

SUMMARY REPORT

Barita Investments Limited (the Company or BIL)

Company Profile

Barita Investment Limited is currently the oldest remaining stock brokerage company in Jamaica. Over the past 40 years, Barita has grown its business to include Cambio and fixed income trading, stock brokerage, pool funds management, structured products, investment banking among other services. The firm is a member of the Jamaica Stock Exchange and a Cambio Dealer for the Bank of Jamaica. In August 2018, Cornerstone United Holdings Limited (CUHL), an investment holding company, acquired majority shares in Barita Investments Limited and now controls approximately 75% of the firm.

Summary Recommendation

In the most recently concluded 9-month period, up to June 30, 2021, Barita continued to deliver recordbreaking growth and profitability for its shareholders. 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. Over the period, the Group posted net profits, which was 83% above the amount generated over a similar period in the previous year and already ~22% above the amount generated in the entire 12 months in FY 2020.

Following its succesful APO in September 2020, BIL bolstered its investment banking underwriting capabilities, upgraded its technology - including the implementation of its BOSS platform, seeded alternative investment strategies, widened its footprint and expanded its trading operations. So far, the early indications are that the company has seen further operational improvement and is experiencing accelerated revenue and profit growth.

We recommend the purchase of Barita's shares at the APO price of J\$80.00 for a potential upside of 56.61%. Barita's best in class leverage ratio and well below average expense ratio, strategic plans and past performance provide indication of Barita's potential for much higher growth than its peers and is a rare growth opportunity in the local finacial sector.

APO



Key Features

52 Week High	J\$99.84
52 Week Low	J\$52.01
2021's Gain/Loss	12.36%
Current P/E (x)	21.87
Current P/B (x)	3.3
TTM Net Income (J\$B)	J\$4.42B
TTM EPS	J\$4.29
Market Capitalization	J\$99.89B

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Invitation Details

Issuer	Barita Investments Limited (BIL)		
Lead Broker	Barita Investments Limited	Co-Broker JN Fund Mana	
Offer Opens	9:00 am on Monday, September 6, 2021		
Closing Date	4:00 pm on Tuesday, September 21, 2021		

	Existing Shareholders & Barita Clients	Cornerstone Investors and Key Investors	Non-Reserved
Price	J\$80.00	J\$80.00	J\$80.00
Share Allotment	18,750,000	93,750,000	12,500,000
Minimum Share Offering	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.		

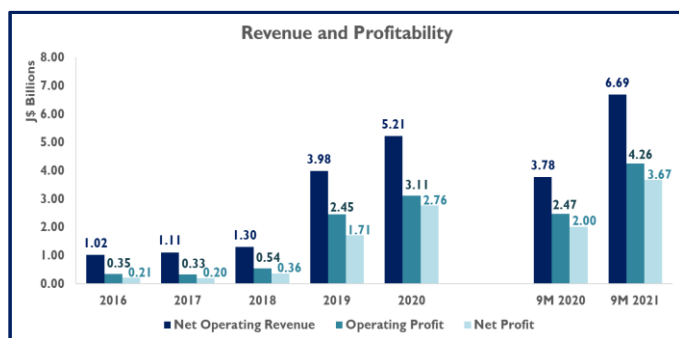
Use of Proceeds

- To add capacity to the Company's principal investment portfolios to include investments in: Private Equity, Private Credit; Infrastructure and Alternative Investment.
- To expand locally and regionally, to further support their underwriting capacity.
- Transaction fees.

FINANCIAL ANALYSIS & VALUATION

Revenue and Profitability

In August 2018, Cornerstone Investment Holdings acquired majority shares in Barita Investments Limited. Since the acquisition, Barita has been put on a platform of rapid growth and transformation underpinned by equity funding for sustainable long-term growth. The transformation is evident in several areas of the business including total assets, leverage level, return on equity and operational efficiency.



For the 9-month period ended June 2021, Barita posted net operating revenues of J\$6.7 billion which was 77% above the amount reported in the previous period.

Net Interest Income reflected an increase of ~38% YOY, growth which was driven by the Group's strategy to expand its credit and fixed income portfolios as well as a 50% jump in repo-liabilities. Fees and commission income increased by 95%, largely reflective of the strong performance of the investment banking (IB) and asset management teams. Over the period, Barita placed specific focus on growing its investment banking capabilities and a significant portion of its successful APO¹ was earmarked to boost its underwriting capabilities. Specifically, Barita's IB team completed the APO for Derrimon Trading Group (DTL) where it raised a record

of more than J\$7 billion for the junior market company. This undertaking also allowed the Group to onboard many new clients which it believes will be invaluable in the periods ahead.

FX Gains over the period amounted to J\$1.78 billion, or 317% above the amount recorded over the similar period in FY 2020. Since the acquisition in 2017, the Group has sought to use a more active approach to managing its FX exposure. This included providing its Cambio with a larger float to facilitate larger transactions and therefore, the growth recorded in the 9-month period ending June 2021, is directly reflective of this strategy.

When the pandemic first started to show up globally, towards the end of the first quarter in 2020, asset prices declined substantially within a matter of days. In the 33 days from February 19 to March 23, the FTSE All-Share Index fell by 33%, while the MSCI World Index declined by 34%. At the same time, Barita was probably very fortuitous as the Group had more than J\$3 billion in cash and securities around the time of the market crash. Consequently, this put the Group in a good position to focus on profitable opportunities which became very important when the market declined. Barita was also able to "invest well" probably, as others had other priorities for example, ensuring they remained sufficiently capitalized and on the prevention of further credit losses.

Over the 9-month period, the Group generated J\$1.0 billion in gain on the sale of investments. This line relates to Barita's proprietary trading activities, and the amount generated in the most recent 9-month period was 9.0% below the amount generated in the prior year. The decline observed for the period reflected the overall reduction in large market value

¹ Barita successfully raised in excess of J\$13B in an APO in September 2020.

transactions locally and increased volatility internationally. As vaccination programmes started to roll out globally, investors' inflation expectation increased as the market pondered the possibility of an increase in rates (tightening) to slow "run-away" inflation. However, as the Delta variant emerged, the idea of "run-away" inflation faded, and the possibility of further restrictions started to weigh heavily on the market.

Non-interest expense came in at \$2.4 billion over the period versus J\$1.3 billion in the similar period last year. The YOY increase was driven by a jump in staff cost as the Group continued to attract new talent it believes will assist in executing its strategy and growth objectives. Despite the slowing of economic activity caused by COVID-19, the Group increased its staff complement by 24% as it added a project management office, a strategy and analytics unit and expanded information technology. Administrative expenses climbed by 86% to reach J\$1.4 billion and expected credit losses reached J\$137 million from J\$13 million in the year before. Unsurprisingly, ECL has increased on account of Barita's balance sheet expansion, but the growth also reflects the increased uncertainty which lies ahead.

Notwithstanding, the increase in operating expenses, the Group's efficiency ratio came in at only ~36% for the 9-month period reflecting a marginal increase over the 35% reported in FY 2020. Over the medium term, it is expected that this ratio could climb just above the 40% mark, a level which will still be well below the current industry's average². Barita's strict expense management has been through deliberate effort since acquisition, as the Group has placed a keen focus on this area.

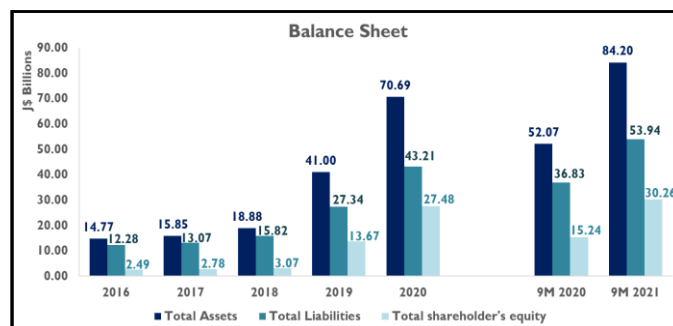
The effective tax rate over the 9-month period was 14.7% and below the 19.0% reported over the similar period in the year prior. As a part of its strategy, the Group is always on a drive

to ensure efficient tax management which means it continuously seeks legitimate ways to reduce corporate taxes where possible.

Net profits for the 9-months ended June 30, 2021, was J\$3.37 billion or 83% above the amount posted in the similar period in FY 2020. The period's net profit out turn was also 22.1% above the amount posted for the entire 12 months in FY 2020. The profits generated implies an EPS of J\$3.38 which is already above the EPS generated over the entire FY 2020, and which further implies that so far, the new shares issued have not had a dilutive effect on earnings due to the Group's impressive operating performance. BIL's return on average equity as at the end of 17.3% for the 9-month period ended June 30, 2021, which was above the peer group average, even with lower-than-average leverage.

Balance Sheet

At the time of acquisition in 2018 Barita reported total assets of J\$18.9 billion, a total which ranked them eight among the companies in asset management industry locally. However, after two full years post-acquisition, at the end of FY 2020 the Group reported total assets of J\$70.7 billion which improved its ranking to fourth. Unsurprisingly, Barita's cumulative asset growth of 274%, over the two years, was the largest asset growth among the asset managers and the jump in assets also



² JSE, JN Fund Managers Ltd. – Peer Group Efficiency Ratio – Average FY 2020 74.98%

meant that Barita now has over 80% more assets than the company which was previously ranked³.

Barita's total assets stood at J\$84.2 billion at the end of June 2021 or more than J\$13.5 billion above the amount reported at the end of FY 2020. In September 2020, Barita closed its very successful APO, raising more than J\$13.0 billion which it has since deployed aggressively. Total assets reflect a growth of J\$32.13 billion when compared to the amount reported at the end of the 9-month period in FY 2020 on account of a J\$21.1 billion jump in pledged assets⁴, a J\$5.4 billion increase in securities purchased under resale agreements and growth of J\$3.1 billion in marketable securities. Looking ahead, Barita intends to place strong emphasis on real assets.

Total liabilities expanded by J\$17.1 billion from the end of the 9-Month period in 2020 to the 9-Months period just concluded. The lion's share of the increase was driven by a J\$15.5 billion spike in Securities sold under repurchase agreements which moved up by 50% YOY. As at the end of the 9-month period ended June 30, 2021, BIL's leverage was 2.78x which is very low compared to its peers. BIL's low leverage⁵, relative to its peers, may be an indication of its relatively lower risk and its capacity to improve return on equity with the use of increased leverage.

Shareholders' equity at the end of the period was J\$30.3B and grew significantly over the period because of the injection from the APO which closed in September 2020 and from the strong profits the Group generated net of dividend payments. BIL's Capital to Risk Weighted Assets Ratio at the end of the 6-month period ended March 31, 2021, was 53.39% and well above the regulatory requirement of at least 10%.

Valuation Summary

To value the Barita shares using the average PEG method, we reasonably assumed that Barita, with its lower leverage and high operational efficiency, is poised to grow at a faster pace than its peers. While over the last five years BIL grew its EPS annually on average by over 3.6x more than its peers, we project BIL future growth in EPS amounts to only 1.5x that of its peer average.

If Barita grows at **1.5X** its peers' projected growth, its projected EPS growth equates to **24%**. When applied to the industry PEG of **1.18X** and forward earnings of **J\$4.42** the stock is valued at **J\$125.29**.

Given that Barita's shares are being offered at J\$80.00 in this APO, the shares are currently undervalued and present an opportunity for an approximate upside of 56.61%.

³ JSE, JN Fund Managers Ltd. – Peer Group Total Assets FY 2018 to FY 2020.

⁴ Pledged Assets - Assets are pledged to other financial institutions, regulators, and the clearing house as collateral under repurchase agreements with counterparties.

⁵ JSE, JN Fund Managers Ltd. – Peer Group Leverage Ratio – Average FY 2020 4.46

INVESTMENT POSITIVES AND RISKS

Barita Investments Limited (BIL)

POSITIVES



Strong Growth Potential

Since 2018, Barita has embarked on a massive talent acquisition drive, successfully raised over J\$23 billion in capital and delivered record operational profitability and capital gains to its shareholders. Barita's low leverage and operational efficiency indicate that the firm is in a good position to withstand shocks and provide a rare growth opportunity in the financial services sector.



Low & Improving Leverage

Barita has been using mainly equity funding to capitalize since the Cornerstone acquisition. The equity events along with the Group's record profitability, have led to significant improvements in its leverage position. BIL's low leverage, relative to its industry peers, indicates that the Group is relatively less risky and that there may be significant room for the Group to improve its return on equity with the use of increased leverage.



Consistent Dividends

For FY 2021, it is projected that BIL's dividend yield is 3.54%. The company also intends to pay out approximately 80% of earning as dividends going forward. This presents an opportunity for investors to gain a higher total return, especially in the context of low yields on fixed income investments.



Diversification of Product Lines

Barita has managed to diversify its product lines over the last two years and the proceeds of the upcoming APO will be used to further strengthen its revenue streams. 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.



Investment in Technology

Over the last two years, BIL delivered on its commitment to using technology and information to drive its service delivery and support the strategic requirements of the organization. For example, the company implemented its BOSS platform which has enabled the smooth onboarding of several clients through the APO process. Proceeds from this APO will also be geared towards further development in this area.

RISKS



Competitive Domestic Landscape

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.



Tighter Funding Conditions

Lower or concentrated liquidity in the local market currently, amid the number of capital market transactions being undertaken, means that there is a possibility that Barita may find it difficult to successfully capital in the sufficient amounts and may result in a delay in the execution of some of its planned projects and investments and ultimately lower profit growth and valuation.



Lack of Geographical Diversification

Barita currently only operates in Jamaica creating high geographical exposure to one country, Jamaica. Given that Jamaica is prone to natural disasters and other risk factors BIL's performance could potentially be affected. Notwithstanding, Barita has geared some of the proceeds to expanding its geographical footprint which should be a mitigant to this risk.



Uncertain Macro Economic Environment

The global economy which contracted in 2020 due to COVID-19 is currently undergoing a recovery. Locally, low vaccination rates and rising COVID-19 infections continue to stifle business activity and continue to pose a serious threat to the local recovery. Within this context, BIL may find it more difficult to grow its revenues and profits. However, the drive by the Group to further diversify its revenues by segments and geography should help to cushion any fallout which may occur.



Price Risk

The trading activity could result in the stock's price fluctuating without regard for the operating performance of Barita and cause it to remain below its fair price for an extended period and potentially lower the returns for the investor.

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