JMMB Group Limited

Company Overview

JMMB Group Limited (JMMBGL) provides a range of financial solutions for individual, business, corporate, and institutional clients in Jamaica, Trinidad and Tobago, and the Dominican Republic. The company operates across three segments: Financial and Related Services, Banking and Related Services, and Other services. Its Financial and Related Services segment offers securities brokerage, stock brokerage, portfolio planning, funds management, and investment advisory services. The company's banking and related services segment accepts deposits; and offers loans and other credit facilities, foreign currency trading, and remittance and related services. Its other segment represents insurance brokerage, investment, and real estate holdings. The company also provides merchant banking, funds transfer, fund and investment management, mutual and pension fund administration services. JMMB was founded in November 1992 as the first Money Market Broker in the Country.

Analyst Insight

Stock	JMMBGL
Last Closing Price	J$32.73
52 Week High	J$61.24
52 Week Low	J$32.00
YTD Return	-17.01%
Target Price	**J$40.47**
Potential Return	23.66%
Trailing P/E	5.69x
Trailing P/B	1.33x
Forward P/E	8.23x
Dividend Yield (TTM)	2.60%
Total Return	26.26%
Recommendation	**OVERWEIGHT**
(as at November 25, 2022)	

Among large-cap financial services companies, JMMBGL's performance has been one of the best in the industry during the pandemic. As highlighted in our previous analysis, the Group's growth for the year ended March 31, 2022, was driven by the realization of improved profit from Sagicor Financial Company (SFC), which the company acquired an associate stake in just prior to the pandemic.

In the first half of the 2023 financial year (ended March 31, 2023) JMMBGL saw a faster pace of growth in its operating expenses relative to revenue due to increased investment in staff and operations to benefit future processes. Despite the struggle with increased costs, lower interest income and lower trading profits, the company has shown growth in some segments and the underperformance in others is consistent with overall market conditions which are out of the control of the Group. The investment in SFC continued to bolster overall profitability, with a good calendar year-to-date performance in 2022, benefitting JMMBGL to the tune of $2.16 billion for the first 6 months of the financial year ending March 31, 2023. Similar to most of its industry peers, the exposure to Government of Jamaica bonds has caused a deterioration in the company's equity through losses sustained in other comprehensive income, and as a result, leverage has increased and regulatory capital ratios have seen a reduction. Against this backdrop, we expect management will be focused on optimizing leverage and bolstering liquidity.

The Group remains focused on diversification, through its operations in Jamaica, Trinidad and Tobago, the Dominican Republic and the United States, via its acquisition of SFC. During the first half of the 2023 financial year, growth came primarily from the Dominican Republic and Trinidad and Tobago. The Group has invested further in foreign markets, recently acquiring another bank in the Dominican Republic and improving the operating efficiency of the recent T&T start-ups such as JMMB Express Finance (T&T) Limited, a consumer financing entity launched in September 2018. Effectively, the Group's stalling Jamaican operation appears to be hedged by the diversification benefits of its investment in other regional territories. The company has successfully grown operating revenue in its Banking segment by a total of 119% between 2018 to 2022, attributing the performance to successful geographical diversification. Growth in the banking segment has partially offset the contraction of the financial services segment, which has largely suffered from market losses on investments held at fair value through profit and loss amidst the rising rate environment of the past 12 months. We also expect that the current interest rate hike cycle will continue into the first half of 2023, potentially suppressing the value of assets held by JMMBGL further and by extension, gains on investment securities, during the second half of the group's financial year.

In the same vein, for the six months ended September 30, 2022, JMMBGL's total equity fell by 15% to $48 billion, driven mainly by a $16.9 billion reduction in the investment revaluation reserve YoY, with $11.1 billion of that amount occurring during April 2022 - September 2022. These losses in the investment revaluation reserve were driven by losses on investment assets classified through other comprehensive income; in the case of JMMBGL, these securities are mostly US$ Government of Jamaica debt securities that account for ~40% of total investment securities. Consequently, there may be further headwinds to recovery in the company's capital adequacy ratio from another rout in these securities, leading to a net reduction in the equity base. Notwithstanding all the company's regulatory capital measures remain satisfactory relative to the regulatory minimum.

Valuation Summary

To arrive at our price target for JMMBGL, a Justified Price to Earnings (P/E) Model was used. Our estimate for the 2023 Financial year-end EPS, considering the challenges to operating profits in the first half of the financial year and seasonality of earnings amounted to **$3.98.** To arrive at a discount rate, we utilized the capital asset pricing model (CAPM), which resulted in an outturn of **13.28%**. The long-term growth rate was estimated at 3.46%, taking into consideration factors including the company's profit margin, leverage and asset utilization. **Using these inputs, a justified P/E ratio of 10.18x was derived, resulting in a price target of $40.47, representing a 23.66% upside from the last closing price of $32.73.** Our previous target was based on a justified P/E ratio of 10.59x and our expectations following the results of the first quarter of FY 2023, resulting in a price target of $63.03. The discrepancy in target price despite the similar justified P/E ratio is due to a downward revision in our earnings expectations following the deterioration of market conditions, which have severely impacted the result of the securities trading business. We also expect that as interest rates continue to rise near-term, securities trading income will continue to be subdued. The company currently trades at a trailing P/E multiple of 5.69x, well below the average of 14.02x for other large diversified financial groups listed on the Jamaica Stock Exchange. The company based on its current market price along with our target EPS produces a forward P/E of 8.23x. **Given the factors above, we recommend investors OVERWEIGHT JMMBGL in their portfolio.**

Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
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
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO