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Authors: David Paul
david_paul@jmmb.com

Charles Piralli
charles_piralli@jmmb.com

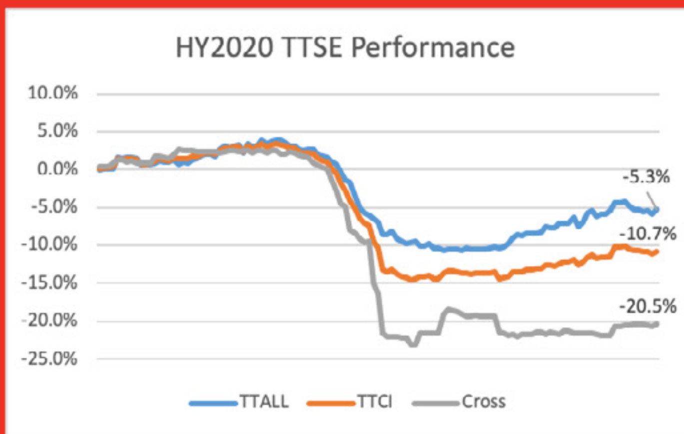
Investments
(Trinidad and Tobago) Limited

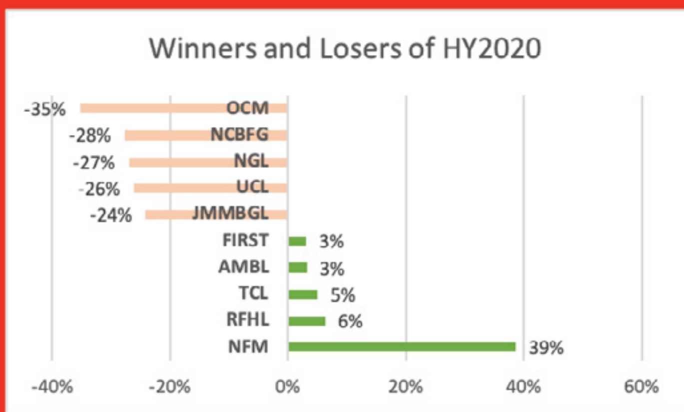
Investor Half Year Review and Outlook

Local Equity Market Review

Most stocks retreated in the first half of 2020 (HY2020). The Trinidad & Tobago Composite Index (TTCI) posted negative returns of -10.7% for the period. This was driven by declines across the board as the market was rattled by the COVID-19 prevention measures which was implemented by the government. The All Trinidad & Tobago Index (TTALL) declined by -5.3% for HY2020. This was driven by declines across the board, as only 6 stocks have posted positive price returns for the period. National Flour Mills Limited (NFM) was the best performing stock for the period, advancing by 39%. One Caribbean Media Limited (OCM) was the worst performing stock over the period, retreating by -35%. The Cross Listed Index (Cross) declined by -25%, as all the cross listed stocks declined during HY2020. NCB Financial Group Limited (NCBFG), JMMB Group limited (JMMBGL) and GraceKennedy Limited (GKC) all declined in excess of -20% for the period under review.

Due to the unexpected occurrence of the COVID-19 pandemic, we have revised our projections for 2020 as our projections at the beginning of the year have been made redundant. JMMB Investments now projects the overall direction of the TTCI to be negative in 2020, declining by -17.2%. We also revise our forecast for the TTALL to -5.8%.





Banking Sector

For the first six months of 2020 (HY2020), the banking sector declined by -9.5%. The decline in the sector was as a result of declines in NCBFG (-28%), SBTT (-10%) and FCI (-9%). These declines were partially offset by advances in RFHL (6%) and FIRST (3%). Due to the impact of COVID-19 lockdown measures on employment in the various economies that these banks operate, they were forced to record increased impairment losses on their income statements, thus decreasing profits significantly. For HY2020, EPS in the banking sector declined by 28% verses HY2019 and impairment losses increased by 319%. During this period, banks have also been giving customers concessions on fees and deferrals on loan payments. The market responded to this news and all the banks shares declined in the second quarter of the year. We have however seen some recovery for RFHL and FIRST towards the end of the quarter. JMMB Investments forecasts that the banking sector will decline a further -12.6% to the end of 2020.

Conglomerates Sector*

In the first half of 2020, the conglomerate sectors fell by 10.8%. Revenue climbed approximately 2% year on year but Operating Margins tumbled from 10% to 5%, as the selloff in financial markets saw fair value losses in investment portfolios. All 3 conglomerates registered price declines, with GraceKennedy (GKC) the most severe, falling just over 20% as the Jamaican stock market was especially hard hit by the COVID induced selloff. MASSY performed the best in the sector, falling only 6.6% as struggles in its Motors & Machines and Gas Products portfolios were offset by increased activity in Integrated Retail. ANSA McAL (AMCL) fell by 9.4% as the groups Manufacturing and Automotive segments, which comprised ~80% of revenue in 2019, were shut down for a large part of Q2 following relatively flat performance in Q1. Going forward we expect the sector to contract a further 1% by the end of 2020, as the pickup in economic activity will likely remain sluggish.

Non-Banking Finance Sector*

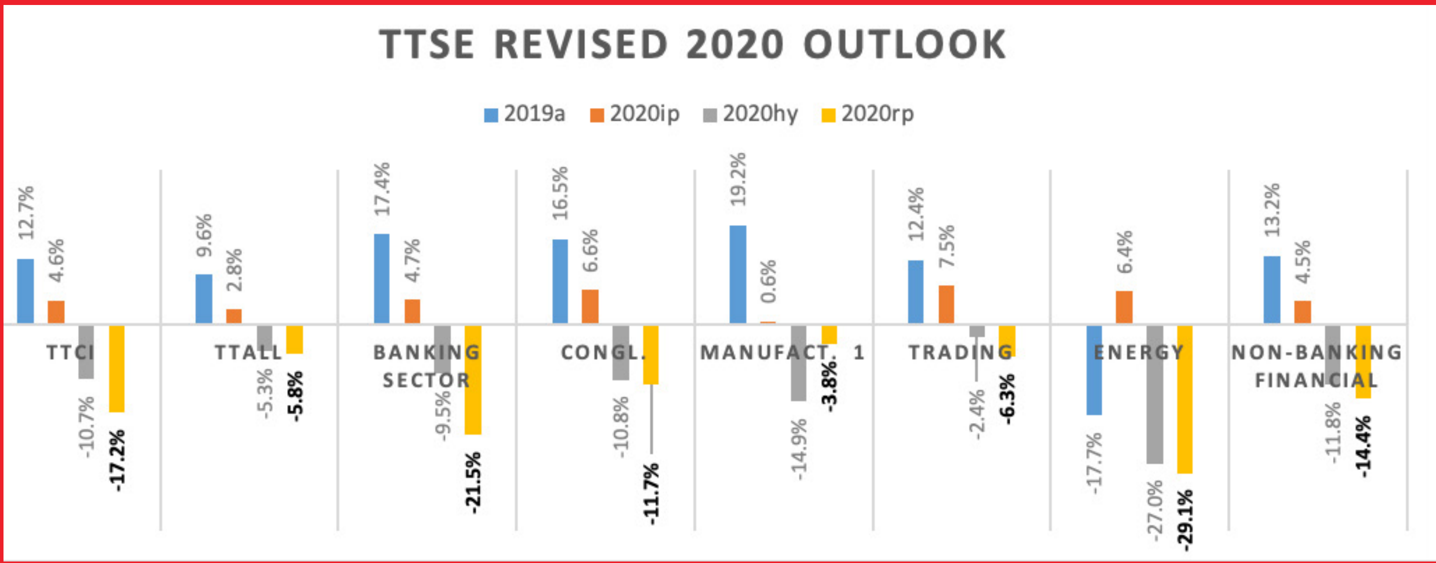
The Non-Banking Finance sector fell 11.8% in the first half of 2020. This sector was hit especially hard, as investment portfolios saw steep losses at the end of Q1, which coincided with the bottom in financial markets. National Enterprises Limited and Guardian Holdings Limited as saw declines of 19% and 11% respectively. ANSA Merchant Bank Limited (AMBL) recorded an increase of 3.2% for the half year, though the stock is relatively illiquid. JMMBGL's decline was the most severe, falling just over 24% as the Jamaican stock market was especially hard hit by the COVID induced selloff. COVID has also resulted in a delay in audited financials for both JMMBGL and NEL. Both companies FYE is at the end of March, meaning the most recent financial information for both companies is from 2019. We expect a further contraction of 3.4% in the sector as members of the sector with large regional banking exposure are expected to remain challenged for the remainder of the year.

Energy Sector

Trinidad and Tobago Natural Gas Limited (NGL) the only stock in the Energy sector declined 27% in the first half of 2020. Revenue for NGL declined by 23% year on year, largely driven by persistently depressed product prices for PPGPL (35% lower than Q1 2019), lower NGL production, and high gas processing feedstock costs. While energy prices have rebounded from their lows following a brief price war between Saudi Arabia and Russia and the initial fear surrounding the COVID induced lockdown. Prices remain well off their highs for the year and demand remains depressed. This sector is expected to decline a further 2.9% in the second half of the year, as demand in the sector is not expected to return in a meaningful fashion until there is a significant increase in economic activity in the industrial sector.

Manufacturing 1 Sector*

For HY2020, the manufacturing 1 sector declined by -14.9%. With the exception being NFM all other stocks in this industry decline significantly. Most of these declines were induced by fears of supply chain disruptions and reduced demand for certain goods as a result of COVID-19 prevention measures. The increase in NFM was as a result of increased demand for flour during the lockdown period. None of the companies in this sector have released HY2020 results as yet, so we are unable to fully dissect the impact of COVID-19 on their financial performance. We have however gotten some indication based on pronouncements by the leadership of some of these companies. In particular, UCL and AHL are expected to perform well during this period based on pronouncement made by the leadership of these companies. There is also an expectation in the market that increased demand for flour during the lockdown period will see NFM benefit from increased revenue. JMMB Investments forecasts that the manufacturing 1 sector will advance by 13.2% to the end of the 2020.



Manufacturing 2 Sector*

The Manufacturing sector climbed 5% on the back of positive performance from its sole constituent, Trinidad Cement Limited (TCL). This happened despite the fact that TCL saw its Revenue fall 3% year on year, and its Operating Profit fall 13% as some sales were lost due to COVID restrictions imposed by regional governments. In addition, scheduled maintenance in Jamaica was carried out in Q1 vs Q2 in 2019 which further dampened sales. The company, continued to be challenged by weak economic growth in the region as well as competition from imported cement in some of its markets. In the second half of the year we see the manufacturing sector surging some 23.8%[1], as the company stands to be a major beneficiary of increased government spending in the construction sector as government's attempt to revitalize regional economies following the economic slump brought about by the COVID induced shutdowns.

Trading Sector*

The trading sector has declined by -2.4% for HY2020. None of the stocks it this sector advanced for HY2020. It is our expectation that Q2 results for this sector will be significantly impacted by the lockdown measures as most of these establishments would have been shut down during the period. PHL, the only company in the sector for which we have seen HY2020 results for, experienced a 20% fall in revenue and recorded a loss of TT$ 8 million for the period. We believe that the other companies in this sector will suffer from similar fates when their results are released. JMMB forecasts that the trading sector will decline by a further -3.8% to the end of the year.

Summary of JMMB Equity Recommendations

STOCK SYMBOL	CURRENT PRICE	JMMB TARGET PRICE	IMPLIED PRICE RETURN	RECOMMENDATION
AHL	$14.90	$18.32	23.0%	Outperform
CIF	$24.85	$29.63	19.2%	Outperform
UCL	$17.00	$19.67	15.7%	Outperform
WCO	$34.10	$38.83	13.9%	Outperform
NGL	$16.80	$16.99	1.1%	Marketperform
SBTT	$54.65	$54.42	-0.4%	Marketperform
EHL	$12.60	$12.33	-2.1%	Marketperform
FCI	$7.15	$6.95	-2.8%	Underperform
RFHL	$139.47	$128.12	-8.1%	Underperform
MASSY	$58.00	$53.11	-8.4%	Underperform
FIRST	$45.71	$41.51	-9.2%	Underperform

Local Fixed Income Review and Outlook

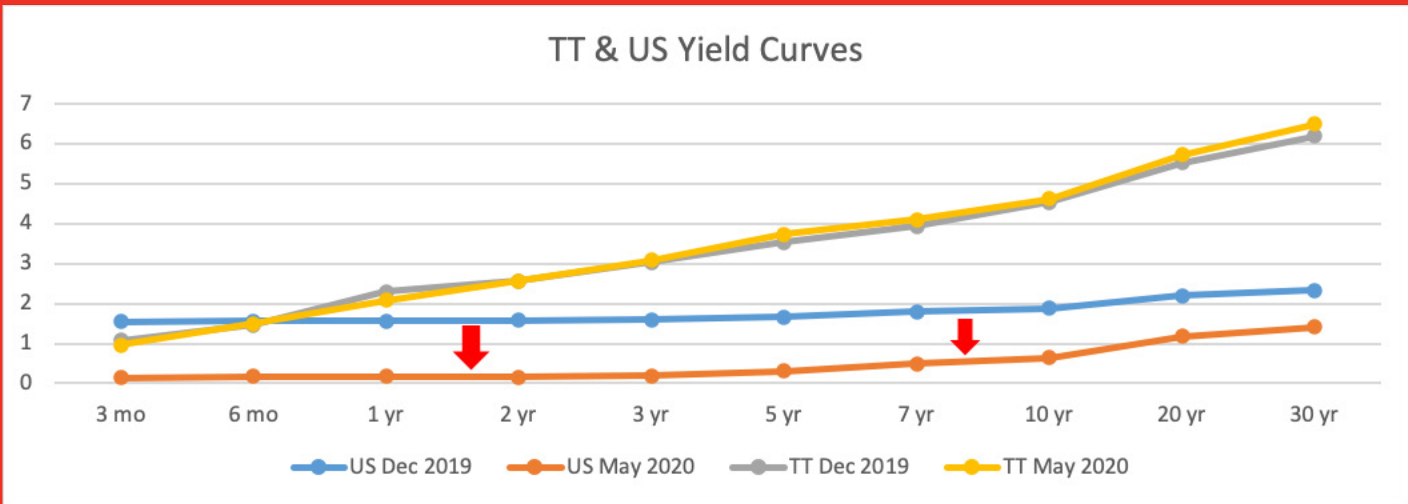
As at the end of May 2020 (June data not yet available), Trinidad and Tobago observed a very modest steepening of the yield curve. This was in contrast to the US market which saw a reduction in yields all along the curve by an average of 128 basis points as the US Federal Reserve took unprecedented action to mitigate the effects of the COVID induced selloff.

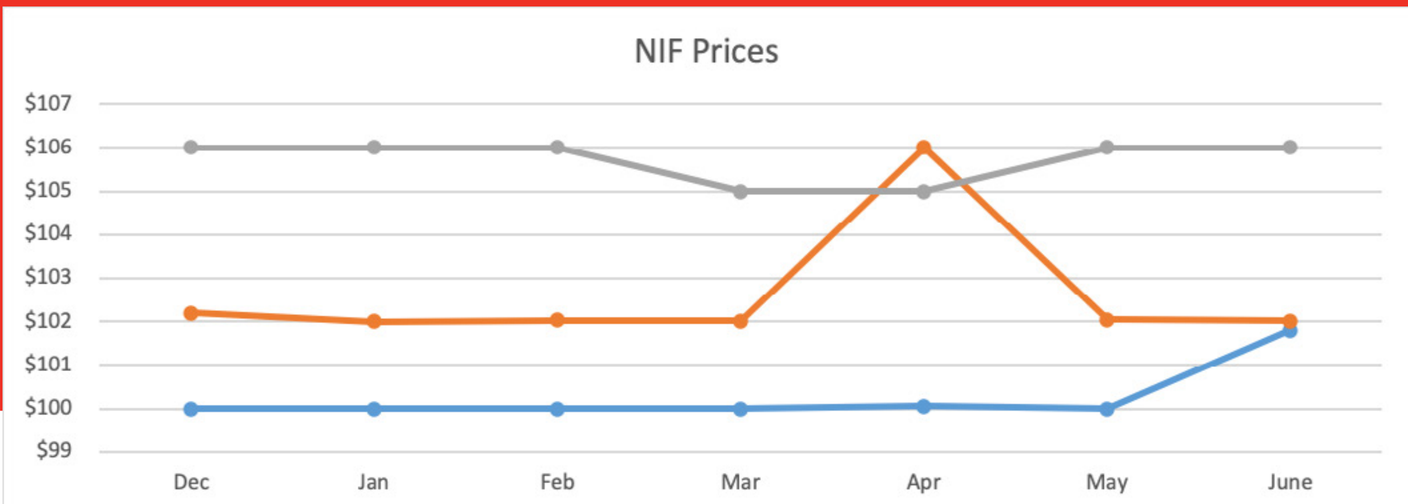
The steepening of the TT yield curve was characterized by a fall in short term rates [0.25-1 year] and a rise in longer term rates [3-30 years]. The fall in short term rates is indicative of a bearish outlook on the economy in the short run, with investors piling into safer securities to preserve their funds and thus pushing the prices up [and yields down]. The most prominent risks investors are likely wary of locally would be the strength of the economic recovery following the COVID induced shutdown, uncertainty surrounding the upcoming general election as well as the decreasing availability of foreign exchange. With respect to falling yields in the US, the differential has widened for all tenors. In isolation, this would have resulted in a strengthening of the TT dollar, as investors demand TT denominated securities over US denominated securities given their relative value versus earlier this year. However, given the substantial demand for US dollars for trade and consumer purposes, in addition to reduced earnings from the energy sector and tourism, the existing pressure on the exchange rate is likely to persist.

On the corporate bond side, the National Investment Fund [NIF] bonds were largely steady year to date, with a brief spike in the price of the Series B bonds at the end of April on small volume.

Throughout the year there has been strong demand for these bonds while investors seeking to sell their bonds have been scarce.

The bond market was relatively muted in the first half of the year. The most notable of the issuances year to date was the long awaited VAT bonds, which carried a rate of 3.3% for a tenor of 3 years. We also saw a US$500MM GORTT Bond issued on the international market which was much lauded by the Minister of Finance. The bond, which pays a coupon of 4.5%,





served to refinance existing debt as well as provide additional funds for budgetary support as COVID has brought about additional expenditure from the government as well as a reduction in revenue.

Going into 2020 investors are anxiously awaiting a number of new issuances, with the widely expected $300MM THA Bonds due in the coming weeks. The Housing Bonds and National Investment Fund 2 which were expected in the first half of 2020 have likely been pushed into 2021 as the upcoming general election and budget presentation later this year leave little time for government to bring such issuances to market. Participation in these offerings is likely to be strong, given that excess liquidity for Q2 2020 averaged over $8 billion. This is well above the average for the Q2 2019 of $3.7 billion and highlights the amount of “dry powder” available to investors to capitalize on promising opportunities if and when they arise. The especially high amount of excess liquidity in the system is likely a function of investors liquidating assets and moving to cash due to uncertainty surrounding the effects of COVID on the local economy.

** These sector projections were based on relative valuation metrics of stocks in the sector. Valuations done in absence of an analysis of the company's fundamentals and value drivers leads to estimates with a high degree of uncertainty.*

[1] A Price/Book multiple was used for TCL's relative valuation given that the company has not earned a profit in recent years, resulting in an especially wide range for our forecasted sector performance.