Barita

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LOCAL EQUITY REPORT

SUPREME VENTURES LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

Investment Rationale

SVL is currently the market leader in the lottery and gaming industry. In recent years, the Group has taken steps to strengthen its position and drive further growth by diversifying its revenue stream through various acquisitions within the gaming industry such as Champion Gaming (2020), and Post to Post Betting (2019). The Group has also made acquisitions in the financial services industry via its acquisition of 51% of Mckayla Financial Services (2021) as well as a 10% stake in Main Event Entertainment Group Ltd., increasing its exposure to the entertainment sector in the non-gaming segment. In addition to these acquisitions, the Group has expanded to new territories such as its expansion into Guyana and the offering of its primary lottery product in the South African Market.

Despite these developments, the Group's growth was impacted by the pandemic, primarily in the sports betting segment with the temporary closure of Caymanas Park and restrictions implemented to slow the spread of COVID-19. Therefore, with the reopening of the economy and the subsequent improvement in economic activities, we expect to see some recovery in the Company's profitability in the short term. In the long term, however, we note the entry of several competitors in recent years, namely Goodwill Gaming and Mahoe Gaming (both approved by the regulators in 2020). With these new competitors, SVL will likely lose some market share and some margin as it aims to remain competitive in an industry that had previously been highly uncompetitive. Given its history among customers and its reach, however, we expect that SVL will remain the market leader for the foreseeable future, albeit with the caveats highlighted.

The above considerations have impacted the considerations we made in the inputs when arriving at our forecast and hence inform our **MARKETWEIGHT** rating. Possible factors that might warrant a better than originally forecasted performance include a quicker than projected expansion in external markets such as Guyana, a faster than projected pickup in sports betting activity especially as the company invests in making the gaming industry more digitalized, and lastly a weaker than expected market penetration from newcomers, Mahoe and Goodwill Gaming, which might place less pressure on gross margins and payout for SVL as any lack of significant competition would make it easier for SVL to maintain its market share.

Valuation Summary

Stock	SVL
Close Price	J$19.16
Estimated Fair Value	J$19.16
YTD Return	7.70%
Trailing PE	22.06X
Forward PE	18.43X
Dividends Yield	4.18%
Potential Upside	0.0%
Total Returns	4.18%
Recommendation	**MARKETWEIGHT**
Date	April 1, 2022

To value SVL, we utilized two approaches, the Justified P/E, and a Dividend Discount Model (DDM). For both methods, we assumed a cost of equity of 11.43% which was derived from a "build-up" approach adding an equity risk premium to an estimate of the company's cost of debt.

For the justified PE approach, we forecasted an EPS of $1.04 per share for the 2022 financial year. This compares with the Group's latest earnings per share of $0.87 for the 2021 financial year. Key considerations that went into this EPS forecast include continued improvement in the betting segment which was materially held back by eternal factors in 2020 and some portions of 2021 as well as a slight erosion of margins as the Group pays out a larger portion of prizes to stakeholders (greater winning pay-outs and horse purse fees, as well as a continuation of the elevated lottery pay-outs partially due to competitive forces as the Group aims to maintain market share). Utilizing the aforementioned cost of equity, an estimated payout ratio of 89.6% and a justified P/E multiple of 20.51x, we arrived at a fair value estimate of **$21.32**.

For our DDM valuation, we forecasted earnings further into the future, with 3 years of continued strong growth and improvement in the betting and lottery segment (which we would have seen in the group's latest quarters) which then tapers off into our estimate of the long-term growth rate. This estimate was derived fundamentally by considering the Group's return on equity over the last 4-years and the approximate pay-out ratio to arrive at a growth rate of 6.77%. From this 2-stage DDM, we derived a fair value estimate of **$17.00**. Utilizing an average of both results, we arrived at our final estimate of fair value, **$19.16**, which based on the current market price, implies that the Company is fairly priced. Considering the results of our valuation coupled with the details of the analysis provided above, we've issued a **MARKETWEIGHT** recommendation for SVL.