

Quarterly Update

Rating

BUY

LATAM (Caribbean)

Sector: Finance

Industry: Real Estate

SYGNUS | Real Estate Finance Limited

JSE
SRFJMD

Bloomberg
SRFJMD JA

Q1 2023: Marquee projects to boost SRF's performance in FY 2023

Financial Overview

Revenues & Profitability

In FY 2022, Sygnus Real Estate Finance Limited ("SRF" or "the company") posted profits of J\$692.96 million, which though commendable, was significantly lower (-61.7%) than the profit outturn a year earlier. FY 2021, however, was positively influenced by extra ordinary gains (J\$1.31 billion) delivered that year from the acquisition of its subsidiary, Sepheus Holdings Ltd. If the results of FY 2021 are adjusted for the exceptional gains that year, FY 2022's total investment income would have come in 27.7% higher than FY 2021.

Following SRF's strong profit outturn in FY2022, the company generated a net loss in the first three months in FY 2023. This decline in profitability was largely attributable to higher operating expenses (up ~25.0%) and higher FX and Fair Value losses (up 184.5% and 315.3% respectively), when compared to the similar period in the prior year. The company's core revenues of J\$21.3 million in the first 3 months of FY 2023 was significantly better than the loss of J\$4.4 million posted in the similar period a year earlier. This improvement was primarily driven by higher net interest income from a larger portfolio of real estate investment notes (REINs), which was amplified by the improvement in its net interest spread. The weighted average fair value yield on SRF's REINs was 11.2% compared with 10.1% in the first 3-months in FY 2022, while the weighted average cost of debt increased only marginally to 5.1%, compared with 5.0% from the same period last year.

Total operating expenses of J\$103.7 million was recorded for the first three months in FY 2023 versus J\$83.0 million in the similar period the year prior. The increase in operating expenses was because of higher management fees (up ~42.0%), due to higher assets under management. Net loss attributable to shareholders was J\$172.5 million compared with a net loss of J\$99.9 million last year

April 5, 2023

| | |
|--------------------------------------|------------------------|
| Current price | J\$10.42 |
| Expected dividend ¹ | J\$0.88 - J\$1.32 |
| Target price ² | J\$15.94 |
| Previous target price (Nov 18, 2022) | J\$24.06 |
| TOTAL RETURN³ | 61.44% - 65.66% |

Company Data

| | |
|-------------------------------|---------------|
| Outstanding shares | 326,526,232 |
| Market Cap | 3,402,403,337 |
| 52-Week (Lo/Hi) | 9.00/18.05 |
| 12month Daily Average Volumes | 4,943 |

Major Shareholders

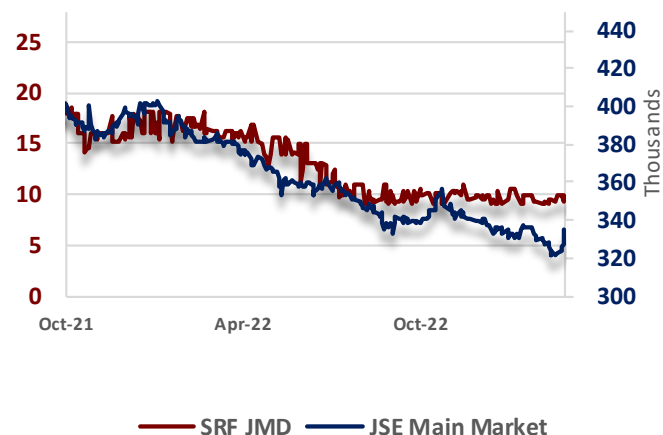
| | |
|---------------------------------|-------|
| ATL Group Pension Fund Trustees | 12.9% |
| SJIML A/C 3119 | 6.1% |
| Dynamix Holdings Incorporated | 6.1% |

Key Financials

| JMD Mn | FY20 | FY21 | FY22 |
|-----------------------|--------|----------|--------|
| Net Interest Income | 65.23 | 8.83 | 69.53 |
| Operating Profit | 371.58 | 47.53 | 298.22 |
| Net Profit | 366.35 | 1,811.60 | 692.96 |
| Net Profit Change (%) | n/a | 394.5% | -61.7% |
| EPS (Basic) | 2.47 | 9.93 | 2.20 |
| Dividend Yield | n/a | n/a | n/a |

Price Performance

| | 1MTH | 3MTH | 1YR |
|------------|------|-------|--------|
| SRFJMD | 8.3% | -0.4% | -38.9% |
| Main Index | 0.1% | -5.9% | -13.9% |



Source: Bloomberg; JN Fund Managers Limited

| Efficiency Ratio FY 2022 | Book Value Per Share FY 2022 | Total Investment Income FY 2022 | Real Estate Investment FY 2022 |
|--------------------------|------------------------------|---------------------------------|--------------------------------|
| 27.1% + 1.65% | 23.24 + 61.12% | J\$1.35B - 42.9% | J\$13.14B +51% |
| FY 2021: 25.44% | FY 2021: 14.42 | 2021: J\$2.36B | 2021: J\$8.69B |

Financial Overview

Revenues & Profitability (cont'd.)

As expected, no gain on investment property was recorded in the first quarter of 2023, given that these assets are revalued only once per year, in August. The share of gains on joint ventures, which also captures SRF's 70% ownership of the One Belmont development, was immaterial during the quarter, as this development is also only valued once per year. As this property is scheduled to reach practical completion prior to the end of the current financial year, it is anticipated that the revaluation of share of profit could occur prior to the August 2023 year-end financial results. As such, this may positively impact total investment income during the quarter in which it occurs. Further, given that One Belmont has already negotiated long term leases with tenants, if lease payments begin while SRF still maintains all of or part of its share of the joint venture, these lease flows may affect total investment income, starting in the quarter in which this occurs.

The Spanish Penwood industrial warehouse is being built to meet the specific needs of IMCA Jamaica Ltd. and was scheduled to be completed early in FY 2023. Sygnus Real Estate Finance Limited has secured a USD multiyear lease agreement with the company, thus guaranteeing long term exit and a boost to SRF's performance when completed.

Balance Sheet

As at the end of November 2022, SRF's total assets increased by 5.46%, reaching J\$14.54 billion when compared to the end of FY 2022. The uptick in the value of its assets was largely driven by growth in Securities sold under repo, Investments and Investment property. The company's total liabilities was J\$7.13 billion at November 30, 2023, after jumping by 14.95%. This jump was largely driven by a 29.61% increase in its Loan and borrowing, which moved from J\$2.62 billion at the end of FY 2022 to J\$3.38 billion at the end of the 2023 first quarter.

Due to the loss posted over the first three months of the year, total shareholders' equity declined from J\$2.87 billion at the end of FY 2022 (as at August 31, 2022) to J\$2.70 billion at the end of November 2022. As at the end of the 2023 first quarter, SRF's book value per share was J\$22.71.

Valuation Summary

Relative Valuation Method (Summary)

Industry Average P/B = 0.72x
 SRF's P/B = J\$22.71
 P/B Valuation Est. = J\$16.36

Risks to monitor

COVID-19 – Notwithstanding the significant improvement, another virus outbreak may not only result in significant disruptions which could impact the timeline for completion of projects but also impact expected cash flow from leases.

Recession Fears – Inflationary pressure remains high and central banks have continued to maintain tight monetary policy, increasing the risk of a severe slowdown in economic activities which may lead to increased vacancies.

Construction Risk – One way SRF unlocks value is by the construction of real estate projects. As a result, there is the possibility that these activities could be disrupted, leading to missed completion timelines etc. or even completed projects which do not meet specification. Ultimately, these could cause the cash flows/yields from these projects to be lower than projected.

High Interest Rate – As a core function, SRF provides credit for real estate projects. The current high-interest rate environment may result in a decline in demand for these loans, or where loans have been made, borrowers may find it more difficult to service their obligations. This could lead to slower credit growth and/or increased non performing loans for SRF.

Illiquidity Risk – The company is on track to complete its first round of investments since inception. If there is delay in exiting projects this could cause illiquidity and a prolonged investment period. However, the company has indicated that the majority of these projects already have agreed purchasers.

Projects to be completed in FY 2023

Spanish Penwood | Industrial Warehouse: The Spanish Penwood industrial facility tailored to the needs of IMCA Jamaica Limited, is currently 87% completed. The project is on track to be completed before the end of FY 2023. Sygnus Real Estate Finance Limited has secured a US dollar long term lease, thus guaranteeing its investment exit, upon completion of construction.

One Belmont | Commercial Tower: One Belmont was last reported at 74% completion, with construction remaining on track for a April/May 2023 completion date. The substructure is 100% completed, with pouring of concrete for all floors completed and the roof remaining to be poured. A fourth long-term agreement-to-lease which should have been executed in December 2022 was rescheduled for execution in January 2023. This means that four of the five floors are effectively leased, once this fourth agreement is completed.

¹Expected Dividend – SRF is expected to exit more than one large investment during FY 2023, as it completes its first investment life cycle, which typically averages 3 to 5 years. In keeping with this principle, SRF may likely consider its first dividend payment during the 2023 calendar year from the net proceeds of these investment exits. Our estimate is that such a payment may fall within the range noted.

²Target Price – estimate of future stock price based on current earnings, projected earning and/or valuation multiples.

³Total Return – is calculated as the potential return investors may enjoy if the shares are bought at the current price plus the expected dividend yield, provided that the target price is reached. While the dividend yield included in the total return calculation is based on dividend expected over a one year period, please note that it may take more than one year for the expected target price to be reached.

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