MAKING MONEY WORK FOR YOU.

Summary Analysis

Dolla Financial Services Limited

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

Dolla Financial Services Limited

Overview

Dolla Financial Services Limited ("Dolla" or "The Company" or "Dolla Financial") was incorporated in 2009 and has been operational since 2014. The Company operates as a microfinance institution and currently operates from 8 locations in Jamaica and has recently forayed into the Guyanese microfinance space. Since its inception, Dolla has disbursed over $2.30 billion in loans. Dolla is looking to raise $500 million (provided the offer is fully subscribed), via the issuance of 250,000,000 new shares and the selling of 250,000,0000 units by a shareholder (First Rock Private Equity).

Analyst Insight & Investment Rationale

Valuation: Based on our Price to Earnings, Price to Profit before tax, and justified P/B valuations, we established a price target of **$1.93** which is 93% above its IPO price of $1.00 which underpins our "participate" recommendation. This estimate reflects our base-case assumptions guiding our expectations of the company's future earning potential. The Company will receive tax relief by listing on the Junior Market as well as an increase in its lending capacity, which when coupled with its low leverage; positions the Company to grow via additional debt capital. This in turn would be used to expand the size of the loan book.

Increased Barrier to Entrance: With the recent passing of the Microcredit Act (2021), there will be an increasing number of requirements and regulatory filings that will be demanded by regulators of microfinance institutions, and operators will be subjected to increased scrutiny. The tightened regulatory environment that exists for Microcredit Institutions (MCIs) may serve as a barrier to entry for businesses looking to compete in the industry. Also, this new environment could make it difficult for smaller firms to compete effectively, and as such, may result in increased merger and acquisition opportunities arising; thereby presenting an additional path to expansion for Dolla.

Geographic Diversification: We believe that the recently launched operations in Guyana should provide an added layer of geographic diversification and in turn, risk mitigation. The expansion into Guyana supports enhanced credit risk management as the Company's loan portfolio is not entirely exposed to a single territory.

Strong Growth Potential: Dolla is in an expansionary mode which is evidenced by the growth in the loan portfolio. The loan portfolio has grown by 167.26% or $544.64 million YoY as of the end of March 2022. We believe that there still exists room for strong growth, emerging from base effects, the addition of equity capital through the current IPO, and the capacity to increase debt financing once the company's leverage ratio reduces, post the Initial Public Offering ("IPO").

Income Statement

In Q1 2022, Dolla reported total assets of $934 million which was an increase of 289% or $694 million relative to its FY2019 total assets of $240 million before the investment by First Rock. As shown in the accompanying chart, the Company's balance sheet has been in an uptrend since the acquisition, reversing several years of minuscule asset and funding base growth. As can be expected, the increase in the Company's total assets was driven by increased capital injection in the form of loans payable and share capital

Balance Sheet

In Q1 2022, Dolla reported total assets of $934 million which was an increase of 289% or $694 million relative to its FY2019 pre-acquisition total assets of $240 million. As shown in the accompanying chart, the Company's balance sheet has been on an uptrend since the acquisition, reversing several years of minuscule asset and funding base growth.

As can be expected, the increase in the Company's total assets was driven by increased capital injection, as shown in the capital chart in the form of loans payable and share capital.

Asset Composition

The Company's total assets as of March 31, 2022, was comprised of loans receivables (93% of Total Assets (TA)), receivables (3.5% of TA), right of use asset (2.9% of TA), PPE (0.8% of TA), Deferred tax asset (0.5%), cash and equivalents (0.2% of TA) and intangible assets (0.001% of TA). We note that the cash balance by the end of March 2022 deteriorated significantly, declining from $65.6 million at the end of December 31, 2021, to just $2.11 million at the end of March. The reduction was heavily influenced by growth in the Company's loan book which expanded by $119 million (16%) in just that quarter and $545 million (167%) YoY.

Recommendation

We recommend that investors **PARTICIPATE** in the offer, as the company has potential for significant growth due to its expansion and growth factors along with the company listing at favorable multiples relative to the market. The company expects to see continuous strong loan portfolio growth in Jamaica, and within the next five years, anticipates significant growth in its Guyana loan portfolio.