

Supreme Ventures Limited (SVL)

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INFRINGEMENT IN THE APPENDIX**

Executive Summary

Supreme Ventures Limited is the leading gaming and entertainment company in the Caribbean. The Group focuses on utilizing the technology of its platforms and extensive retail network to provide non-lottery commercial services to the market. Following acquisitions and the expansion into Guyana, SVL was seemingly on its way to another year of growth, however, the coronavirus pandemic exploded in Jamaica. This led to a ramp up in shelter-in-place protocols by the Government of Jamaica which SVL stated had a negative impact on its businesses in the final month of the first quarter.

As businesses downsize due to the economic slowdown stemming from the Coronavirus pandemic, the disposable income available to SVL's customers for gambling is likely to be weakened which may translate to lower gaming income for the entity. As such, we are forecasting revenues of \$37.27B for the 2020 financial year, a 3.2% decline year-over-year. Net profits attributable to shareholders are estimated at \$2.28B, a 6.4% decline. Our estimate of the fair value of SVL's shares is \$17.9, which is 19.4% above the close price as at March 12, 2020.

We recommend SVL as MARKETWEIGHT as the current market price is below our estimate of its fair value. SVL is suitable for investors with a medium risk appetite and a medium to long-term investment horizon.

Company Background

Supreme Ventures Limited is the leading gaming and entertainment company in the Caribbean. Incorporated in 1995, the Company began operating in June 2001 with three of its current games. Since then, the Group has added 8 additional numbers games, sports betting, gaming lounges and other entertainment. SVL is supported by a retailer base of over 1100 stores and 7 company operated locations across Jamaica and Guyana.

The Group focuses on utilizing the technology of its platforms and extensive retailer network to provide non-lottery commercial services to the market. SVL's business segments include: Lottery – which includes the Top Draw, Money Time, Pick 3, Cash Pot, Lotto and Super Lotto Games;

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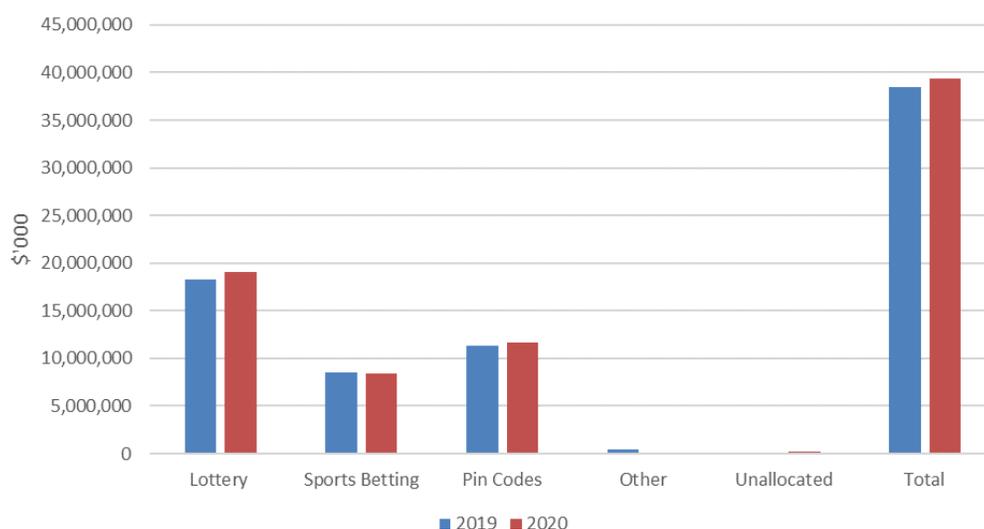
Sports Betting – which includes the JustBet and AnyBet brands that offer wagers on international sporting events; Gaming and Hospitality – which offers Video Lottery Terminal (VLT) games at gaming lounges and food and beverage operations; Pin Codes – which sells phone pin codes through the agent’s network; Horseracing – which consists of the operations of Caymanas Track Limited; and Other – which covers all other income.

Financial Performance – Year ended December 31, 2020

Profitability

SVL recorded gross ticket sales of \$76.3B for the year, a 4.3% increase over the 2019FY, driven by Lottery (\$2B or 4.0%) and Sports Betting revenues (\$1.2B or 44%). The Lottery segment accounted for 69.2% of gross ticket sales, compared to 69.4% in 2019. Total gaming income was \$39.36B for the period, a 2.2% or \$843.89M increase over the prior year’s result. Non-fixed odd wagering games, horseracing and pin codes generated revenues of \$22.85B, down 1.9% year over year while revenues from fixed odd wagering games, net of prizes, amounted to \$16.51B, up 8.5% year-over-year.

Revenue by Segment 2020FY vs 2019FY



The Lottery segment reported revenues of \$19.1B, up 4.7% over the prior year’s performance, while the Pin Codes segment generated revenues of \$11.6B, which was up 2.4% from the

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previous year. Sports Betting¹ revenues fell 1.8% during the year to \$8.37B while the Unallocated segment reported revenues of \$269.33M. Segment results were rose 10.1% to \$3.78B as the Lottery segment posted a 23.9% increase to \$4.2B while the Sports Betting segment saw its segment result move from negative \$81.69M to positive \$338.52M. Segment results for the Pin Codes segment rose 93.2% to \$256.59M, however, the Unallocated segment's result rose almost \$1B to \$1.02B, an increase of 6,159.3%.

In July 2020, SVL launched its "Hot Pick" game and in December 2020, the Mega ball feature was added to boost winnings for persons choosing this game option. During the fourth quarter, the SV Games Mobile app was also relaunched, which offered a smoother and efficient sign up and verification process that allows account holders the ease of purchasing Cash Pot and Money Time on the go. The Company aims to have all gaming options available on the SV Mobile platform during the current year. The distribution network's expansion also continued during the year, which positively contributed to the segment's performance in the face of the coronavirus pandemic.

The Sports Betting segment results exceeded the Company's projections given the passing of a pandemic, which led to the postponement and cancellation of many major sporting events, and it being a non-World Cup year. This performance was attributed to "gamers seeking greater skills based and more engaging product offerings. The increase in Pin Codes revenues was attributed to the pandemic forcing persons inside their home, which led to greater demand for data and reduced talk time as persons opted to use Over the Top (OTT) and free Wi-Fi to make calls.

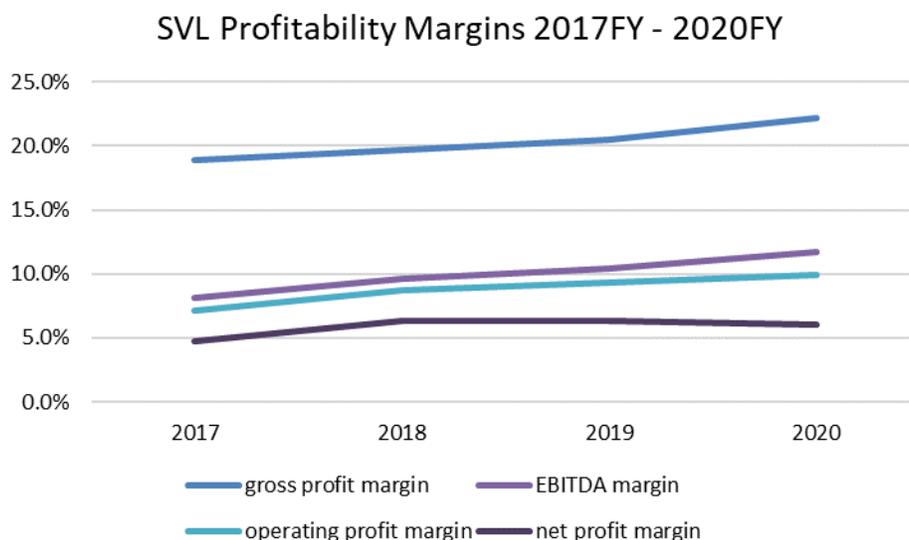
The Unallocated segment refers to revenues and costs not tied directly to a segment and includes net rental income from investment properties, income and expenses with sub-leased properties.

Direct costs were flat at \$30.61B, resulting in gross profit of \$8.75B, a 10.7% increase year-over-year. The gross profit margin improved to 22.2%, up from 20.5% for the 2019FY. Agent commissions saw the largest increase during the year, rising 19.3% or \$630.14M year-over-year, to \$3.9B while pin codes direct costs rose 2.4% to \$10.77B. Horseracing dividends fell 14.2% or \$716.43M to \$4.33B while horseracing purse fees fell 30.3% to \$506.39M and horseracing satellite services fell 72.9% to \$300.76M. For two months of 2020, horseracing operations were suspended, leading to the segments' performance.

¹ During the year, the format of SVL's segment was changed to include Horseracing and Video Lottery Terminals as a part of the Sports Betting segment. e

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Selling, general and administrative expenses rose 11.6% to \$4.95B while other income declined by 27.2% to \$126.67M. SVL also reported net impairment losses on intangible assets of \$22.06M, down 46.8% from the prior year period. As such, operating profit amounted to \$3.90B, an 8.5% increase year-on-year. The operating margin stood at 6.2%, down from 9.9% in the previous year. EBITDA amounted to \$4.63B, a 15.2% improvement while the EBITDA margin increased to 11.8%, compared to 10.4% in the prior year.

Finance costs rose 85.1% to \$269.87M as SVL's debt rose by 148.9% year-over-year. Despite the jump in finance costs, SVL continued to display a strong ability to service its debt obligations with an interest coverage ratio of 16.35x, down from 24.68x in the 2019FY. A revaluation loss on investment property of \$34.95M was recorded for the year, relative to a gain of \$9.44M in the previous year.

Pre-tax profits rose 4.0% to \$3.60B. Taxation rose 19.2% to \$1.18B, which resulted in net profits attributable to shareholders of \$2.38B, a 2.4% decline from the comparable period of 2019. The effective tax rate rose to 32.7% from 28.5% in the previous year. SVL's return on equity stood at 60.2% for the year, compared to 70.0% in 2019, while the return on assets fell to 19.0% from 30.5%.

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Solvency & Liquidity

As at December 31, 2020, total assets amounted to 15.58B, up 65.3% or \$6.16B. This increase was driven by SVL's acquisition of Champion Gaming Limited assets and the proceeds of bonds issued in October 2020. Non-current assets rose 87.7% or \$3.48B to \$7.46B while current assets rose 49.1% or \$2.67B to \$8.12B.

Property, plant and equipment rose 55.3% to \$2.84b while goodwill and intangible assets surged 238.7% to \$3.7B and cash and cash equivalents climbed 74.1% to \$6.26B. Trade & other receivables fell 11.4% to \$1.45B while investment properties declined by 3.9% to \$867.0M.

Total liabilities amounted to \$9.61B, up 79.3% or \$4.25B. The increase in liabilities were driven by the use of external financing to fund the Company's acquisitions. During the year, the company issued an unsecured bond facility of J\$3.0B bond with a 5-year tenor. The Company also issued a J\$500M secured bond to Barita Investments to support the acquisition of a gaming entity and assets, with a 5-year tenor.

Non-current liabilities rose 154% to \$5.49B as long-term payables more than tripled to \$4.69B, up 228.2% year-over-year. Finance lease payable rose 1.0% to \$740.29M. Current liabilities rose 28.8% to \$4.12B as trade and other payables rose 24.2% to \$2.84B. The current portion of long-term loans rose 138.3% to \$224.3M while current portion of finance lease climbed 73.6% to \$181.99M.

Shareholders' equity climbed 13.6% to \$4.2B as retained earnings saw a 27.3% increase to \$2.12B. SVL saw an improvement in its liquidity as the cash ratio moved from 1.12x as at December 31, 2019 to 1.52x as at December 31, 2020. The current ratio closed the year at 1.97x, up from 1.71x a year prior. SVL's debt rose 3.6% to \$2.43B, but the growth in shareholders' equity led to an improvement in the Company's leverage from 0.63x to 0.58x as at yearend.

Net cash provided by operating activities rose 67% or \$1.45B to \$3.61B for the year. This performance was driven by a \$816.25M decline in income tax paid to \$204.03M while trade and other receivables added \$167.78M, versus an outflow of \$854.82M in the 2019FY. Net cash used in investing activities rose 168% to \$2.66B as cash spent on business acquisition amounted to \$1.31B, up 196% year-over-year, while acquisition of property and equipment rose 121% to \$1.38B. Net cash from financing activities amounted to \$1.5B for the year, driving by the receipt of \$3.51B in loans, partially offset by the payment of \$1.9B in dividends.

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Key Developments

The year 2020 will go down as a significant year for SVL, owing not only to the pandemic that ravaged the globe. In February 2021, Mahoe Gaming Limited and Goodwill Gaming Enterprise Limited were granted licences by the Betting Gaming and Lotteries Commission to operate as lottery game providers. Goodwill Gaming operates the Lucky Play Lottery brand while Mahoe Gaming operates the Izizzi Lottery brand.

Prior to the granting of these licences, SVL would have enjoyed a monopoly position in Jamaica and must now pivot to withstand the new entrants push to siphon market share away from the Company. We believe that these two companies represent a credible risk to SVL as experienced businesspersons lead each company. Mahoe Gaming's CEO, Christopher Caldwell, is a former International Game Technology (IGT) PLC senior vice-president for Latin America and the Caribbean. In this role, Mr. Caldwell provided lottery technology and consulting services to SVL and other lotteries globally.

Mahoe Gaming's board is chaired by Michelle Myers Mayne, a director of Restaurant of Jamaica, and includes P.B. Scott, the Chairman, CEO and principal shareholder of the Musson Group. Goodwill Gaming's principals are Ian Deer and Pradeep Vaswani. Mr Deer is the Chairman and CEO of the Jimmy Buffet's Margaritaville Caribbean and Island Entertainment Brands.

SVL seemingly has read the tea leaves and made the decision to diversify its revenues stream away from lottery gaming in response to the threat of its competitors. During the year, the SV Business Hub was launched, which targets small and medium-sized businesses with revenues of \$15M or more to provide back-office solutions. The services provided include: finance; technology; corporate secretarial; marketing; human resources and payroll; office administration; security and facilities management.

In another move that moves SVL further away from its core business, in May 2020 SVL announced that it had purchased a 10% stake in Main Events Entertainment Group. Further to this announcement, SVL stated that it was forming a production company in a joint venture with Main Veent as it attempts to carve out a space in the entertainment sector. SVL also acquired a majority stake in a microfinance company in February 2021, as it purchased a 51% stake in McKayla Financial Services Limited. In its official release on the acquisition, SVL stated that move aligned with its growth strategy, "which has expanded beyond the gaming market and is now making headway into other growth industries with significant potential to meet the ever-growing needs of an eclectic consumer base."

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It is clear that SVL is no longer “betting” solely on gambling as evidenced by the numerous deals done in other industries. However, the Company continued to invest in its core business in 2020, highlighting its commitment to its lottery and gaming operations. During the year, SVL struck a sponsorship deal with Australian horseracing betting solutions provider, BetMakers Limited. This agreement will see the implementation of an additional betting structure, construction of new infrastructure and event sponsorship until 2025. BetMakers will implement, manage and distribute a fixed odds betting system that will give punter more options when placing bets.

SVL also upgraded its JustBet Mobile App and revamped and relaunched the SV Games App with improved functionality, an expanded game portfolio and increased accessibility for users on Android, iOS and Windows operating systems. The Company also launched a new pick-one game, Hot Pick and launched its Cash Pot game in South Africa.

Outlook & Recommendation

We expect SVL to maintain its market leading position in the lottery gaming space but foresee some erosion in market share to the Izizzi Lottery and Luck Play Lottery suite of games as betters try their luck at the new offerings. SVL should continue to benefit from the strong brand they would have built of the years and their expansive distribution network. Additionally, with the continued ease of curtailment measures instituted to combat the coronavirus pandemic, we anticipate SVL recovering some of the revenues lost due to these measures. The 2021FY will reflect the first full year for the non-core revenue generation initiatives implement in 2020 but their potential impact on the Company’s revenues and profits are unclear at this time.

For the first quarter of the 2021FY, SVL reported gaming income of \$10.71B, a 5.7% increase from the prior year quarter. However, direct costs grew 11.0% resulting in a 12.1% decline in gross profits to \$2.02B. Operating expenses rose 1.7%, which drove a 24.2% decrease in pre-tax profits to \$764.35M. Despite a 40.2% decline in taxation expense to \$162.64M, SVL reported a 19.8% decline in net profit attributable to shareholders of \$592.26M.

Valuation

We are forecasting revenues of 43.2B for the 2021 financial year, a 9.9% increase year-over-year. Net profits attributable to shareholders are estimated at \$2.52B, a 5.5% increase.

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Shareholders' equity is forecasted to increase 6.1% year-over-year to \$4.4B which corresponds to a BVPS (book value per share) of \$1.69.

Applying the 3-year average P/E ratio of 23.56x to the forward EPS of \$0.97 yields a price of \$22.81 while the forward BVPS of \$1.69 and the 3-year average P/B ratio of 14.81x yields a price of \$25.01. The Dividend Discount Model produced a price of \$13.24, in which we assumed a 4.9% long-term growth rate and an 11.72% cost of equity. **As such, our estimation of the fair value of SVL's shares is \$20.36, which is 3.9% above the close price as at June 25, 2021 of \$19.59.**

Trade Performance

SVL closed trading on June 25, 2021 with a price of \$19.59, a 10.0% increase year-to-date, and is up 29.1% year-over-year. The stock currently trades with a price to earnings ratio of 23.40x and a price to book ratio of 12.95x.



Recommendation

We recommend SVL as MARKETWEIGHT/MARKETPERFORM/HOLD as the current market price is in line with our estimate of its fair value. SVL is suitable for investors with a medium to high risk appetite and a medium to long-term investment horizon.

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Abridged Financials

J\$000	Year Ended December 31					%	3M ended Mar 31		%
	2016	2017	2018	2019	2020		change	2020	
Revenues	44,921,339	29,680,827	32,936,030	38,516,310	39,360,196	2.2%	10,128,471	10,709,006	5.7%
Direct Costs	40,812,837	24,074,214	26,443,983	30,614,036	30,608,442	0.0%	(7,831,213)	(8,690,790)	11.0%
Gross Profit	4,108,502	5,606,613	6,492,047	7,902,274	8,751,754	10.7%	2,297,258	2,018,216	-12.1%
Operating Expenses	2,709,768	3,423,659	3,844,128	4,436,894	4,952,476	11.6%	1,298,705	1,320,560	1.7%
Operating Profit	1,398,734	2,102,506	2,871,964	3,598,061	3,903,889	8.5%	1,062,845	752,714	-29.2%
Profit Before Taxation	1,661,892	2,046,369	2,888,438	3,461,710	3,599,071	4.0%	1,008,807	764,348	-24.2%
Profit for the year	1,178,468	1,398,656	2,098,408	2,473,634	2,420,947	-2.1%	736,787	601,704	-18.3%
Total Assets	5,433,350	6,376,861	6,615,444	9,421,680	15,577,810	65.3%	10,219,391	14,904,787	45.8%
Total Liabilities	1,633,149	3,053,935	3,330,286	5,357,050	9,606,471	79.3%	5,945,425	9,256,396	55.7%
Shareholder's Equity	3,800,201	3,322,926	3,285,158	3,696,288	4,197,739	13.6%	3,907,207	4,032,057	3.2%
EPS (\$)	0.45	0.53	0.80	0.93	0.90		0.28	0.22	
Book Value per Share (\$)	1.44	1.26	1.25	1.40	1.59		1.48	1.53	
Key Ratios									
Gross profit margin	9.1%	18.9%	19.7%	20.5%	22.2%		22.7%	18.8%	
Operating profit margin	3.1%	7.1%	8.7%	9.3%	9.9%		10.5%	7.0%	
Net Margin	2.6%	4.7%	6.4%	6.3%	6.0%		7.3%	5.5%	
Return on Average Equity	31.9%	39.3%	63.5%	70.0%	60.2%				
Return on Average Assets	21.8%	23.7%	32.3%	30.5%	19.0%				
Debt/Equity (x)	-	0.21	0.18	0.63	0.58		0.60	1.44	

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials

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APPENDIX**IMPORTANT DISCLOSURES**

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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