MAKING MONEY WORK FOR YOU.

LOCAL EQUITY REPORT

SUPREME VENTURES LIMITED

Barita Investments Limited
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Barita
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Company Overview

Supreme Ventures Limited (SVL) is a Jamaican-based company whose primary business is betting, gaming, and lottery operations, which includes horse racing and video lottery terminals and the sale of cell phone credit pin codes. The Company is the first local provider of a multijurisdictional lottery, the super lotto which is offered in eight Caribbean countries and currently operates with over 1,400 retail terminal locations. The Company and its subsidiary, Supreme Ventures Racing & Entertainment Limited (SVREL) signed an agreement for the operations of Caymanas Track Limited effective March 2017. The Company also expanded outside Jamaica with its multijurisdictional license for the first time in December 2018 with the opening of the Guyana operations through the iBet Supreme brand.

Stock	SVL
Last Closing Price	J$26.01
52 Week High	J$31.00
52 Week Low	J$20.00
YTD Return	-13.10%
Target Price	**J$29.56**
Potential Return	13.64%
Trailing P/E	22.00x
Trailing P/B	2.01x
Forward P/E	20.01x
Dividend Yield (TTM)	3.48%
Total Projected Return	**17.12%**
Recommendation	OVERWEIGHT
(as at October 3, 2023)	

Analyst Outlook

In recent years, the Group has taken steps to strengthen its position and drive further growth by diversifying its revenue 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) and deepened its exposure to the entertainment sector through its acquisition of 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, Ghana and the offering of its primary lottery product in the South African Market.

SVL remains the market leader in the lottery and gaming industry despite the emergence of two competitors, Goodwill Gaming and Mahoe Gaming (both approved by regulators in 2020). This may have a negative impact on the growth of the Company's local operation as it seeks to defend its market share. Notwithstanding, SVL continues to proactively optimize its product suite. For example, over the past four years, SVL has expanded its product offering with the addition of new games such as "Hot Pick" and "Scratchaz", expanded its distribution with "Supa Sellaz", and expanded (and continues to build out) into Guyana, Ghana and South Africa. Entry into these markets significantly expands the Company's addressable market, creating an avenue for the maintenance of solid future growth. **In 2023 SVL has also made a move to acquire the remaining 44% interest in McKayla Financial Services Limited and make it a wholly-owned subsidiary. The Group sees this move as a way to have greater flexibility in how McKayla will operate under the Group and interface with McKayla's direct parent, Supreme Ventures Fintech Limited (SVFL). As of July 2023, McKayla has received the approval of the Bank of Jamaica to be granted a Microcredit Licence.** Growth in FY 2022 was partly reflective of the recovery from the pandemic, and it appears that the growth seen during FY 2022 will be moderated during FY 2023. Against this backdrop, we are likely to see some normalization of the growth seen over the past three financial years, but we expect growth nonetheless.

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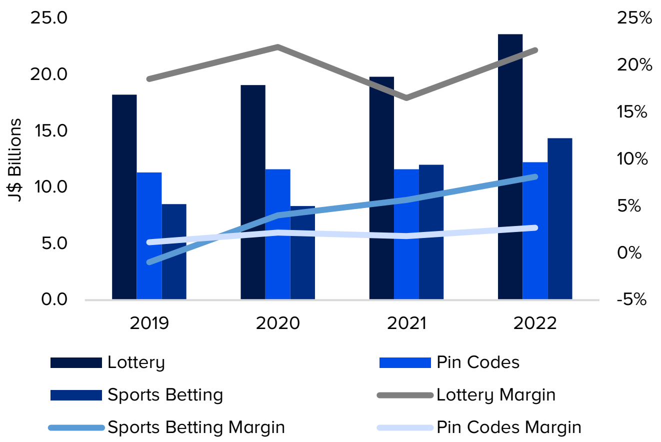
The above considerations have impacted the considerations made in the inputs of our forecast and hence informed our OVERWEIGHT rating. Possible factors that might warrant an outperformance relative to our forecast include quicker than projected material results of the expansion into external markets and a relatively weak level of market penetration from newcomers, Mahoe and Goodwill Gaming.

Business Economics

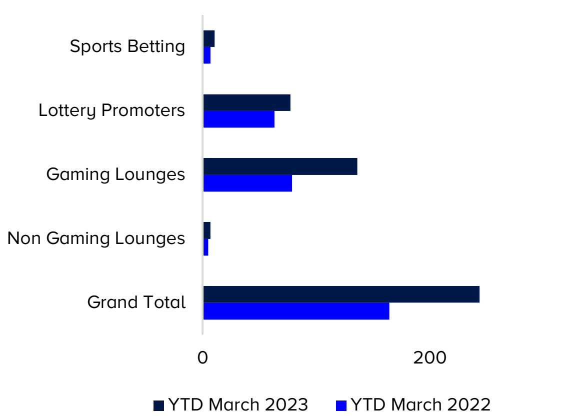
SVL is a regulated entity under the Gaming Act, with the Betting, Lottery, and Gaming Commission (BGLC) as the regulator. SVL essentially operates within the gaming industry, offering services within the betting, gaming, and lottery operational segments given their large network of retail sellers and continued acquisition strategy of additional operators (retailers who sell their lottery products). The Company's segments include:

- **Sports betting:** Relates to wagers on local and international sporting events offered through SVL's network. This includes horseracing (from the Company's Caymanas operation) and video lottery terminals offered at gaming lounges and food and beverage operations. Revenue represents the net winnings from bets taken on the local and international sporting events at all branches and agents, net of refunds.
- **Pin Codes:** This segment represents the sale of phone credit from telecommunications providers. These pin codes are sold to the public by contracted retail agents.
- **Lottery:** Lottery games comprise non-fixed odd wagering and fixed odd wagering games, for both of which, income is recognized on a draw-by-draw basis, at the point the draw takes place. Lottery games are offered through the agents' network and include popular names such as Cash Pot, Money Time, Lotto, and Super Lotto[1].

Segment Income and Margins



Select Industry and Sub Industry Sales (Billions)



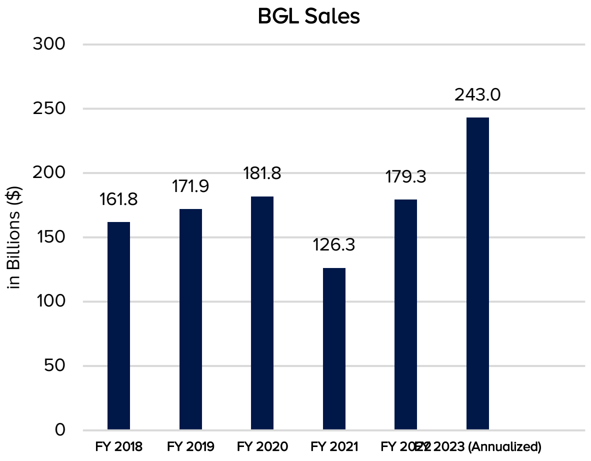
As can be seen from the detailed 2022 breakdown, the Group's main revenue source has been the lotteries segment as stated prior, while the sports betting segment has enjoyed the largest growth over the 2019-2022 period with a CAGR of 14.0% compared to 6.7% and 1.9% for the Lottery and Pin Codes segments respectively. Hence, from this, the key takeaway is that the lottery segment is currently the largest revenue generator, while the sports betting segment is the fastest-growing segment (Management has also noted their intention to focus

[1] Fixed odd games refer to ones where the winning amounts is known prior to the player prior to the time of play while for non-fixed odd games the winning amount is unknown to the player prior.

heavily on this segment going forward as a key performance driver in the long term). The Pin Codes segment is a low-margin business but provides synergies as customers tend to purchase lottery tickets in the places where they also buy pin codes.

Market Overview

According to data from the Betting, Gaming and Lotteries Commission (BGLC), for Q3 2023 (FY ends March 31, 2023), the industry recorded a 1.65% decrease in sales year-over-year (YoY) to $60.64 billion over the previous quarter (Q2 2023), while sales increased by 22.6% year-over-year. The gaming and lottery sectors recorded decreases of 3.7% and 6.53% respectively, while the betting sector recorded a 31.41% increase. Gaming lounges in St. Andrew and St. James generated 55.66% and 23.63% of total sales respectively for Q3.



The BGL industry has experienced a strong recovery from the effects of the COVID-19 pandemic. As the government relaxed its movement and social distancing restrictions, the economy rebounded and the betting, gaming and lottery industry followed and rebounded as well. Annualizing the overall Q3 2023 sales performance, the 2022-2023 financial year sales outturn is likely to exceed the prior year's outturn by 35.5% and exceed pre-pandemic levels by 33.7%. The financial year 2022-2023 would then be the first year to exceed pre-pandemic levels. While the industry continues to grow and exceed pre-pandemic levels, there is a risk that this growth could slow in the calendar year 2023.

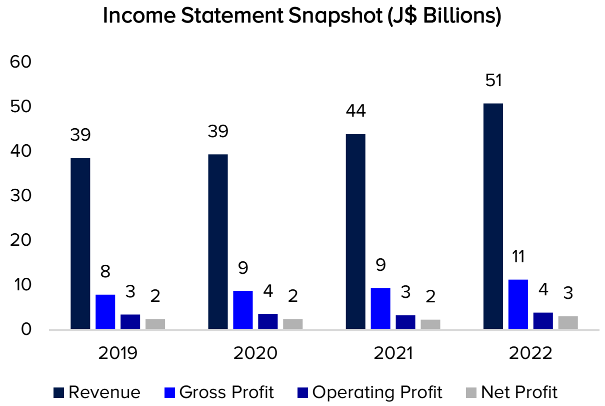
Following the complete recovery in the entertainment sector, we anticipate continued growth, but at a more subdued rate than seen in 2021 and 2022. This is coupled with a generally positive macroeconomic outlook with the real GDP growth projected to be 2.2% for 2023, compared to the 4.3% estimated for 2022, according to the IMF, which is still above-trend growth of below 2.0% seen prior to the pandemic.

Financial Performance Summary (Year Ended December 31, 2022)

Income Statement

Revenue

The Company grew revenues by 15.6% YoY to $50.8 billion for the year ended December 31, 2022, with much of this growth being driven by a fast pace of growth seen in both the sports betting segment (total gaming income of $14.4 billion, compared to $12.0 billion in 2021 or a 19.6% increase) and the lottery segment (total income of $23.6 billion compared to $19.8 billion in 2021 or a 19.0% growth) in line with the above average growth seen in the local entertainment and gaming industries during the period amidst a complete relaxation of restrictions to travel and gathering early in 2022.



Gross Profit and Margin

Gross profit for FY 2022 came in at $11.3 billion, representing an increase of 20.1% YoY. Direct costs grew 14.5%, a slower pace than revenue growth, due to greater payouts in the horse racing (18.6% growth) and Pin Codes (4.8% growth) segments in addition to greater agent commissions (22.7% increase) and service contractor fees (21.2% increase). As a result of contained direct costs relative to revenue, the gross profit margin improved to 22.2% from 21.4% in FY 2021.

The increase in the payout for horse racing dividends is a result of greater activity in the horse racing segment which has benefitted segment results for this year. Hence, we expect that this increase in expenses will likely continue as the activity at Caymanas increases and as the Group carries out its commitment to link payouts to jockeys with profitability. SVL's commitment to share a greater portion of its revenues with stakeholders also means that it is likely that the increased spending on agent commission will remain elevated especially as the group aims to aggressively push sales, particularly in the more competitive betting segment.

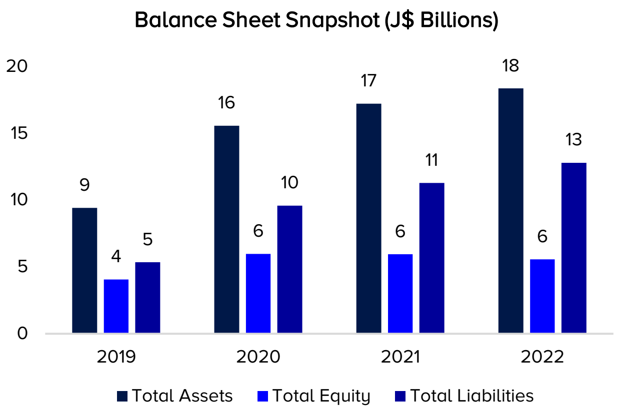
Operating Expenses and Net Profit

Operating Expenses grew 13.3% YoY to $7.0 billion in FY 2022. The bulk of this increase was due to higher staff costs as well as greater spending on rental and utilities as well as increased spending on marketing and business development. This is in line with the Company currently seeking to expand and diversify its revenue lines through several acquisitions which would necessitate increased spending on staff and marketing of the new business lines. Despite this, operating expense growth was contained relative to sales, resulting in a decrease in the operating expense ratio from 14.0% in 2021 to 13.7% in 2022.

The Group recorded a net profit after tax attributable to shareholders of $3.0 billion in FY 2022. This represents a rise of 32.7% compared to FY2020 ($2.3 billion). This increase in net profit is a result of the higher gross margin as stated earlier, coupled with controlled operating costs. However, net profit growth was offset by a 1660.7% increase in finance costs to $535.2 million from $30.4 million in FY 2021; In FY 2021 there were $373.7 million in net foreign exchange gains associated with finance costs compared to a net foreign exchange loss of $82.5 million in FY 2022 causing the sharp increase in finance costs.

Balance Sheet & Liquidity

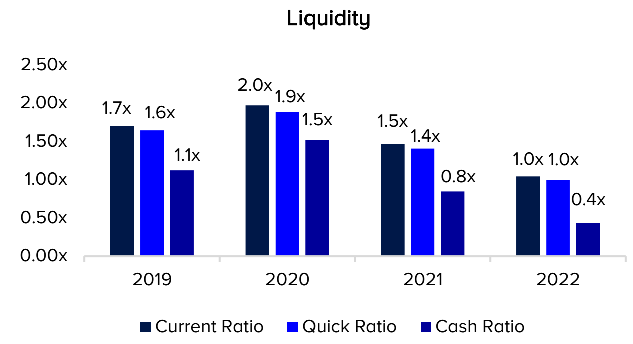
Total Assets grew 6.6% in FY 2022. Current assets represent 38.4% of the Company's total assets while noncurrent assets represent 61.6%. Currently, the Company's largest asset holdings are property, plant and equipment (26.5%); followed by goodwill and intangible assets (23.8%) followed by trade and other receivables (17.8%).



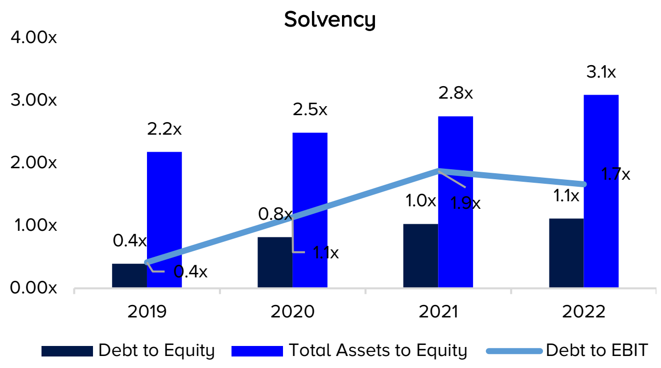
Total liabilities were $12.1 billion, of which $4.9 billion comprised current liabilities. Total liabilities as of December 31, 2022 grew by 13.5%. The group's largest holding of liabilities represents Long-term payables (50.8% of total liabilities) and Trade and other payables (23.6% of total liabilities). The growth in long-term payables from $1.4 billion in 2019 to $6.1 billion in 2021 represents the group's use of debt to fund its acquisitions throughout the last four years.

Liquidity

The Company's current ratio as at December 31, 2022, was 1.04x, down from 1.47x in 2021. This was due to 32.1% lower cash holdings coupled with 31.4% greater holdings of current liabilities. However, we still believe this ratio is adequate, especially when coupled with a cash ratio of 0.44x.

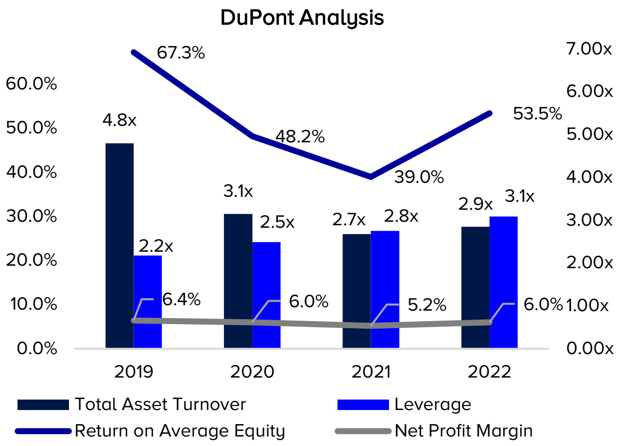


Total Shareholders' Equity stood at $4.9 billion as of December 31, 2022, and has increased by 10.8% over FY2021. The main driver of growth in shareholder's equity was the profitability of the Company with retained earnings standing at $3.0 billion at the end of December 2022 (representing a YoY growth of 23.1%). The financial leverage ratio increased from 2.75x in 2021 to 3.09x in 2021 due to the higher debt load undertaken by the Company as it continued its inorganic growth strategy.



DuPont Analysis

To determine the main drivers of the Group's performance, we've conducted a DuPont analysis. Looking specifically at 2022, we see that the Company had a return on average shareholders' equity of 53.5%, an asset turnover rate of 2.85x, a 3.09x financial leverage ratio, and a net profit margin of 6.0%. Of note since 2021, the Group's ROE has seen a substantial uptick due to the prior mentioned improvement in net income during the year. The expansion of the Company's asset base through the utilization of debt financing for acquisitions has resulted in an ROE that is largely debt-driven, while asset turnover has been on a declining trend.



Cashflow Statement

The Company is a mature business with relatively stable cash flows that track net profits closely. In 2022, the Group generated **operating cash flows** of $3.7 billion, an increase of 33.2% YoY. The growth was driven by higher net profit as well as an increase in the non-cash prize liabilities balance to $1.09 billion from $0.2 billion in the prior year. **Cash used in investing activities** fell 24.7% to $2.4 billion in FY 2022 largely due to reduced expenditure on property plant and equipment as well as less cash used to acquire intangible assets. On a net basis, the Group used $2.7 billion in cash for **financing activities** in 2022, representing a 72.4% increase YoY. Distributions increasing to $2.5 billion as well as $0.8 billion in long-term financing which did not repeat in FY 2022 from the year before contributed to the growth in cash used.

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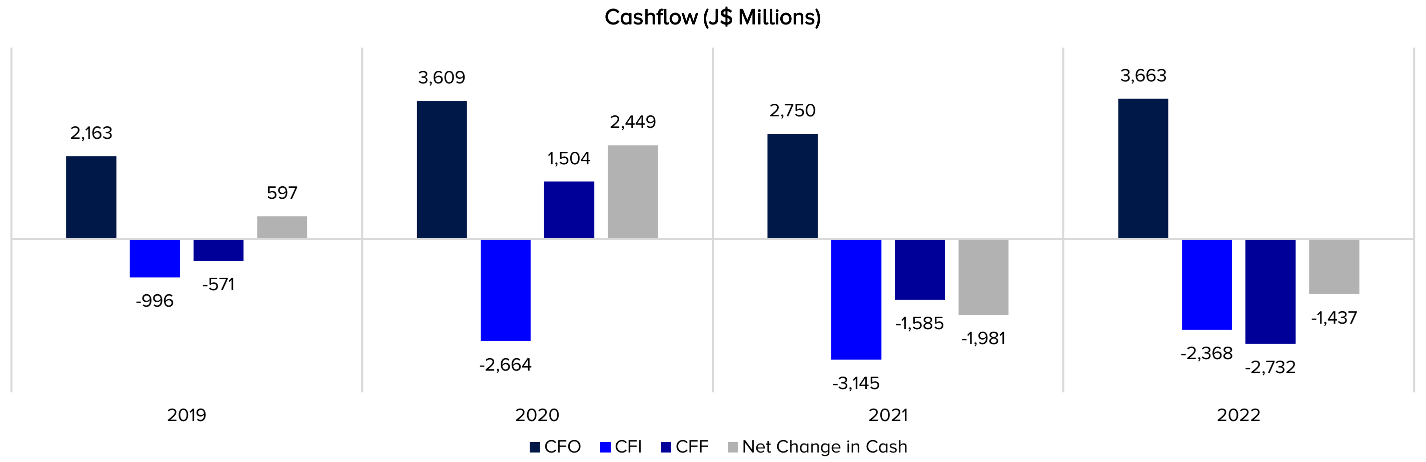
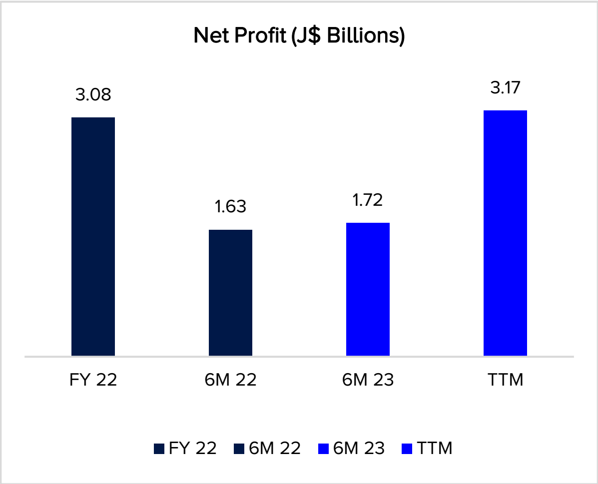
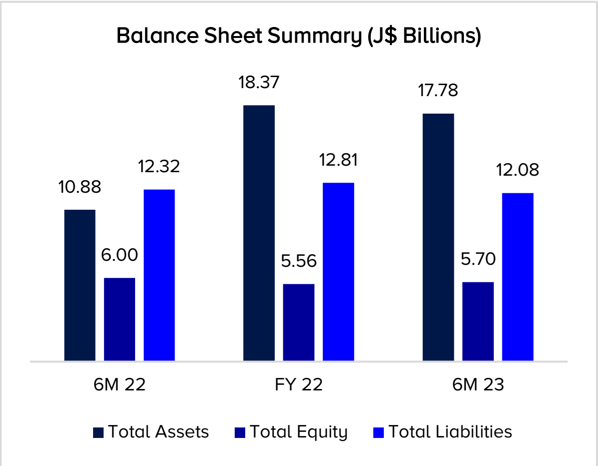


6M FY 2023 (June 30, 2023) Financial Performance

Income Statement: SVL reported a decrease in revenue of 3.8% YoY to J$30.0 billion, driven by a decline in gross ticket sales during the period. During this period, Lottery accounted for ~49% of revenue, Pin Codes accounted for ~20% and Sports Betting accounted for ~29%, with the change across the segments being fairly immaterial. Following strong growth in sales in the lotteries segment in FY 2022, there was a 7.6% contraction in the segment to $14.8 billion in the first 6 months of FY 2023 (6M 2023). Sports Betting saw a contraction of 1.3% to $8.6 billion while Pin Codes revenues contracted 1.9% to $5.9 billion. Despite the decline in revenue in the lotteries business, the segment results (earnings before interest and taxes) reflected an increase of 21.6% YoY to $2.5 billion reflecting increased efficiency during the period. Invariably, this would have had some influence on the 8.3% decline in total direct costs to $23.8 billion resulting in a gross profit of $6.3 billion, representing an increase of 19.6% YoY. Gross profit margin as a result grew from 16.9% in the 6M 2022 to 21.0% for the 6M of 2023.





Operating expenses increased by 22.0% YoY to $3.9 billion, while operating profit grew 12.6% to $2.3 billion; the operating margin improved to 7.7% from 6.6% in the 6M 2022. The increase in operating expenses reflected preparations for the Ghanaian market and automation projects being implemented across the Group. After accounting for taxes and finance costs, net profits grew by

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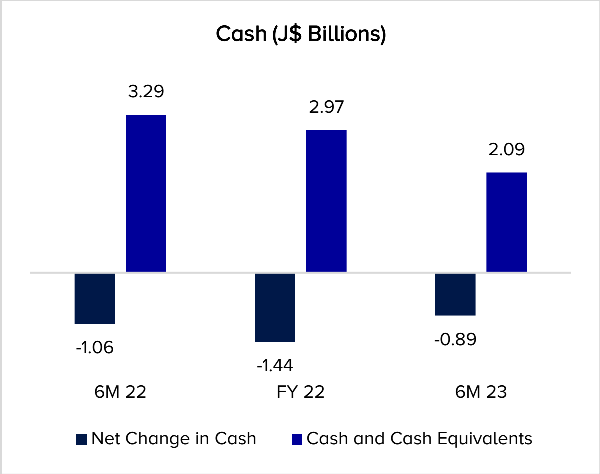
5.5% YoY to $1.7 billion. Additionally, the net profit margin improved to 5.7% from 5.2% in the 6M 2022. Management remains optimistic about the potential of upcoming innovations, improvements and the launch of key growth initiatives. SVL intends to launch new products through the retail channel and continue the implementation of its channel diversification strategy, with its mobile channel remaining a key focus for new customer acquisition. SVL also anticipates its expansion into Ghana to begin improving profitability at some point during FY 2023.

Balance Sheet and Cashflow: Total assets for the half year ended June 30, 2023, summed to $17.8 billion, representing a fall of 3.2% over the total assets at the end of the 2022 financial year. Cash and cash equivalents fell by 29.7% to $2.1 billion in line with the group's inorganic growth strategy.

Shareholders' Equity grew 2.4% during the period to $5.7 billion due to a 5.9% increase in retained earnings to $3.0 billion. Similarly, total liabilities shrunk by 5.7% to $12.1 billion because of a 23.9% reduction in trade and other payables, the second largest liability line item, to $2.9 billion.

The Company saw a net decrease in cash of $1.1 billion, compared to the prior half-year's outturn of a decrease in cash of $0.9 billion. SVL had a positive operating cash flow for the period of $2.2 billion, a 136.6% increase YoY, due to good overall profitability and less cash used to decrease current liabilities, primarily trade payables and prize liabilities. Cash and cash equivalents at the end of the period amounted to $3.3 billion, representing a 20.3% decrease compared to the outturn of $4.1 billion at the end of the 6M 2022.



Trading and Ownership Summary

SVL ownership (as at June 30, 2023)

Name	Shares Held	Percentage
Zodiac Caribbean Ventures Limited	788,513,572	29.90%
Mayberry Jamaican Equities Limited	488,949,834	18.54%
Ian Kent Levy	334,541,171	12.69%
Janette Stewart	165,598,219	6.28%
Stephen R. Castagne	94,052,136	3.57%
St. Elizabeth International Limited	61,258,495	2.32%
Sagicor Pooled Equity Fund	47,450,421	1.80%

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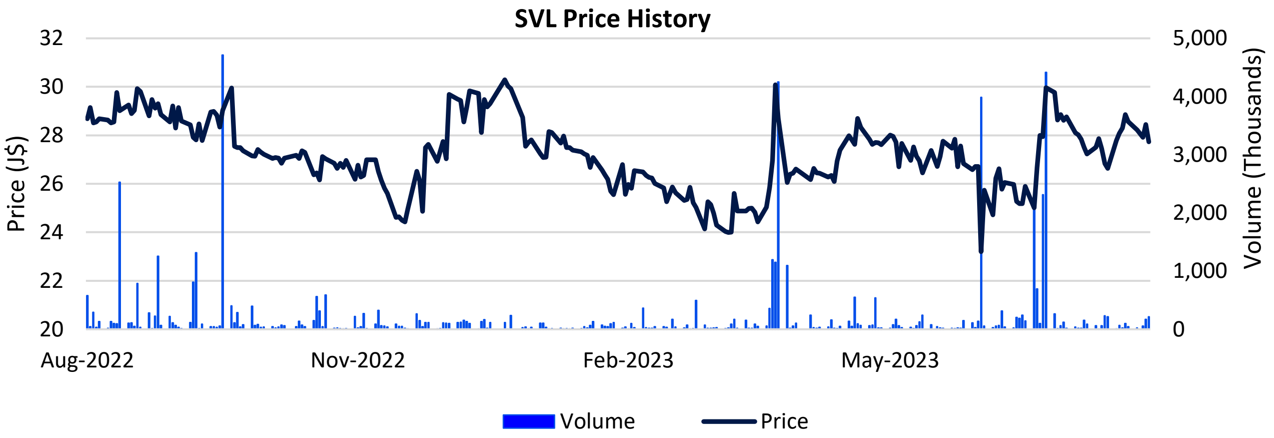
Sunfisher Corporation	24,648,118	0.93%
JCSD Trustee Services Sigma Equity	20,117,139	0.76%
Guardian Life Limited - Pooled Pension Fund	19,609,039	0.74%
Total	2,044,738,144	77.53%



SUPREME VENTURES LTD (SVL JA Equity)		
Calculation of Float		
Current Shares Outstanding - Stagnant Shares		
Components	Position	% Out
Float	1,098,478,590	41.652
Shares Outstanding	2,637,254,926	100.000
Stagnant Shares	1,538,776,336	58.348

The top ten shareholders of SVL held 2.04 billion shares as at June 30th, 2023, which equates to 77.53% of the total shares outstanding. This makes SVL one of the more broadly held stocks on the Main Market of the Jamaica Stock Exchange. Data from Bloomberg indicates that 58.35% of the total shares outstanding are stagnant, while 41.65% are considered the Group's float (freely traded shares).

SVL stock has declined 4.21% year to date with a closing price high approaching $30 seen at various points through the first half of 2023. The average daily volume amounted to 217,662 units over the past year, coupled with a weighted average price of $27.59, resulting in an average daily value traded of $6.01 million. This is generally sufficient for both retail and high-net-worth investors as well as for institutions.

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Dividend Yield (TTM)	3.48%
Total Projected Return	17.12%
Recommendation	OVERWEIGHT
(as at October 3, 2023)	

Valuation Summary

To arrive at a price target for SVL, we utilized a justified price-to-earnings model with our estimated forward earnings for the company as well as a relative P/E valuation approach with respect to its own historical P/E. Our estimate of the EPS for the **2024** Financial year-end amounted to **$1.30.** To arrive at a discount rate, we utilized the capital asset pricing model, arriving at a discount rate of 13.53%. We calculated the Company's long-term growth rate based on its return on equity and earnings retention ratio, arriving at an outturn of 9.06%, while this may appear

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high, over the last 5 years, the average growth in net income amounted to 11%, suggesting that the firm has justified this outturn. **Using these inputs, we derived a justified P/E ratio of 22.39x, giving us a price target of $29.56.** When compared to its average P/E over the past 3 years of 23.65x; **applying this multiple to our forward EPS projection resulted in a target price of $30.01. When averaged with the justified P/E result, our final price target amounted to $29.56.** The Company currently trades at a multiple of 22.00x and with our forecasted EPS output for FY 2024, the Company trades at a forward P/E of 20.01x. **Considering the expected return along with other factors stated above, we recommend investors OVERWEIGHT SVL in their portfolios, with up to a 10.0% allocation.**

Financial Summary

	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	6m 2022 $'000	6m 2023 $'000
Total Income	38,516,310	39,360,196	43,972,626	50,865,768	31,197,755	30,090,827
Gross Profit	7,902,274	8,751,754	9,381,739	11,267,285	5,282,127	6,314,946
Profit before Tax	3,461,710	3,599,071	3,277,109	3,859,391	2,043,914	2,302,024
Net Profit	2,473,634	2,420,947	2,325,731	3,078,051	1,632,558	1,722,015
Operating Profit Margin	20.5%	22.2%	21.3%	22.2%	16.9%	21.0%
Profit before Tax Margin	9.0%	9.1%	7.5%	7.6%	6.6%	7.7%
Net Profit Margin	6.4%	6.2%	5.3%	6.1%	5.2%	5.7%
Total Assets	9,421,680	15,577,810	17,234,549	18,373,470	18,327,596	17,778,704
Financial Assets	1,883	1,883	1,883	503,280	372,607	722,883
Receivables	1,640,922	1,453,888	2,570,418	3,269,014	3,596,842	3,165,214
Total Liabilities	5,357,050	9,606,471	11,287,365	12,808,576	12,322,608	12,080,118
Total Equity	4,064,630	5,971,339	5,947,184	5,564,893	6,004,988	5,698,586
Total Debt	2,360,265	5,836,047	6,454,466	6,379,889	6,340,388	7,335,358
Retained Earnings	1,666,619	2,122,083	2,303,150	2,834,078	2,325,345	3,001,196
Return on Equity	60.9%	40.5%	39.1%	55.3%	27.2%	30.2%
Return on Assets	26.3%	15.5%	13.5%	16.8%	8.9%	9.7%
Current Ratio	1.71x	1.97x	1.47x	1.04x	0.83x	1.25x
Quick Ratio	1.65x	1.89x	1.41x	1.00x	0.79x	1.20x
Cash Ratio	1.12x	1.52x	0.85x	0.44x	0.54x	0.43x
Equity Multiplier	2.32x	2.61x	2.90x	3.30x	3.05x	3.12x
Debt to Equity	0.58x	0.98x	1.09x	1.15x	1.06x	1.29x
Debt to Assets	0.25x	0.37x	0.37x	0.35x	0.35x	0.41x
Debt to EBIT (TTM)	0.68x	1.62x	1.97x	1.65x	3.10x	3.19x

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