

Valuation Report



December 2020
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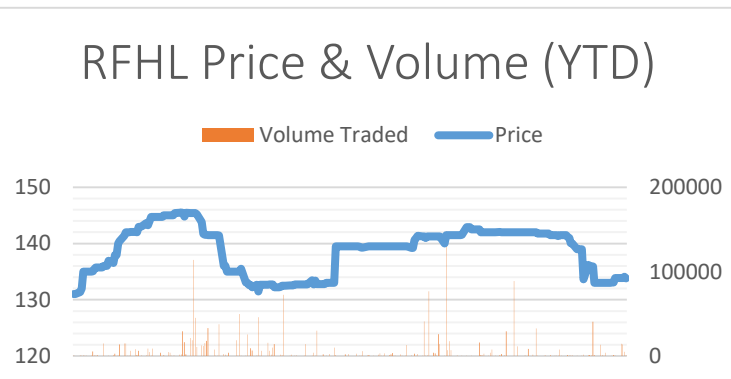
Republic Financial Holdings Limited (RFHL)

PLEASE SEE IMPORTANT DISCLOSURES

Republic Bank Limited is incorporated and domiciled in the Republic of Trinidad and Tobago. It is a member of the Republic Bank Group, a financial services entity comprising nineteen subsidiaries and two associated companies. The Group is engaged in a wide range of banking, financial and related activities in Trinidad and Tobago, the Caribbean and Ghana.



Company Facts	
Symbol:	RFHL
Target Price:	TT\$131.30
Sector:	Banking
Market Cap.:	\$ 21,837,305,495.58
Issued Capital:	163,184,169
Financial Year	30-Sep
End:	



Key Ratios				
	P/B	ROE	ROA	Eff. Ratio
RFHL	2.11	8.8%	0.94%	70.9%
FCI	1.67	-14.4%	-1.3%	69.3%
SBTT	2.30	12.5%	2.0%	40.5%
FIRST	1.48	8.3%	1.3%	161.0%
NCBFG	2.26	12.57%	1.12%	79.4%

Stock Performance		
Banking	YTD Price Change	Trailing Dividend Yield
RFHL	2.0%	2.0%
FCI	-8.3%	4.8%
FIRST	-2.0%	3.1%
NCBFG	-21.7%	0.6%
SBTT	-10.7%	4.1%
Sector Avg.		2.9%

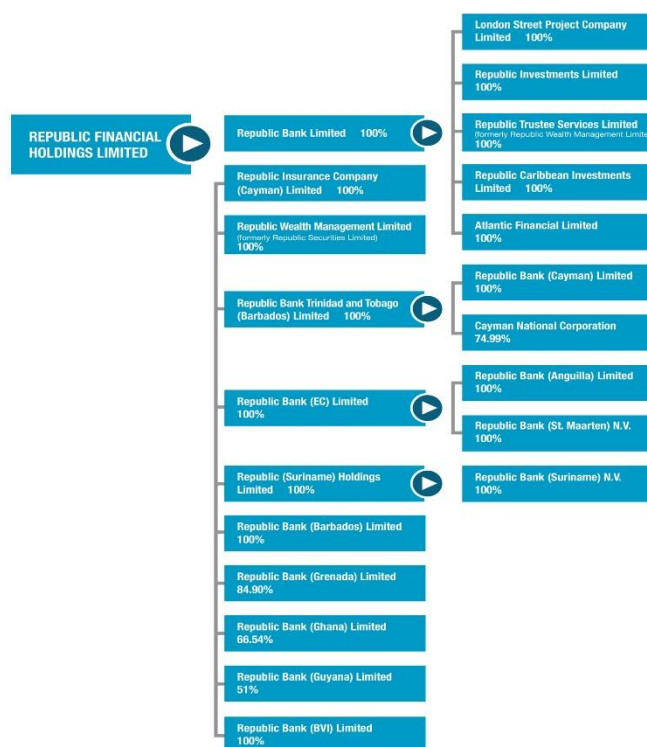
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Company Overview

Republic Financial Holdings Limited (RFHL) is the registered owner of all of the Banks in the Republic Group. The Banks in the Group include: Republic Bank Limited, Republic Bank (Guyana) Limited, Republic Bank (Barbados) Limited, Republic Bank (Grenada) Limited, Republic Bank (Suriname) N.V., Republic Bank (Ghana) Limited, Republic Bank (BVI) Limited, Republic Bank (Cayman) Limited, Cayman National Corporation, Republic Bank (EC) Limited, Republic Bank (Anguilla) Limited, Republic Bank (St. Maarten) N.V., and other subsidiaries.



Originally called Colonial Bank, they began operations in 1837 as the first commercial bank in Trinidad and Tobago. The bank has a 182-year record of operation in the region. Significant expansion during this period, through the acquisition of several subsidiaries, resulted in Republic Bank performing dual roles of a licensed commercial bank and a holding company for its subsidiaries. In December 2015, a decision was taken to form Republic Financial Holdings Limited by a Vesting Order, under the Financial Institutions Act, Chap 79:09, of the Laws of Trinidad and Tobago; bringing the structure of the Republic Group in line with international best practices (i.e. form a holding company).

The Group currently employs more than 6,216 staff members and has 126 branches in subsidiaries in Trinidad and Tobago, the Eastern Caribbean, BVI, Guyana, the Cayman Islands, Barbados, Ghana, and Suriname. Across these markets, RFHL offers an extensive range of banking services, including credit and debit card issuance and processing, leasing, trustee services, mutual fund and investment management, and merchant banking.

Operating Countries



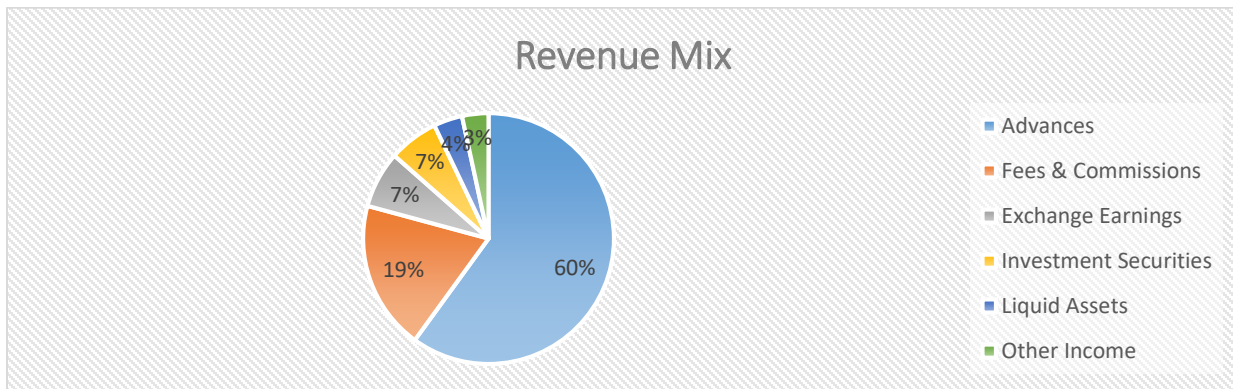
10 Largest Shareholders	Shares	%
NIF Company	42,475,362	26.09
Clico Trust Corporation Limited	40,072,299	24.62
National Insurance Board	29,944,942	18.40
Trintrust Limited	10,128,019	6.18
RBC Trust	5,618,808	3.46
First Citizens Asset Management	3,672,354	2.24
Guardian Life of the Caribbean	2,625,568	1.61
UTC	2,495,418	1.53
Central Bank of Trinidad and Tobago	782,039	0.48
T Geddes Grant Ltd Pension Fund Plan	517,135	0.32

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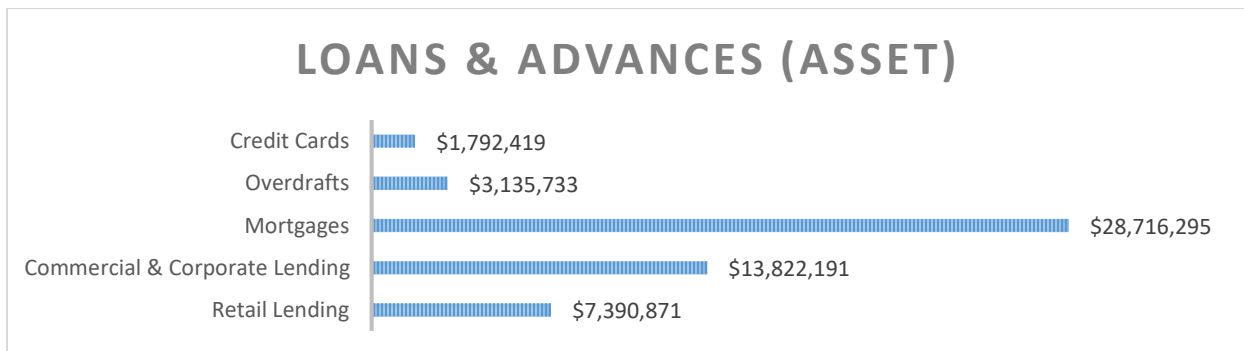
Business Model

RFHL main source of income is earned by providing loans and generating interest income from those loans. The types of loans RFHL offers include mortgages, auto loans, business loans, and personal loans. Customer deposits, such as checking accounts, savings accounts, money market accounts, and CDs, provide the entity with funding to issue loans. Customers who deposit money into these accounts effectively lend money to the bank and are paid interest. However, the interest rate paid by the bank on money they borrow is less than the rate charged on money they lend (the banks borrow short and lend long to benefit from changes in yields).

At the end of financial year (FY) 2020 interest from loans and advances accounted for 60% of the Group’s revenue, fees and commissions accounted for 19.2%, exchange earnings added 7.3%, interest from investment securities contributed 6.4%, while interest from liquid assets and other income comprised the remaining 7.1%.



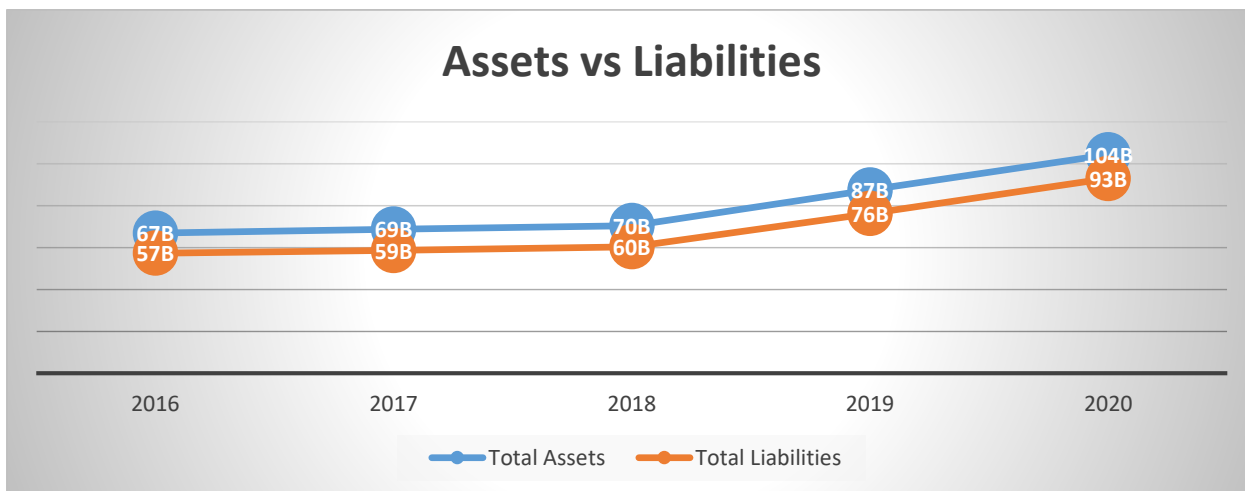
Mortgages contributed ~ TTD 28.7 billion of total loans and advances, while corporate & commercial lending and retail lending accounted for TTD 13.8 billion and TTD 7.4 billion respectively.



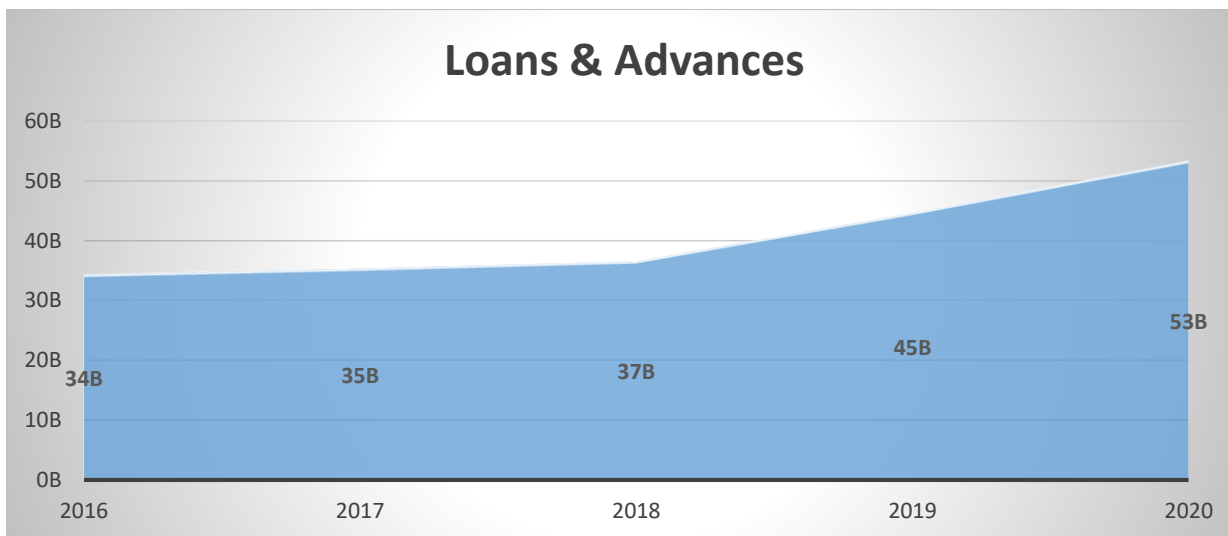
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Financial Analysis

Since 2016, RFHL’s total assets have increased by ~ 56% at an annualized rate of approximately 14%. The growth in RFHL’s asset base was largely due to the company’s aggressive growth through acquisition strategy, which saw them acquire numerous regional assets as well as an asset in Ghana over the period.

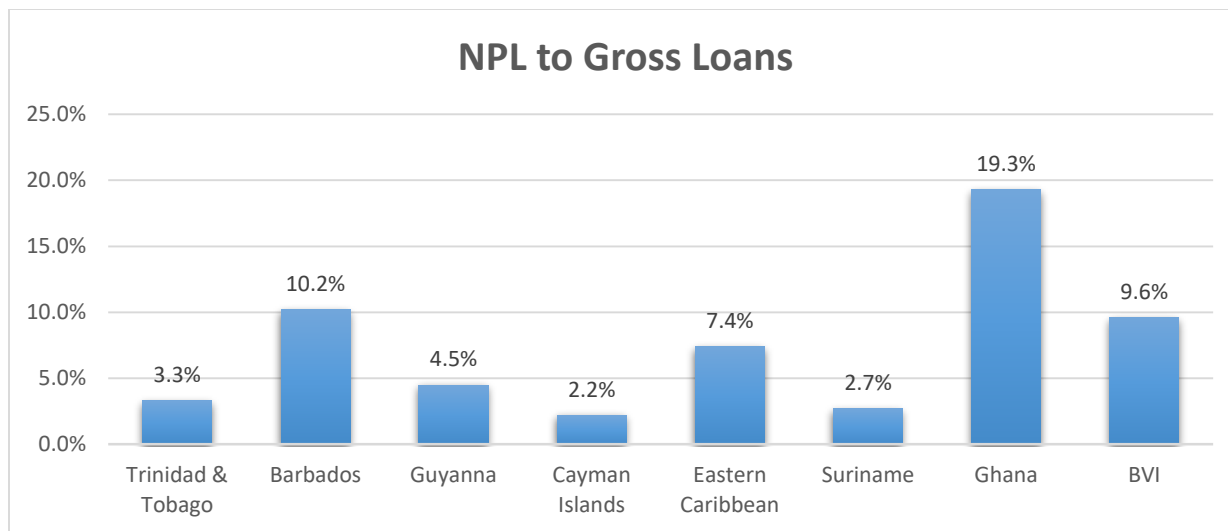


Due to the acquisitions, loans and advances RFHL’s main revenue driver, also increased significantly over the period. Since 2016, RFHL’s loan book has grown by 55%.

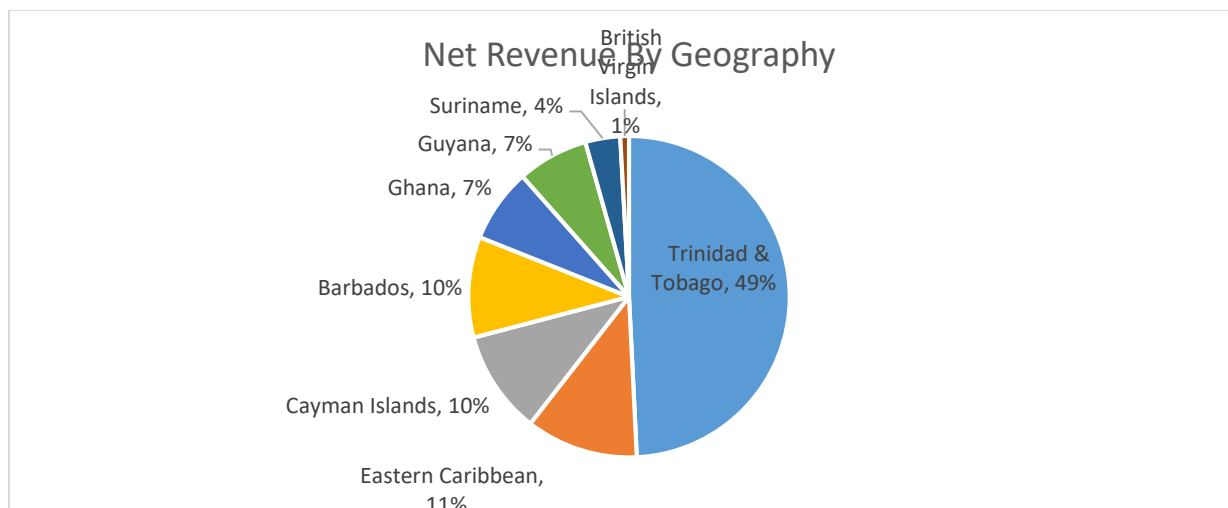


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Total non-performing loans (NPL) in the Group stood at approximately TTD 2.9 Billion as at the end of FY 2020, a 65% increase from FY 2019. The non-performing loans to gross loans ratio was 5.3%, a 1.5 percentage point increase over FY 2019 (3.8%). Cayman Islands, Suriname and Trinidad and Tobago have the lowest NPL to Gross Loans ratios in the Group. This bodes well for the Group given that these three territories together account for ~63% of the Group's total gross loans. RFHL maintained a provision coverage of 58% of its non-performing facilities as at the end of FY 2020.



In terms of revenue contributed by geographic location, Trinidad & Tobago contributed ~49% of the Group's total net revenue in FY 2020. The next largest contributors were the EC subsidiaries, Cayman Islands and Barbados, which contributed 11%, 10% and 10% respectively.



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In 2020, there was a sharp decline ROE. This decline was mainly attributed to the decline in net profit margins because of the COVID-19 pandemic. Policy geared towards a reduction in interest rates reduced interest margins earned by banks. Increased provisioning for credit losses due to the economic climate also contributed significantly to the reduction in net profit margin. RFHL's asset turnover declined because of slightly lower revenue and an increase in total assets stemming from the completion of various acquisitions in the region. The equity multiplier also increased because of the increase in assets.

	2016	2017	2018	2019	2020
ROE	10.5%	13.3%	13.8%	16.01%	8.78%
Equity Multiplier	7.04	6.81	6.98	7.81	9.23
Asset Turnover	0.08	0.08	0.08	0.08	0.07
Net Profit Margin	21.2%	26.7%	26.7%	27.11%	15.9%
Operating Margin	29.9%	38.4%	38.8%	45.8%	25.6%
Assets	TT\$66.9B	TT\$68.8B	TT\$70.5B	TT\$87.5B	TT\$104.3B
Equity	TT\$9.5B	TT\$10.1B	TT\$10.1B	TT\$11.2B	TT\$11.3B
Revenue	TT\$4.5B	TT\$4.7B	TT\$5.0B	TT\$5.8B	TT5.7B

Recent Financial Performance

RFHL	Year Ended September 2020	Year Ended September 2019	Change	Change %
	\$'Millions	\$'Millions	\$'Millions	
Net Interest Income	3,995	3,814	181	4.7%
Other Income	1,705	2,018	313	-15.5%
Operating Expense	3,514	2,835	679	24.0%
Operating Profit	2,191	3,003	-813	-27.1%
Credit Loss Expense	621	226	395	174.8%
Net Profit After Tax	1,003	1,716	-713	-41.6%
EPS	5.57	9.75	-4.18	-42.9%

For FY 2020, RFHL's net interest income was ~\$4.0 billion, an increase of 4.7% over the prior year. The increase was due to the addition of Republic Bank in Grenada and the BVI. Excluding the new subsidiaries, RFHL's net interest income would decline by 3.1%. Net Interest income declined in Trinidad and Tobago, Barbados and Ghana by 9.7%, 8.6% and 5.7% respectively. All other territories experienced increases in net interest income.

For FY 2020, other income decreased by 15.5% to \$1.7 billion. Excluding the impact of a one off write-back of Post Retirement Benefit in 2019 and the Grenada and BVI portion of other income, there was a decline of 1.2%. This decline reflected the impact of reduced volumes and waived fees.

Operating expenses increased in FY 2020 to \$3.5 billion. Excluding costs from the BVI and Grenada, there was an increase of 12.5%.

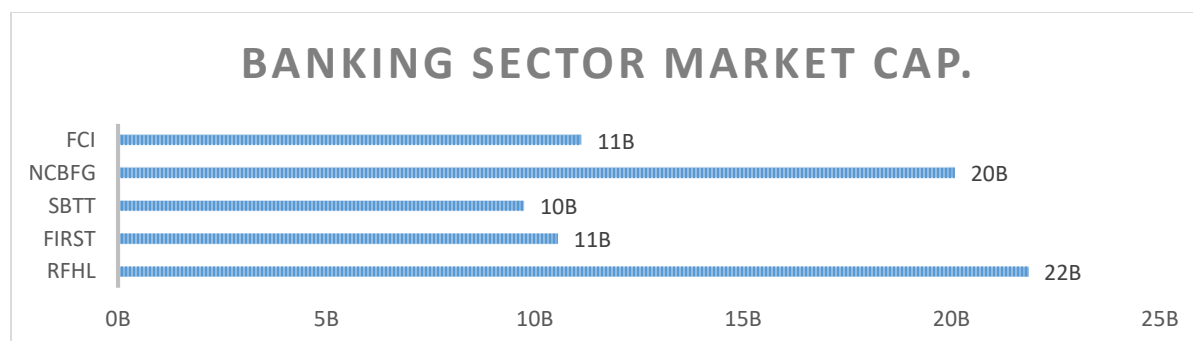
For FY 2020, RFHL incurred credit loss expense on financial assets of \$621 million, a 174.8% increase over prior year. This increase was because of a \$338 million increase in expected credit losses (ECLs) on loans and advances and a \$58 million increase in ECLs for debt securities. The increase in expected credit losses was triggered by increased risk of default due to the COVID-19 pandemic.

Expansion Activities

On June 1, 2020, RFHL completed the acquisition of Scotiabank’s operations in the British Virgin Islands (BVI). This acquisition added 53 team members to its staff complement, \$3.2 billion to its asset base, and \$25 million to net profit after tax for the four-month period of ownership in this financial year.

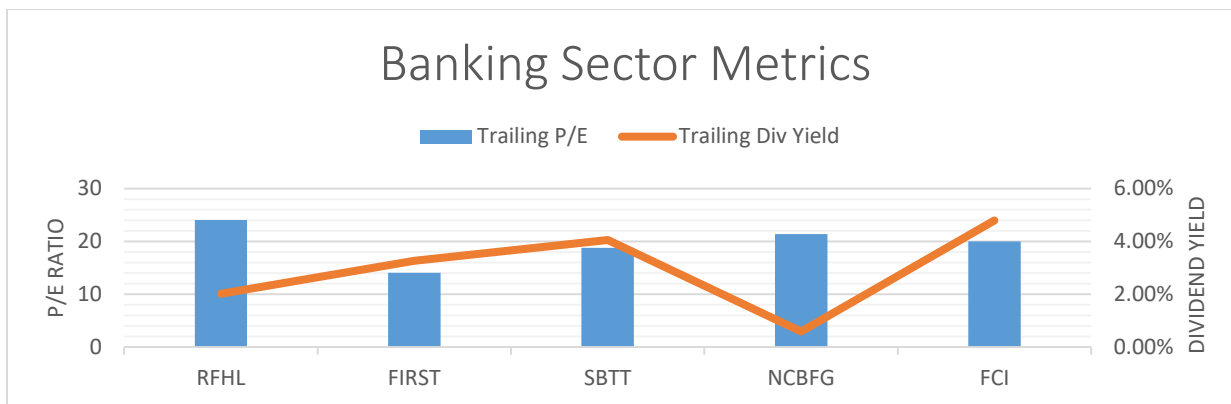
Industry Overview

The banking sector in Trinidad & Tobago is the largest sector trading on the local stock exchange (58%) in terms of market capitalization. It comprises of five banks, namely, FirstCaribbean International Limited (FCI), First Citizens Bank Limited (FIRST), NCB Financial Group Limited (NCBFG), Republic Financial Holdings Limited (RFHL) and Scotiabank Trinidad & Tobago Limited (SBTT). RFHL is the largest bank in the sector in terms of market capitalization (30% of market cap.); NCBFG is the second largest bank on the exchange (27%). FCI, FIRST and SBTT account for 15%, 14% and 13% of the market cap in the sector respectively.

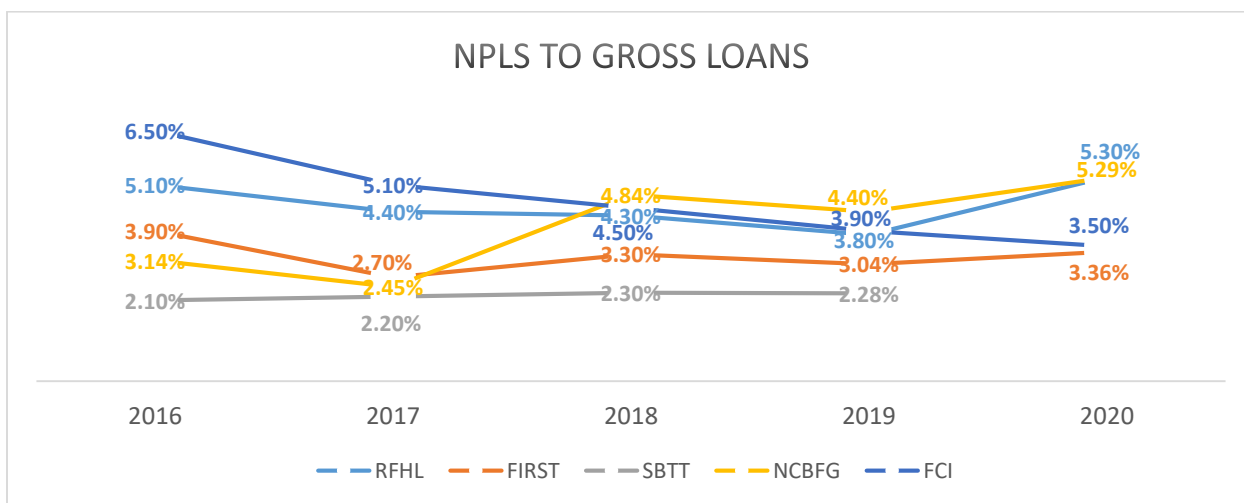


The banking sector is currently trading at an average P/E multiple of 19.7 times, which is above the T&T composite P/E multiple of 18.8 times. Average sector dividend yield, stood at 2.94%, well above the market average of 2.61%. FIRST currently has the lowest P/E ratio in the sector. Earnings and dividends in the sector were depressed due to the impact of COVID-19 on the banking sector. All the banks took conservative decisions in providing for credit losses and in the distribution of dividend.

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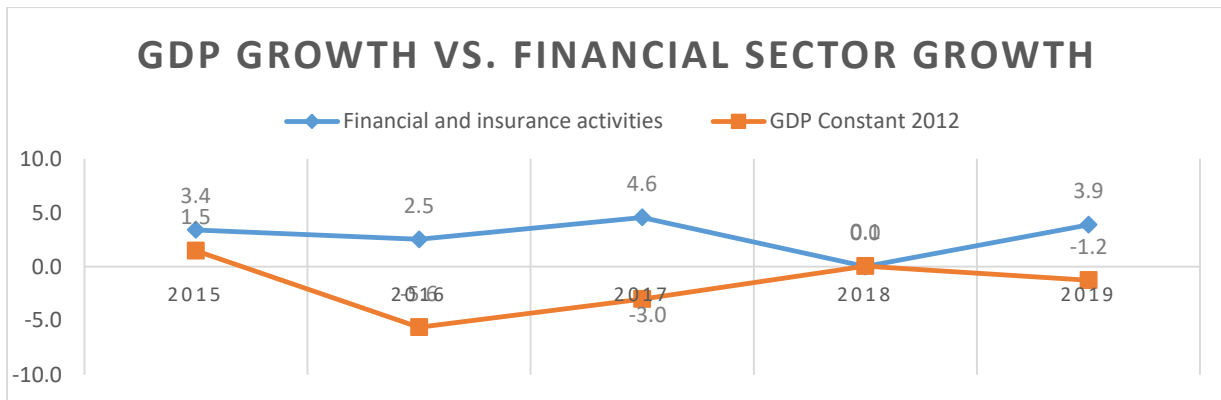


Of the locally domiciled banks, RFHL currently has the highest NPL ratio 5.3%. This is because of very high NPLs ratios for RFHL’s subsidiaries in Ghana (19.3%), Barbados (10.2%) and BVI (9.6%). Due to the current COVID-19 induced recession, we expect NPLs in the sector to increase going into 2021.



According to data from the CBTT, financial and insurance services contributed approximately 7.8% to the Trinidad and Tobago economy in 2019. The data also shows that over the past 5 years the financial sector has outpaced economic expansion. The financial sector grew at an annualized rate of 2.9%, while the Trinidad and Tobago economy contracted at an annualized rate of -1.7% over that period. As shown by the graph below, even in years when the Trinidad and Tobago economy declined, the financial sector showed resilience. In 2017, real GDP declined by -3.0%, while the financial sector expanded by 4.6%. In 2016, growth in the economy was estimated at -5.6%, however the financial sector expanded by 2.5%. The data shows that in recent times the financial sector in Trinidad and Tobago has become very robust as even in a recession, the sector can realize growth.

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Banking Sector: Financial Soundness Indicators, 2015 – 2019

/Per cent/

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital Adequacy					
Regulatory capital-to-risk-weighted assets	24.1	23.8	23.4	23.3	23.6
Regulatory tier I capital-to-risk-weighted assets	25.0	23.0	23.1	23.5	22.3
Regulatory capital-to-total assets	12.6	12.5	12.9	12.7	13.0
Net open position in foreign exchange-to-capital	9.7	13.8	16.9	14.4	11.2
Asset Composition					
Sectoral distribution of loans-to-total loans					
Households	44.0	45.7	46.7	47.2	47.4
Public sector	16.5	13.9	13.3	12.8	13.3
Financial sector	13.1	15.1	16.0	16.2	16.2
Oil and gas sector	2.6	3.5	3.1	4.9	4.8
Construction	9.5	6.1	4.5	4.1	2.7
Transport and communication	3.2	2.7	2.8	3.1	2.2
Non-residents	2.6	2.9	3.4	4.1	6.2
Foreign currency loans-to-total loans	15.2	15.5	16	17	18.1
Asset Quality					
Non-performing loans-to-gross loans	3.7	3.2	3.0	3.1	3.1
Non-performing loans (net of provisions)-to-capital	6.3	6.3	5.9	5.1	5.4
Total provisions-to-impaired loans*	54.3	60.3	65.6	68.6	61.6
Specific provisions-to-impaired loans	42.1	37.4	37.8	53.4	48.8
General provisions-to-gross loans*	0.4	0.7	0.8	0.5	0.4
Specific provisions-to-gross loans	1.6	1.2	1.1	1.7	1.5
Earnings and Profitability					
Return on assets	2.9	2.9	2.9	3.0	3.6
Return on equity	18.2	19.9	19.0	20.2	24.3
Interest margin-to-gross income	57.8	62.0	64.7	62.9	58.5
Non-interest income-to-gross income	42.2	38.0	35.3	37.1	41.5
Non-interest expenses-to-gross income	61.8	60	58.1	57	52
Liquidity					
Liquid assets-to-total assets	23.1	21.8	19.7	19.0	21.5
Liquid assets-to-total short-term liabilities	30.6	27.8	25.3	24.4	27.9
Customer deposits-to-total (non-interbank) loans	159.8	164.6	154.7	153.2	150.3
Foreign currency liabilities-to-total liabilities	25.4	26.0	26.4	26.4	25.8

Source: Central Bank of Trinidad and Tobago

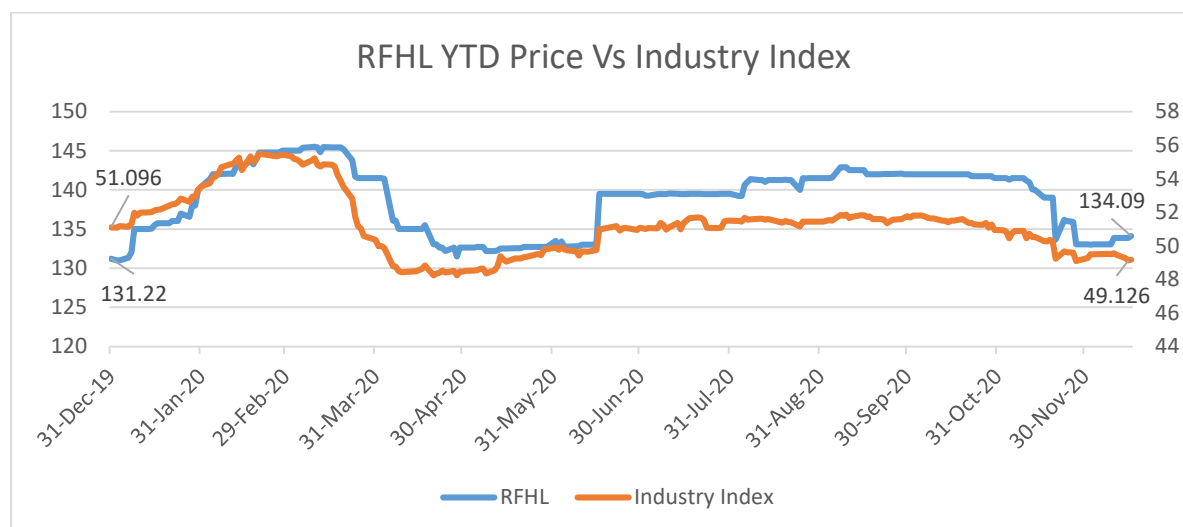
* These ratios are not the typically used measures of financial soundness, but are included for comparison purposes.

Source: Central Bank of Trinidad & Tobago (CBTT) Financial Stability Report 2019

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According to the CBTT Financial Stability Report 2019, the banking sector as a whole performed well in 2019. Capital buffers in the sector remained high and profitability trended upwards. Capital adequacy for the sector was 23.6% on a Basel 1 basis, and 20.9% on a Basel 2 basis; this was well in excess of the minimum statutory requirements of 8% and 10% respectively. The report also showed an increase in profitability in the sector in 2019, with both ROA and ROE increasing to 3.6% (3.0% - 2018) and 24.3% (20.2% - 2018) respectively. According to the report, there was a broad-based expansion in credit to the major sectors (government, business and consumers). In 2019, NPLs to Total Loans remained unchanged at 3.1%. However, given the COVID-19 induced economic shock, the expectation is that this measure will increase in 2020 and 2021.

Notwithstanding the strength of the financial sector in Trinidad & Tobago, the CBTT identified risks, which maybe heightened due to the pandemic. These risks include growing household indebtedness, high sovereign concentration in the financial system and rapid digitalization in the financial services industry.



*Equal Weighted Index

Year to date, RFHL’s share price is up 2.2%, while the banking sector index on an equal weight basis is down 3.8%. The market as a whole is down by 11.4% (Trinidad & Tobago Composite Index) YTD. This shows investor confidence in the banking sector and RFHL relative to the other sectors of the economy. Before fears of the pandemic rattled the market in March 2020, RFHL and the banking sector index was trading at all-time highs, but then dipped significantly thereafter. In May 2020, there was a recovery in RFHL’s share price; the rest of the sector did not replicate this. After the release RFHL’s end of year results, which showed a significant reduction in earnings verses prior year, there has been a reduction in its share price.

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Economic Backdrop

Due to the COVID-19 pandemic, the Government and the CBTT took policy actions in order to deal with the fall out. The CBTT decided to support domestic households and businesses by increasing liquidity in the financial system and lowering interest rates. The Government increased transfers and subsidies and expenditure on capital programs to shore up the health system and support citizens who were adversely affected by the pandemic. Government revenue declined because of depressed energy prices and reduced tax collections from corporations due to the pandemic. The budget deficit for FY2019/20 was estimated at 11.2%.

According to the CBTT quarterly index of economic activity, economic activity contracted in Trinidad and Tobago for the first half of 2020. The labor market was significantly affected by the pandemic through furloughed employment, layoffs, pay cuts, and reduction in working hours because of COVID-19 prevention measures implemented by the Government. Inflation remained low (0.7% - Headline) year to date. Private sector credit granted by the consolidated financial system declined for the first 8 months of 2020. According to the CBTT, the trend can be attributed to a steeper decline in business lending along with slower consumer and real estate mortgage lending.

Notwithstanding the approval and the initiation of administering vaccines in the US and UK, the expectation is that the lingering effects of the pandemic will persist well into 2021. Hence, economic activity in Trinidad and Tobago may still be depressed in 2021. However, there is an expectation that energy prices will improve in 2021 which may boost Government revenue.

Valuation

Three valuation models were utilized to obtain an estimated intrinsic value range for RFHL. Firstly, a dividend discount model (DDM) was utilized. Then, two relative valuation models were also applied: a simple P/E method and a simple P/B method using the average multiple over the last 5 years.

DDM Model

Our three stage DDM assumes RFHL will be able to maintain its 5-year average payout ratio and grow its EPS (and hence dividends) at the firm's current fundamental growth rate for the next 5 years then transition to the implied payout ratio given a stable growth assumption over the following 5 years.

Simple P/E Model

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. It uses the market implied multiple for RFHL for the past 5 years and forecasts the firm's EPS to arrive at the firm's 'fair value'. The analysis shows that RFHL is overvalued by \$5.53.

Simple P/B Model

Simple P/B multiple, has a similar methodology to the simple P/E. It uses the average P/B multiple for the past 5 years then determines a fair value by projecting book value per share (BVPS). The forecasted BVPS is simply beginning BVPS increased by the firms' current fundamental growth rate; hence, it implicitly assumes the same retention ratio. The analysis shows that the stock is overvalued by \$3.90.

RFHL Risk Factors

Macro-environmental factors- RFHL's profitability will largely be determined by the interest-rate cycle and the effects of credit and debt cycles, none of which are under the group's control. RFHL's main lines of business are economically sensitive. In addition to loan losses stemming from the recession, the company may suffer reductions in Consumer lending, trading, investment banking and mortgage loans.

Business disruption risk - The banking industry is arguably going through more technological change than ever before due to the COVID-19 pandemic. Bank branches are declining in importance as more transactions take place digitally, and it is still uncertain how this dynamic will ultimately play out. Though scale and regulatory expertise create barriers to entry, new or existing competitors could take share as the banking industry digitizes and becomes more and more a technology focused industry. Banks are also now more than ever, very susceptible to cyber-attacks and fraud.

Regulation – Given that RFHL operates in many different jurisdictions, they must comply with the laws and regulations of all the jurisdictions that they operate in or face sanctions by regulators.

Recommendation

Fair Value Range		
	Price	Weight
DDM	\$ 133.21	50%
Simple PE Val	\$ 128.56	25%
Simple PB Val	\$ 130.24	25%
Weighted Price	\$ 130.59	
10% Under	\$ 118.17	
10% Over	\$ 144.43	

Our models give a range of values from \$128.56 to \$133.21, each with its own margin of error. The DDM model is weighted at 50%, while the Simple P/E valuation and the Simple P/B valuation are weighted at 25% each. This is because we see the DDM as the most suitable model, given that investors in Trinidad and Tobago tend to see more value in dividend stocks. A 10% margin of error was applied to the weighted price to give a fair value range of \$118.17 - \$144.43. This compared to the current market price of \$134.09. We recommend RFHL with a MARKETWEIGHT rating.

This MARKETWEIGHT rating is given on the following basis:

- While we expect RFHL's earnings to improve in FY 2021, we do not expect earnings to return to FY 2019 & FY 2018 levels in the short-term.
- The issue of growing household debt in Trinidad & Tobago will likely be exacerbated by the COVID-19 recession which will likely stunt loan growth and reduce the quality of RFHL's loan book.
- RFHL continues to diversify its revenue streams with an aggressive acquisition strategy.
- RFHL's low cost of funds give it a significant advantage over its' competitors. They will be able to keep and grow their market share by offering superior priced products.
- RFHL is well positioned to handle the fallout of the pandemic because of its increased investment in technology over the years.
- RFHL is also expected to benefit from increased business in Guyana as that territory is projected to experience significant economic growth due to oil and gas discoveries.

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 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM - up to 10% of your portfolio

MARKETPERFORM - 5% of your portfolio

UNDERPERFORM - 2.5% to 4.9% of your portfolio

STRONGLY UNDERPERFORM - less than 2.5% of your portfolio

SELL - 0% of your portfolio

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