

## Lasco Financial Services Limited (LASF)

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### Executive Summary

Founded by Chairman Lascelles Chin, LASCO Financial Services Limited is a publicly listed company on the Junior Market of the Jamaica Stock Exchange and a leading provider of retail financial services. On acquiring the CreditScotia microfinance business the company has seen astronomical growth in both revenues and profits. We are forecasting a continuation of this trend for the current financial year and maintain an Overweight recommendation on the stock.

### Company Background

The LASCO Financial Services Group is comprised of LASCO Financial Services Limited and its subsidiary LASCO Financial Services (Barbados) Limited. LASCO Financial Services Limited (LASF) was formed in 2010 from the amalgamation with LASCO Remittance Services Limited and LASCO Properties Limited. The main business activities are: money transfer within Jamaica and to and from the rest of the world; currency exchange; consumer loans to salaried borrowers; and business loans and support to micro and small businesses. LASF is publicly traded on the Junior Market of the Jamaica Stock Exchange.

### Financial Performance – Year ended March 31, 2018

#### *Profitability*

LASF's revenues amounted to \$1.62B for the year ended March 2018, up 51.3% or \$549.7M year-over-year, as income rose 51.3% to \$1.55B while other operating income rose 53.3% to \$72.0M. The remittance business grew by over 31% while the cambio and loans segments rose 59% and 400% respectively. During the year, the micro loans business expanded with the acquisition of Scotia Jamaica MicroFinance Company Limited (Credit Scotia) on December 1, 2017.

Subsequent to the acquisition, LASCO Financial Services Limited's loan division was transferred to CreditScotia and renamed LASCO Microfinance Limited, now a 100% subsidiary of LASCO Financial Services Group. LASCO Financial Services now operates cambio, remittance services and other value added services through its Money Stores and network of agents island-wide, whereas LASCO Microfinance Limited is focused solely on providing loans.

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Operating expenses rose 46.0% or \$383.8M to \$1.22B as administrative and other expenses rose 55.7% to \$625.0M while selling and promotional expenses grew 37% to \$539.0M. Over \$100M of the increase in expenses was related to additional staff costs arising from the expansion of the loans business, as the staff complement grew from 82 to 138 persons. Commission fees and promotional expenses helped to drive the increase in operating costs while significant fees were also generated in the form of legal fees and bad debt provision related to the CreditScotia acquisition.

As a result, operating profits amounted to \$402.2M, a 70.2% or \$165.9M increase year over year. The operating profit margin improved to 24.8%, up from 22.1% in the previous year. Earnings before interest, taxation, depreciation & amortisation (EBITDA) amounted to \$432.0M, a 72.4% improvement on the previous year's result. The EBITDA margin also improved, moving from 23.4% in the 2016/17 FY to 26.7% in the 2017/18 FY.

Finance costs surged to \$66.8M for the year, up \$62.0M from the prior year, stemming from financing raised to fund the acquisition of CreditScotia. Pre-tax profits were up 44.9% to \$335.4M as the increase in finance costs partially offset the increase in operating profits. Net profit rose 35.4% or \$66.5M to \$254.3M while taxation increased 85.7% to \$81.1M. Earnings per share for the year stood at \$0.20, up from \$0.15 for the previous year. The effective tax rate moved from 18.9% to 24.2% resulting in a decline in the net profit margin from 17.5% to 15.7% in the 2018 FY. Return on average equity stood at 20.1%, up from 17.5%, while the return on average assets stood at 10.3%, compared to 13.9% in 2017.

### *Solvency & Liquidity*

LASF's total assets increased 117.0%, or \$1.83B, to \$3.39B as at March 31, 2018. Driving this expansion was a 175.7% or \$1.17B increase loans & receivables to \$1.83B and an \$825.0M increase in intangible assets to \$842.7M arising from the CreditScotia acquisition. Property, plant and equipment rose 36.6% to \$136.7M as the company expanded its network. Cash & cash equivalents rose 29.0% to \$366.9M while investment property amounted to \$118.0M, up 2.6% from a year prior.

LASF's liabilities amounted to \$2.02B, up \$1.61B from the balance at the start of the year. This increase was driven by a \$1.44B increase in loans stemming from the issuance of a bond to fund the CreditScotia acquisition. Payables amounted to \$431.0M, a 38.2% increase from the balance a year ago. The company showed strong ability to service this increase in debt with an interest coverage ratio of 6.02x for the year, down from 48.8x a year prior but still quite healthy.

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Shareholders equity rose 18.5% to \$1.37B due to a 19.2% increase in retained earnings which close the year at \$1.27B. The bond issuance resulted in a debt-to-equity ratio of 1.08x, up from 0.04x a year earlier.

### Outlook & Valuation

LASF has taken the decision to separate the loan business into its own company so as to “provide the focus, structure and resources” to drive the company into a leadership position in the microfinance space. LASF through its LASCO Money brand will focus on the money services business to deliver greater value added. The CreditScotia move had a material impact on the 2017/18 financial year and has carried over into the current year. Revenues for the first quarter of the 2018/19 financial year rose 73.7% to \$554.5M while net profits climbed 50.3% to \$100.5M.

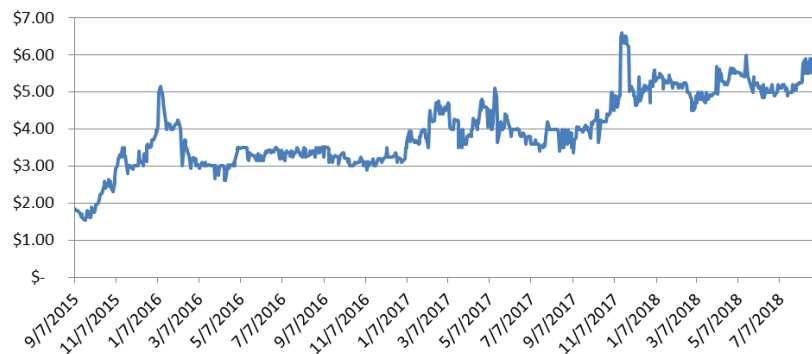
**As such, we anticipate revenues to close higher for the 2018/19 financial year, up 31% to \$2.14B, while net profits are forecasted to increase by 44% to \$365.96M.**

Junior Market Finance Sector	Current Market Capitalization	Close Price	TTM EPS	TTM P/E Ratio	Book Value	Price to Book	Return on Assets	Return on Equity
AFS	\$13,039,217,400	\$47.50	\$2.71	17.52x	\$9.24	5.14x	21.1%	34.2%
EPPLEY	\$1,934,306,415	\$10.05	\$0.38	26.15x	\$3.61	2.78x	3.1%	10.8%
ISP	\$2,100,000,000	\$20.00	\$0.48	41.26x	\$2.81	7.11x	10.4%	18.9%
LASF	\$7,183,208,617	\$5.78	\$0.23	24.95x	\$1.18	4.89x	11.3%	21.4%
<b>Average</b>	<b>\$6,064,183,108</b>			<b>27.47x</b>		<b>4.98x</b>	<b>11.5%</b>	<b>21.3%</b>

We utilized the 1-year P/E average of 24.83x which yielded a price of \$7.19. Shareholders' equity is seen closing the year at \$1.66B, up 21.3%, which translates to book value of \$1.31. Utilizing the 1-year P/B average of 4.75x yields a price of \$6.24. **Averaging these estimates gives us a fair value of \$6.71 per share.**

## Lasco Financial Services Limited (LASF)

LASF 3-year Trading History



### Recommendation

LASF closed at a price of \$5.25 per share on September 21, 2018, 21.8% lower than our estimated fair price. **We recommend an OVERWEIGHT position** as the shares currently trade below our fair price. We hold a favourable opinion of the company's move to acquire CreditScotia and create a separate loans subsidiary focused on acquiring greater market share in the promising microfinance industry. With a significant proportion of the population underbanked, widening the footprint of the loans operation with an already recognized entity has already begun to bear fruits. The company is an earner of foreign exchange through its cambio and remittance business and has had success increasing its brand awareness locally and regionally.

## Lasco Financial Services Limited (LASF)

### Abridged Financials

J\$000	Year Ended March 31					3M18	3M19	Change %
	2014	2015	2016	2017	2018			
<b>Turnover</b>	<b>628,546</b>	<b>713,477</b>	<b>870,009</b>	<b>1,070,591</b>	<b>1,620,265</b>	<b>319,226</b>	<b>554,513</b>	<b>73.7%</b>
Operating Expenses	451,668	522,245	648,721	834,276	1,218,029	235,927	382,256	62.0%
<b>Operating Profit</b>	<b>176,878</b>	<b>191,232</b>	<b>221,288</b>	<b>236,315</b>	<b>402,236</b>	<b>83,299</b>	<b>172,257</b>	<b>106.8%</b>
Profit Before Taxation	176,683	191,072	220,970	231,472	335,417	81,148	131,558	62.1%
<b>Profit for the year</b>	<b>176,683</b>	<b>191,072</b>	<b>203,379</b>	<b>187,778</b>	<b>254,284</b>	<b>66,870</b>	<b>100,523</b>	<b>50.3%</b>
<b>Total Assets</b>	<b>810,726</b>	<b>1,015,223</b>	<b>1,149,599</b>	<b>1,560,281</b>	<b>3,386,101</b>	<b>1,541,674</b>	<b>3,550,704</b>	<b>130.3%</b>
<b>Total Liabilities</b>	<b>159,458</b>	<b>202,889</b>	<b>154,580</b>	<b>404,839</b>	<b>2,016,467</b>	<b>318,762</b>	<b>2,080,547</b>	<b>552.7%</b>
<b>Shareholder's Equity</b>	<b>651,268</b>	<b>812,334</b>	<b>995,019</b>	<b>1,155,442</b>	<b>1,369,634</b>	<b>1,222,912</b>	<b>1,470,157</b>	<b>20.2%</b>
EPS (\$)	0.14	0.15	0.16	0.15	0.20	0.05	0.08	
Book Value per Share (\$)	0.51	0.64	0.79	0.91	1.08	0.97	1.16	
<b>Key Ratios</b>								
Operating profit margin	28.1%	26.8%	25.4%	22.1%	24.8%	26.1%	31.1%	
Net Margin	28.1%	26.8%	23.4%	17.5%	15.7%	20.9%	18.1%	
Return on Average Equity	31.4%	26.1%	22.5%	17.5%	20.1%			
Return on Average Assets	24.4%	20.9%	18.8%	13.9%	10.3%			
Assets/Equity (x)	1.24	1.25	1.16	1.35	2.47	1.26	2.42	

**Source:** <http://www.Jamstockex.com>, **JMMB Investment & Research, Bloomberg, Company Financials**

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**Lasco Financial Services Limited (LASF)****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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