



2018 Local Equities Market Outlook

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Executive Summary

The 2017 calendar year was a strong one for the local equities market. Stability in the local exchange rate, strong fiscal performance by the government of Jamaica, the slow reduction of debt, reduced unemployment and increased liquidity flows all augur well for the local stock market. The current year has begun with continued interest; in excess of J\$1 billion chased less than 100 million in shares as issued by Elite Diagnostics despite some hiccups in terms of the financials and timing of issuance.

Last year the combined JSE index grew by 43.9%, the main market index rose 49.9%, and the junior market rose by 5.34%. Berger Paints, Palace Amusement, Knutsford Express and Jetcon were some of the strongest performers. While Radio Jamaica, Sterling Investments and Cargo Handlers were some of the main losers.

The forecast suggests that while there could be some moderate upward pressure on interest rates towards the latter part of the year due to rising US Fed rates, the domestic economy is projected to remain a model of stability. The BOJ's introduction of B-FIXIT and increased information symmetry should continue to maintain currency stability. The fiscal numbers are projected to remain within manageable levels as successive administrations continue to slowly grind down the debt.

The strategy of issuing less debt as new debt reaches maturity makes excess liquidity available to the market. That liquidity will search for a home; with exchange rate stability and in some cases dollar appreciation being the near term and possibly medium term norm, Jamaican dollar instruments are attractive. For the past 3 years the equity market has looked impressive, providing returns often excess of 25%.

Unemployment has also been declining with job creation in the BPO, Mining, Tourism and Construction sectors suggesting at least a moderate improvement in economic activity. Business & Consumer Confidence has also responded positively to the improved economic numbers.

We suggest that investors keep an eye on the following stocks going into 2018. NCB, Wisynco, Kingston Wharves, Proven, The Lasco Group, SOS, Access and Express Catering among others.



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2017 Equities Review

The **JSE Combined Index** moved from 204,960.10 points as at Dec. 30, 2016, to 294,986.53 points as at Dec. 29, 2017. This performance represents at 43.92% year-over-year improvement, which was largely due to the performances of the Main Market Index.

The **Main Market Index** rose by 49.98% in the 2017 calendar year, increasing by 96,105.36 points to 192,276.64 points. This follows a 27.6% advance in the previous year. Twenty-five (25) stocks advanced while just four (4) declined. Three new companies were listed: NCB Financial Group Limited, Victoria Mutual Investments Limited, and Wisynco Group Limited. Trading improved greatly from the previous year as the volume of shares traded increased by 39.18% to 2.52B while the value of trades rose 39.91% to \$35.72B. Market capitalization as at Dec. 29, 2017 stood at \$1,048.74 Trillion, up from \$697.45B as at Dec. 30, 2016.

Main Market

Top Gainers	Change	Open	Close
Pulse Investments Limited	203.37%	\$0.59	\$1.80
Berger Paints (Jamaica) Limited	195.54%	\$5.60	\$16.55
Palace Amusement (1921) Company Limited	187.18%	\$195.00	\$560.00
Top Losers			
Radio Jamaica Limited	(19.23%)	\$1.30	\$1.05
Sterling Investments Limited	(17.20%)	\$15.70	\$13.00
Portland JSX Limited	(8.42%)	\$10.92	\$10.00

The **Junior Market Index** rose by 5.34% in the 2017 calendar year, increasing by 138.42 points to 2,593.71 points. This follows a 44.82% increase in the previous year. Eighteen (18) stocks advanced while just eleven (11) declined. Five new companies were listed during the year: Express Catering Limited, FosRich Company Limited, GWEST Corporation Limited, Main Event Entertainment Group, and Stationery & Office Supplies Limited. Trading improved greatly from the previous year as the volume of shares traded increased by 117.92% to 1.29B while the value of shares traded rose 78.43% to \$6.61B. Market capitalization as at Dec. 29, 2017 stood at \$114.80B, up from \$103.42B as at Dec. 30, 2016.

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Junior Market

Top Gainers (YTD)

Knutsford Express Service Limited

Eppley Limited

Jetcon Corporation Limited

Top Losers (YTD)

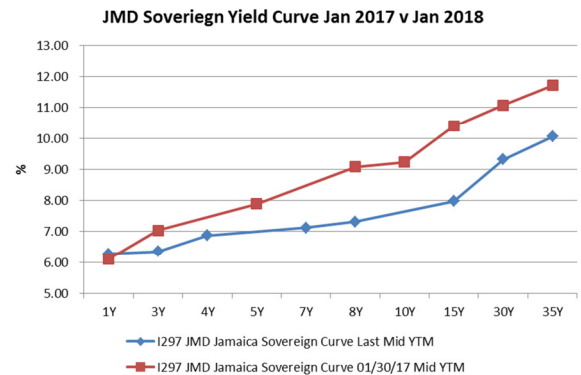
Cargo Handlers Limited

Lasco Distributors Limited

AMG Packaging & Paper Company Limited

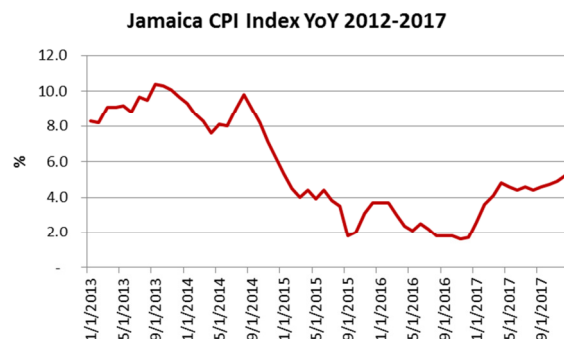
	Change	Open	Close
Knutsford Express Service Limited	275.19%	\$4.00	\$15.00
Eppley Limited	144.90%	\$4.90	\$12.00
Jetcon Corporation Limited	140.50%	\$2.00	\$4.81
Cargo Handlers Limited	(46.15%)	\$18.57	\$10.00
Lasco Distributors Limited	(45.56%)	\$7.09	\$3.86
AMG Packaging & Paper Company Limited	(38.80%)	\$4.90	\$3.00

Investors continued to flock to equities in 2017 in search of attractive yields as returns on fixed-income securities remained historically low. Low interest rates and inflation coupled with the stabilization of the Jamaican dollar continued to drive the attractiveness of equities. The 10-year JMD Sovereign Yield as at Jan. 30, 2018 was 7.535%, down 182 basis points from a year earlier when the 10-year yield at that time was 9.351%.



The 3-month T-bill rate as at the Dec. 2017 auction was 4.176%, down 151 basis points from the 5.683% yield from the Dec. 2016 auction. The 6-month T-bill rate fell from 6.561% to 4.635%, a 193 basis point fall, year-over-year.

The inflation rate in 2017 trended upwards from 1.7% as at Dec. 2016 to 5.2% as at Dec. 2017 but it was well within the Bank of Jamaica's 4% to 6% target band and lower than in previous years as displayed by the CPI graph. Inflation has been tempered by low domestic agriculture and international commodity prices, in particular fuel prices; and stability in the foreign exchange rate, which is linked to greater

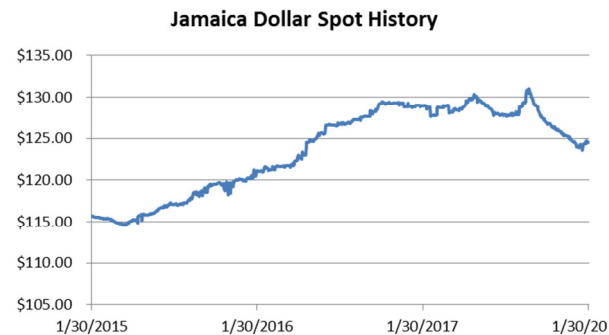


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efficiency in the currency market due to the new trading tools implemented by the Bank of Jamaica and less speculative trading as investor sentiment around the outlook of the economy improves.



The US dollar was on an upward trend up to Sept. 2017, when it was trading for almost \$131, before falling to \$124.50 as of Jan. 30, 2018. A multiplicity of factors which included the factors discussed above and improved fiscal and current account numbers drove this performance. Provisional data from the Ministry of Finance and Public Service showed a fiscal deficit of \$16.65B for the April 2017 to November 2017 period, 54.1% lower than budgeted as revenues & grants were 4.0% higher than expected while expenditures were 1.8% lower than anticipated. The primary balance of \$70.38B was 30.9% or \$16.63B greater than budgeted.

Outlook

Our baseline scenario envisages a moderate rise in T-bill yields, particularly during the second half of the year, due in part to rising inflation and monetary tightening to help stymie inflationary pressures. We expect the Jamaican dollar to maintain along a relatively low depreciation path as the measures implemented by the Bank of Jamaica continue to have a positive impact on the forex market. A modest increase is expected in the current account deficit, but growth in the NIR is highly likely due to buoyant capital flows which should cover the deficit.

The Jamaican economy is expected to have grown by 0.5% in 2017 compared to initial expectations of 1.5% growth as heavy rains led to lower than expected agricultural production while the late resumption of work at Alpart negatively impacted mining output. Growth for 2018 is likely to be driven by recovery in the mining sector; increased visitor arrival; construction work on hotels, major infrastructure projects and build out of BPO facilities.



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The realization of these forecasts would further support the high business and consumer confidence levels currently being observed. A stable exchange rate and moderate inflation allows businesses to better plan for the future, encouraging capital investment and job creation. Unemployment in Oct. 2017 was measured at 10.4%, down from 12.7% in Jan. 2017. As the economy continues to improve and confidence levels continue to rise, businesses are better positioned to expand while consumers are more willing to spend, which should translate to greater profitability for listed companies, a boon for shareholders.

A favourable economic climate is also likely to drive further new listings on the stock exchange after 9 companies listed ordinary shares in 2017 in addition to several preference shares from other companies. Jan. 2018 saw the first listing of Elite Diagnostics Limited.

Liquidity is also expected to improve during the year with the redemption of the GOJ securities that are unlikely to be fully rolled over as the Government continues to whittle down the debt burden. Approximately \$60B in redemptions and interest will be coming to the market in Feb. 2018. With low interest rates and little activity in the fixed income market, we anticipate a significant portion of these funds will make it to the equities market.

As such, we would recommend an overweight position in equities (subject to personal return & risk objectives and unique circumstances) for 2018 as we believe the factors outlined above would sustain the current economic environment that has been supportive to the equity asset class.

Stocks to Watch:

- **NCB Financial Group Limited** – NCBSFG reported a 17% increase in operating income for the first quarter of the 2017/18 financial year while net profits rose 28% to \$4.61B. The Group made a US\$174M bid for another 74.23M shares in Guardian Holdings Limited as it aims to take a controlling stake in the company. This move is part of NCB's goal to become a regional financial powerhouse and the initial 29.99 stake acquired in 2016 was positive for the company, helping it to set profitability records.
- **Wisynco Group Limited** – WISYNCO came to market in December 2017, seeking over J\$6B in an IPO that saw applications totalling over J\$20B, demonstrating the strong brand equity of the company. Revenues in the first quarter rose 16.7% to \$6.13B while profits rose 11.0% to \$655.8M. The company aims to widen its regional footprint with the capital raised as the majority of its strong revenues are locally-generated.



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- **Kingston Wharves Limited** - KW continues to improve its core services, while building its capacity to serve a wider range of local and transshipment requirements for the loading, discharge and storage of bulk, break-bulk, containerised and automated cargo. The commissioning of on-dock bulk storage facilities, a near-port domestic automotive centre and a terminal resurfacing and rehabilitation programme are some of the projects KW currently has underway. For the nine months ended September 2017, KW revenues amounted to \$4.5B, a 17% increase year-over-year while net profits climbed 36% to \$1.18B.
- **Proven Investments Limited** – PIL's revenue rose 28.9% to US\$25.64M for the nine months ended December 31, 2017 while net profit attributable to shareholders for the period stood at US\$5.23M. This performance was driven by gains on securities trading and net interest income, partially offset by falls in net foreign exchange gains. The acquisition of Bank of St Lucia International (BOSLIL) and a securities dealer in Cayman are expected to boost the Group's product offerings and enhance shareholders' value in the medium term. Further, PIL has plans for a real estate on Millsborough Avenue in Kingston 6 Jamaica, which is expected to come on stream in the near future.
- **LASCO Group of Companies** – **LASF acquired Scotia Jamaica Microfinance Company Limited (CrediScotia) in the fourth quarter of 2017, a move in line with its key strategy to expand its small loans business.** Over the year the branch network, team, and services were expanded as it aims to carve out a significant market share in the micro loans segment. Net profits for the nine months amounted to \$221.52M, exceeding the full year results for the previous financial year.

LASD reported net profits of \$535.22M for its nine months period ended December 2017, up 28% year-over-year, on revenues of \$12.2B. The company continued its efforts to improve efficiency in its operations as several measures were implemented including improved capacity utilization due to warehouse expansion and improved logistics, resulting in stronger profitability margins.

In January 2018, LASM announced a US\$103M joint venture with US-based United Cannabis and Cannabinoid Research and Development for the manufacture of cannabis-infused water among other cannabis medicinals. LASM is in the process of receiving approval from the Cannabis Licensing Authority which will allow it to import the raw material need for the intended products. Revenues for the first quarter ended December 2017 rose 22% to \$1.8B while profit after tax stood at \$195M, up 72% from the comparable period of the previous year.

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- **Stationery & Office Supplies Limited** – SOS came to market in June 2017 to raise J\$95.0M to support its aims to expand its warehouse and lower leverage. Since listing, the company has posted its nine months ended September 2017, which saw **revenues rising 27% while pre-tax profits rose by 46%**. Revenues for the 3rd quarter rose by 37% to \$233M while pre-tax profits surged 91% to \$18.8M.
- **Access Financial Limited** - The first half of the 2017/18 year has seen AFS operating performance slow down, relative to previous years. It was inevitable that the rapid growth seen in the earlier years of listing would eventually normalize. As such, the company has looked to inorganic means to further its asset base, acquiring two micro-finance companies in the previous financial year: Damark Limited and Micro Credit Limited. The Damark Limited acquisition added \$148.71M to AFS' loan portfolio. **AFS reported net revenues of \$896.91M for the first six months of the 2017/18 financial year, a 21% or \$154.2M increase, year-over-year.** Profit before taxation amounted to \$379.81M, relatively unchanged.
- **Express Catering Limited** – ECL came to market in June 2017, raising \$491.25M to improve liquidity and expand operations. We anticipate continued revenue growth for Express Catering Limited in the short-term given the plans to bring the **Starbucks franchise to the Sangster International Airport** and the cessation of management fees to the parent company. The nine months ended November 2017 showed revenues of US\$6.88M while net profit amounted to US\$1.38M, versus US\$389.72K. The first Starbucks location was opened in November 2017 and we believe that such a globally popular food destination should have an immediate impact on Express's operations.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Bank of Jamaica, Statistical Institute of Jamaica

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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