

JMMB Group Limited

Recommendation: Buy

Ticker: JMMBGL
Price Target: \$47.40
Current Price: \$41.79¹

About the Company: Jamaica Money Market Brokers was founded in November 1992 with initial operations in Jamaica. The company has since expanded with subsidiaries operating in Jamaica, the Dominican Republic and Trinidad and Tobago.

JMMBGL, across its 6 business lines, provides service in security brokering, commercial banking, asset management, pension funds management, remittances, insurance brokerage and corporate advisory as well as other finance and banking related services. The group categorizes its operations into three segments: financial and related services, banking and related services and other which includes insurance brokerage, investment and real estate holding.

Projections and Valuation:

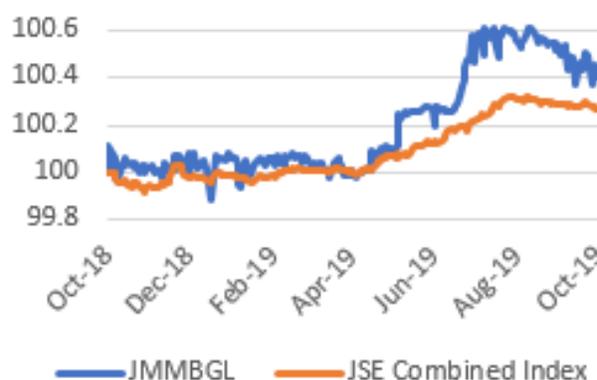
We arrived at our price target using a Discounted Cash Flow (DCF) model. The discount rate was calculated using the capital asset pricing model (CAPM) which resulted in a rate of 13.87%.

Outlook

JMMB is expected to experience above average growth over the next 3 – 5 years mainly driven by the acquisition of a 22% stake in Sagicor Financial Corporation through Alignvest Acquisition II Corporation of Canada; this will help to diversify the company's topline. As Global Economic growth continues to slowdown due to trade conflict and geo-political tensions, this could have a negative impact on the company. In addition to this, the Jamaican and Dominican economies are currently experiencing low interest rates, which are anticipated to be reduced further or held constant; this could negatively affect the company's interest income. Notwithstanding, low levels of unemployment in Jamaica should provide more disposable income with which persons can save and invest, which could lead to increases in commissions and fees for the financial services sector. Considering that the Alignvest acquisition will be composed of Debt and Equity, a downturn in the market may have adverse effects on the debt side, as it may make it

Financial Performance

	Profit and Loss Summary ²		
	2018	2019	2020P
Net Income (J\$B)	3.60	3.87	6.89
EPS (J\$)	2.18	2.34	3.45
BVPS (J\$)	17.79	19.08	22.53
P/E (x)	11.93	13.65	12.12 ³
Price (\$)	26.00	31.99	41.79 ⁴

1-Year Price Performance

Shares Outstanding: 1,630,552,532 units

Market Value of Shares Outstanding: \$68.14 billion

Financial Year End: March 31

¹ Price as at October 11, 2019

² Data for the periods ended March 31

³ Forward P/E

⁴ Price as at October 11, 2019

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difficult for the company to repay its debt obligations to bondholders or refinance on favourable terms.

Corporate Strategy

JMMB views long term revenue growth as a key priority while aiming to cost efficiently integrate changes into its business model based on changes in the broader market.

The group has been implementing a growth regime since the 2014 Financial Year. Phase 1 was the acquisition phase and lasted from 2014 to the end of FY18. In this phase the goal was to acquire and create a portfolio of companies to provide regional and integrated financial services. Phase 2 which started in FY 2015, was the consolidation phase. In this phase the group aimed to maximize strategic synergies and extract operational efficiency from the group's entire portfolio. This phase is expected to end in the 2020 financial year. The final phase which started in FY18 is the growth phase. This phase which should continue through to year end 2021 is where the group scales their start-ups, expands market share in existing business lines and solidifies market dominance.

For this year, JMMB will be focusing on new and enhanced business lines which include new private equity funds and new investment management solutions as well as expanding market penetration in Trinidad and Tobago. The group will also be adding Sagicor Financial Corporation to its list of investments with a 22% stake in the company. There are also plans to set up a microfinance firm in Costa Rica which is currently in the data collection phase. In addition to expanding their services, the JMMB group is working on streamlining the operations of key functions and business lines so that clients have a uniformed experience throughout the group of companies. This falls within the group's mantra "One Group. One Client. One Experience".

TOP 10 SHAREHOLDERS

<u>Shareholders⁵</u>	<u>Number of Units Held</u>	<u>Percentage Held</u>
Proven Investments Limited	326,277,325	24.53%
Panjam Investment Limited	80,571,220	6.06%
SJIML A/C 3119	55,872,550	4.20%
Concise E.I. Ltd.	48,438,366	3.64%
JVF O.E. Ltd	44,300,000	3.33%
National Insurance Fund	43,740,000	3.29%
JVF E.I. Ltd	40,311,674	3.03%
Sagicor Pooled Equity Fund	37,864,378	2.85%
Gracelyn O.E Ltd	36,996,196	2.78%
National Insurance Fund	35,432,997	2.66%
Total	749,804,706	56.37%

⁵ As at September 30, 2019

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Highlights from Financial Statements:⁸

	2015	2016	2017	2018	2019	2019 Q1	2020 Q1
Net Interest Income	13,337,816	13,337,436	14,712,377	15,879,081	17,583,697	4,236,751	4,596,164
Net Profit	2,047,282	2,299,231	3,350,531	3,604,404	3,868,406	952,032	1,118,560
Net Profit Margin	15.3%	17.2%	22.8%	22.7%	22.0%	22.5%	24.3%
Financial Assets	211,630,482	224,404,932	244,086,808	283,853,251	313,693,365	307,834,856	344,823,238
Finance Liabilities	192,458,878	205,199,449	223,122,122	260,650,325	287,079,695	286,654,792	315,013,512
Total Assets	217,715,302	230,607,286	251,556,110	291,715,730	320,036,257	314,692,825	351,388,210
Total Liabilities	195,992,238	207,890,705	224,761,411	262,711,983	288,931,981	288,394,931	317,393,550
Common Equity	20,950,939	21,924,316	25,906,070	27,911,494	30,065,944	25,246,917	32,793,388
Funds Under Management	238,695,980	250,485,809	281,101,963	312,969,031	338,379,728		
EPS	1.18	1.39	2.03	2.18	2.34	0.58	0.69
Book Value Per share (\$)	13.31	13.93	13.22	17.79	19.08	13.45	17.38
Dividends Per Share (\$)	0.32	0.37	0.45	0.47	0.49	-	-
P/E Ratio (x)	5.98	7.20	8.28	11.93	13.65	-	-
P/BV Ratio (x)	0.55	0.74	1.06	1.52	1.68	-	-

For the Last 5 Years

Over the past 5 years JMMBGL has exhibited a strong performance, consistently increasing shareholder value. Net interest income has growth at a CAGR of 13.84%. In addition, Fee and commission income, gains on security trading, fees earned from managing funds and gains on security and foreign exchange trading have contributed to a growth in operating revenue of 174% for that period. Expenses have increased, but at a slower average rate of 13.64% yearly. This led to growth in profits of on average 17.24%. These increases have been driven by expansion in the business lines in each country that JMMB operates. Notably, JMMB Express Finance was launched in Trinidad and Tobago, JMMB Merchant Bank JA transitioned into becoming a commercial bank and the operations of a commercial bank were acquired in the Dominican Republic. During this period, Loans and Notes Receivable and investment securities continued to be the largest contributors to interest income.

The group has maintained its leverage over the past 5 years with a consistent debt-to-asset ratio of 90%. This asset increase was attributable largely to an increase in the cash balance (65%), loans and notes receivables (113%), investment securities (31%) and property, plant and equipment (61%). These increases were funded by the issuance of preference shares in 2015 and 2018, notes payables and increases in customer deposits.

This culminated in earnings per share growth a CAGR of 19%, moving from \$1.18 in 2015 to \$2.34 in 2019. Dividends throughout the period also grew at an average rate of 11% to \$0.49 per share.

⁸ Note all references to year end data is for financial year end which is March 31

JMMB Group Limited**Recommendation: Buy****For the first 3 months of FY2020**

When comparing the first three months of FY2020 to that of 2019, JMMBGL experienced an 16.93% growth in profits. This was caused by significant increases in revenue only slightly offset by increases in expenses. Net Interest Income increased by 6.08% on the back of growth in the loans and investments portfolios. The growth in managed funds and collective investment portfolios contributed to an increase in fees and commissions. The growth in the regional market partially caused by the change in the Fed's economic outlook led to a 44.7% increase in foreign exchange trading and a 35.57% increase in gains on securities trading over the prior comparable period.

Within the first three months of FY2020, JMMBGL increased their asset base by 11.6%, driven by growth in the cash position as well as a larger loan and investment portfolio. This increased asset base was funded by increasing payables balances, a 19% increase in customer deposits as well as an 7% increase in repurchase agreements. A 63.33% increase in investment revaluation reserve contributed to a 9.29% increase in Shareholders' Equity.

Outlook**JMMB is expected to have above average growth in the next 3 – 5 years**

As a part of its growth strategy, JMMB will be acquiring a 22% stake in Sagikor Financial Corporation through Alignvest Acquisition II Corporation of Canada. The US\$290 million investment will diversify the company's revenue stream as well as help JMMB achieve its goal of providing a holistic financial experience. CEO Keith Duncan estimated that by March 2022, the conglomerate should double its current annual profit earning \$9bn. This investment will be partially funded by the secondary share offer of 325 million shares.

Slowing Global Growth may decrease Interest Income

In order to stimulate the economy, the Central Bank of Jamaica and the Dominican Republic have cut interest rates. There is also some expectation of further rate cuts. These lower rates could make it difficult for JMMB to generate interest income. In addition, the global economy is expected to grow at slower than normal rates in the short term which may prove a problem for raising interest income.

Low levels of unemployment in Jamaica should provide more disposable income with which persons can save and invest

The unemployment rate which was recorded at 7.8% in April 2019, are at the lowest levels they have been within the last 10 years and is expected to continue its decline. As unemployment decreases, persons should have more disposable income with which to save and invest. This could increase the deposits and funds under management that JMMB has.

Increasing Debt may become difficult to service if there is significant market shock

The company plans to fund the acquisition of Sagikor through debt and equity. Debt will be used to make up the difference in the cost of the acquisition after the funds generated from the issuance of 325 million shares. If there is significant downturn in the markets, JMMB will be greatly affected and it may affect their ability to make interest payments.

Investment Positives

- The company consistently pays dividends and has been increasing the payout year over year.
- JMMB has a strong brand recognition and operates in markets with high barriers in entry. Along with its continued growth and customer centric view, the company has the potential to increase market dominance.
- The company's revenue streams are diversified geographically across a broad range of business lines.

Investment Negatives

- JMMB is highly exposed to cyclical changes in its various operating environments. Thus the company is likely to face headwinds from a material negative shift in economic trends
- Existing in the financial industry, government and industry regulations could stifle growth plans.
- Being highly leveraged, small changes in asset values can caused the company to become insolvent.

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Conclusion

We anticipate future income growth as the company plans to improve its income generating capabilities by expanding its earning assets. Investing in the Company's stock does carry some risks with the main issues being credit risk and significant exposure to Jamaica. However, the Company has been diversifying its revenue geographically. strong capital base and diversified service offerings and increasing geographical diversification mitigate some of these concerns. Additionally, the company is expected to book gains from investment securities and associated companies; particularly Alignvest II Corp. As such, we recommend investors to **BUY** this stock.

Prepared by: Research & Stockbroking Department; October 14, 2019

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