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LOCAL EQUITY REPORT

SYGNUS CREDIT INVESTMENTS LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
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Sygnus Credit Investments Limited

Company Overview

Sygnus Credit Investments Limited (SCI) is a speciality private credit investment company dedicated to providing non-traditional financing to medium-sized firms across the wider Caribbean region. SCI's investment objective is to generate attractive risk-adjusted returns with an emphasis on principal protection by generating current income, and to a lesser extent, capital appreciation through investments primarily in Portfolio Companies using private credit instruments. The Company's private credit instruments include bilateral notes and bonds, preference shares, asset-backed debt, mezzanine debt, convertible debt, and other forms of structured private credit instruments. These forms of financing are typically more aligned with Portfolio Companies' (PC) growth and expansion plans.

Stock	SCIJMD
Last Closing Price	J$12.02
52 Week High	J$16.81
52 Week Low	J$11.82
YTD Return	-5.13%
Target Price	**J$14.50**
Potential Return	20.63%
Trailing P/E	10.93x
Trailing P/B	0.68x
Forward P/E	8.81x
Dividend Yield (TTM)	3.25%
Total Projected Return	**23.88%**
Recommendation	**OVERWEIGHT**
(as at March 10, 2023)	

Analyst Insight

In the first half of FY 2023, Sygnus Credit Investments Limited (SCI) earned net profits of US$2.86 million compared to US$2.39 million for the first half of 2022, representing a 16% increase year-over-year. This increase was largely attributable to the income from the Sygnus Credit Investments Puerto Rico Fund LLC ("PRCF"), which represents the revenue generated from the company's investment in the Acrecent Financial Corporation ("AFC"). The 157.9% increase in interest expense relative to the more modest 27.4% increase in interest income is misleading as income generated by AFC was not consolidated in interest income, but rather appeared through the fair value gains on investments line item. Additionally, interest expense associated with the AFC asset is represented in the Interest Expense line. If the PRCF income was consolidated, interest income would have grown 51.6% year-over-year.

SCI has advanced the discussions with its international financing partners to secure large credit facilities that will allow for the creation of new revenue streams across the English, Dutch and Spanish-speaking Caribbean. The Group holds a 93.66% membership interest in a private credit fund, Sygnus Credit Investments Puerto Rico Fund LLC ("PRCF"). This follows the completion of the acquisition of outstanding shares in Acrecent Financial Corporation ("AFC") on February 28, 2022 by PRCF, with phase II of the integration of Acrecent into SCI, continuing during the March 2023 quarter. **Phase II of the integration of Acrecent Financial Corporation ("Acrecent" or "AFC) into SCI remained on track, with the majority of targets being accomplished and the remainder expected to be completed by the end of the financial year ending in December 2023.** This further integration will involve changing the structure of Acrecent Financial to become a pure financing firm with no employees and an internal investment manager that charges a management fee, mirroring the current structure of SCI. Acrecent secured a US$34.80 million investment from global impact investing firms BlueEarth Capital, Ceniarth, Calvert Impact Capital and Community Development Venture Capital Alliance. This investment will allow Acrecent to continue deploying critical financing giving SCI the potential of further expansion to its PRCF Investment Income revenue line, or to core revenue depending on the further integration of the company.

Additionally, at the AGM held on January 18, 2023, details were presented on SCI's prospective share buyback program. The program is expected to last for a period of 3 years, with an amount of US$1.00 million to US$3.00 million per annum. This program is expected to be approved and launched by the end of the financial year and will be facilitated through open market purchases with quarterly buyback target amounts with the entirety of the program expected to last for a period of 3 years from launch.

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With the findings above considered, SCI will likely report a strong rebound over the previous financial year's results which were significantly affected by an almost US$3.85 million loss on the investment in a Cayman-based portfolio company. In our view, the market is pricing SCI at a discount to its fair value and therefore we affirm our **OVERWEIGHT** recommendation.

Major Subsidiaries and Associate Companies

SCI is incorporated in St. Lucia. The Company has no employees and the investment portfolio of the Company is managed and administered by Sygnus Capital Limited, a related company incorporated in Jamaica that is licensed and regulated by the Financial Services Commission.

Subsidiary	Principal Activities	Ownership
Sygnus Credit Investments Jamaica Limited	Finance Raising Company incorporated in Jamaica	100%
SCI PR Holdings Limited	Holding Company incorporated in Saint Lucia	100%
SCI Puerto Rico Inc.	Holding Company incorporated in Puerto Rico	100%

Industry Overview

The financial services sector was significantly impacted by the pandemic. The downturn in global and domestic asset prices led to a deterioration in the incumbent financial institutions' capital base through fair value losses as well as an increase in expected credit losses due to the quick deterioration in the macroeconomic environment.

The continued recovery in the domestic economy has provided a tailwind for the industry and will continue to do so in the short term, with increased fee income stemming from the increase in business activity. In addition to this, while we don't believe higher interest rates are a positive development for all institutions in the financial sector, the current expectation for interest rates to remain higher for longer also provides a positive tailwind for the interest income segment of a typical deposit-taking institution's revenue stream. Lastly, the sector's profitability has also suffered greatly from the decline in global bond prices which has reduced capital reserves and profitability. Our expectation that we are arriving closer to the peak of the monetary policy cycle will therefore bode well for asset prices and by extension the income and balance sheet of domestic financial institutions.

Despite these short-term benefits, we remain cautiously optimistic. One reason for this is the elevated risk of recession which is not our base case scenario but remains a possible headwind. This is evidenced by the slower base of global growth exasperated by uncertainties due to the Russian war. This has already resulted in global growth forecasts being revised downwards to 3.2% for 2022 as of October 2022, compared to the 4.4% that was projected in January 2022 according to the IMF. Secondly, while we stated prior that the higher interest environment will generally benefit deposit-taking institutions, we noted the differential impact across the sector. That is, a domestic flattening of the yield curve has the potential to increase funding costs to a greater degree than the interest income on invested assets. This is a consequence of the nature of banking operations being characterized by a higher proportion of short-term liabilities funding longer-term assets. Hence, institutions with less stable funding bases comprised of a greater portion of shorter-term market-sensitive liabilities such as repo funding, as well as a generally higher degree of asset-liability mismatch would be negatively impacted by the rate environment. **Given this context, we don't conclusively believe that higher rates are necessarily better for the sector as a whole and therefore, we remain neutral on the industry outlook in the short term and note that astute security selection (in terms of asset-liability makeup) will be warranted.**

Financial Results (6 Months Ended December 31, 2022)

Summary of Investment Activity	Q2 Dec 2022 US$	Q2 Dec 2021 US$	FYE Jun 2022 US$
Fair Value of Investment in Portfolio Companies	136,072,294	88,007,733	122,509,031
Excluding PRCF	110,724,969	88,007,733	98,349,856
New Investments Commitments During Period	7,432,140	4,968,000	49,221,591
Dry Powder to be Deployed*	10,811,314	17,977,782	8,470,884
Number of Portfolio Company Investments(#)	34	29	30
Average Investment per Portfolio Company	3,256,617	3,034,749	3,278,329
Weighted Average Term of Portfolio Company Investments(Years)	1.6	1.8	1.8
Weighted Average Fair Value Yield on Portfolio Companies	14.1%	12.9%	13.3%
Non-Performing Portfolio Company Investments(NPI)	2	3	2
Non-performing Investments Ratio	1.5%	6.2%	2.3%

All the calculated metrics exclude invesment in Puerto Rico Fund(PRCF) of US$25.34M on the balance sheet
PRCF represents SCI's 93.7% ownership in the Puerto Rico Credit Fund
*Does not include Notes raised

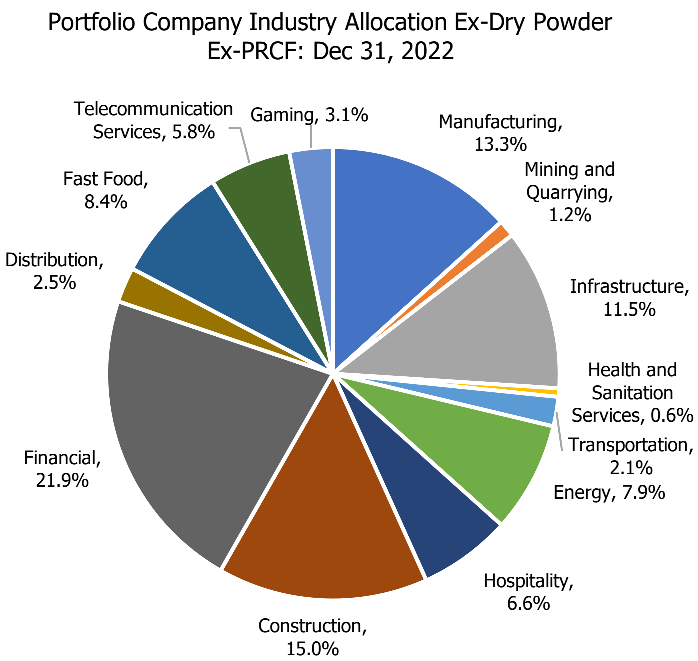
Source: Sygnus Credit Investments Limited

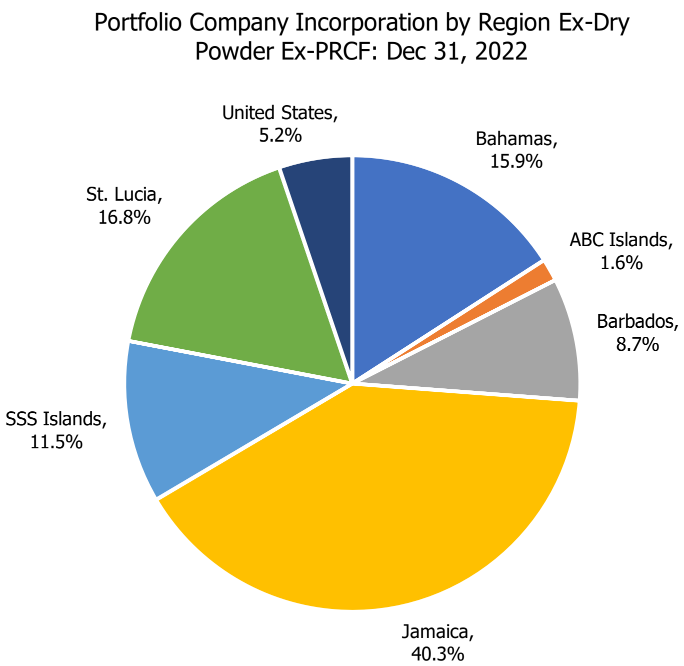
At the end of the first six months of FY 2023, SCI's investment in portfolio companies grew by 54.6% year-over-year to US$136.07 million; this figure also reflected the US$25.35 million investment in the PRCF, which is not consolidated. Portfolio company investments included finance lease receivables carried on the balance sheet. The Group's investment in portfolio companies, excluding the PRCF, grew by 25.8% year-over-year to US$110.72 million. The number of portfolio companies, excluding the PRCF, increased to 34 vs 29 last year and 33 at the end of Q1 2FY 2023. In the prior quarter, 3 new portfolio companies were added, replacing 3 smaller investment exits.

SCI financed new investment commitments valued at US$7.43 million during Q2 2023 compared to US$4.97 million for the corresponding quarter of FY 2022. Deployment under its expanded regional inventory and receivables financing program had drawdowns of US$3.50 million during the quarter and an additional US$2.00 million after the quarter ended. In Puerto Rico, AFC deployed US$23.80 million across 28 transactions during the quarter. Overall, the private credit business continues to see robust and increasing demand for flexible debt capital as interest rates continue to rise, amid a full return to pre-COVID-19 economic activity across multiple Caribbean territories.

At the end of Q2 2023, the weighted average tenor of Portfolio Company investments declined to 1.6 years relative to 1.8 years last year. This reduction was attributable mainly to the new investments made during the period, which have shorter maturities. **The weighted average fair value yield on Portfolio Companies increased to 14.1% vs 12.9% last year. SCI's investment yield is expected to continue benefitting from the current rising interest rate environment, especially given the short tenor of its investment portfolio, with 48.7% maturing in one year.**
SCI's non-performing investment ratio at the end of the quarter was 1.5% of its total private credit investment portfolio vs 6.2% for Q2 FY 2022. Last year's NPI ratio included the Cayman Islands company which was charged off at the end of FY 2022. The NPI target threshold limit was 5.0%.

Note: SCI has US$1.00 million in exposure to a Portfolio Company that declared bankruptcy during the FYE Jun 2021, which is included as part of the US$2.30 million in non-performing investments that constituted the 1.5% NPI. However, SCI's investment, though unsecured from the standpoint of the portfolio company, was structured with an external guarantee supported by a charge over real estate assets. Notwithstanding this external collateral, SCI continues to pursue its claim against the portfolio company resulting from the sale of its underlying assets.



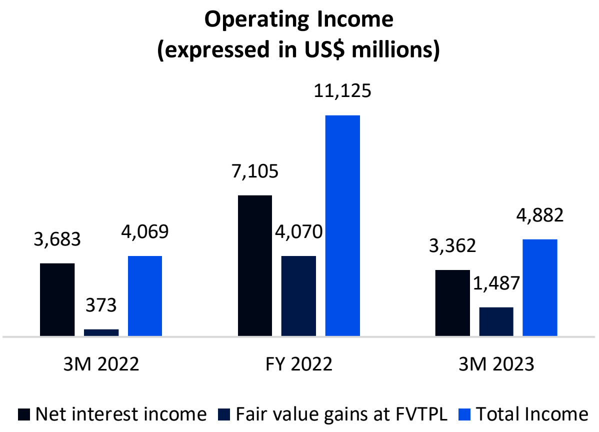


SCI's portfolio companies were diversified across 13 major industries and 7 regions across the Caribbean and United States at the end of the reporting period. Excluding cash and excluding the allocation to the PRCF, the top industry allocations were Financial (21.9%), Construction (15.0%) and Manufacturing (13.3%). Portfolio companies from Jamaica accounted for the highest allocation of SCI's portfolio at 40.3%, followed by St. Lucia at 16.8%, the Bahamas at 15.9% and the Dutch Caribbean islands of Saba, St Martin and St Eustatius (SSS Islands) at 11.5%. United States exposure stands at 5.2%. The average investment per portfolio company amounted to US$3.26 million versus US$3.03 million in the corresponding period in FY 2022.

With the addition of the PRCF investment portfolio, which includes the AFC deployments, portfolio companies were diversified across 22 industries, and 12 territories. With the expanded build-out of the "Services" classification to be aligned with international best practices, there was material growth in SCI's overall exposure. Financial (14.8%), Hospitality (13.1%) and Construction (12.1%) have the largest industry allocations, while Puerto Rico (30.9%), Jamaica (27.1%) and St. Lucia (11.3%) accounted for the largest territory allocations. Note that investments from Costa Rica, Panama, The Dominican Republic and Mexico represent legacy assets that were "ring-fenced" during the AFC acquisition and are in the process of being closed out.

Operating Revenue

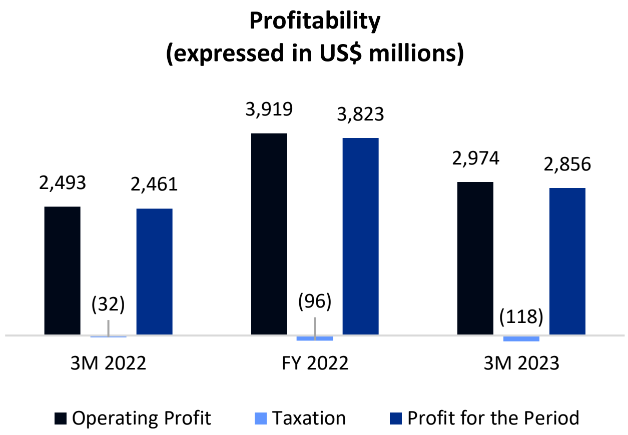
SCI's core revenues and total investment income grew by 22.7% year-over-year (YoY) to US$4.53 million. The key driver of the increased total investment income was investment income from the Puerto Rico Credit Fund ("PRCF") of US$1.14 million. The Puerto Rico Credit Fund Investment Income line is the revenue generated from the company's investment in the Acrecent Financial Corporation ("AFC"); This amount was formally carried on the income statement as part of fair value gains, given that the financial statements of AFC do not meet the accounting standards to be consolidated with SCI. The implication of this is that on a going-forward basis, the PRCF line item will represent the value flowing through to SCI from the AFC business.



The SCI private credit portfolio had higher-yielding assets generating net investment income of US$2.65 million, representing a 16.2% increase YoY. Along with the higher interest income, interest expense grew 133.8% to US$1.41 million partly because of the greater use of debt in SCI's capital structure to fund the AFC acquisition. Due to the method of accounting for AFC's contribution, the interest income associated with AFC was recorded in the PRCF Investment income line below net interest income, while the additional interest expense associated with the debt financing used to acquire AFC was reflected in the interest expense line item. As a result, Net Interest income will appear much lower than it truly is from an economic standpoint.

Expenses and Profit

Total operating expenses increased by 33.1% YoY to US$1.88 million. This was driven by a 27.0% increase in management fees and 31.9% higher corporate services fees related to the increased assets under management. Management fees and corporate services fees represented 70.7% of operating expenses for the first half of FY 2023, compared to 73.8% in the first half of FY 2022. Core earnings, net investment income, grew by 21.9% YoY to US$1.37 million, as a result of total investment income outpacing operating expenses. Excluding management fees, corporate services fees and performance fees, operating expenses were US$550.2 thousand for the first 6 months of FY 2023, up 72.1%. These increases were primarily driven by higher professional fees which increased by 327.6%, the majority of which were related to non-recurring items.



SCI had an efficiency ratio (total operating expenses to total investment income) of 41.5% for the quarter which exceeded the threshold level of 40.0%. This was driven by professional costs of US$227.6 thousand which were related to non-recurring events. SCI's management expense ratio (MER) was 2.4% at the end of Q2 2023, well within the threshold level of 2.85%. The MER is defined as total operating expenses as a percentage of total assets under management.

Net foreign exchange losses of US$20.6 thousand for the 6 months ended December 2022 (6M 2023) was lower than the loss of US$126.0 thousand reported for the 6M 2022. For Q2 2023, SCI reported a loss of US$61.8 thousand vs a loss of US$26.7 thousand for Q2 2022. The movement in foreign exchange gains and losses is a general reflection of realized gains or losses on FX transactions and unrealized gains or losses from the Group's net exposure to Jamaican dollar assets, which fluctuate based on movements in the JMD/USD exchange rate. SCI's JMD liabilities exceeded its JMD assets by 4.6% for Q2 2023. SCI does not have a foreign currency trading business. The company is net short the JMD and profitability will improve if the JMD devalues.

Provision for Expected Credit Losses (ECL) / Impairment Allowance on Financial Assets (IAFA)

The change in impairment allowance on financial assets for the 6M 2023 was an increase of US$6.8 thousand vs an increase of US$37.0 thousand for the 6M 2021, and a decrease of US$14.0 thousand for Q2 2023 vs an increase of US$96.9 thousand for Q2 2022. SCI's impairment allowance is a non-cash unrealized charge and reverses if an investment is exited without any realized credit losses or charge-offs. The decrease in impairment allowance for Q2 2023 was driven by a combination of some recovery in the underlying global economic conditions relative to last year, and an increase in investments which are adequately collateralized with tangible assets.

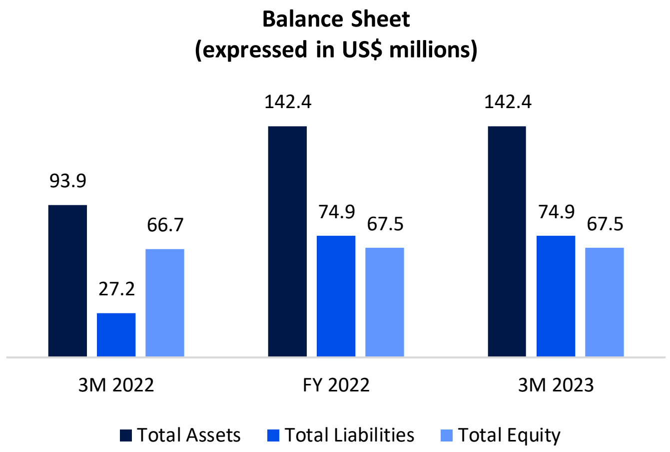
Fair Value Gains or Losses

Fair value gains on profit-sharing private credit investments for the first half of FY 2023 was US$0.35 million, declining 6.84% YoY. This decline was primarily driven by higher interest rates and the maturing of a portfolio company investment. SCI had US$23.19 million in fair value private credit investments as at Q2 2023 vs US$23.3 million in the prior year and US$25.9 million at the end of FY 2022. In addition, SCI held US$25.35 million in the Puerto Rico Credit Fund compared to US$24.2 million at the end of FY 2022. As a result, profit before tax grew by 19.3% year-over-year to US$2.97 million. Net profit attributable to shareholders increased by 16.0% to US$2.86 million for the 6M 2023, compared to US$2.46 million for 6M 2022.

Balance Sheet

Total Assets: As at December 31 2022, SCI had a record US$153.60 million in total assets, an increase of US$43.26 million or 39.2% over the comparable period last year. This was mainly comprised of US$136.07 million in private credit investments including US$25.35 million in the Puerto Rico Credit Fund, US$23.19 million in investments measured at fair value through profit and loss, US$87.07 million in investment measured at amortised cost and US$465.3 thousand in finance lease measured at amortised cost

Total Liabilities: Total liabilities increased 22.35% to US$84.83 million, driven primarily by a 329.2% increase in preference shares to US$4.93 million versus US$1.15 million at the end of the 2022 financial year.



Total Equity: Total shareholders' equity increased by 1.7% to US$68.77 million entirely because of organic growth in retained earnings.

SCI's debt to equity was 1.11x, remaining below management's current target threshold of 1.25x and the limit of 2.00x. Debt to total assets was 0.50x which was in line with the target threshold level of 0.50x. Despite having some headroom, the company does target relatively low leverage in its balance sheet in keeping with global best practices for private credit investment companies. The balance sheet was further enhanced by an asset coverage ratio of 1.97x, which was above the minimum threshold of 1.50x.

Trading and Ownership Summary

SCI ownership (as at December 31, 2022)

Name	Shares Held	Percentage
ATL Group Pension Fund Trustees Nominee Ltd.	27,271,991	4.61%
SJIML A/C 3119	25,425,700	4.30%
JCSD Trustee Services Ltd. - SIGMA Equity	24,268,691	4.11%
National Insurance Fund	20,000,000	3.38%

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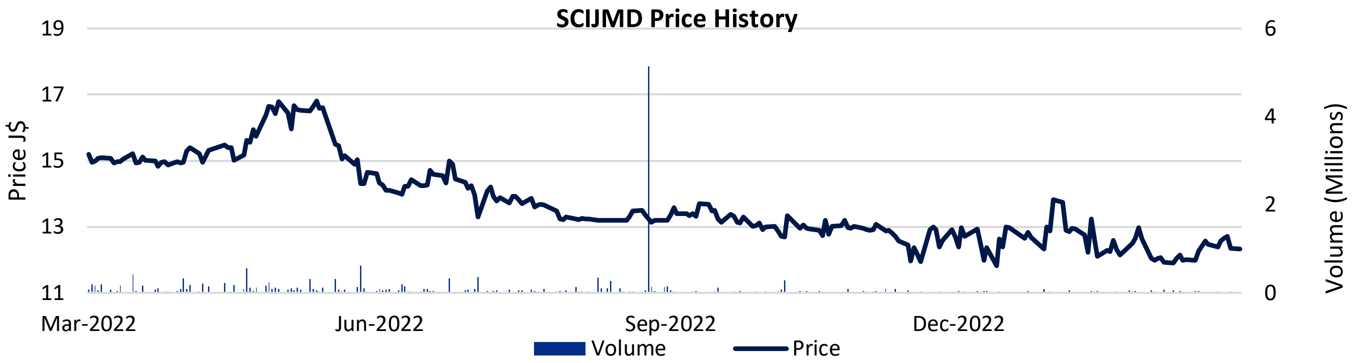
JMMB Fund Managers Ltd. T1 - Equities Fund	19,460,000	3.29%
Windelle Limited	18,199,900	3.08%
MF&G Trust & Finance Ltd.	13,035,000	2.21%
Heart Trust/NTA Pension Scheme	10,801,500	1.83%
Sagicor Equity Fund	10,735,900	1.82%
Sagicor JPS Employees Pension Plan	8,918,700	1.51%
Total	**178,117,382**	**30.14%**



SCIJMD is a small float Main Market stock, making up only 0.45% of the Main Market index. The company does not have very concentrated ownership with no individual shareholder holding more than 5%. SCI has a 348.24 million share float or 58.93% of total outstanding shares. Trading volumes tend to be moderate, averaging 60,360 shares traded per day, representing a dollar value of roughly J$743,635.20. The Market Liquidity of this stock is likely only sufficient for retail traders to transact with ease.

Valuation and Recommendation

To arrive at our price target for SCI, a Justified Price to Earnings (P/E) Model was used. Our estimate for the 2023 Financial year-end EPS, considering the recovery of earnings as a result of the contribution of the Puerto Rico Credit Fund as well as a lower impairment charge given the charge-off of one portfolio company in the prior year-end, amounted to **$1.36.** To arrive at a discount rate, we utilized the capital asset pricing model (CAPM), which resulted in an outturn of **11.41%**. The long-term growth rate was estimated at 2.00%, in line with the Federal Reserve's long-term inflation target, which we believe to be conservative for a US dollar-denominated operation of this nature. **Using these inputs, a justified P/E ratio of 10.63x was derived, resulting in a price target of $14.50, representing a 23.88% upside from the last closing price of $12.02.** The company currently trades at a trailing P/E multiple of 10.93x, below the average of 15.59x for other financial stocks listed on the Jamaica Stock Exchange. In conclusion, based on its current market price along with our target EPS produces a forward P/E of 8.81x. **Given the factors above, we recommend investors OVERWEIGHT SCI in their portfolio.**

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