

Initial Public Offering: Eppley Caribbean Property Fund Limited Value Fund



Eppley Caribbean Property Fund (EPCPL), is a closed-end mutual company which invests the proceeds of issued shares in Caribbean real estate. The Company has two funds, one being The Development Fund and the other being The Value Fund, the latter being the subject of the offer. Both funds trade on the Barbados Stock Exchange and the Trinidad and Tobago Stock Exchange. The Development Fund focuses on non-income generating assets which are held for development and resale. The Value Fund primarily focuses on income generating properties. The portfolio currently contains six properties with an average occupancy rate of 90% and average net operating income (NOI) of 7.8%.

The Company was incorporated in 1999 as the Fortress Caribbean Property Fund and managed by Fortress Fund Managers Limited. In May 2018 Eppley Fund Managers¹ acquired The Caribbean Property Fund from the Managers, assumed the management of the Company and changed its name to Eppley Caribbean Property Fund Ltd SCC.

Key Features:

IPO Price	J\$46.18
Book Value	J\$46.26
Trailing P/E	31.55x
Price to P/BV	0.99x
Est. Fair Value	J\$39.78
Est. Dividend Yield	6.08%

Analyst's Opinion

Eppley Fund Managers is the investment manager of The Value Fund. It comprises of investment managers experienced in deploying alternative credit solutions in the Caribbean region. An example of this is the Caribbean Mezzanine Fund done in conjunction with NCB Capital Markets Limited. The investment team has the goal of using their regional experience to create value through managing real estate assets. The strategy requires a medium to long term investment horizon, as the success of the approach has much to do with the recovery of the Barbadian economy and continued economic progress of Jamaica. The main value proposition is an above average dividend yield generated by a diversified real estate portfolio.

The IPO price represents **0.998x** multiple of Price to Book Value (**P/BV**) against the Net Asset Value (NAV) of the Value Fund. Therefore, the stock is being offered at its book value. However, when compared to its industry average (**P/BV of .86X**) the offer price of **\$46.18** is at a premium of **~16.1%** and as such, it does not represent a fair opportunity for investors seeking real estate exposure in our opinion. Our estimated fair value is **J\$39.78** and based on the foregoing along with the risks identified herewith we do not recommend buying the Eppley Caribbean Property Value Fund at its IPO price.

¹ Eppley Fund Managers is a subsidiary of the Jamaican company Eppley Ltd. which trades on JSE as EPLY



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Summary of Offer

Eppley Caribbean Property Fund Limited SCC is seeking to raise **J\$4.5B (pre-fees)** through the issuance of **97.448M** ordinary shares to prospective investors through an Initial Public Offering (IPO) at a price of **J\$46.18** each. The proceeds of the IPO will be used to purchase a portfolio of commercial properties in Jamaica and Barbados, repay the Bridge Financing used for the purchase of commercial properties in Jamaica subsequent to March 31, 2019, fund its pipeline of future purchases of commercial properties across the Caribbean, and pay the fees and expenses associated with the Invitation. After a successful completion of the IPO the Company will apply to the Jamaica Stock Exchange (JSE) for the shares to be listed.

Issuer	Eppley Caribbean Property Fund Ltd (Value Fund)
Arranger and Lead broker	NCB Capital Markets Ltd
Exchange	Jamaica Stock Exchange, Main Market
Offer Period	Opening Date: June 28, 2019 at 9 am Closing Date: July 12, 2019 at 4:30pm - subject to the right of the Company to designate an earlier or later date in the circumstances set out in the Prospectus
Securities	Up to 87,791,350 Shares, with right to upsize by an additional 1,500,000,000, inclusive of 9,656,807 Reserved Shares.
Pricing	J\$46.18 Per share to the General Public and \$0.98 for Reserved Shares. Payments must be made at the time of application with a J\$163.10 Processing Fee.
Use of Proceeds	<ol style="list-style-type: none"> 1. Purchase a portfolio of commercial properties in Jamaica and Barbados 2. Repay the Bridge Financing used for the purchase of commercial properties in Jamaica subsequent to March 31, 2019 3. Fund its pipeline of future purchases of commercial properties across the Caribbean 4. Pay the fees and expenses associated with the Invitation.
Proposed Dividend Policy	An amount equivalent to 75% to 100% of net rental income the net cash position of the Value Fund is to be paid to shareholders by way of dividend
Acceptable Payments Methods	Either (1) manager's Cheque payable to "NCB Capital Markets Ltd"; (2) cleared funds held in a NCB Capital Markets Ltd. investments account or (3) Transfer or Direct deposit to NCB Capital Markets Ltd. (details set out in application form). No cash payments accepted.

Investment Positives

Competitive Dividend Yield: The Value Fund has produced a dividend yield above its peers for a five-year period. Additionally, the dividend income is tax free due to the CARICOM treaty. This creates an opportunity for an attractive income yield in a low interest rate environment. Please refer to the dividend yield comparison graph below.

Diversification Benefit: The investment fund offers exposure to commercial properties across in the Caribbean including Barbados and Jamaica as opposed to one specific territory. Epley Fund Managers intends to enter Cayman, Guyana and other countries in the future. The fund will also seek to invest in a variety of property types including retail and office spaces, properties in the hospitality sector and infrastructure assets,

Strong Potential Upside: The investment manager intends to buy properties at prices at or below recent independent valuation, in order to increase dividend yield and capital gains in the future. If the economy of Barbados improves, property values are likely to increase materially over time.

Regional Experience: Epley Fund Managers have been active in the region for the last five years through Epley Ltd. by providing alternative credit solutions to businesses across varying sectors. The relationships and experience developed have been used to create an active deal flow for the Value Fund.

Investment Risks

Economic Risk: Barbados is currently in a recession with declining asset values and rental income. The success of The Value Fund, due to its heavy concentration to Barbados, greatly relies on the turnaround of an economy which is still at a sensitive stage in its recovery. Barbados relies heavily on tourism and particularly on tourists from the UK (37%), US (23%) and Canada (13%). Weaker growth in these countries plus a disorderly Brexit, in the case of the UK, could slow tourism arrivals to the country. There could be severe spillover effects on the Bajan economy as tourism contributes up to 12% of the country's GDP and over 50% of foreign exchange. Upon passing stage one of the reform program, the IMF in 2019 expressed confidence in the recovery but uncertainty is still considerable.

Concentration Risk: Barbados is a small country and the current portfolio contains only six properties all on the island. As a result of this, there is considerable concentration risk both at the asset level and in a geographical context. The Fund Managers aim to address this risk overtime by using the IPO proceeds to go into new territories, however even with the new purchases identified, the portfolio will still maintain a heavy exposure to Barbados (79%).

Disaster Risk: As The Value Fund invests in islands in the Caribbean, which are susceptible to natural disasters such as hurricanes, there is a risk that the properties could be damaged or experience business interruptions by events of this nature. This could materially reduce the value of the assets and reduce returns. These properties are insured which could reduce the impact.

Low Liquidity: The Value Fund invests in real estate assets which are not always easy to exit, if circumstances become unfavourable. This therefore means that the Value Fund requires a longer investment horizon.

Foreign Exchange Risk: Barbados has maintained a currency peg for many years however if it continues to face pressures from a reducing NIR, the country may have to implement further controls on its currency or even remove its peg. A removal of the peg may see a devaluation of the Barbados Dollar and a subsequent reduction in asset values in US\$ terms.

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Economic Analysis

Barbados

Barbados is a small open economy which has transitioned from agriculture to one led by tourism and international business. Tourism which is central to the Barbados economy, employs ~**14,000** persons directly and contributes ~**12%** percent of GDP².

For over 50 years Barbados has been exercising exchange controls under “The Exchange Control Act 1967”. This Act enables the Exchange Control Authority to regulate the flows of foreign exchange between Barbados and other countries.

For open economies, such as Barbados, exchange controls may be seen as necessary for the stability of the local market and to help prevent the flight of capital. A key argument for exchange controls is that by limiting the flow of capital out of the country and the ability to invest offshore, local investment is encouraged instead. To maintain a “peg” the country must ensure it has a significant amount of foreign exchange on hand. Tourist visiting the island contribute over 50% of the country’s foreign exchange. The Barbados Dollar is artificially pegged to the us at **BD\$2.00** to **US\$1.00**.

The Barbadian economy has been facing economic challenges for over five years due largely low growth

and an increasing public debt. Debt to GDP went from **137%** in 2017 to **175%** in 2018 according to the IMF. Barbados has faced a change of political leadership over the last 12 months and has made notable steps to repair its economy. Following in the steps of Jamaica, Barbados embarked on a comprehensive economic reform program with the IMF in 2018. Since that time the country has made some notably strides in addressing its economic vulnerabilities. Its international reserves that reach a low of **US\$220M** (5-6 weeks of import coverage) in May 2018 have increased by more than **100%** due to international borrowings³ and an ongoing debt restructuring. The debt restructuring included both domestic debt and those held by foreign creditors. The local debt restructuring was completed in November 2018 but the negotiations with the foreign debt holders are still on going. The country has passed the first stage of their economic recovery program but the success of the ongoing renegotiations with external creditors is key to meet its long-term growth targets. In 2019, the IMF also expressed confidence in Barbados’ ability to recover based on their early achievements. This is underscored by an upgrade by Moody’s Investor Services from **Caa3** to **Caa1**⁴ with a Stable outlook on July 2, 2019.

² Source – Barbados Tourism Investment Inc

³ Following IMF Board Approval both Caribbean Development Bank and Inter-America Development Bank approved policy-based loans worth US\$70M and US\$100M respectively.

⁴ Moody’s Investor’s service – Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk. Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating

classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category

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Sector Analysis

Against the economic backdrop of Barbados, asset values, particularly those in real estate have been declining for the past five years due to falling demand for commercial properties. Challenges also include declining rental income in the midst of rising property taxes and maintenance costs. On the other hand, Barbadian real estate has historically been seen as prime lands when compared to other Caribbean territories,

given that it is an offshore financial center, a tourism hub and retirement destination for high net worth individuals from countries such as the UK. Even though Barbados is in a recession, on average, real estate still has higher values than their equivalent in Jamaica and most Caribbean territories. The Value Fund seeks to invest in countries, such as Jamaica, with higher gross rental yields than Barbados to generate a higher return.

Territory	Gross Rental Yield	Avg. Square Metre (US\$)
Barbados	5.48%	2,739
Jamaica	9.75%	1,404
Trinidad and Tobago	6.88%	2,334
Cayman	7.25%	4,163

Source: GlobalPropertyGuide.com, 2018 Data

Investment Strategy

Dividend Generation: The Value Fund's manager intends to purchase properties which generate rental income and which will be used to pay dividends to shareholders. Subject to any need for reinvestment, between 75% and 100% of the income generated will be distributed to shareholders as dividends and this income will be paid without withholding taxes.

Capital Appreciation: Given that Barbados is facing economic stress, asset values are currently depressed, presenting the opportunity for capital appreciation if and when the economy rebounds. As a result, the focus is to purchase properties at a discount to their book value

and sell them as their fair value increases, which typically occurs during an economic upswing and creates an opportunity for higher capital gains. The fund manager anticipates that a recovery would be possible in the medium term to long term.

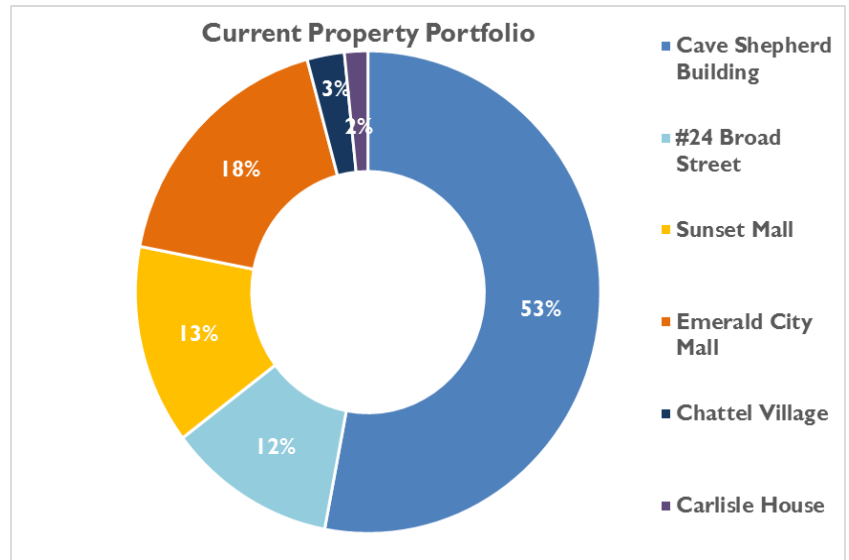
Diversification: The manager of the value fund intends to use the proceeds to invest in new properties to reduce the geographic exposure to Barbados by adding properties from other Caribbean territories such as Jamaica in the value fund. Increasing the size of the portfolio by going into more territories reduces the overall risk of the portfolio.

Properties in the Portfolio²

Currently, The Value Fund portfolio consists of six commercial, income generating, properties in Barbados. The properties cover ~ 270,000 square feet of space and has an average occupancy rate of ~ 90%. The total property portfolio as at March 2019 was valued at **BD\$107.47M** and the assets generated **BD\$8.5M** or a Net Operating Income (NOI) yield of **7.8%** for the 9 months up to that date.

The properties in the portfolio are currently

predominantly into retail trade. Retail trade is the business activity associated with selling goods to the final consumer. During a slowdown of an economy, or a recession, in general consumer demand decreases. Faced with fewer customers, retail stores may be forced to close their stores. This poses a risk to revenues as in a case where tenants



Properties	Size (Square Feet)	Occupancy	Net Operating		Current NOI		Ownership	Weight
			Income	Asset Value	Yield			
Cave Shepherd Building	103,131	100%	4,505,244.52	52,500,000	8.58%	36%	48.400%	
#24 Broad Street	14,119	100%	994,519.85	8,800,000	11.30%	100%	8.113%	
Sunset Mall	17,646	100%	1,136,147.49	12,200,000	9.31%	24%	11.247%	
Emerald City Mall	78,488	100%	1,508,358.72	26,000,000	5.80%	30%	23.970%	
Chattel Village	8,038	100%	220,289.26	1,470,000	14.99%	100%	1.355%	
Carlisle House	48,426	42%	138,352.64	7,500,000	1.84%	100%	6.914%	
Total	269,848	90.3%	8,502,912.48	108,470,000	7.84%		100%	

leave, there may be a lengthy period when a search is conducted for replacement tenant, resulting in lower lease payments than expected.

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Current Tenants and Leases

Four out of the six of the properties that the fund manages, or 92% in terms of asset value, have Triple Net Leases and the remaining are with operating

property in addition to the normal fees expected in a lease agreement.

According to the fund managers, the tenants are of a

Property	Tenant	Lease Type	Lease Expiration
Cave Shepherd Building	Cave Shepherd	Triple Net Lease	2029
#24 Broad Street	Duty Free Caribbean Ltd	Triple Net Lease	2021
Sunset Mall	Duty Free Caribbean Ltd	Triple Net Lease	2029
Emerald City Mall	A One Supermarket	Triple Net Lease	2032
Chattel Village	Various	Operating	2026
Carlisle House	Various	Operating	2019

leases. A triple net lease is an arrangement where the tenant, in a commercial lease agreement, pays the real estate taxes, building insurance and maintenance on the

high quality and includes a conglomerates trading publicly on the local exchange and and a global publicly listed entity. The lease are long term in nature with most expiring beyond 5 years.

Intended Purchases

The properties that will purchased with the proceeds of the Invitation, or that which were recently purchased, will be acquired at prices at or below recent independent appraisals and at net operating income (NOI) yields in line with or above the Fund's current portfolio. The fund's current weighted average NOI yield is 7.8%. The intended purchase will see The Fund start its planned diversification across geographical

territories, moving in Jamaica and two additional properties in Barbados. This move will also see a diversification of foreign currency exposure as rental fees of the Jamaican properties could be denominated in either Jamaican or US Dollars. However, even with these purchases the portfolio will still have a heavy tilt (79%) towards Barbados and the lease rates on the new properties may all be in Barbados Dollars.

Property	Tenant	Lease Type	Lease Expiration	Currency	Territory	Size (Square Feet)	NOI Yield
Prospective Class A Office Building	Cave Shepherd	Operating	2022	BD\$	Barbados	20,167	8.5%
Empire Shopping Centre	Duty Free Caribbean Ltd	Triple Net Lease	2019-2027	US\$ / J\$	Jamaica	31,318	9.0%
Angels Industrial Estate	Duty Free Caribbean Ltd	Triple Net Lease	2019	US\$	Jamaica	120,000	12.0%
227 Marcus Garvey Drive	A One Supermarket	Tenants pay maintenance and Insurance	2023	J\$	Jamaica	27,245	7.5%
Alamac Warehouse	Various	Operating	2021	BD\$	Barbados	39,093	9.0%

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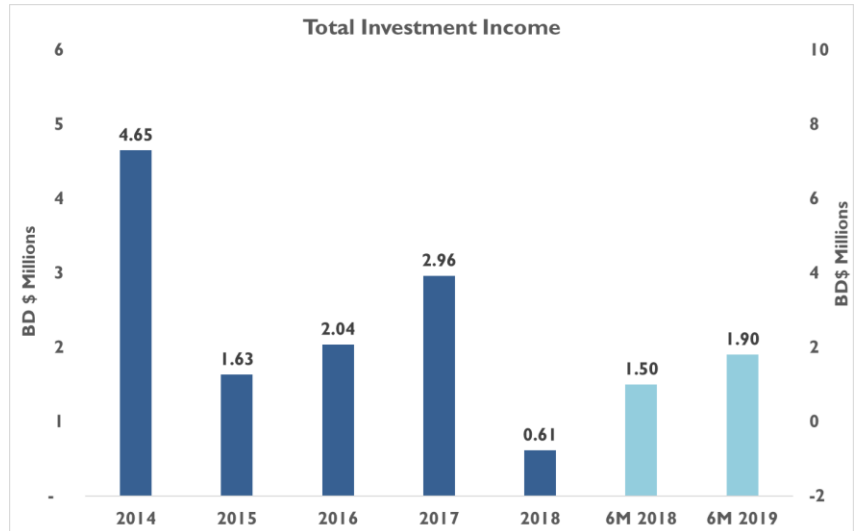
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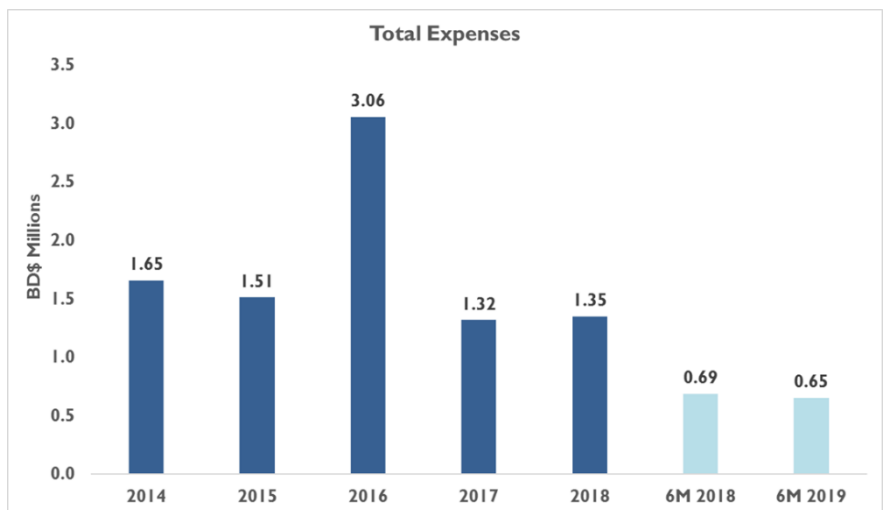
Financial Analysis⁵

Revenue & Profitability

Eppley's Value Fund (The Value Fund) generated Total Investment Income of **BD\$4.65M** in FY 2014 compared to only **BD\$0.61M** in FY 2018. This is due to declining Net Rental Income during the five year period. However, between Q2 2018 and Q2 2019 Total Investment Income rose from **BD\$1.5M** to **BD\$1.9M** due to significantly increased interest income and renegotiated leases, there was a **26.67%** increase in Total Investment Income Year over Year.



The Value Fund's Total Expenses increased from **BD\$1.65M** in FY 2014 to **BD\$3.06M** in FY 2016. In FY 2017 Total Expenses declined to **BD\$1.32M** then increased by **2.52%** to **BD\$1.35M** in FY 2018. The **BD\$1.76M** spike in Total Expenses in FY 2016 occurred due to one off item, Provision for Selling Costs of Property, linked to investments in joint ventures. Total Expenses include Interest



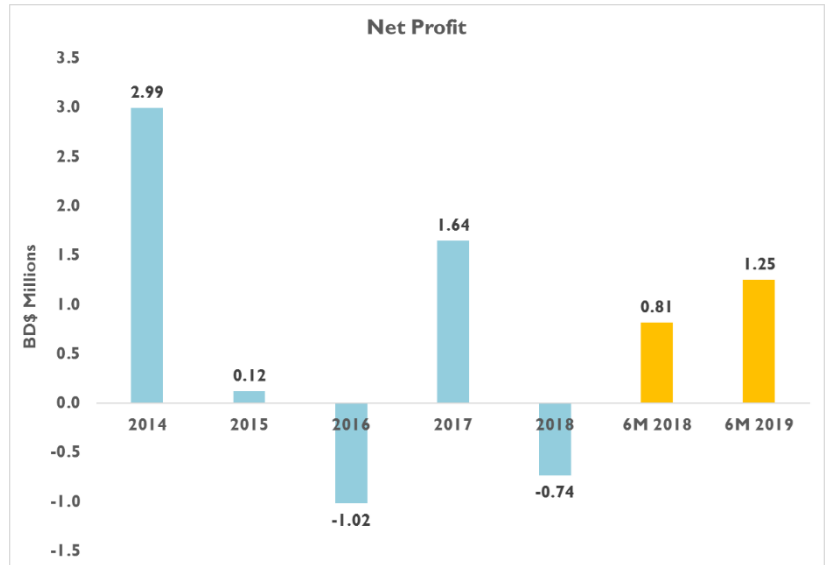
Expense, Fund Management Fees, Professional Fees, Administrative fees and Impairment Charges. Interest Expense trended downward for the five year period, moving from **BD\$0.72M** in FY 2014 to **BD\$0.49M** in FY 2018. Between Q2 2018 and Q2 2019 Total Expenses declined by **5.8%** due to lower interest expenses, professional fees and directors fees.

Operating Income has been largely reflective of the movement in Total Investment Income over the review period. Operating Income declined from **BD\$3.01M** in FY 2014 to **BD\$0.14M** in FY 2015.

⁵ An extract from the company's financial statements is included in the Appendix

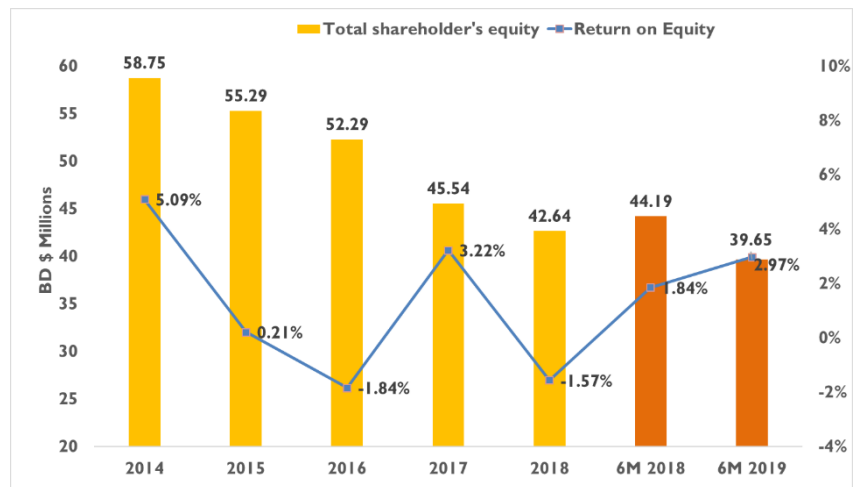
Operating Income declined to **BD\$-1.02** in FY 2016 then rose to **BD\$1.63M** in FY 2017 then declined to **BD\$-0.72M** in FY 2018. Between Q2 2018 and Q2 2019 Operating Income increased from **BD\$0.81M** to **BD\$1.26M**. This is due to renegotiated leases, increased interest income and lower operating expenses Year over Year.

Net Income declined from **BD\$2.99M** in FY 2014 to **BD\$0.12M** in FY 2015 due to a **BD\$3.02M** decline in Total Investment Income. Net Income then dipped to **BD\$-1.02M** in FY 2016 due to a **BD\$5.51M** decline in Net Rental Income and a **BD\$1.76M** spike in expenses coming from Provision for Selling Costs of Property. Net Income rose to **BD\$1.64M** in FY 2017 due to a **BD\$0.92M** increase in Total Investment Income and **BD\$1.74M** decrease in Total Expenses Year over Year. In FY 2017 Total Income rose due



to an **BD\$8.20M** decrease in Fair Value Losses on Investment Property. Total Expenses decreased in FY 2017 due to an exclusion of the extraordinary item of 'Provision for selling costs of Property'. In FY 2018 Net Income declined to **BD\$-0.74M** due to a Net Loss on Sale on investment Property, a **6.2%** decrease in Net Rental Income, A **35.30%** decrease in Interest Income and a sharp rise in Fair Value losses On Investment Property and a **2.52%** increase in Total Expenses. Between Q2 2018 and Q2 2019 Net Income rose from **BD\$0.81** to **BD\$1.25M**. This is due to declining revenues and an increase in Total Investment Income.

Return on Equity (ROE) declined from **5.09%** in FY 2014 to **-1.84%** in FY 2016. ROE then rose to **3.22%** in FY 2017 before falling to **-1.57%** in FY 2018. Between Q2 2018 and Q2 2019 Return on Equity increased from **1.84%** to **2.97%**. This is due to a **54.32%** increase in Net Income and a **10.27%** decline in Shareholders Equity Year over Year. Movements in Shareholders Equity is discussed further in the Asset Quality section.



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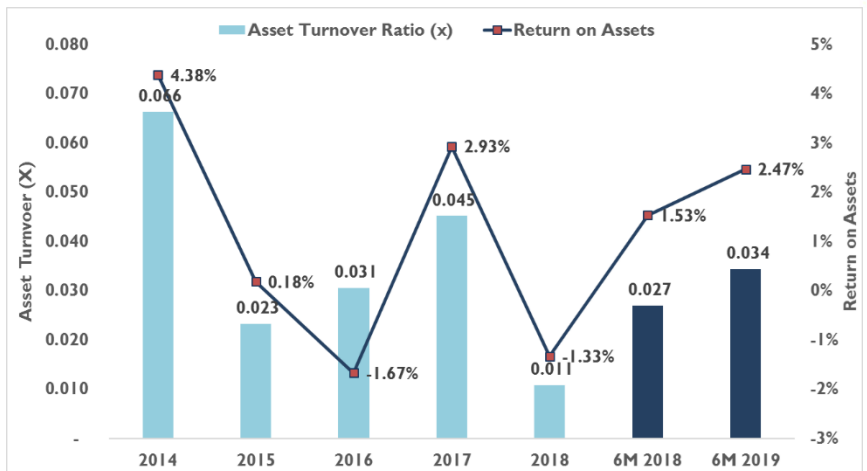
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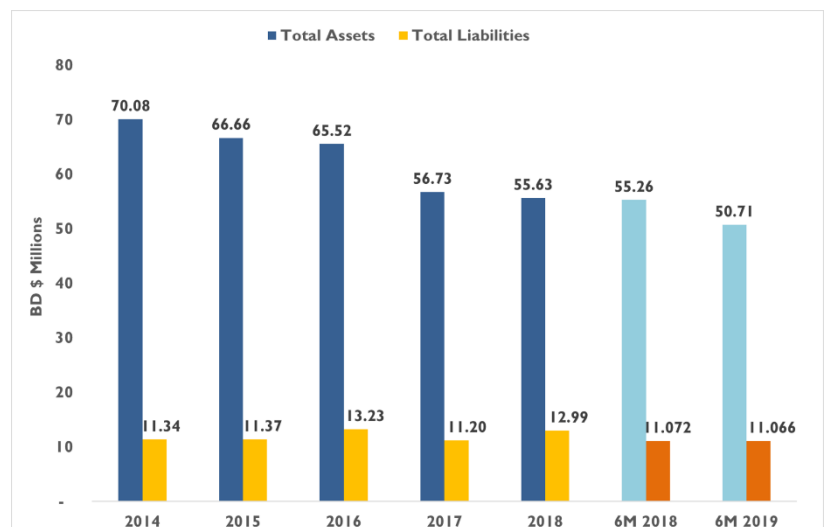
Asset Turnover which was **0.07X** in FY 2014 fell to **0.02X** in FY 2015. It then increased slightly to **0.03X** in FY 2016 and further to **0.05X** in FY 2017 but decreased again to **0.01X** in FY 2018. Between Q2 2018 and Q2 2019 Asset Turnover rose from **0.027X** to **0.034X**. This is due to a 53.97% increase in Net Income Year over Year.



Return on Assets declined from **4.38%** in FY 2014 to **-1.67%** in FY 2016 but rose to **2.93%** in FY 2017 only to decline to **-0.20%** in FY 2018. Between Q2 2018 and Q2 2019 Return on Assets increased from **1.53%** to **2.47%** due to **53.47%** increase in Net Income and an **8.23%** decline in the asset base Year over Year.

Asset Quality, Liquidity and Solvency

The Value Fund's asset base has been declining over the five-year period moving from **BD\$70.08M** in FY 2014 to **BD\$55.63M** in FY 2018. Between Q2 2018 and Q2 2019. This decline is due mainly to the sale of properties and falling asset prices in Barbados over the review period. The economic stress the country is facing, has caused impairment charges to increase along with fair value losses on properties. Investment Properties declined from **BD\$52.77M** in 2014 **BD\$17.77M** in 2018.



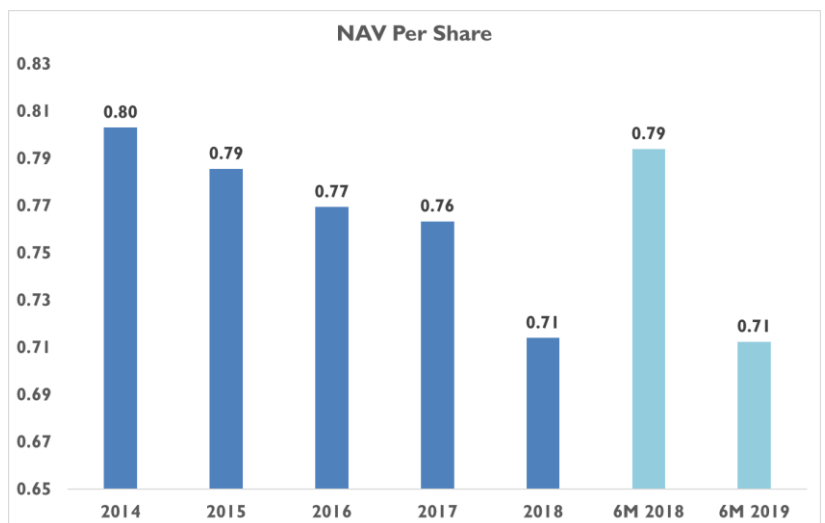
'Investments in Associated Companies' rose from **BD\$15M** in 2014 to **BD\$20M** in 2018. Cash and Cash Equivalents have increased from **BD\$2.03M** in 2014 to **BD\$10.24M** in 2018. This indicates that The Value Fund has been moving out of older properties and making investments in newer real estate projects. Investment properties as of March 31, 2019 was **BD\$17.8M** or **BD\$2.3M** lower than at the end of the second quarter in 2018. This mostly reflected fair value losses at Carlisle House.

The Fund Managers are currently working on a plan to convert the Carlisle House property, located on the water front in Barbados, to a hotel. This conversion is expected to create a significant upside for the portfolio.

The Value Fund's Total Liabilities have increased by **16.67%** from **BD\$11.34M** in 2014 to **BD\$13.23M** in 2016. This increase was largely due to a one-off item in FY 2016 called 'Provision for selling costs of Property' mentioned previously. Total Liabilities then declined to **BD\$11.2M** in FY 2017 then increased by **15.98%** to **BD\$12.99M** in FY 2018. This increase is due to increases in impairment charges, professional fees and other accrued expenses in FY 2018. Between Q2 2018 and Q2 2019 Total Liabilities decreased from **BD\$11.072M** to **BD\$11.065M** due to a **14.88%** decline in Accounts Payable and a **3.92%** decline in Security and Advance Deposits.

The Value Fund's Total Shareholder's Equity moved from **BD\$58.75M** in FY 2014 to **BD\$42.64M** in FY 2018. This decline is largely influenced by a decrease in the asset base over the five-year period. This is because Retained Earnings have decreased from **BD\$7.48M** in FY 2014 to **BD\$2.53M** in FY 2018. Between Q2 2018 and Q2 2019 Shareholder's Equity moved from **BD\$44.19M** to **BD\$39.65M** due to a **41.5%** decrease in Retained Earnings.

The Value Fund's Net Asset Value (NAV) declined by **12.68%** over the review period from **BD\$0.80** per share to **BD\$0.71** per share. The decline of the NAV is due to a decline in Total Shareholders' equity which is linked to a decreasing asset base over the five-year period. Between Q2 2018 and Q2 2019 the NAV fell from **BD\$0.79** to **BD\$0.71** due to a **10.27%** decrease in Shareholder's Equity as a result of the sale of properties.



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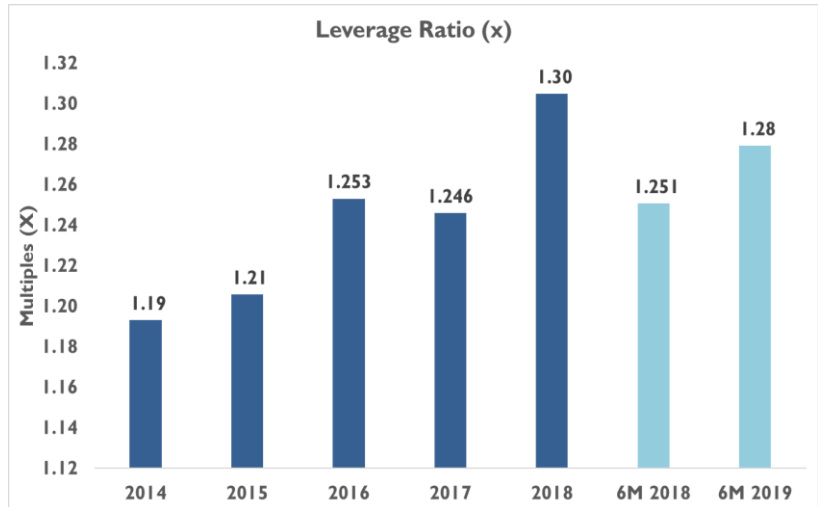
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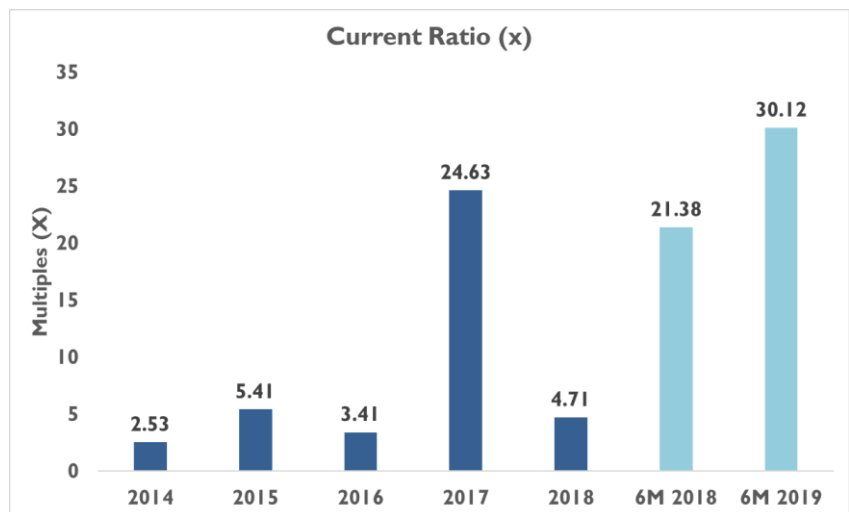
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The Value Fund's Leverage Ratio increased from **1.19X** in FY 2014 to **1.253X** in FY 2016. The Leverage ratio then decreased to **1.246X** in FY 2017 before increasing to **1.3X** in FY 2018. The leverage ratio has trended upward due to a decrease in The Value Fund's asset base over the five-year period. The Leverage ratio rose from **1.251X** in Q2 2018 to **1.28X** in Q2 2019. This change is due to an **8.96%** decrease in Total Assets over the period relative to a **10.27%** decrease in Shareholder's Equity.



Current Ratio increased from **2.53X** in FY 2014 to **5.41X** in FY 2015 but fell to **3.41X** in FY 2016 before spiking to **24.63X** in FY 2017. This sharp increase is due to a fall in Accounts Payable and Accrued Expenses and a sharp increase in Cash and Cash equivalents and Due from related Parties. This could be linked to the sale of properties as the investment properties reported in 2016 **BD\$36.7M** fell to **BD\$20.05M** in 2017 while cash and cash equivalents increased to



BD\$13.5M in 2017 from **BD\$8.29M** in the previous year. The Current Ratio then declined from **24.63X** in FY 2017 to **4.71X** in FY 2018. This decline is due to decline in cash and cash equivalents, accounts receivable and due from related parties. The Current Ratio moved from **21.38X** in Q2 2018 to **30.12X** in Q2 2019. This is due to a sharp increase in accounts receivable and a **23.73%** increase in cash and cash equivalents.

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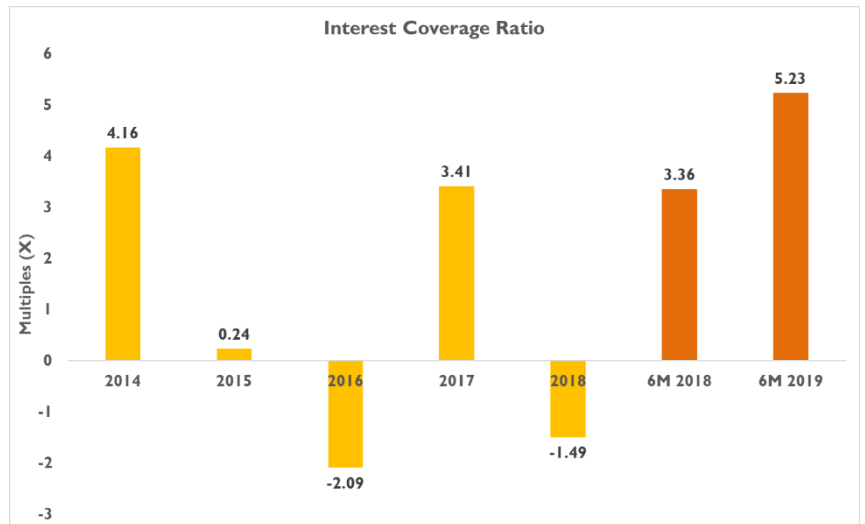
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Cashflow Analysis

The interest coverage ratio declined from **4.16X** in FY 2014 to **-2.09X** in FY 2016. The interest coverage ratio then increased to **3.41X** in FY 2017 before declining to **-1.49X** in FY 2018. Between 6M 2018 and 6M 2019 interest coverage ratio moved from **3.36X** to **5.23X**. The fluctuation in the Interest Coverage is tied to fluctuating Operating Income as Interest Expense has declined for the review period. The increase during Q2 2018 to Q2 2019 was due to Interest income increasing by **263%** and Operating income rising by **53.87%**.



Dividend Yield

The Eppley Caribbean Property Fund (The Value Fund) has a five-year average dividend yield of **6.08%** compared the average yield for the real estate sector which is **3.44%**. The Value Fund has generated the cash largely from the sale of properties from its portfolio to pay dividends. The rest of the cash comes from dividend income and rental income. One of the main differences between The Value Fund and its peers is that its assets are primarily based in Barbados while Sagicor XFund has properties in Jamaica, the Dominican Republic and Mexico and KPREIT has properties in Cayman, USA and Jamaica. The Value Fund's focus is on the English-speaking Caribbean.

NB. The yield on KPREIT and X Fund are based Jamaican Dollars while the yield on Eppley Caribbean Property Fund is based on Barbados Dollars.

Dividend Yield	2014	2015	2016	2017	2018	Average
Kingston Properties Real Estate Investment Trust (KPREIT)	3.76%	1.00%	3.20%	2.10%	1.30%	2.27%
Sagicor Real Estate X Fund (XFund)	-	1.50%	1.10%	0.90%	1.00%	1.13%
Sector Average	5.38%	2.73%	3.63%	3.20%	2.27%	3.44%
Eppley Caribbean Property Fund (Value Fund)	7%	5.70%	6.60%	6.60%	4.50%	6.08%

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Valuation Estimate

In choosing our valuation methods, we utilized a Price to Book Value (P/BV) multiple approach as it ranks superior to earnings per share (EPS) measures in this case as EPS in this case have been volatile. The NAV is the book value divided by total shares outstanding. We have calculated a NAV of (**BD\$ 0.71**) per share. At the June 14th 2019⁶ exchange rate that translates to **J\$46.2586** per share. The Offer price is **J\$46.18**. Hence, **J\$46.18** divided by **J\$46.2586** brings us to a Price to Book Value of **0.998x**. Therefore, the offer is essentially priced at book value. However, compared to the sector average of **0.86x** we believe that the offer of **J\$46.18** is **OVERVALUED**. We believe the implied is **J\$39.78**.

The Eppley Caribbean Property Fund Value Fund currently trades on both the Barbados Stock Exchange (BSE) and Trinidad and Tobago Stock Exchange (TTSE). In Barbados, as at July 5, 2019 the share price was **BD\$.55 (~J\$36.70)**⁷ while in Trinidad as at the same date the price per share is **TT\$1.70 (J\$33.61)**⁸. It therefore suggests that an arbitrage opportunity could exist, but one would have to consider the relative trade fees and whether a seller could be found in those islands, as the shares are very thinly traded. Considering all mentioned previously and notwithstanding the improvements in the Barbadian economy within the last 9 months and the improvement in earnings, we **DO NOT RECOMMEND** at the IPO price of **J\$46.18**.

Listed Real Estate Vehicles	Price to Book Value (P/BV)
Kingston Properties Real Estate Investment Trust (KPREIT)	1.09x
138 Student Living (138SL)	0.52x
Sagicor Real Estate X Fund (XFund)	0.88x
Stanley Motta (SML)	0.96x
Sector Average	0.86x
Eppley Caribbean Property Fund (Value Fund)	0.998x

Conclusion

We are of the view that The Value Fund may provide an opportunity for attractive income when compared to the other real estate vehicles on the market. The investment strategy, due to the illiquidity of the assets and notable heavy reliance on the recovery of the Barbadian economy requires a medium to long term time horizon. The pricing of the investment is at its book value and with real estate prices trending down in Barbados, the offer price does not leave any cushion to absorb any further downward revision in asset prices. When compared to its peers already trading on the Jamaica Stock Exchange, the shares in Eppley Caribbean Property Value Fund is being offered at a premium of ~ **16.1%**. On this basis, we **DO NOT RECOMMEND** the Eppley Caribbean Property Value Fund and place a **“High”** risk rating on the security.

⁶ Bank of Jamaica USD selling rate as at Friday June 14, 2019 J\$130.0817 to US\$1.00

⁷ Bank of Jamaica BD\$ selling rate as at Friday July 5, 2019 J\$66.72 to BD\$1.00

⁸ Bank of Jamaica USD selling rate as at Friday July 5, 2019 J\$19.70 to TT\$1.00

Financial Statement Extracts

INCOME STATEMENT EXTRACT

BDOSS\$ ('000)	Shares: 55,652,768						
BDOSS- Sept Year End	2014	2015	2016	2017	2018	6M 2018	6M 2019
Revenue							
Net Rental Income	6,839,056	7,318,701	1,808,312	1,620,687	1,521,075	723,511	730,771
Fair value gain/losses on investment property	(3,432,451)	(7,395,000)	(8,820,171)	(623,119)	(2,381,895)	27,118	40,000
Share of profit of investment accounted for using equity method	1,176,793	1,700,126	3,079,283	1,854,625	1,563,000	730,391	1,064,291
Net Gain or Loss on sale of Investment property	-	-	-	47,205	(118,141)	-	-
Net Gain on financial assets at fair value through profit or loss	43,522	-	-	15,611	-	-	-
Lease surrender fee	-	-	5,925,000	-	-	-	-
Interest Income	8,324	5,466	33,441	33,745	21,833	18,166	65,890
Dividend income	164	306	64	2,750	-	-	-
Other income	11,936	747	9,960	8,820	6,652	-	-
Total Investment Income	4,647,344	1,630,346	2,035,889	2,960,324	612,524	1,499,186	1,900,952
Net interest income and other operating revenue							
Expenses							
Provision for selling costs of property	-	-	1,755,500	-	-	-	-
Interest expense	724,075	607,832	478,688	479,339	478,000	241,973	241,205
Fund management fees	337,247	340,886	324,458	315,701	313,735	157,168	147,542
Investment advisor fees	337,247	340,886	324,458	315,701	313,735	157,168	147,542
Professional fees	169,536	146,253	121,768	169,569	193,058	110,331	93,121
Directors and subcommittee fees	25,757	28,527	29,437	29,445	18,527	12,478	1,280
Office and Admin expenses	38,735	22,219	18,504	17,630	11,905	8,142	9,030
Impairment charge/ recovery for receivables	22,201	24,200	3,086	(10,754)	20,892	-	11,087
Total Expenses	1,654,798	1,510,803	3,055,899	1,316,631	1,349,852	687,260	650,807
EBITDA	3,014,747	143,743	(1,016,924)	1,632,939	(716,436)	811,926	1,261,232
Net Profit	2,992,546	119,543	(1,020,010)	1,643,693	(737,328)	811,926	1,250,145

BALANCE SHEET EXTRACT

	2014	2015	2016	2017	2018	6M 2018	6M 2019
Assets							
Investment properties	52,770,000	45,375,000	36,700,000	20,050,000	17,770,000	20,120,000	17,810,000
Investments in associated companies and joint arrangements	14,999,096	16,999,222	19,778,505	15,033,130	19,997,671	18,119,266	19,482,105
Loan receivable	-	-	-	6,500,000	6,500,000	6,500,000	-
Financial assets at fair value through profit or loss	8,000	8,000	8,000	-	-	-	-
Accounts receivable and prepaid expenses	280,919	395,345	553,370	689,182	277,769	396,079	803,435
Due from related parties	-	96,447	189,790	927,568	847,229	529,665	746,435
Cash and cash equivalents	2,025,728	3,790,326	8,294,962	13,534,056	10,237,573	9,594,994	11,872,353
Total Assets	70,083,743	66,664,340	65,524,627	56,733,936	55,630,242	55,260,004	50,714,328
Liabilities and shareholder's equity							
Liabilities							
Loans payable	10,362,387	10,580,000	10,580,000	10,580,000	10,580,000	10,580,000	10,620,000
Accounts payable and accrued expenses	565,854	431,126	2,304,528	325,054	2,180,521	247,390	210,583
Security and advance deposits	345,061	360,574	347,052	289,988	233,001	244,640	235,047
Due to related parties	64,501	-	-	-	-	-	-
Total Liabilities	11,337,803	11,371,700	13,231,580	11,195,042	12,993,522	11,072,030	11,065,630
Shareholder's equity							
Share capital	37,209,540	37,209,540	37,209,540	37,209,540	37,209,540	37,209,540	37,209,540
Retained earnings	7,482,967	6,511,462	5,611,752	5,273,934	2,525,125	4,106,726	2,404,299
Total shareholders' funds	44,692,507	43,721,002	42,821,292	42,483,474	39,734,665	-	-
Total shareholder's equity	58,745,940	55,292,640	52,293,047	45,538,894	42,636,720	44,187,974	39,648,698
Total liabilities and shareholder's equity	70,083,743	66,664,340	65,524,627	56,733,936	55,630,242	55,260,004	50,714,328

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