

## Analyst's Opinion: Barita Investment Limited (APO)

After the acquisition by the Cornerstone United Holdings Limited (CUHL), BIL planted the seeds for its transformation by recruiting seasoned industry talents, re-engaged current staff and critically, successfully executed three capitalization events raising over J\$10B and significantly strengthening its balance sheets. As at June 30, 2020, Barita's Capital to Risk-Weighted Assets was reported at **48.10%**, well above the regulatory requirement of **10%** and leverage ratios which are significantly below its selected industry peer average.

Undoubtedly, the COVID-19 pandemic has disrupted financial markets locally and globally and is likely to pose significant challenges for businesses going forward. So far, however, BIL has responded well to the pandemic from a social and operational perspective. For the 9 months ended June 30, 2020 the Company posted record net profits of **J\$2.0B**, an amount which has so far surpassed the net profits posted for the entire FY 2019. For the quarter ended June 30, 2020, set on the backdrop of COVID-19 pandemic, the company recorded its highest quarterly net profit ever.

To boost its growth prospects, the Company intends to use the funds being raised through this Additional Public Offering (APO) to expand its reach local and regionally, upgrade its IT infrastructure, add further financial support to its investment banking business and fund other new products. Therefore, Barita provides investors with a growth opportunity within the financial services sector and as a result, we valued the Company with this in mind.

# Barita



Fair Value: J\$76.08

Potential Upside: 46.30%

52 Week High	J\$90.00
52 Week Low	J\$45.00
2019's % Gain/Loss	-24.68%
Current P/E (x)	19.68
Current P/B (x)	2.93
TTM Net Income (J\$B)	J\$2.29
TTM EPS (J\$)	J\$2.77
Market Capitalization (J\$B)	J\$44.96

\*TTM - Trailing Twelve Month  
Information as at August 25, 2020

Based on our use of the price to earnings to growth (PEG) ratio, the stock is valued at **J\$76.08**. At the APO price of **J\$52.00**, the stock is being offered at a discount of **31.65%** while the shares at **J\$49.75** and **J\$49.00** are being offered at discounts of **34.61%** and **35.59%** respectively. At the time of our Analysis the stock closed at **J\$54.50**<sup>1</sup> which also implies that this may be an opportunity to buy the stock at a discount to the market price. Based on our analysis we believe BIL's stock in this offer is a **BUY** at its offer prices for investors with a medium to long term time horizon.



- 9-Months 2020 Net profit - \$2B
- Strong brand and 40 years of expertise
- Diversified product offering

**Disclaimer:** This report is a summary of a more comprehensive report that is available upon request. All information contained herein is obtained by JN Fund Managers Limited's Global Investment Research Unit from sources believed to be accurate and reliable. All opinions expressed are based on the Research Analyst's judgment as of the date of the report. As such, no warranty is made, expressed or implied by JN Fund Managers Limited in any form whatsoever as to the accuracy, timeliness or completeness of information contained in this report. JN Fund Managers Limited is therefore not liable for any actions taken in reliance on information

### Global Investment Research Unit

**Dania Palmer, CFA**  
Manager - Research  
dpalmer@jngroup.com

**Ann-Marie Thomas, MSc**  
Assistant Manager - Research  
a.thomas@jngroup.com

**Karen Irons-Jolly**  
Research Analyst  
kareni@jngroup.com

# Key Takeaways...

## Strong Growth Potential

Since 2018, Barita has embarked on a massive talent acquisition drive, successfully raised over J\$10B in capital and delivered record profitability to its shareholders. With its current low leverage from its balance sheet strengthen activities and low-efficiency ratio indicates that the firm is in a good position to withstand shocks and provide a rare growth opportunity in the financial services sector.

## Improving Financial Leverage

Barita has been using equity funding to capitalize since acquisition. The equity events along with the company's record profitability, have led to significant improvements in the Company's leverage ratios. BIL's leverage which stood at 7.14X in FY 2015 was reported at 3.42X at the end of June 2020. BIL's low leverage relative to the industry peers indicates that the Company is relatively less risky than its peers.

## Operating Leverage

Barita efficiency ratio at the end of its most recently concluded financial year was **38%** and below the industry average of **55%**. This implies that BIL converts more of its revenue growth to profit at a better rate than its industry peers and also indicate that the company is less risky.

## Diversification of Product Lines

Barita has managed to diversify its product lines over the last two years. BIL intends to use the proceeds from this APO to fund new products as well as expand the investment arm of the business. A more diversified income stream protects or increases profit margins in good times. The more diverse the firm's income is, the better it can weather adverse economic conditions.

# Risks to Consider...

## Competitive Domestic Landscape and Lack of Geographic Diversification

Barita operates in a competitive local environment characterized by several long-established and new entrants. However, continued income diversification and the new thrust to geographical expansion should minimize the impact of these competitive pressures and the exposure to one country.

## Illiquidity of Stocks

Barita currently has a free float of **~11.13%** which limits investor participation, increases risks by limiting investors ability to sell the stock if needs be to meet their target returns or liquidity needs. The current APO should increase the free float available to common shareholders which is likely to improve on the stock's liquidity.

## Weak Macro-Economic Environment

The global economy is likely to contract in 2020 because due to COVID-19 has had on the economy. Locally, lower business and consumer confidence, as well as the growing unemployment, may lead to a lower pool of available funds for investment purposes. Within this context, BIL may find it more difficult to grow its revenues and profits. However, the drive by the Company to further diversify its revenues by segments and geography should help to cushion the fallout which may occur.

## Summary of the Terms of the Offer

<b>Issuer</b>	Barita Investments Limited			
<b>Lead Broker</b>	Barita Investments Limited			
<b>Share subject of Invitation</b>	Up to 173,733,220 New Ordinary Shares inclusive of 160,752,450 Reserved Shares subject to the right of the Directors of the Company (in consultation with the Arranger) to increase the number of New Ordinary Shares to be made the subject of the Invitation, provided that the Director shall have no obligation to make any such increase and in no event shall any increase in New Ordinary Shares be greater than 260,599,830 in number.			
<b>Securities to be Issued</b>	New Ordinary Shares of no par value in the capital of the Company and ranking pari passu with the Existing Ordinary Shares in issue. The Company intends to apply to have the New Ordinary Shares issued pursuant to the invitation herein listed on the Main Market of the JSE.			
<b>Offer Opens</b>	9:00 am on Wednesday, August 26, 2020			
<b>Closing Date</b>	4:00 pm on Wednesday September 16, 2020			
	Small Investors	Hotel Workers, Farmers and Civil Servants	Cornerstone Existing Shareholders, Barita Clients and Key Investors	Non-Reserved
<b>Price</b>	J\$49.00	J\$49.75	J\$52.00	J\$52.00
<b>Share Allotment</b>	4,591,838	9,045,228	147,115,384	12,980,770
<b>Use of Proceeds</b>	The use of proceeds is to enhance Barita's operating capacity and capabilities to accommodate this trend into the future. (1) To increase the Company's Investment Banking underwriting capacity (2) To upgrade the technology (hardware and software) to leading global standards (3) Seed new managed funds and expand product offering to suit a wider range of investor profiles (4) Footprint Expansion (local and regional) (5) Working capital needs to develop talent, branding and operating capacity to accommodate the existing growth trajectory and (6) Transaction Fees.			
<b>Minimum Share Offering</b>	Applicants must request a minimum of 300 New Ordinary Shares in their Application. Applications above this amount shall be in multiples of 100 New Ordinary Shares.			

**Disclaimer:** This report is a summary of a more comprehensive report that is available upon request. All information contained herein is obtained by JN Fund Managers Limited's Global Investment Research Unit from sources believed to be accurate and reliable. All opinions expressed are based on the Research Analyst's judgment as of the date of the report. As such, no warranty is made, expressed or implied by JN Fund Managers Limited in any form whatsoever as to the accuracy, timeliness or completeness of information contained in this report. JN Fund Managers Limited is therefore not liable for any actions taken in reliance on information contained

## Contact us

### Kgn & St. Andrew

**Paul Penn** - 876-564-8276  
pennp@jngroup.com

**Peta-Gay Walker** - 876-588-8886  
pmiller@jngroup.com

**Tamara Honeyghan** - 876-557-0082  
tamarah@jngroup.com

**Kimberley Savage** - 876-307-9461  
ksavage@jngroup.com

### Mandeville

**Horace Walters** - 876-487-9267  
waltersh@jngroup.com

**OR**

**Visit [www.jnffunds.com](http://www.jnffunds.com) to**

**SCHEDULE AN APPOINTMENT**

### Global Investment Research Unit

**Dania Palmer, CFA**  
Manager - Research  
dpalmer@jngroup.com

**Ann-Marie Thomas, MSc**  
Assistant Manager - Research  
a.thomas@jngroup.com

**Karen Irons-Jolly**  
Research Analyst  
kareni@jngroup.com