Barita

MAKING MONEY WORK FOR YOU.

Weekly Newsletter

February 7, 2022

Investment Playbook

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Equities

Stock Ticket	Stock Information (As at February 4, 2022)	Analyst Outlook
WISYNCO Wisynco Group Limited	P/E: 19.70x P/B: 4.21x Price: $19.21 Div Yield: 1.55%	**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: 8.16x P/B: 1.30x Price: $42.93 Div Yield: 1.98%	**OVERWEIGHT** Given its relatively low P/E ratio and considering the Group's consistently strong performance throughout the pandemic, the market has been underpricing JMMBGL significantly, relative to its local counterparts. In recognition of this, the JMMBGL Directors approved a share buyback program which should begin in FY2022/23 which begins on April 1, 2022. Share buyback programs reduce the number of shares outstanding. As the supply of shares in the market reduces from the share buyback, share price increase is likely to follow as demand for the stock outweighs supply.
LAB The Limners and Bards Limited	P/E: 20.25x P/B: 6.11x Price: J$ 3.33 Div Yield: 3.30%	**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".
GENAC General Accident Insurance Company Ltd.	P/E: 13.22x P/B: 2.19x Price: J$ 6.48 Div Yield: 3.40%	**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.

Ratings Definitions

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

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

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

SELL
Reduce exposure in your portfolio to zero

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VMIL Victoria Mutual Investments Limited	P/E: 14.61x P/B: 2.21x Price: $6.72 Div Yield: 2.31%	**OVERWEIGHT** Victoria Mutual has recently rebranded under the "VM Group". By association, there has been implications for VMIL. For example, the Company has been significantly more active in the capital markets through its investment banking arm. We expect continued growth in the investment banking space will add considerable value to the Company's bottom line which has already shown clear improvement throughout FY2021.
LASD Lasco Distributors	P/E: 14.39x P/B: 1.88x Price: J$ 3.73 Div Yield: 1.74%	**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: 8.88x / 11.42x P/B: 0.61x / 0.79x Price: J$14.95 / US$0.13 Div Yield: 2.40% / 1.93%	**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.

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LASM Lasco Manufacturing	P/E: 14.01x P/B: 2.38x Price: J$ 4.82 Div Yield: 1.51%	**MARKETWEIGHT** Our expectation is for the Company, like others, to continue benefiting from an improving economic backdrop. However, there has been a clear revenue growth slowdown in the most recent quarterly result, coupled with reduce gross profit margins throughout FY2022, owing to global supply chain issues and a higher effective tax rate as Lasco no longer benefits from the Junior Market tax incentive.
MAILPAC Mailpac Group Limited	P/E: 21.93x P/B: 14.13x Price: J$ 3.29 Div Yield: 3.34%	**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
SEP Seprod Limited	P/E: 15.75x P/B: 2.46x Price: J$ 60.33 Div Yield: 2.15%	**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.

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SGJ Scotia Group Jamaica Limited	P/E: 13.71x P/B: 1.01x Price: J$ 37.02 Div Yield: 4.19%	**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

Equities

Stock Ticker	Stock Information (As at February 4, 2022)	Comments
ECL Express Catering Limited	P/E: 21.14x	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
	P/B: 25.48x	
	Price: J$ 6.55	
	Div Yield: N/A	
LUMBER Lumber Depot Limited	P/E: 13.15x	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.
	P/B: 6.24x	
	Price: 3.55x	
	Div Yield: 1.69%	

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	02/02/2022	26/02/2022	Week/Week Return	1 Year Return	Year-to-Date Return	Yield
Capital Growth	92.8613	91.6940	1.27%	7.70%	0.99%	-
Money Market	15.2180	15.2529	-0.23%	2.21%	-0.04%	0.88%
Income Portfolio	100.0000	100.0000	0.00%	-	-	3.07%
FX Bond Portfolio (US$)	1.3756	1.3712	0.32%	1.56%	-0.20%	2.86%
Real Estate Portfolio	5225.9678	5,182.9993	0.83%	0.20%	-1.41%	-
FX Growth Portfolio	1.0469	1.0147	3.17%	3.17%	-3.25%	-

"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 decreased by 0.22%, the Main Market Index declined by 0.91%, the JSE Junior Market Index grew by 7.84%, and the JSE USD Equities Index advanced by 1.48%. During the week, Margaritaville (Turks) Limited was the largest gainer, rising by approximately 33.08% to close at J$24.62. The biggest decliner was Portland JSX Limited which fell by 22.16% to close at J$7.06.

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 +16.26% YTD, outpacing its Main Market counterpart (0.16% YTD) by a wide margin.

For the week ended Friday February 4, 2022, Overall Market activity resulted from trading in 61 stocks of which 34 advanced, 22 declined and 5 traded firm.
Market volume amounted to 69,155,047 units valued at over $774,799,366.49. WIGTON WINDFARM LIMITED ORDINARY SHARES was the volume leader with 14,969,218 units (21.65%) followed by TRANSJAMAICAN HIGHWAY LIMITED with 12,150,094 units (17.57%) and SAGICOR SELECT FUNDS LIMITED - FINANCIAL with 7,706,246 units (11.14%) .

Revisiting relevant news during the week:
DESPITE being separated by the Caribbean sea and having different regional bodies, various speakers at the Jamaica Stock Exchange's (JSE) 17th Regional Investments and Capital Markets Conference believe that regional integration is more of a possibility, thanks to technology, and a necessary move as the region faces more threats from climate change.
Companies tout regional integration

Massy's listing enhances the potential for accelerating the build out of "a more regional capital market … one that is far more intertwined and, consequently, more robust and beneficial to companies throughout the region".
JSE should head to Guyana

NCB Financial Group, the regional conglomerate based in Jamaica, made billions in its first quarter spanning October to December, but has again avoided paying dividends, its earnings having fallen short of prior periods.
NCB Dividend Hiatus

Following its cross-listing on the Jamaica Stock Exchange (JSE) last Thursday, Massy Holdings Limited's president and CEO Elliott Gervase Warner expressed resounding confidence in Jamaica and the Government's plan to improve the ease of doing business through public sector transformation, at the JSE's 17th Regional Investments and Capital Markets Conference.
Massy bullish on Jamaica

Some local financial institutions, which have a different structure from the island's commercial banks, are seizing the opportunity offered by the current debate on higher banking fees to emphasise their difference.
VM targets banks' customers

EVEN as Sygnus Credit Investments Limited (SCI) nears its fifth anniversary of operations, the company has set more ambitious targets once the acquisition of Acrecent Financial Corporation (AFC) is closed within the next one to two months, having already amassed a private credit portfolio of US$100 million.
Sygnus credit sets bold five-year plan

Index	04/02/2022	28/01/2022	31/12/2021	Week/Week	Year-to-Date
JSE Main Market	396,802.02	400,464.81	396,155.61	-0.91%	0.16%
JSE Junior Market	3,985.87	3,695.94	3,428.30	7.84%	16.26%
JSE Combined Market	406,890.41	407,769.80	401,130.23	-0.22%	1.44%
JSE USD Equities Market	204.79	201.81	195.51	1.48%	4.75%
JSE Financial Index	96.47	98.84	98.05	-2.40%	-1.61%
JSE Man&Dis Index	108.09	104.3	100.38	3.63%	7.68%

INTERNATIONAL DEVELOPMENTS

US

Equity markets remained volatile but recorded overall gains for the second consecutive week. Breaking with a pattern of value outperformance largely in place since November, growth and value shares performed similarly, while mid- and small-caps outpaced large-caps. It was one of the busiest weeks of the fourth-quarter earnings reporting season, with 112 companies in the S&P 500 Index scheduled to report results.

These included several mega-cap companies, which drove significant moves in the overall benchmarks. Meta Platforms' (Facebook's new name) report of a decline in Facebook's average daily users and guidance for slower revenue growth resulted in a 26% decline in its stock price and wiped a record USD 232 billion off its market capitalization on Thursday. Conversely, Amazon's report of better-than-expected earnings, driven in part by its Web services business, helped the indexes jump back Friday morning. Energy shares performed best, building on their significant lead for the year as U.S. oil prices rose above USD 90 per barrel and as major oil exporters agreed to stick to only a modest production increase in the face of high demand.

Europe

Equities in Europe weakened after European Central Bank (ECB) President Christine Lagarde made comments that appeared to leave the door open for a possible rate increase this year. In local currency terms, the pan-European STOXX Europe 600 Index ended the week 0.73% lower.

Core eurozone bond yields rose on concerns about inflationary pressures and the possibility of a shift in the ECB's accommodative policies. Peripheral eurozone bond yields moved in tandem. A Bank of England (BoE) interest rate increase—the second one since December—pushed gilt yields higher.

[T.RowePrice market update]

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

1. **U.S. CPI Report:** The CPI and Core CPI Report come out Thursday pre-market. Economists expect CPI to come in at a .5% increase month over month and 7.3% year over year, with core CPI (excluding food and energy prices) also expected at .5% month over month and 5.9% year over year. With rumblings that the Fed might not only hike four times this year but also jump straight to a 50 basis points hike in March, this report will have real weight.

2. **Earnings read-through part 1 – pandemic related effects:** One way to read Meta Platforms' (Facebook's) muted guidance and earnings report was as a new sign that pandemic-related tailwinds (positive effects) are gone for tech companies. Amazon's rebound after its reports was as much about the worst already being priced into the shares, as the company took a big hit in Q3. Upcoming financial results will help investors to get read-throughs on both "Covid plays" and "reopen plays" this week with several companies reporting quarterly financials this week.

3. **Earnings read-through part 2 – inflation effects:** The other big story to watch across this earnings season is the impact of inflation on different companies. We have companies from the materials sector, consumer goods and food, and healthcare reporting, all of which should add to the picture of how widespread inflation is and whether there are signs of easing ahead, whether supply-chain related or otherwise.

4. **Cryptocurrencies on the rebound:** Cryptocurrencies were an asset class that appreciated the turn of the calendar page. After losing nearly 20% in January, Bitcoin has risen nearly 8% in February, and Ethereum has risen nearly 12%.

Index	04/02/2022	28/01/2022	31/12/2021	Week/Week	Year-to-Date
NASDAQ 100	35,089.74	34,725.47	36,338.30	1.05%	-3.44%
S&P 500	4,500.53	4,431.85	4,766.18	1.55%	-5.57%
NASDAQ 100	14,694.35	14,454.61	16,320.08	1.66%	-9.96%
FTSE 100	7,516.40	7,466.07	7,384.54	0.67%	1.79%
Euro Stoxx 50	4,086.58	4,136.91	4,298.41	-1.22%	-4.93%