

Jamaica.West Indies

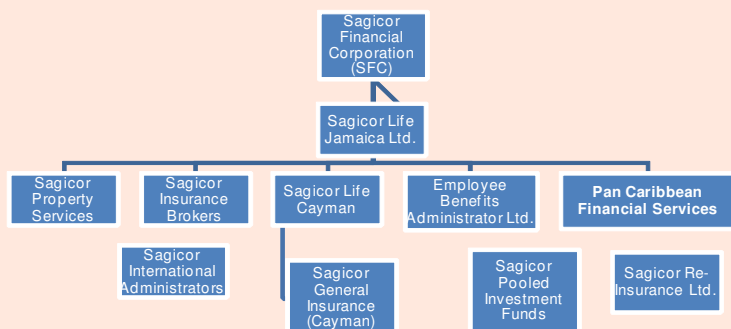
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Sagicor Life Jamaica Ltd.

Solid Performance

Latest Performance

The latest financial statements from Sagicor Life Jamaica Ltd (year ended Dec-09) indicates that the group of companies overall put in a solid performance for the financial year. Net profit attributable to shareholders increased by 12% to J\$4.39 billion, basic earnings per share (EPS) increased by 11% to J\$1.17 and dividends per share increased by 30% [from J\$0.44 to J\$0.57]. ROE (return on equity) was also impressive, coming in at 28% for 2009 compared to 25% for 2008. Management attributes the company's success primarily to (I) the integration of the Blue Cross health insurance portfolio; (II) cost efficiencies and synergies arising from a management restructuring exercise and (III) the success of the sales team in employee benefits and individual life in writing new business.



Challenges

Despite the solid performance, there were challenges. As holders of long term GOJ debt, the JDX had a negative impact on reserves and profitability (similar to the entire market). Group investment and fair value reserves declined to -J\$2.69 billion (negative) in 2008 due primarily to the impact of the global financial meltdown and the consequent 600 basis point increase in the yields on GOJ global bonds. The recovery of global bond prices began in December 2009 (with full recovery of yields to pre-financial crisis levels by March-2010) and should have resulted in a return of fair value reserves to positive territory. However the subsequent reduction of interest income on local debt due to the JDX and the company's decision to take the full hit in the 2009 financials, meant that fair value reserves maintained its negative value (J\$-1.55 billion) albeit a better out turn than in 2008.

The company's management has made it clear that they are under no illusions regarding the fact that going forward lower interest income and reduced economic activity (local/global recession) will negatively affect earnings—nonetheless they are up for the challenge. If we look at how the group's investments are structured it is clear that they should be competitive going forward.

Key Ratios

Quarterly Data	Dec-09	Dec-08	Dec-07
EPS (aft XO items)	1.17	1.05	0.79
P/B	1.33	1.35	1.97
Growth in Net Income	7.56%	32.77%	12.05%
Common Dividends %-Net Income	43.82%	36.32%	32.84%

Source: JMMBIR estimates, company financial statements, Bloomberg.

Jamaica Money Market Brokers Limited.

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RECOMMENDATION SELL

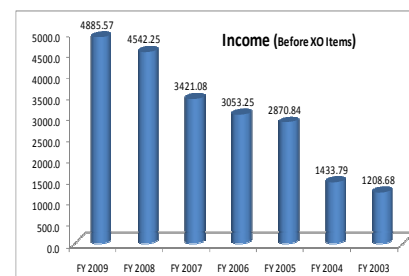
Price at April 23 2010 (J\$)	6.73
Price target (J\$)/Intrin. Value	6.19
52-week range (J\$)	4.0 to 7.50

Company Profile

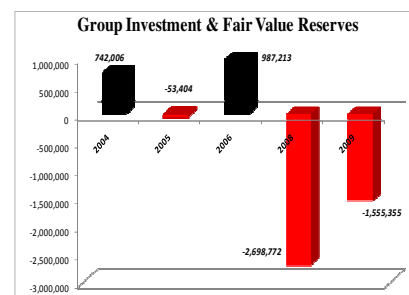
First Jamaican owned Life Insurance Company (former LOJ, inception-1970). Product offerings→life insurance, health insurance, annuities, pension fund investments & administration, mortgages & property development.

Through its subsidiaries→merchant & commercial banking, property & casualty insurance, property management & real estate sales.

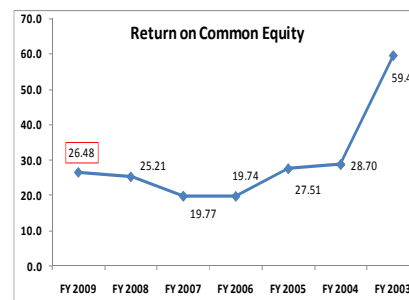
Profitability



Investment & Fair Value



Return on Common Equity



The lion share of the company's investments are in short term securities (approx. 64%) and the lion share of liabilities are also short term (approx. 58%) ; consequently they will take a hit to profitability from the JDX but their liabilities should re-price relatively quickly and profitability—while not as high as pre-JDX—should be maintained. Below we give the percentage change in the performance of the major divisions.

Divisional & Subsidiary Performance (J\$-Mill)			
Business Segment	2009	2008	%-age Change
Individual Life	1722	1068	61.24%
Employee Benefits	1560	1815	-14.05%
Investment Banking*	1379	1281	7.65%
Other (Including General Insurance)	225	378	-40.48%
Net Profit (Before Minority Interest)	4886	4542	7.57%

*-Includes amortization charges for purchased intangibles

Source: Annual Report

Important Strategic Moves

In November 2009, the company purchased an additional 33% of Pan Caribbean (PCFS), bringing their total ownership to 86%. The move was viewed as a strategically important one given the need for improved earnings at a time when interest income from GOJ securities is projected to decline.

In February 2010 (effective January 1, 2010), Sagicor Life entered an agreement to sell its 75% stake in Sagicor General Insurance (Cayman) Ltd; the sale is subject to regulatory approval. The view from management is that a property and casualty insurance operation did not offer sufficient strategic value at this time.

What Do We Like About The Stock?

Historically SLJ has performed well. Net income growth has been in double digits for six of the last eight years, EPS growth has been in double digits for the past three consecutive years and dividends per share growth has been in double digits for six of the last six years.

SLJ also has a diversified income stream. The stock is listed on the stock exchange as an insurance company (main competitor Guardian) however our opinion is that it should really be a conglomerate; our company profile above explains our view.

Income diversity is further complemented by an impressive dividend payment plan. Dividends (as a percentage of net income) has averaged in excess of 31% over the last eight years—outperforming its major competitor. Its debt ratios (debt/common equity, debt/ total capital) are also favourable compared to its nearest competitor.

Is The Stock Properly Priced?

Using our in-house projections for the long term nominal GDP growth for the Jamaican economy, our projections for the length of the recession period, and our estimated risk premium and bond yield—we estimated the price of SLJ using the dividend discount model (DDM). The DDM was though best because of the consistency of dividend payments historically. **The model indicates that the stock's long run intrinsic value, given our assumptions is J\$6.19, indicating that the stock is currently 8.7% over-priced.**

Conclusion

We recommend SLJ as a buy below J\$6.19; while there will be challenges due to reduced income and profitability because of the JDX, we like the consistency of dividends. Pension Funds should also look at the stock closely as a good long term buy for their portfolio. The move to strategically offload the casualty and insurance company and simultaneously increase holdings in Pan Caribbean are considered positive moves given the environment.

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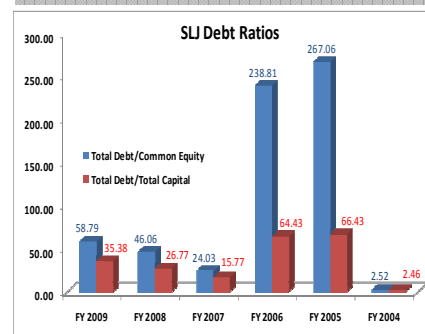
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Comparison to Major Competitor

	SLJ	GHL
His. P/E		
Last 4 Qtrs	5.56	3.96
Book Value	5.68	219.22
Price to Book	1.15	0.80
Dividend		
Yield 2009	3.84%	3.92%
Dividend		
Yield 2008	7.86%	2.34%

Debt Ratios



Price to Book Value Per Share

