

Guardian Holdings Limited (the Company, GHL or Guardian)



The Guardian Holdings Limited (GHL or the Company) is a Trinidadian company which is the parent company for an integrated financial services group known as Guardian Group. The Group provides integrated diversified financial services focusing on life, health, property and casualty insurance, pensions and asset management. The Guardian Group currently serves most countries across the English and Dutch speaking Caribbean including the Bahamas, the Cayman Islands, the US Virgin Islands and Belize. In 2019 NCB Financial Group (NCBFG) became the ultimate parent company of Guardian Holdings Limited (GHL) and now controls approximately **62%** of the shares outstanding. Currently, the shares of GHL are listed on both the Trinidad and Tobago as well as the Jamaica Stock Exchanges.

Analyst Opinion

Guardian is one of the region's leading financial institutions with a long history of delivering strong revenue growth and profitability. The company operates in most of the countries in the Caribbean and is rated among the top five in the major markets in which it operates. Like most companies regionally, the Guardian Group was severely challenged in 2020. However, in 2020, the Group delivered operational and financial results which were creditable along several metrics and especially when taken in the context of the pandemic. During the year Guardian delivered an overall net revenue growth of **4.0%**, despite suffering a double-digit decline in its Investing Activities, a result we believe, underscores the strength of its insurance arm. Additionally, Guardian managed to keep its operating expenses well contained resulting in the improvement of its overall efficiency¹. One of the knock-on effects of the improved efficiency and revenue growth is the company's commendable profit outturn which was **12.0%** above the amount posted in 2019.

While we are very aware that the COVID-19 pandemic is not over, it is very likely that the worst is behind us. With vaccination programme being rolled out regionally and as respective governments continue to ease out of the pandemic the companies within the region continue to gradually recover from the crisis. This recovery is also evident for Guardian Group which posted revenues and profits in Q1 2021 which are significantly above its previous year's.

The fair value of the shares being offered is estimated at **J\$887.22** while the shares are being offered at price of **J\$795.00**, which implies a discount of **10.40%**. Based on the foregoing we rate the GHL's stock in this offer as **BUY** for investors with a medium to long term time horizon. However, as at the time of our analysis the stock closed at **J\$759.85¹** on JSE and the equivalent of **J\$770.04¹** on the TTSE. Therefore, investors with the appropriate access to these markets may consider purchasing the shares on the open market at those prices as the investor would enjoy an even greater discount to the fair price.



Key Features:	
Current Price	J\$759.85
Offer Price	J\$795.00
Estimated Fair Value	J\$887.22
Implied Upside	11.6%
52 Week High	J\$1,134.90
52 Week Low	745.00
Current P/E (x)	8.12
Current P/B (x)	J\$1.73
TTM Net Income (J\$B)	J\$987.03
TTM EPS (J\$)	J\$93.45
Market Capitalization (J\$B)	J\$184.46

*TTM - Trailing Twelve Month

Information as at March 31, 2021

Fair Value:
J\$887.22

Potential Upside:
11.60%

Contact a Financial Advisor Today!!

(876) 929-7159

Or

Schedule an appointment

www.jnfunds.com

Invitation Details

NCB Global Holdings Limited is inviting offers for the subscription of up to **2,000,000** of Guardian Holdings Limited (GHL) ordinary shares at a subscription price **J\$795.00**. Please see the summary for more details on the offer.

After the sale, NCB Global Holdings Limited total shares will decline to **141,777,991 (61.10%)** from the previously held **143,777,991 shares (61.97%)**.

Summary of the Terms of the Offer			
Company	Guardian Holdings Limited		
Selling Shareholder	NCB Global Holdings Limited		
Arranger and Broker	NCB Capital Markets Limited		
Shares the subject of the Invitation	2,000,000 Ordinary Shares inclusive of 1,400,000 Reserved Shares		
Securities to be Issued	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.		
Offer Opens	9:00 am on Monday, May 31, 2021		
Closing Date	4:30 pm on Friday, June 11, 2021		
	General Public	Staff of NCBFG and Guardian Group with NCBCM Account	Clients of NCBFG or Guardian Group Jamaica with NCBCM Accounts
Price	J\$795.00	J\$795.00	J\$795.00
Share Allotment	600,000	400,000	1,000,000
Use of Proceeds	None of the net proceeds from the Invitation will be payable to the Company as all the Shares the subject of the Invitation are being sold by the Selling Shareholders. The Selling Shareholders intend to use the proceeds from the sale of their Shares for their own purposes as well as pay the expenses of the invitation estimated to not exceed \$40,000,000.		
Minimum Share Offering	Applications from the public must request a minimum of 10 Shares and shall be made in multiples of 1.		

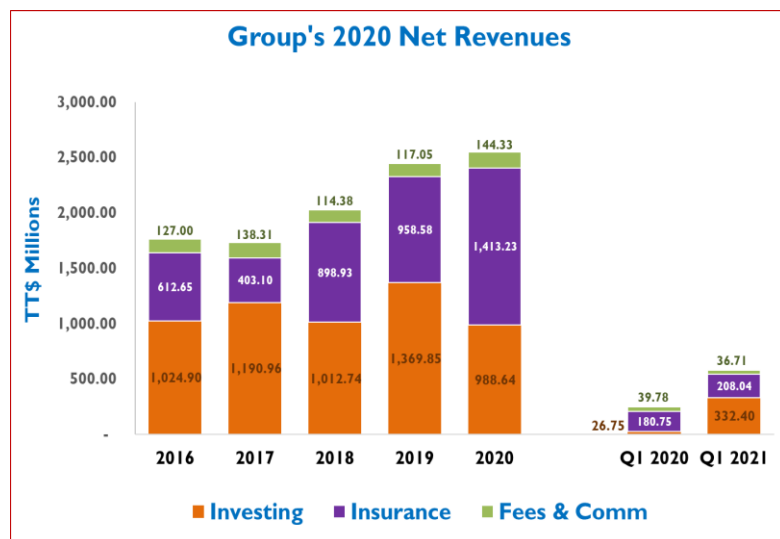
Financial Analysis

Revenue & Profitability

GHL's consolidated net revenues are generated through its insurance and investing activities, as well as from fees and commissions through its brokerage activities. As with most companies regionally, the year 2020 proved challenging for the Group as it posted net revenue growth at the slowest rate in over three years. However, despite the effects of the pandemic and a decline of **27.8%** in its investing activities, the Group's net revenues advanced by **4.1%** to **TT\$2.55B** in the year. The lion's share of the Group's revenues is generated in Trinidad and Jamaica which combined account for **63.1%** of 2020's revenues.

Trinidad, Guardian's home country, accounts for majority of its business and **46.4%** of revenues generated in the year.

As countries reacted to secure their borders and slow the spread of the virus, particularly in first half of 2020, business activities declined dramatically. However, as the society adjusted to the new normal and vaccines become commercially



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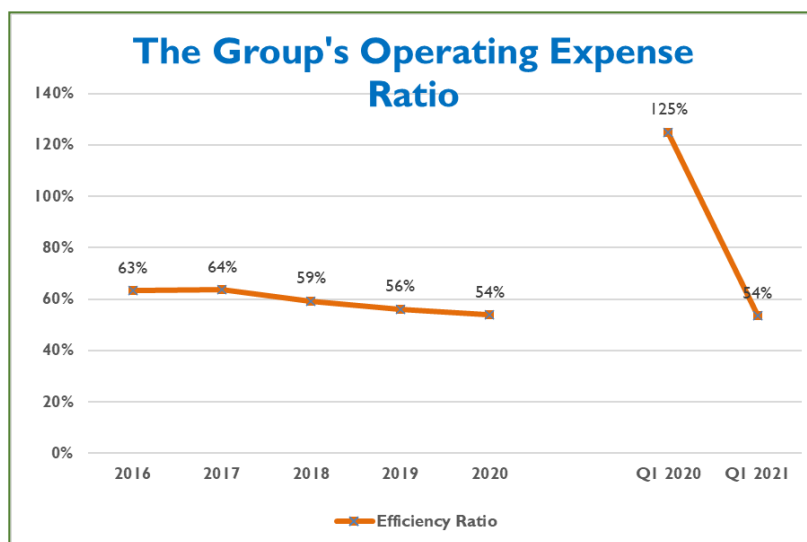
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available towards the end of the year, the recovery which started towards the end of the second quarter, accelerated in the final quarter of 2020 and continued into 2021. Unsurprisingly, as business activities improved the Group's revenues picked up and the company closed 2020 with a strong performance. Judging by the results posted for Q1 2021, the Group's strong performance in the second half of 2020 seems to have carried forward into the new year with Q1 2021 revenues reported at **TT\$577.2M**, more than doubling the results posted in the similar period a year earlier.

Over the five years, the Group, has taken several steps to improve its efficiencies as it seeks to transform into a world class insurer company. Consequently, significant amounts have been spent in the area's technology and human resources and these investments were instrumental in the Group's activating its digital strategy which served them well during the pandemic and which probably led to its operating expense ratio declining by approximately **9** percentage point to reach **54.0%** in 2020. In the year, the Group continued to invest in technology, and they

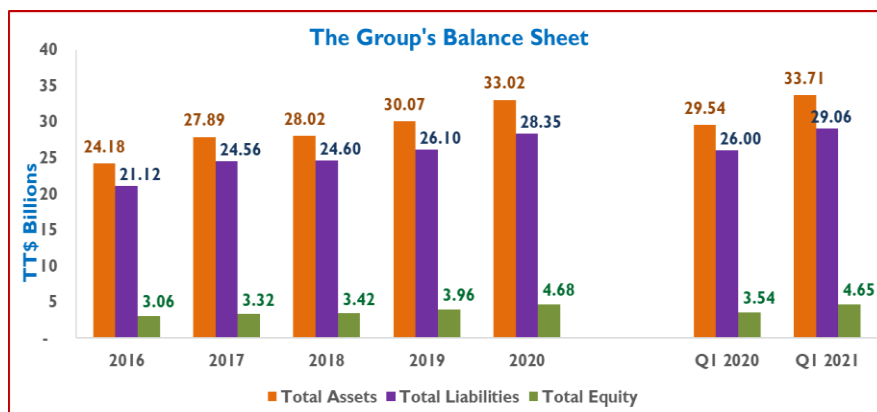


believe that they have only started to scratch the surface of the opportunities they expect from these investments. Consequently, it may be reasonable to expect this ratio to decline over the medium term as technologies are deployed and accepted across the Group's network. The expense ratio for the Group in the first quarter of 2021 was also **54.0%**.

The knock-on effect of record-breaking net revenues and operational improvement is that the Group posted net profits in 2020 which were **12.0%** above the amount posted a year earlier. In FY 2020 the Group reported net profits of **TT\$774.45M** (EPS: **TT\$3.34**) up from the **TT\$692.31M** (EPS: **TT\$2.98**) posted in FY 2019. For the three months ended March 31, 2021, GHIL reported record Net Profits of **TT\$176.79 M** which was better than the loss of **TT\$34.75M** recorded in Q1 2020.

Balance Sheet

Guardian, through its delivery of financial services, received significant cash inflows that are invested to meet future obligations. The Group's assets are allocated across different investment classes, the majority of which are debt and equity instruments. Between 2016 and 2020, Guardian's assets expanded at CAGR of **8.1%**. Even during



the just concluded financial year, the Group managed to have creditable asset growth of almost **10.0%**, especially when taken within the context of the pandemic and its impact on asset prices and risk. Further, as at the end of Q1 2021 the Group asset stood at **TT\$33.71B**, slightly above the **TT\$29.54B** it ended the year 2020 with.

Between 2016 and 2020, the Group's liabilities expanded by a CAGR **7.64%** and stood at **TT\$28.35B** at the end of that period. The expansion over the years was mainly due to increased insurance contracts, investment contract liabilities and other liabilities. The Group's liabilities increased by **16%** in 2020 when compared to the year before as a result organic growth and the impact of the addition of the NCBIC portfolio. Financial liabilities increased to **TT\$3.3B** as a result of its financing activities during the year, particularly in connection with the purchase of NCBIC.

Guardian's equity has grown steadily over the last five years owing to its consistent profitability. Between 2019 and 2020 the Group's equity increased by approximately **18.0%** and can be considered a significant achievement given the context under which it was achieved. The Group's large and growing equity base can be used as a sign of its increased capacity to withstand shocks and is a critical gauge of its strength, especially given the continued evolution of the pandemic.

Investment Positives and Negatives

Investment Positives

- Geographic Diversification
- Strong Historical Performance
- Strong Equity Base
- Market Leading Insurer
- Improving y Efficiency

Investment Negatives

- High Exposure to Low Growth Region
- Weak Macro-Economic Environment Due to COVID-19

Valuation Analysis

GHL's Fair Value Estimate

To arrive at our fair value for GHL we used the Price/Earnings and the Price/Book valuation methods.

Price/Earnings (P/E) and Price/Book (P/B) Models

To arrive at the fair price based on the P/E method, we calculated the Price to Earnings ratios for selected listed companies in the financial services industry. The industry average P/E was calculated as **11.43x** while at an offer price of **J\$795.00**,



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Guardian's P/E was **8.5x**. As Guardian's trailing 12-month earnings per share for the period ending March 31, 2021, was **~J\$93.45**¹ its fair value based on the P/E method equated to **J\$1,068.24**.

The average industry P/B ratio for the selected companies listed on JSE was calculated at 1.61x. The selected companies included the JMMB Group, NCB Financial Group, Scotia Group Jamaica, and Sagicor Group Jamaica. With a book value per share of **J\$439.42** as at March 31, 2021 the fair price of Guardian's stock was calculated at **J\$706.19**.

To arrive at the fair value for the company's stock we averaged the results of both the P/E and the P/B methods and arrived at **J\$887.22**. This fair value price of **J\$887.22** implies that the shares in this offer at **J\$795.00** are being offered at a discount of **~10.40%**.

APPENDIX

Financial Statement Extracts

GHL CONSOLIDATED INCOME STATEMENT EXTRACT							
TT\$ '000 - December Year End	2016	2017	2018	2019	2020	Q1 2020	Q1 2021
Net Result from Insurance Activities	612,654	403,099	898,925	958,579	1,413,229	180,745	208,043
Net Income from Investing Activities	1,024,898	1,190,957	1,012,742	1,369,846	988,637	26,746	332,404
Fee and commission income from brokerage activities	127,002	138,311	114,378	117,052	144,325	39,780	36,713
Net income from all activities	1,764,554	1,732,367	2,026,045	2,445,477	2,546,191	247,271	577,160
Net impairment losses on financial assets	-	-	(1,329)	(87,586)	(15,695)	12,695	(5,027)
Operating expenses	(1,117,647)	(1,101,905)	(1,201,734)	(1,374,500)	(1,372,256)	(309,116)	(309,072)
Finance charges	(129,605)	(128,893)	(135,522)	(146,705)	(153,847)	(36,716)	(50,720)
Operating Profit	517,302	501,569	687,460	836,686	1,004,393	(85,866)	212,341
Share of after tax profits of associated companies	3,285	18,646	17,045	18,033	17,705	4,788	3,573
Profit before Taxation	520,587	520,215	704,505	854,719	1,022,098	(81,078)	215,914
Taxation	(130,149)	(109,924)	(164,632)	(151,006)	(243,844)	40,175	(38,642)
Profit after Taxation	390,438	410,291	539,873	703,713	778,254	(40,903)	177,272
Profit attributable to participating policyholders	(15,552)	(1,142)	(4,693)	(8,753)	2,038	6,154	(482)
Profit for the year (continuing operations)	374,886	409,149	535,180	694,960	780,292	(34,749)	176,790
Net gain on discontinued operations	22,771						
Profit for the year	397,657	409,149	535,180	694,960	780,292	(34,749)	176,790
Profit attributable to non-controlling interests	(1,857)	(2,540)	(1,269)	(2,652)	(5,834)	(1,709)	(673)
Profit attributable to equity holders of the company	395,800	406,609	533,911	692,308	774,458	(36,458)	176,117

GHL CONSOLIDATED BALANCE SHEET EXTRACT							
TT\$ '000 - December Year End	2016	2017	2018	2019	2020	Q1 2020	Q1 2021
Total Assets	24,184,623	27,886,636	28,024,726	30,068,087	33,024,932	29,543,024	33,709,340
Total Liabilities	21,121,028	24,563,751	24,604,094	26,103,867	28,349,044	26,000,770	29,062,118
Equity							
Share capital	2,032,282	1,993,473	1,992,656	1,986,066	1,970,043	1,970,043	1,970,043
Reserves	(547,186)	(395,593)	(439,603)	(365,034)	(317,746)	(633,922)	(523,217)
Retained Earnings	1,556,032	1,701,933	1,845,006	2,318,847	3,018,068	2,180,097	3,194,213
Equity attributable to owners of the company	3,041,128	3,299,814	3,398,059	3,939,879	4,670,365	3,516,218	4,641,039
Non-controlling interests in subsidiaries	22,467	23,071	22,573	24,341	5,523	26,036	6,183
Total Equity	3,063,595	3,322,885	3,420,632	3,964,220	4,675,888	3,542,254	4,647,222
Total Liabilities and Equity	24,184,623	27,886,636	28,024,726	30,068,087	33,024,932	29,543,024	33,709,340

¹ TT\$ to USD exchange rate J\$21.97 -

KEY FINANCIAL STATISTICS								
Ratios	2016	2017	2018	2019	2020		Q1 2020	Q1 2021
Earnings Per Share	1.71	1.75	2.30	2.98	3.34		0.16	0.76
Book Value Per Share	13.26	14.34	14.76	17.15	20.15		15.27	20.03
Dividends Per Share	0.66	0.67	0.71	0.75	-		-	-
Net Profit Growth	18.23%	2.73%	31.31%	29.67%	11.87%		-25.93%	81.78%
Liquidity Ratios								
Current Ratio	10.84x	9.63x	11.21x	10.75x	10.16x			
Cash Ratio	0.96x	0.94x	1.04x	1.01x	1.29x			
Profitability Ratios								
Return on Equity	12.92%	12.24%	15.61%	17.46%	16.56%		-1.03%	3.79%
Return on Assets	1.64%	1.46%	1.91%	2.30%	2.35%		-0.12%	0.52%
Net Result from Insurance Activities Margin	14.27%	9.62%	20.16%	19.88%	29.33%		14.60%	16.62%
Operating Margin	12.04%	11.96%	15.42%	17.35%	20.84%		-6.94%	16.96%
Pre-tax Profit Margin	12.12%	12.41%	15.80%	17.72%	21.21%		-6.55%	17.25%
Profit Margin	9.22%	9.70%	11.97%	14.36%	16.07%		-2.94%	14.07%
Efficiency Ratios								
Asset Turnover Ratio (x)	0.19x	0.16x	0.16x	0.17x	0.15x		0.04x	0.04x
Credit Ratios								
Leverage Ratio (x)	7.97x	8.15x	8.29x	8.03x	7.55x		8.34	7.72
Debt/EBITDA (x)	2.99x	3.37x	2.60x	2.16x	2.58x			
EBITDA/Interest Expense (x)	5.60x	5.40x	6.60x	7.97x	8.26x			
EBITDA/CPLTD+ Interest Expense (x)	1.10x	1.59x	1.15x	1.77x	1.09x			
Debt/Equity (x)	0.71x	0.71x	0.68x	0.64x	0.70x		0.71x	0.72x
Debt/Total Assets (x)	0.09x	0.08x	0.08x	0.08x	0.10x		0.09x	0.10x
Debt Service Coverage Ratio (x)	0.50x	3.10x	0.90x	0.40x	1.40x		3.40x	4.40x

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