Barita's Weekly Newsletter

February 21, 2022

Investment Playbook

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Equities

Stock Ticket	Stock Information (As at February 18, 2022)	Analyst Outlook
WISYNCO Wisynco Group Limited	P/E: 20.40x P/B: 4.36x Price: $19.99 Div Yield: 1.50%	**OVERWEIGHT** Throughout the pandemic, Wisynco has managed to improve its operational efficiency but given the effects of COVID-19 on industries such as tourism and education, the Company was unable to deliver significant revenue growth. Now, with tourism rebounding and schools operating at a greater level, Wisynco has married its improved operational efficiency with stronger revenue growth, allowing for significant net profit growth. As tourism is expected to continue growing towards its pre-pandemic level of output, we expect Wisynco to continue to perform well.
JMMBGL JMMB Group Limited	P/E: 6.92x P/B: 6.49x Price: $42.20 Div Yield: 2.01%	**OVERWEIGHT** Given its relatively low P/E ratio and considering the Group's consistently strong performance throughout the pandemic, the market has been underpricing JMMBGL significantly, relative to its local counterparts. In recognition of this, the JMMBGL Directors approved a share buyback program which should begin in FY2022/23 which begins on April 1, 2022. Share buyback programs reduce the number of shares outstanding. As the supply of shares in the market reduces from the share buyback, share price increase is likely to follow as demand for the stock outweighs supply.
LAB The Limners and Bards Limited	P/E: 21.52x P/B: 7.13x Price: J$ 3.54 Div Yield: 3.11%	**OVERWEIGHT** The LAB is the only listed Creative Agency on the JSE. Throughout the pandemic, the demand for the services provided by the Company has been strong. In FY2021 alone, revenue grew by 35%, an indication of the demand for the Company's services while net profit grew by 22%. With consistently positive cash flows and a cash balance that is 1.4x larger than all the Company's liabilities, we believe the Lab is poised to invest its capital efficiently towards further growth. The first step towards this is the phased roll-out of its brainchild, "SCOPE Caribbean".

Ratings Definitions

OVERWEIGHT/BUY
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MARKETWEIGHT/HOLD
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UNDERWEIGHT
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LASD Lasco Distributors	P/E: 14.34x P/B: 1.87x Price: J$ 3.86 Div Yield: 1.68%	**OVERWEIGHT** Our expectation is for the Company to continue on its growth trajectory, supported by the improving economic backdrop of the global economy, which should manifest through continued domestic demand for goods and services. With increased stopover arrivals and the reopening of key industries such as entertainment and education (face-to-face teaching), there are sufficient catalysts to spur further growth in 2022. However, this isn't without challenges as the global supply bottleneck has affected LASD's margins. In response, management has prudently managed operational costs such that higher imported inflationary has not completely eroded the bottom line, resulting in continued growth..
SCIJMD/ SCIUSD Sygnus Credit Investments	P/E: 8.34x / 10.38x P/B: 0.62x / 0.59x Price: J$15.13 / US$0.12 Div Yield: 2.37% / 2.05%	**OVERWEIGHT** Sygnus' business model is built on providing capital and direction to the underbanked, targeting the middle market. To accomplish this, the Company has executed several equity raises, the most recent of which was its APO launch in December 2020. Given the increase in its weighted average number of shares, EPS growth has not mirrored the double digit growth in net profit attributable to shareholders. However, we must indicate that continued growth at this level will drive higher EPS growth, once further dilution does not occur. Moreover, the stock trades at significant discount relative to peers both from a P/E perspective and a P/B perspective. At present, the market is pricing Sygnus at a seep discount to its book value per share which we believe is very wrong.
PROVENJMD/ PROVENUSD Proven Investments Limited	P/E: 10.34x / 9.70x P/B: 1.02x / 0.96x Price: J$34.14 / US$0.22 Div Yield: 3.43% / 3.51%	**OVERWEIGHT** Proven has shown strong revenue and profit growth throughout the current financial year, a performance driven by the Group's accretive acquisitions. Most notable among these include JMMBGL and Roberts Manufacturing Company Limited. The company continues to demonstrate its appetite for growth through acquisitions as evidenced by the recent 100% acquisition of Fidelity Bank (Cayman). Given the company's history of acquiring companies with accretive value, we expect Fidelity will be similar. Coupled with this, we believe Proven is trading at favourable PE and PB multiples relative to the market

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GENAC General Accident Insurance Company Ltd.	P/E: 15.63x P/B: 2.20x Price: J$ 5.94 Div Yield: 3.70%	**OVERWEIGHT** With inflation on the rise, domestic interest rates are being increased by the Bank of Jamaica. This should support improved investment income for GENAC as the environment is better suited to generate greater returns on its insurance float. Further, the Company has demonstrated greater operational efficiency throughout FY2021 which we expect to continue as GENAC properly streamlines its new operations in Trinidad and Barbados. We also note that GENAC should continue to benefit from its relationship with the large Musson Group which would allow the to form imperative strategic relationships with other Musson group entities and customers.
VMIL Victoria Mutual Investments Limited	P/E: 15.96x P/B: 2.41x Price: $7.34 Div Yield: 2.11%	**OVERWEIGHT** Victoria Mutual has recently rebranded under the “VM Group”. By association, there has been implications for VMIL. For example, the Company has been significantly more active in the capital markets through its investment banking arm. We expect continued growth in the investment banking space will add considerable value to the Company’s bottom line which has already shown clear improvement throughout FY2021.

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MAILPAC Mailpac Group Limited	P/E: 18.88x	**MARKETWEIGHT** During the peak periods of the pandemic, MAILPAC benefited immensely as online shopping became a larger share of shoppers' wallets. In large part, this period of heavy COVID-19 fear has reduced and while we anticipate online shopping will remain integral for the everyday consumer, the outsized growth we witnessed in FY2020 will likely soften further. Admittedly, the Company has a fairly robust balance sheet with more cash than total liabilities which we believe places MAILPAC in a position to make growth-inducing investments. The current slowdown in demand and consequently revenue and profit growth, matched with the Company's fairly strong balance sheet underscore our MARKETWEIHT recommendation
	P/B: 12.97x	
	Price: J$ 3.02	
	Div Yield: 3.64%	
SEP Seprod Limited	P/E: 16.14x	**MARKETWEIGHT** Seprod has been considerably affected by global supply chain issues that have increased the Company's cost of sales. While this has occurred, instead of raising prices to consumers equivalently, Seprod has absorbed some of these costs which has affected profitability. To help mitigate this, the Group has improved its operational cost management which has had positive implications on the Group's Q3 2021 performance. Notwithstanding, the cost of sales remains elevated, and has only trended upwards throughout FY2021, with no clear methods to manage or reduce the current pace of the increase. Therefore, while we expect current operational cost controls to help, the uncertainty regarding cost of goods remains an ever-present threat to Group profit growth.
	P/B: 2.53x	
	Price: J$ 61.83	
	Div Yield: 2.10%	

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SGJ Scotia Group Jamaica Limited	P/E: 13.12x P/B: 0.97x Price: J$ 35.43 Div Yield: 4.37%	**UNDERWEIGHT** The greatest driver of profitability in FY2021 was the reduction of Expected Credit Losses (ECL) relative to the previous year as the economic backdrop improved. Scotia is not likely to have this benefit recur, at least to the magnitude it did in FY2021. This, coupled with no clear path to growing its main revenue lines such as net interest income as well as fees and commission income, particularly in an industry that is highly competitive suggests to us that SGJ is unlikely to realize any significant growth in its bottom line, and consequently, is unlikely to deliver significant share price growth for investors. While this is the case, we much, however, note that SGJ is a consistent source of relatively attractive dividends which makes the Company a good asset for some investors with a clear preference for income.

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Monitoring List

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ECL Express Catering Limited	P/E: 20.37x P/B: 22.02x Price: J$ 6.22 Div Yield: N/A	Given ECL's significant exposure to tourism, the ongoing rebound in the industry bodes well for the Company's FY2022 performance, relative to its FY2021 performance
LUMBER Lumber Depot Limited	P/E: 14.04x P/B: 6.66x Price: J$3.79 Div Yield: 1.58%	LUMBER represents an option to gain exposure to the construction sector which has been a relatively resilient and fast-growing sector. With this sector tailwind, Lumber has shown strong revenue growth since its 2019 listing and the current Trailing Twelve Months (TTM) profits is 39.5% higher than financial year 2021 earnings. There were, however, hiccups in the last quarterly earnings which was impacted by lock down measures, but we are still monitoring how the company progresses given the loosening of restrictions. We also note that despite the growth it has shown over the last 2 years, the stock still trades an attractive PE compared to junior market peers.
TROPICAL Tropical Battery Company LTD	P/E: 19.32x P/B: 2.50x Price: J$1.70 Div Yield: 0.59%	Tropical Battery has been aggressively pursuing revenue diversification strategies, to not be entirely dependent on auto battery and auto accessory sales. This is evident by the company's recent launch of three new subsidiaries aimed at providing renewable energy solutions for commercial customers. The company has recently implemented a new inventory management system that has yielded improved operational efficiencies. We believe that this company will continue to grow as they build out new revenue lines, as they improve operational efficiencies and hence are worth monitoring.
MDS Medical Disposables and Supplies	P/E: 14.49x P/B: 1.79x Price: J$7.10 Div Yield: 0.99%	Medical Disposables and Supplies have quietly been diversifying its revenue streams over the last 2 years. This is inclusive of its purchase of Cornwall Medical and Dental Supplies Limited (CMDL) which has since been consolidated into the company's financial as of their second quarter 2021. This increases the company's exposure to the dental supplies space and also expands their reach into the eastern end of the island. The company has also shifted to providing more confectionary products and we believe its expansion and diversification efforts are worth watching. Notable, For the Group's thrid quarter results ended December 31, 2021, Total assets grew by $733.89M or 35% from $2.09B as at December 31, 2020, to $2.82B for the same period in 2021. A significant amount of this increase was due to the acquisition of a 60% stake in subsidiary company, Cornwall Enterprises Limited (CEL).

The "Monitoring List" represents stocks that are on our radar as our initial expectation for these companies is positive. However, no official recommendation is presented as these stocks are still being evaluated.

Unit Trust

Unit Trust Fund	16/02/2022	09/02/2022	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	95.24	94.22	1.09%	3.58%	11.08%	-
Money Market	15.2531	15.2747	-0.14%	0.19%	2.20%	0.87%
Income Portfolio	100.00	100.00	-	-	-	3.14%
FX Bond Portfolio (US$)	1.3707	1.3745	-0.28%	-0.55%	1.45%	2.88%
Real Estate Portfolio	6,034.18	5,414.92	11.44%	13.84%	3.36%	-
FX Growth Portfolio	1.0097	1.0435	-3.24%	-6.66%	-1.85%	-

"Though tempting, trying to time the market is a loser's game. $10,000 continuously invested in the market over the past 20 years grew to more than $48,000. If you missed just the best 30 days, your investment was reduced to $9,900."

Christopher Davis

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LOCAL EQUITY MARKET

For the week ended Friday, the local stock market declined week-over-week. The JSE Combined Index declined by 1.43%, the Main Market Index decreased by 1.23%, the JSE Junior Market Index declined by 3.51%, and the JSE USD Equities Index increased by 0.28%. During the week Tropical Battery Company Ltd. was the largest gainer, rising by approximately 16.44% to close at J$1.70. The biggest decliner was 138 Student Living which fell by 23.63% to close at J$5.59.

Year to Date, with the ongoing rebound in the local economy, small-cap stocks, reflecting those listed on the Junior Market Index have continued the strong performance seen in 2021, growing by +13.01% YTD, outpacing its Main Market counterpart (-0.23% YTD) by a wide margin.

For the week ended Friday February 18, 2022, Overall Market activity resulted from trading in 114 stocks of which 41 advanced, 63 declined and 10 traded firm. Market volume amounted to 191,462,608 units valued at over $1,143,645,071.79. Wigton Windfarm Limited Ordinary Shares was the volume leader with 24,813,261 units (12.96%) followed by Tropical Battery Company Limited with 22,534,479 units (11.77%) and Derrimon Trading Company Limited with 14,325,274 units (7.48%)

Revisiting relevant news during the week:

Seprod Group through its biscuit-making subsidiary, International Biscuits Limited (IBL), said it will invest over $170 million to expand factory facilities as it seeks to roll out a new line of cheese snacks.
Seprod enters cheese snacks market

THE Bank of Jamaica (BOJ) has come under more fire for its decision on Friday to announce higher interest rates for a fourth-consecutive time which has taken its key policy rate to the highest it has been in four and a half years.
BOJ hikes rate, consumers bracing for higher loan rates in March

DESPITE a depressing performance up to December 2021, Palace Amusement Company Limited may be seeing the light at the end of the COVID-19 tunnel as a number of box office hits kept cinema doors open.
Palace Amusement rescued

MASSY Holdings Limited has maintained its growth momentum, with its core segments and various territories returning an eight per cent improvement in revenue to TT$3.23 billion ($75.36 billion) for the first quarter ending December 31, 2022.
Massy posts higher earnings

After two recently completed acquisitions in 2021, Proven Investments Limited earned its highest net profit attributable to shareholders of US$10.09 million ($1.56 billion) for its first nine months to December 2021, a figure which exceeded its pre-COVID-19 record of US$8.47 million for the same period.
Proven sets profit record

THE Barbados-based Eppley Caribbean Property Fund Limited is highlighting the benefits being reaped from its Caribbean investments, citing the just-ended first quarter in which net earnings jumped by 13 per cent.
Eppley gains from regional investments

Index	18/02/2022	11/02/2022	31/12/2021	Week/Week	Year-to-Date
JSE Main Market	395,213.78	400,154.97	396,155.61	-1.23%	-0.238%
JSE Junior Market	3,874.34	4,015.44	3,428.30	-3.51%	13.01%
JSE Combined Market	404,420.26	410,292.37	401,130.23	-1.43%	0.82%
JSE USD Equities Market	204.56	203.99	195.51	0.28%	4.63%
JSE Financial Index	95.55	96.28	98.05	-0.76%	-2.55%
JSE Man&Dis Index	109.10	111.58	100.38	-2.22%	8.69%

INTERNATIONAL DEVELOPMENTS

US

Russia and rate worries push stocks lower

The large-cap indexes suffered their second consecutive week of declines as worries over a Russian invasion of Ukraine and high inflation weighed on sentiment. A steep decline in Meta Platforms (Facebook) weighed heavily on the communication services sector. The typically defensive consumer staples sector outperformed within the S&P 500 Index, helped by gains in Walmart and Procter & Gamble. T. Rowe Price traders noted that trading volumes were relatively light in the face of the volatility, however, as investors awaited the upcoming long weekend. Markets are scheduled to be closed on Monday, February 21, in observance of Presidents Day.

Conflicting signals on whether Russian troops were preparing to cross the border with Ukraine appeared to whipsaw markets throughout the week. Stocks fell on Monday afternoon following a CNN report that the president of Ukraine, Volodymyr Zelensky, said the government had been informed that the coming Wednesday would “be the day of attack.” The indexes then rallied on Tuesday, after Russian President Vladimir Putin said he hoped for a diplomatic solution to tensions with the U.S. and its allies and announced a partial pullback of troops near the Ukrainian border. Stocks then reversed course and headed lower again on Thursday, after U.S. officials stated that there was no evidence of a pullback and that an invasion was “imminent.”

Europe

Shares in Europe fell amid continuing geopolitical tensions over Ukraine and uncertainty about monetary policy. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 1.86% lower. Germany’s DAX Index tumbled 2.48%, Italy’s FTSE MIB Index gave up 1.70%, and France’s CAC 40 Index slipped 1.17%. The UK’s FTSE 100 Index pulled back 1.92%.

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

1. **Market turbulence:** The U.S. market will be closed on Monday for the Presidents' Day holiday, but investors are likely to be facing another choppy week as fears over a potential Russian invasion of Ukraine underpins demand for safe haven assets. Ongoing uncertainty over the Federal Reserve’s next policy move is also likely to continue to weigh on equities

2. **Retail earnings:** After a strong rebound in January retail sales, consumers are back in focus and a string of earnings results from major retailers this week will be parsed for signs of how surging inflation is affecting spending. Despite the rebound in retail sales, consumer sentiment has dropped to a decade low in recent months leading to fears that the economic recovery could stall.

3. **Oil Prices:** Oil prices could be set for another mixed week as energy traders weigh a potential supply disruption resulting from the Russia-Ukraine crisis against the prospect of increased Iranian oil exports. Fears over possible supply disruptions from sanctions on top exporter Russia if it attacks Ukraine have supported prices, which have also been underpinned by a recovery in demand from the pandemic.

4. **Earnings:** Earnings season is drawing to a close, but this week will see a big flurry of notable reports. Airbnb Inc (NASDAQ:ABNB) reports on Tuesday, followed by semiconductor giant NVIDIA (NASDAQ:NVDA) and Cisco Systems (NASDAQ:CSCO), which are both due to report after the close of trade on Wednesday.

5. **PMI data:** The U.K. and the Eurozone are to release PMI data for February on Monday that may show a boost to economic activity with governments removing more pandemic era restrictions. Germany’s Ifo business climate index on Tuesday will also be closely watched. Positive signs of an economic recovery could encourage central banks to unwind post-pandemic stimulus fast..

Index	18/02/2022	11/02/2022	31/12/2021	Week/Week	Year-to-Date
NASDAQ 100	34,079.18	34,738.06	36,338.30	-1.90%	-6.22%
S&P 500	4,348.87	4,418.64	4,766.18	-1.58%	-8.76%
NASDAQ 100	14,009.54	14,253.84	16,320.08	-1.71%	-14.16%
FTSE 100	7,484.33	7,661.02	7,384.54	-2.31%	1.35%
Euro Stoxx 50	3,981.60	4,155.23	4,298.41	-4.18%	-7.37%