

Barita Investments Limited (BIL)

Company Profile

Barita Investment Limited was founded by Rita Humphries-Lewin in 1977 and is the oldest remaining stock brokering company in Jamaica. Barita Group is made up of Barita Investments Limited and its subsidiary Barita Unit Trusts Management Company Limited. Over the past 40 years, Barita has built expertise in Equity Trading, Fixed Income Trading, Foreign Currency Trading, Asset Management, Unit Trusts Fund Management. 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. As a result, Barita Investments is going through a transitional period in terms of leadership, strategy and overall corporate profile.



Key Features

Current Price	J\$72.23
Rights Issue	J\$45
Estimated Fair Value	J\$50.67
Implied Upside	12.60%
52 Week High	J\$100
52 Week Low	J\$9.30
Current P/E (x)	29.10
Current P/BV(x)	5.52
TTM Dividend Yield	1.56%
TTM Net Income (J\$B)	J\$1.76B
TTM EPS (J\$)	J\$2.48

*TTM - Trailing Twelve Month

Data as at August 23 2019

Summary of the Terms of the Offer

Issuer	Barita Investments Limited (BIL)
Lead Arranger	Sagicor Invstments Jamaica Ltd
Securities	Up to 77,897,303 Ordinary Shares (to be converted after issue to stock units)
Record Date	20-Aug-2019
Offer Opens	2-Sep-2019
Last Date for Renunciation	10-Sep-2019
Offering Price	J\$45.00
Share Allotment	11:100 (i.e. Eleven New Ordinary Shares for every hundred existing ordinary stock units currently held) The Company has also reserved the right to upsize the offer by offering additional new ordinary shares to each existing ordinary shares.
Capital being raised	Up to J\$3.51B (Three Billion Five Hundred Hundred and Five Million Jamaican Dollars)
Dividend Payments	Quarterly
Offer Closes	For acceptance by Existing Ordinary Stockholders and/or their renounees, September 13, 2019. For applications by renounees and for "Excess Shares", September 20, 2019
Provisional Allotment Expires	13-Sep-2019

VALUATION SUMMARY	Offering Price	FAIR VALUE	POTENTIAL UPSIDE	RECOMMENDATION
	J\$45.00	J\$50.67	12.60%	ACCEPT

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Invitation Details

Barita Investments Limited (BIL) is inviting shareholders, as at the record date, to purchase up to 77,897,303 shares at an offer price of **J\$45.00**. Investors should note that this is **not** an Initial Public Offering (IPO) of shares but an invitation for **existing** shareholders as at the record date August 20, 2019 to participate in the issuance of new shares to further capitalize the institution. The Company retains the right to upsize the offer by offering additional ordinary shares to each existing Ordinary Stockholder. **Additionally, all new ordinary shares not taken up may be placed in an Excess Shares Pool. The Directors of Barita Investments Limited intend that Excess shares shall not be offered to the public but may be offered to persons based on terms outlined in the offer document. Therefore, it is to be noted that the rights that are not taken up by existing shareholders may not be passed on to the public.**

A rights issue is a tool which companies use to raise additional capital by increasing the number of issued shares outstanding. The transaction is expected to raise **J\$3.51B** in new capital for the company. Management has stated that these funds will be used for expansion of the core business and to take advantage of investment opportunities.

Analyst's Opinion: Barita Investments Limited

Over the last few financial years, Barita has successfully deployed its capital to generate returns for its shareholders. Traditionally, the Company has relied on interest income from repurchase agreements, dividend income from investment holdings, gains from securities trading and fees from Unit Trust management. Over the last ten years, Jamaica has seen a significant decline in interest rates, which has influenced financial entities to lean more on generating fee income from areas such as asset management and trading activity in contrast to interest income from repurchase agreements.

Since the Cornerstone acquisition, Barita has adopted a shift in strategy, evidenced by new team members at the executive and the managerial level. Additionally, Barita has enhanced marketing, ventured into Investment Banking, increased proprietary trading activity and spoke to building out their branch network within Jamaica in the near term among other plans for growing the firm. Cornerstone's leadership includes Paul Simpson, Mark Myers of Restaurants of Jamaica, Duncan Stewart of Stewarts Automotive and other seasoned Jamaican entrepreneurs. Rita Humphries-Lewin, founder of Barita, remains a director of Barita Investments. This is the second rights issue done by Barita since the CUHL acquisition, with the first raising **J\$4.07B** in March 2019.

Based on our use of the Price to Earning (P/E) and Price to Book Value (P/B) relative valuation methods, the new shares to be issued by Barita are undervalued at the offering price of **J\$45.00**. Our fair value estimate, derived from the averaging of the two valuation methods, is **J\$50.67** based on the Company's projected performance in FY 2019 ending September 2019. This represents approximately **12.60%** upside from the offering price. **Based on our technical analysis, we believe this opportunity is primarily a short-term tactical play.**

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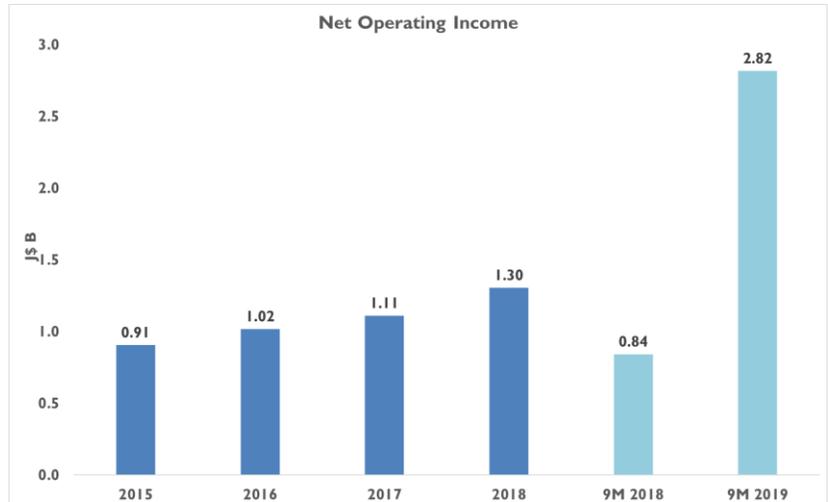
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We are therefore recommending that current Barita shareholders **ACCEPT** the rights offering by BIL at the offering price.

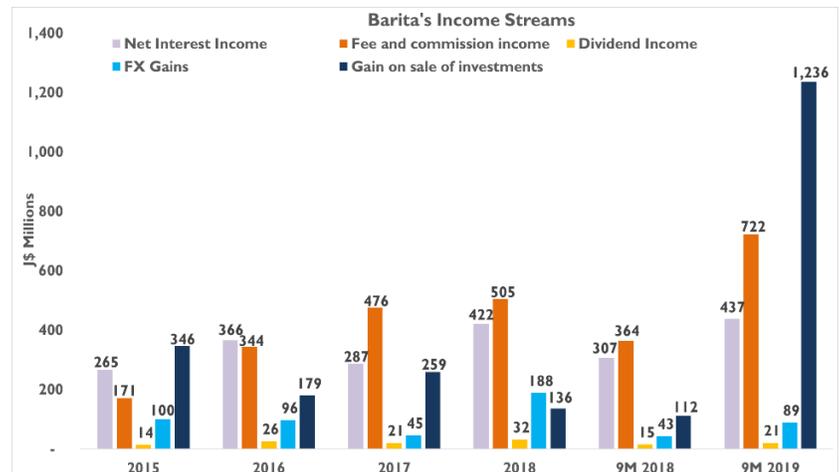
Financial Analysis

Revenue & Profitability

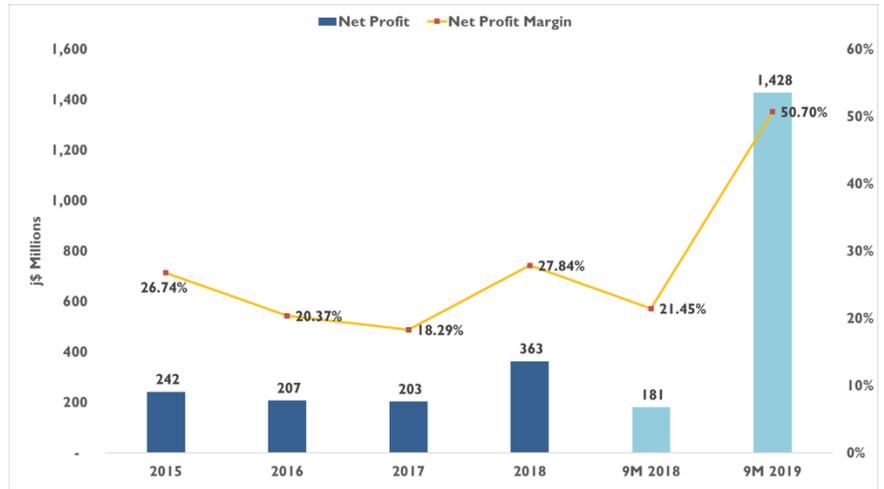
Barita Investments has exhibited a Compounded Annual Growth Rate (CAGR) in Net Operating Income of **12.96%** between FY 2015 and FY 2018. This performance has been primarily driven by Interest Income, Fee and Commission income and Trading gains. Year over Year growth in Net Operating Income between Q3 2018 and Q3 2019 was **J\$1.97B** which primarily came from Gains on sale from Investments, followed by Fee and Commission income.



Barita's Income Streams have trended upward over the review period, with the highest growth coming from Fee and Commission Income at a CAGR of **43.52%**. Strong growth in this area comes primarily from asset management fees and equity trading fees. Net Interest Income grew at a **16.76%** CAGR and has contributed less to the growth of Barita over the years due to a low interest rate climate, but has remained a part of the core business nonetheless. Gain on Sale of Investments has fluctuated over the review period and has spiked in FY 2019 recording **J\$1.24B** as at Q3. FX Gains have fluctuated over the years but grew at a CAGR of **23.27%**. Dividend Income from equity investments has grown at a CAGR of **34.19%** and remains a less emphasized area of Barita's operations.



Barita's Net Profit has trended downward from FY 2015 to FY 2017 before rising by 78.82% in FY 2018. Net profit grew over the four years at a CAGR of 14.49%, rising from **J\$242M** to **J\$363M**. From Q3 2018 to Q3 2019, Net Profit rose from **J\$181M** to **J\$1.43B** largely due to a **J\$1.12B** spike in Gains on sale of investments and a **J\$358M** increase in Fees and commission income. Net Interest income also increased by **J\$130M** year over year.



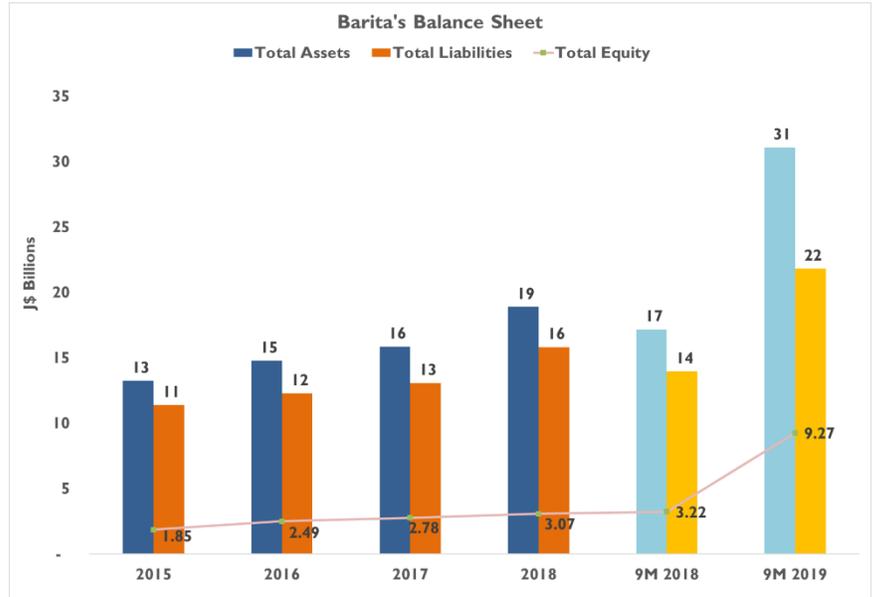
Net Profit Margin trended downward from 26.74% to 18.29% due to reduced spreads from interest bearing investments between FY 2015 and FY 2017 as well as marginally increasing operating expenses. The Net profit Margin then rose from 18.29% in FY 2017 to 27.84% due to an increase in fee and commission income. Between Q3 2018 and Q3 2019 Net profit Margin rose from 21.45% to 50.70% due to increased fees from funds under management and a spike in Gains from investments sold.

Barite's Book Value Per share rose from **J\$2.62** in FY 2015 to **J\$4.33** in FY 2018 due to increasing retained earnings and fair value reserves. Book Value Per Share rose from **J\$4.55** in Q3 2018 to **J\$13.09** in Q3 2019 due to a spike in share capital and retained earnings. This is explained by increased profits and the proceeds from the March 2019 rights issue which rose ~\$4Bn in equity capital for the Company. Earnings per share rose from **J\$0.34** in FY 2015 to **J\$0.51** in FY 2018 due to increasing Net Profit over the period. Earnings per share increased from **J\$0.25** in Q3 2018 to **J\$2.02** in Q3 2019 due to a **J\$1.25B** increase in Net Profit.



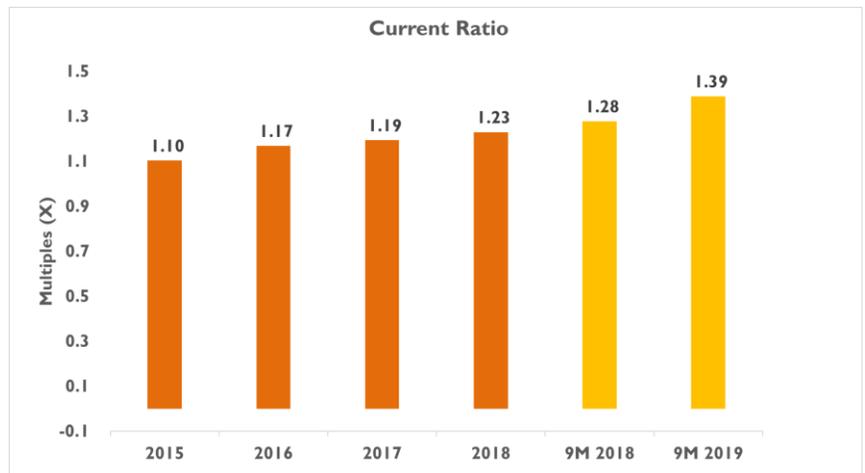
Liquidity, Solvency & Asset Quality

BIL's asset base has exhibited a CAGR of **12.58%** between FY 2015 and FY 2018 and closed the FY 2018 at **J\$18.88B**. This represented a YoY expansion of **J\$3.03B**, or **19.15%**. This balance sheet expansion was driven by **38.66%** growth in Marketable Securities, **23.07%** growth in Pledged Assets and **85.42%** growth in Loans Receivable. Between Q3 2018 and Q3 2019, Total Assets rose by **J\$13.91B** which was supported by a **J\$4B** rights issue in Q2 2019. Cash and Bank Balances rose by **J\$755.22M**, Marketable Securities increased by **J\$7.01B** and Loans Receivable increased by **J\$1.43B** Year over Year.



Total liabilities grew by a CAGR of **11.59%** from FY 2015 to FY 2018 which ended at **J\$15.82B**. Total liabilities increased by **J\$7.86B** from Q3 2018 to Q3 2019. Driving the expansion in liabilities was an increase in Securities sold under repurchase agreements, which rose by **58.74%** while Interest Payable increased by **18.51%** during the period. BIL typically used little to no debt before FY 2018 to finance their operations and which reflected a conservative approach to financing the business.

Barita's Current Ratio trended upward over the review period moving from **1.1X** in FY 2015 to **1.23X** in FY 2018 which signals increasing liquidity in the business. The Current Ratio was **1.28X** in Q3 2018 and stood at **1.39X** in Q3 2019. Barita's financing mix has relied heavily on non-borrowed funds to finance the growth of the business which allows the business a strong opportunity to utilize debt in future periods.



Investment Positives

Strong growth prospects: BIL is expected to continue to enhance financial performance by executing its new growth strategy following the takeover from Cornerstone United Holdings. This includes new marketing strategies, new unit trust products, expanding the branch network, exploring new markets, hiring new staff and increasing investment banking activities.

Strong track record: BIL has been operating since 1977 and has established a positive track record in the investment landscape. The company has diversified its product offering over the years and enjoys growth across these various segments including securities trading, currency trading and asset management.

Increased liquidity: The ordinary shares will be listed on the stock exchange and as such, offer investors an effective exit if they desire to realize any gains made on their investments. Additionally, the free float to minority to shareholders will increase notably from the current weight of 4.77%.

Investment Risks

Geographical Risk: BIL currently only operates in Jamaica creating high geographical exposure to one country. Natural disasters and other risk factors could significantly affect BIL's performance. However BIL's growth strategy involves expanding into new territories.

Interest Rate Risk: Jamaica has been facing downward trending interest rates in recent times, which reduces the profit margin on interest bearing streams of income. BIL's interest income will grow through an increase in loan origination in the face of smaller margins. Additionally, BIL has diversified their income towards earning more fee income relative to interest income.

Increased Competition: BIL operates in a competitive industry in which larger players such as NCB Capital Markets and Sagicor Investments and JMMB are growing aggressively. Hence, a focus on product differentiation, digitization and new markets will be key to long term success.

Valuation Analysis

The estimated fair value of Barita's stock was computed utilizing the average of the forward Price to Earnings (P/E) and Price to Book Value methods. Barita is projected to earn approximately **J\$1.50B (EPS: J\$1.91)** in FY 2019 ending September 2019. These projections were made under the assumption that the Company continues its growth strategy and is not the victim of an exceptional event.

Typically, rights issues lead to a lower stock price and possibly lower earnings per share. We have factored in the possible dilutive effect of 77,897,303 new shares on earnings and have observed that the previous rights issue of 258,064,516, earlier in 2019, priced at **\$15.50** per share, had a minimal impact on the price of BIL. As at February 25, 2019, the day before the rights issue opened, Barita's shares closed at **\$49.40** and has not traded below **\$38** since that initial rights issue. In fact, Barita's stock has traded up to **\$96.17** in July 2019 and has hovered around the **\$70** mark since August 2019. Based on the relatively small issue of new shares (**11%**) relative to the current shares outstanding, the small free float available to minority shareholders (**4.76%**), the level of demand for Barita's share based on expected future growth and the spike in earnings in FY 2019, we anticipate the dilutive effect to be minimal.

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To arrive at our valuation, we utilized the Main Market Financial Industry Average P/E and P/B measures based on companies of similar characteristics as Barita Investments Ltd. The industry average P/E and P/B measures produced with these methods were **24.90X and 3.31X** respectively and when applied to a FY 2019 year-end EPS estimate of **J\$1.91** and a Book Value Per Share estimate of **J\$16.27** produced valuations of **\$47.56** and **\$53.85**. The average of both results produced an estimated 1-Year fair value of **J\$50.67**, and this implied a **12.60%** upside from the offering price of **J\$45.00**. Additionally, with a trailing dividend yield of **~1.56%**, this leads to a possible total return of **14.16%**. We therefore recommend that investors **ACCEPT** Barita's rights issue at its offer price.

Based on our technical analysis, we are of the view that this offer provides investors primarily with the opportunity to realize gains at least in the short term.

JSE Main Market Selected Finance Firms		
Company	Price/Earning (x)	Price/Book Value (x)
VM Investments Ltd	22.2	3.01
JMMB Group Ltd	33.88	2.6
Proven Investments Ltd	14.41	2.1
Barita Investments Ltd	29.1	5.52
Average	24.90	3.31

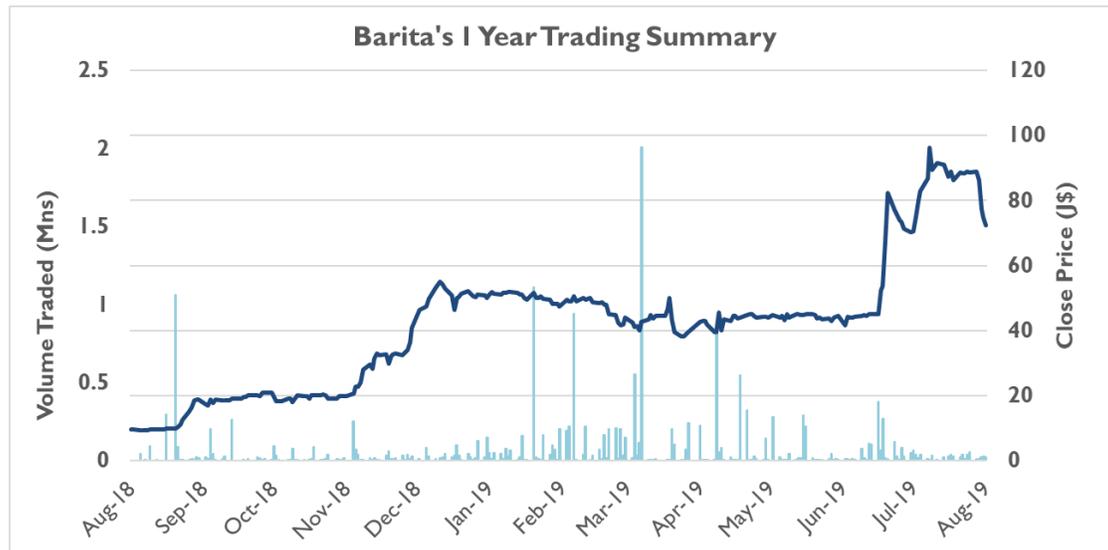
NB: Market Multiples as at August 23, 2019.

Risks to Valuation:

- The global economy has been experiencing slowing growth rates in FY 2019 which is expected to continue into 2020. Major economic zones such as the EU, China and the US have shown signals that suggest the likelihood of a recession over the eighteen months to three years. Global market conditions have a significant impact on the local economy, to which Barita Investments' portfolio has a high exposure to presently.
- It is possible that the Company may undertake additional capital market transactions that may impact our projections going forward.
- A general downturn in the broad local equity market could negatively impact market multiples.

Appendix

Top 10 Shareholders for Barita Investments Limited		
Name of Shareholder	Share Capital	Percentage Ownership
Cornerstone Investments Holdings Ltd	567,117,978	80.08%
Rita Humphries-Lewin	62,701,277	8.85%
Barita Unit Trust Mgmt Co Ltd	10,753,848	1.52%
John O Minott	7,343,553	1.04%
George William Cooper	5,355,262	0.76%
Karl P Wright	5,000,000	0.71%
FirstCaribbean Int'l Sec. Ltd A/C B.U.T	4,707,429	0.66%
Karl Lewin	4,249,042	0.60%
Agnes Humphries	4,000,000	0.56%
Nigel Coke	3,214,955	0.45%
TOTAL	674,443,344	95.24%



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Financial Statement Extracts

INCOME STATEMENT EXTRACT						
JAS ('000)	Shares: 708,157,308					
JAS- Sept Year End	2015	2016	2017	2018	9M 2018	9M 2019
Revenues						
Interest Income	891,345	1,264,418	1,134,309	1,020,466	738,318	1,035,747
Interest Expense	(626,043)	(898,365)	(847,438)	(598,178)	(431,363)	(598,845)
Net Interest Income	265,302	366,053	286,871	422,288	306,955	436,902
Fee and commission income	170,896	343,553	475,726	505,210	364,382	721,603
Dividend Income	13,779	25,554	20,590	31,779	14,968	20,888
FX Gains	100,339	96,390	45,479	187,945	42,964	88,588
Gain on sale of investments	346,272	179,284	259,320	136,454	111,589	1,235,653
Other Income	8,685	6,613	21,996	20,987	871	312,186
Net Operating Income	905,273	1,017,447	1,109,982	1,304,663	841,729	2,815,820
Expenses						
Personnel costs	271,134	340,486	340,584	385,410	271,124	402,272
Administration	250,179	324,275	337,504	375,566	270,401	345,814
IFRS 9 provisioning						
Impairment of available for sale investments	-	4,692	100,159	-	-	80,725
Total Expenses	521,313	669,453	778,247	760,976	541,525	828,811
Operating Profit	383,960	347,994	331,735	543,687	300,204	1,987,009
Share of Results in associated company	(11,262)	(6,915)	-	-	-	-
Profit before tax	372,698	341,079	331,735	543,687	300,204	1,987,009
Taxation	130,636	133,863	128,715	180,446	119,643	559,326
Net Profit	242,062	207,216	203,020	363,241	180,561	1,427,683



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BALANCE SHEET EXTRACT						
JA\$- Sept Year End	2015	2016	2017	2018	9M 2018	9M 2019
Assets						
Cash and Bank balances	217,002	339,863	429,123	333,685	526,174	1,281,934
Securities purchased under resale agreements	2,296,371	2,685,639	3,387,706	3,935,491	3,865,592	3,680,807
Marketable securities	3,908,760	3,938,843	2,526,849	3,503,728	3,312,919	10,325,910
Pledged assets	5,578,937	6,436,843	8,030,640	9,883,136	8,073,504	11,916,149
Interest receivables	-	-	-	-	183,722	286,189
Receivables	549,876	538,708	679,196	437,019	313,959	517,021
Taxation Recoverable	-	1,050	3,614	6,701	2,664	53,442
Loans receivable	291,243	424,541	354,558	403,064	388,160	1,817,095
Due from related parties	59,310	55,714	76,813	72,096	171,235	120,915
PP&E	226,367	228,078	269,364	243,533	257,864	313,785
Intangible assets	99,356	67,948	34,192	9,090	19,522	7,468
Investments	2	55,000	55,000	55,000	55,000	755,000
Investment in associated company	6,915	-	-	-	-	-
Total Assets	13,234,139	14,772,227	15,847,055	18,882,543	17,170,315	31,075,715
Liabilities and shareholder's equity						
Liabilities						
Bank overdraft	22,502	-	15,339	311	-	3,440
Securities sold under repurchase agreements	10,861,027	11,471,723	12,030,842	14,362,540	12,309,017	19,539,035
Interest Payable	-	-	-	-	40,668	48,197
Payables	210,394	409,581	563,923	814,647	1,057,138	1,112,138
Due to related parties	33,572	24,391	5,776	8,348	113,970	12,082
Taxation	123,040	55,175	96,280	44,612	66,390	163,673
Defered tax liabilities	130,973	316,533	358,983	586,014	358,983	929,896
Total Liabilities	11,381,508	12,277,403	13,071,143	15,816,472	13,946,166	21,808,461
Shareholder's equity						
Share capital	736,304	736,304	736,304	740,427	736,304	5,547,318
Capital Reserve	69,799	69,799	93,133	93,133	93,133	120,632
Fair value reserve	17,077	500,551	604,884	910,697	1,006,323	832,410
Capital redemption reserve	220,127	220,127	220,127	220,127	220,127	220,127
Retained earnings	809,324	967,490	1,121,464	1,101,687	1,168,262	2,546,747
Total shareholder's equity	1,852,631	2,494,271	2,775,912	3,066,071	3,224,149	9,267,234

KEY FINANCIAL STATISTICS						
JA\$- Sept Year End	2015	2016	2017	2018	9M 2018	9M 2019
Valuation Measures						
Earnings Per Share	0.34	0.29	0.29	0.51	0.25	2.02
Book value Per Share	2.62	3.52	3.92	4.33	4.55	13.09
Profitability Ratios						
Return on Equity	13.07%	9.53%	7.70%	12.44%	5.74%	22.86%
Return on Assets	1.83%	1.48%	1.33%	2.09%	1.00%	5.92%
Operating Margin	42.41%	34.20%	29.89%	41.67%	35.67%	70.57%
Net Profit Margin	26.74%	20.37%	18.29%	27.84%	21.45%	50.70%
Net Interest Margin	29.76%	28.95%	25.29%	41.38%	41.57%	42.18%
Efficiency Ratios						
Asset Turnover Ratio (x)	0.0684	0.0689	0.0700	0.0691	0.05	0.09
Credit Ratios						
Leverage Ratio (x)	7.14	6.80	6.01	6.46	5.46	4.98
Liquidity Ratios						
Current Ratio	1.10	1.17	1.19	1.23	1.28	1.39
Cash Ratio	0.23	0.26	0.32	0.30	0.36	0.25

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