

Quarterly Update

Rating

BUY

LATAM (Caribbean)

Sector: Finance
Industry: Investment, Wealth Management

JSE **Bloomberg**
VMIL **VMIL JA**

9M-2023: Tight liquidity conditions and weak investor sentiments pushed VMIL's profits lower year over year.

(Reading time 5-7 minutes)

Rationale

VM Investments Ltd. ("VMIL" or "the Company"), having emerged from the strong lineage of the respected Victoria Mutual Building Society (VMBS) has now positioned itself as a leading securities dealer in Jamaica. As a member of the VM Financial Group, VMIL purports to be guided by a robust commitment to its clients' best interests and a prudent approach to risk management.

Today, VMIL's strength lies in its ability to cater to a variety of financial needs which includes credit financing solutions for individuals and businesses, stockbroking, pension fund management and investment banking. This diverse offering translates to a more resilient business model, which puts the Company in a better place to navigate economic fluctuations. In recent times the Company has made steps to strengthen its business even further by venturing into a multipronged diversification strategy. This includes the acquisition of a 10.00% stake in food manufacturer Home Choice and 23.00% of KPREIT, a real estate company focused on acquiring and managing income-generating properties in the region.

The Company recognizes the importance of digitalization in today's fast-paced world. As a result, it is committed to the use of online and mobile platforms to simplify access to its services, ensuring convenience and efficiency for its customers. VMIL's forward-thinking strategy positions it effectively to cater to the evolving needs of a technology-savvy generation.

VM Investments Limited's fundamentals remain strong with consistent revenue growth over the last five years. This speaks volumes about the Company's sound financial management. The historical performance also paints the picture of a company capable of delivering stable returns, a key factor for any investment consideration. Additionally, VMIL's leadership team boasts extensive experience within the financial services industry. Their expertise and track record augurs well for the Company's ability to navigate the complex market dynamics expected in the future.

VMIL's current market price is J\$2.74, which is below our existing price target of J\$3.54, suggesting that the stock is undervalued. Given that VMIL is trading at a discount we assign a BUY recommendation to its stock.

6-Jan-24

Current price	2.75
Forecasted Dividend	0.13
Target price	3.54
Previous recommended price	N/A
TOTAL RETURN	33.55%

Company Data

Outstanding shares	1,500,025,000
Market Cap	4,125,068,750
52-Week (Hi/Lo)	2.35/4.70
1Yr Daily Average Volume	59,839
5Yr Daily Average Volumes	135,393

Major Shareholders

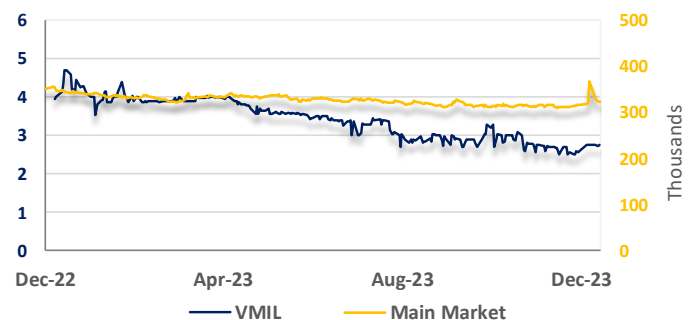
VM Financial Group Ltd.	80.00%
PAM - University Hospital Scheme of Pensions	0.50%
Rezworth Burchenson & Valerie Burchenson	0.43%

Key Financials

J\$ Bn	FY21	FY22	FY23e	FY24e
Net Operating Income	1.86	2.39	2.36	2.67
Operating Profit	0.66	0.89	0.66	0.77
Net Profit	0.44	0.69	0.49	0.57
Net Profit Change (%)	1.5%	57.2%	-29.7%	16.5%
EPS	0.29	0.46	0.32	0.38
Dividend Yield	2.5%	0.0%	3.24%	3.31%

Price Performance

	1MTH	3MTH	1YR
VMIL	2.6%	-5.2%	-41.2%
Main Index	3.4%	2.4%	-6.2%



Source: Bloomberg; JN Fund Managers Limited

Net Interest Income	Return on Assets	Return on Equity	Efficiency Ratio
2023 102.68m 45.2%	9M-2023 1.25% 0.58%	9M-2023 8.77% -5.6%	9M-2023 89.96% 19.12%
9M-2022: 187.44m	9M-2022: 0.67%	9M-2022: 14.37%	9M-2022: 70.84%

Financial Overview

Revenues & Profitability

Following FY 2022, which was characterized by resilient growth and commendable results for Victoria Mutual Investments Limited (VMIL), the Company struggled over the first three quarters of FY 2023 (Jan-Sept.). This was due to the continued negative impact of the high interest rate environment on the Company's investment banking business and on the cost of funding.

Over the 9 months ending September 30, 2023 (9M-2023), VMIL's net operating income amounted to J\$1.38 billion which was 10.44% lower than the amount posted in the same nine-month period a year earlier. Despite a robust 28.48% increase in Interest income, due to a near doubling of interest on loan and a 14.60% jump in Interest on investments, reduced activity in the capital markets along with lower investor sentiments negatively impacted VMIL's fees and commission income. This, along with elevated interest costs, largely due to the relatively higher interest rate environment in which the company operated, led to a decline in the Company's core income.

Despite the decline in the 3rd quarter, operating expenses climbed by 10.70% over the entire nine-month period, moving from J\$1.07 billion to J\$1.18 billion. This increase in operating costs was primarily linked to higher staff and administration costs and led to a deterioration in SVIL's efficiency ratio, which moved to 48.58% in 9M-2023 versus 37.99% a year earlier.

As at December 31, 2022 VMIL owned 23.00% of Kingston Properties Limited (KPREIT) and for the 9M-2023 period VMIL received Share of profits amounting to J\$54.55 million. This largely reflected positive results from KPREIT and continued improvements in Carilend's¹ financial performance. Notwithstanding, the company's Profit before tax still saw a 47.40% decline to end the period at J\$242.89 million.

With the effective tax rate falling to 21.57%, Profit attributable to shareholders was J\$190.49 million, 44.09% down from the J\$340.74 million reported for the same nine-month period in FY 2022. This decline in profits over the nine-month period also led to a deterioration in several of VMIL's key metrics. These include Return on Equity which slipped to 8.77% in 9M-2023 from 14.37% over the same period in FY 2023. EPS also declined over the period, moving down from J\$0.23 to J\$0.13 when comparing the nine-month periods in FY 2023 and FY 2022.

Balance Sheet

As at September 30, 2023, VMIL's off balance sheet assets under management (AUM) was J\$40.43 billion. Over the years, VMIL has grown its business both organically and inorganically.

9-month Highlights

CariCRIS Upgrade – In October 2023, regional rating agency Caribbean Information and Credit Rating Services Limited (CariCRIS) upgraded VMIL's overall creditworthiness ratings to CariBBB on the regional scale, jmBBB+ on the Jamaica National Foreign Currency Scale and jmA- on the Local Currency Scale.

Investment in Associate – Towards the end of FY 2022, VMIL finalized its acquisition of additional shares of Kingston Property REIT (KPREIT), bringing its total shareholding to approximately 23.00%. Importantly, this broadens VMIL's revenue potential to now include income from real estate. Over the nine-month period under review, the Company earned J\$54.55 million in share of profits from associates, in relation to its KPREIT shares.

VM Wealth Capital Allocation – In July 2023, VM Financial Group successfully raised \$11.2B in a preference share offering that was listed on the JSE. VMIL's subsidiary, VM Wealth Management, intends to tap this pool of resources by issuing preference shares to VM Financial Group Limited in a nominal amount of \$1.5B. The funds accessed will be used to enhance VM Wealth Management's revenue-generating capacity as well as expand into new revenue areas and strengthen its capital base.

Risks to Monitor

Slower Economic Growth – The post-pandemic surge in economic activity which followed the COVID-19 pandemic is expected to continue to taper off as the high interest rate environment takes hold. As a result, the Jamaican economy which was projected to have grown by 1.90% in Q3 2023, is expected to slow further in the short to medium term. A significant slowdown in growth could lead to overall lower economic activity and slower top and bottom-line growth for VMIL.

High Interest Rates – The high interest rate environment has, among other things, increased the funding cost for financial companies like VMIL. If elevated rates persist for an extended period, the high cost of funding is likely to continue, possibly stifling loan growth at its Carilend subsidiary and potentially decreasing the value of the Company's other investments if rates increase further.

Financial Overview

Balance Sheet cont'd.

However, its strategy of steadily growing its investment portfolios through acquisitions has seen notable success in recent times. Most recently, the Company sought to explore opportunities for value within the wider Caribbean and Latin America, with its acquisition of Trinidad-based Republic Funds Incorporated (RFI). Also, on June 29, 2023, FSC Barbados approved the licensing application for VM Wealth Management Limited as a Restricted Mutual Fund Administrator, subject to certain preconditions. In pursuit of this objective, the Company has taken steps to strengthen its capacity in that jurisdiction by onboarding new talent, as it seeks to broaden its market presence.

At the end of the 9M-2023, VMIL's on balance sheet asset base stood at \$28.36 billion, a decline of 2.73% or \$796.7 million from the amount it reported at the end of FY 2022. This falloff was primarily driven by a 61.24% (J\$730.12 million) decline in Cash & cash equivalents, and a 45.27% (J\$340.48 million) dip in Resale agreements but was partially offset by a 1.34% (J\$235.51 million) growth in Investment securities over the nine-month period.

Over the first nine months of FY 2023, VMIL's liabilities slipped by 1.59% (J\$413.37) closing the period at J\$25.65 billion. The drop in liabilities was heavily influenced by a reduction in Repurchase agreement and Accounts payable due to Customers and Others² which collectively declined by J\$2.21 billion. However, the decline was offset by a J\$1.82 billion jump in Borrowings as the company increased its funding level.

Shareholders' equity declined over the nine-month period reaching J\$2.65 billion. Despite an increase in Retained earnings (of J\$190.49 million), Investment revaluation reserve fell by J\$573.79 million or by 71.12%. This revaluation reserve reflects the cumulative change in equity and fixed income securities measured at Fair Value through other comprehensive income. The reduction in the revaluation reserves occurred within the context of a globally rising interest rate environment, where asset prices were negatively impacted.

² Accounts Payable Other - Interest payable and Other payables and accrued expenses

Valuation Summary

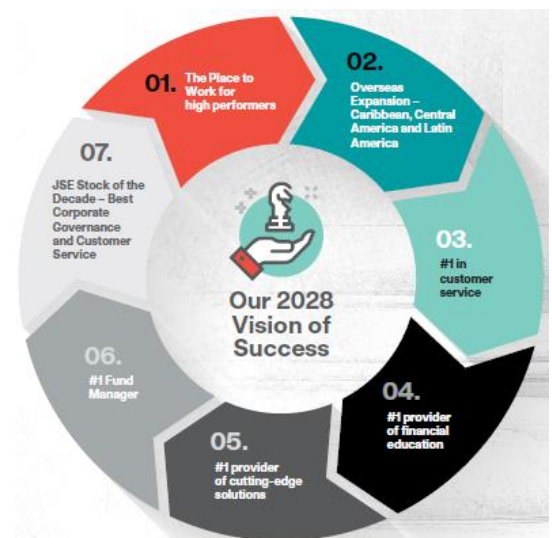
1. Relative Valuation Method (Summary)

Historical Average P/E = 9.796x
 VMIL's Frwd EPS = J\$0.44
 P/B Valuation Est. = J\$4.34

2. DDM Valuation Method (Summary)

Required rate of return = 11.44%
 g = 5.00%, D₁=J\$0.15, D₂=J\$0.18, D₃=J\$0.18
 DDM Valuation Est. = J\$3.56

VMIL's Average Valuation Est. = \$3.95



Glossary of Terms

Asset Turnover	The asset turnover ratio measures how effectively a company uses its assets to generate revenue or sales.
Bank of Jamaica.....	The Bank of Jamaica is the central bank of Jamaica located in Kingston. It was established by the Bank of Jamaica Act 1960 and was opened on May 1, 1961.
Contractual Service Margin (CSM).....	The contractual service margin (CSM) is a fundamental concept introduced by IFRS 17. This represents the unearned profit that an entity expects to earn as it provides services.
Current Ratio	The current ratio (current assets/current liabilities) is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year.
CY.....	Calendar Year (January to December)
DI.....	Next year's expected dividend
DTI – Deposit Taking Institutions	Financial institutions that are authorized to accept deposits from customers and provide various banking services.
Efficiency Ratio	The efficiency ratio shows expenses as a percentage of revenue (expenses/revenue). It essentially calculates how much a business spends to make a dollar.
FY.....	Financial Year or Fiscal Year
Gross Margin	A profitability measure that looks at a company's gross profit compared to its revenue or sales, expressed as a percentage.
Leverage Ratio (Assets/Equity)	The Asset to Equity ratio is derived by dividing a company's total assets by its shareholders' equity. This ratio is an indicator of the leverage (debt) used to finance the company.
NIR - Net International Reserve	Net reserves are defined as that portion of the gross reserves attributable to MOST's interests after deducting royalties and interests owned by others.
NOI - Net Operating Income.....	Earnings reported by a bank or bank holding company, after deducting normal operating expenses, but before taking gains or losses from sale of securities, other losses and charge-offs, and additions to the reserve account for possible loan losses.
Net Profit Margin	Measures how much net income or profit is generated as a percentage of revenue.
NPL - Non-performing Loans	Non-performing loans are loans as to which there have been no payments of principal or interest for 90 days or more.
Non-performing Loans (NPL) ratio	Non-performing loans as a percentage of gross loans and advances
QoQ - Quarter on Quarter	Used when comparing the financial performance between one quarter of one year to the same quarter of the previous year
Q1	Quarter 1 or First quarter (usually of a company's financial year or country's fiscal year)
ROE - Return on Equity	Return on Equity is a measure of financial performance calculated by dividing net income by shareholders' equity.
YoY - Year over Year	Used to compare data or performance for a specific metric from one year to the same period in the previous year
YTD - Year to date	The period of time from the beginning of the current calendar year up to the present date.

Disclaimer: All information contained herein is obtained by JN Fund Managers Limited's Global Investment Research Unit from sources believed to be accurate and reliable. All opinions expressed are based on the Research Analyst's judgment as of the date of the report. As such, no warranty is made, expressed, or implied by JN Fund Managers Ltd. in any form whatsoever as to the accuracy, timeliness or completeness of the information contained in this report. JN Fund Managers Ltd. is therefore not liable for any actions taken in reliance on information contained herein.

JN Fund Managers Ltd.'s Global Investment Research Unit does not provide investment advice that considers the circumstances and objectives of the parties who receive this report. It is therefore recommended that before making any investment decision, investors seek the advice of a JN Fund Managers Limited's Investment Advisor.

This report does not represent an offer to buy or sell, or solicitation of an offer to buy or sell the securities mentioned. Past performance is not necessarily an indication of future performance. Estimates of future performance are based on assumptions that may not be realized. Additional information not available in this research report may be available upon request.

JN Fund Managers Ltd. is a multifaceted organization with, investment banking, investment management, fund administration, and brokerage business lines. JN Fund Managers Ltd. may, therefore, conduct investment banking or other business activities with some of the companies and countries covered by the Company's Global Investment Research Unit.

JN Fund Managers Ltd. may invest in and trade the securities covered in this report for its proprietary account and/or on behalf of its clients. JN Fund Manager Limited's trading activity in these securities may be contrary to the recommendation(s) indicated in this report.