT** On the heels of what has been a good year for the company, management expects demand to increase further, fueled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt. In the most recent quarter, profitability declined, largely on the back of poor weather conditions and the company's planned machinery maintenance. Notwithstanding the recent quarter, the Company's outlook remains positive.
LAB The Limners and Bards Limited	P/E: 20.66x P/B: 6.19x Price: J$ 3.51 Div Yield: 2.11%	**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$42.50 AFFO Yield: 4.39%	**OVERWEIGHT** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.
MAILPAC Mailpac Group Limited	P/E: 21.20x P/B: 19.27x Price: J$ 3.82 Div Yield: 3.93%	**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: 17.60x P/B: 1.75x Price: J$ 5.46 Div Yield: 3.96%	**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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