

Company Analysis: Jamaica Money Market Brokers Group Ltd (JMMBGL)

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- Recommendation: **OVERWEIGHT**
- Price Target: **\$47.77**
- Close Price: \$36.99¹

- Shares Outstanding: 1,955,552,532 units
- Market Value of Shares Outstanding: \$72,335,888,159¹
- Financial Year End: March 31

ABOUT THE COMPANY

Jamaica Money Market Brokers Group Ltd. (JMMBGL) was founded on November 1992 with initial operations in Jamaica. The company has since expanded its operations and now has subsidiaries in Jamaica, the Dominican Republic and Trinidad and Tobago. The group acquired a 22.5% stake in Sagicor Financial Company (SFC) on December 5, 2019.

JMMBGL has six (6) business lines which provide services in security brokering, commercial banking, asset management, pension funds management, remittances, insurance brokerage, corporate advisory as well as other finance and banking related services.

The Group categorizes its operations into three main segments: Financial and related services, banking and related services and other services which includes insurance brokerage, investment and real estate holding.

FINANCIAL PERFORMANCE

	FY 2019/20	FY 2020/21	Q1 2020/21	Q1 2021/22
Net Operating Revenue (\$M)	21,516	22,439	4,998	6,864
Net Interest Margin	2.8%	2.6%	2.7%	2.6%
Net Profit (\$M)	7,066	7,718	780	1,932
Total Assets (\$M)	400,222	513,706	431,797	544,564
Book Value per share (\$)	21.0	31.3	24.0	32.9
Return on Equity	17.2%	12.6%	6.6%	12.0%

Outlook

We believe that JMMBGL is well positioned to grow inorganically through the local and regional expansion of its banking business line driven by the group's intentions to acquire new banking operations within the Caribbean. We also anticipate that JMMB is likely to improve its operational efficiency and enhance client experience by rolling out new solutions such as savings account, improved loan terms and packaging portfolio management for corporate clients. We are therefore optimistic about the macroeconomic health of the jurisdictions in which JMMB operates, namely Jamaica and Dominican Republic. Also, JMMB should continue to book gains from its 22.6% stake in Sagicor Financial Corporation (SFC).

Projections and Valuations

A two stage Dividend Discount Model (DDM) and a P/B Multiple Approach were used to establish an intrinsic and relative value respectively for JMMBGL. For the DDM, a cost of equity of 11.7% was used to discount the expected dividend payments while a 2022 forward BVPS of \$34.45 and an Industry P/B of around 1.60x were deemed appropriate and used to determine a relative value. By averaging both approaches, we obtained a target price of **\$47.77**

Risks to Price Target

We anticipate that the target price may not be realized if the company experiences a decline in the price of its assets, as well as a significant deterioration in the credit quality of its loan portfolio. Due to its high exposure to Jamaica, any economic downturn would have a negative impact on the Group's financial performance.



FOR THE FIRST THREE (3) MONTHS ENDING JUNE 30, 2021:

For the first three (3) Months Ended June 30, 2021, net operating revenue increased from J\$4.9 billion to J\$6.8 billion or by 37.3%. This improvement was primarily driven by an 87.0% increase in gain on security trading as well as a 32.9% growth in fees and commissions income. This was against the backdrop of increased economic activity coupled with continued accommodative monetary policies throughout all the jurisdiction in which the business operates.

From a contribution standpoint, the Banking & Related services segment accounted for \$2.4 billion or 36% of net operating revenue for the period. The segment improved by 20% and was primarily driven by robust growth in the company's loan book. Its Financial and Related Services segment accounted for 63% of net operating revenue and increased by 54% which was largely attributed to an uptick in trading activity as well as funds under management.

Operating expenses increased from \$3.7 billion to \$4.7 billion or by 27.1% and was primarily due to the spend related to the company's long-term initiatives which are intended to bolster the position of the business in the foreseeable future. Earnings increased from \$780.2 million to \$1.9 billion or by 147.7% on the back of the increase in net operating revenue and a significant turnaround in the share of profit of associate primarily driven by the company's 22.6% stake in Sagicor Financial Corporation (SFC) which contributed approximately \$318.6 million for the period.

Total Assets increased from \$431.7 billion to \$544.5 billion or by 26.1% mainly due to increases in Loans & notes receivable, investments and resale agreements. Total liabilities increased from \$384.8 million to \$480.2 million or by 24.8% which was largely on the back of upticks in Customer deposits and Securities sold under agreements to repurchase. Total Equity increased from \$46.9 billion to \$64.3 billion or by 36.9% which was mainly due to upticks in Investment revaluation reserve, Cumulative translation reserve and Retained Earnings.

Total debt to equity fell from 8.20x to 7.47x mainly due to the improvement in the group's equity position. A Total Debt to Equity of 7.47x can be considered average due to the high leverage nature of this line of business. Return on Equity (ROE) improved from 6.7% to 12.0% primarily due to upticks in retained earnings which was driven by growth in its Net Operating revenue.



CONCLUSION

We expect JMMBGL's growth to continue as the group plans to improve on its income generating capabilities by strategically expanding its earning assets both locally and regionally. Additionally, JMMBGL is expected to continue booking gains from investment in securities and through its associated company, Sagicor Financial Corporation (SFC). Based on our assessment of the current state of the company and what is anticipated for the foreseeable future, we have obtained a price target of \$47.77 which is 29.1% above the stock's current market value of \$36.99. Therefore, we recommend that investors with an appetite for exposure to the banking & financial sector **OVERWEIGHT** the stock in their portfolio at this time, as it is undervalued, and associated risks are skewed to the upside.

SOURCES

The Jamaica Stock Exchange, JMMB Group Ltd. Annual Reports (2017-2021) and Quarterly Financials (Q1).

DISCLAIMER

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DEFINITIONS

- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** - Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** - Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** - This security is substantially distressed or at risk of a shock which may significantly impair its value.