

Proven Investments Limited (PIL)

Executive Summary

Net revenue grew by 17.4% to US\$8.51M for the 3 months ended June 2018 relative to US\$7.25M last year. The increase in net revenue was due to an increase in net interest income and improvements in foreign exchange gains. Meanwhile, operating expenses grew 11.5% to US\$5.55M for the period ending June 2018 relative to US\$4.98M for the same period last year, on account of administrative and general expenses, preference share dividend and IFRS Provisioning.

Total assets moved to US\$575.12M as at June 2018 from US\$598.73M reported last year. The reduction in the asset base was influenced by declines in cash balances and available –for-sale investments. Total liabilities decreased by 7.7% to US\$470.44M as at June 2018, mainly as a result of reductions in client liabilities. Meanwhile, shareholder’s equity increased by 17.3% to US\$82.08M million as at June 2018 amidst an increase in share capital.

The recent acquisition of International Financial Planning (Cayman) Limited (IFP) will enhance shareholders’ value going forward through additional fee income and customer reach. PIL has plans for a real estate development on Millsborough Avenue in Kingston 6 Jamaica, which is expected to come on stream in the next 12 to 18 months. Further, Proven REIT is looking to expand its real estate offerings with the acquisition of a two-acre property, formerly occupied by Red Bones, on Braemar Avenue in New Kingston.

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Company Background

Proven Investments Limited (“the Company”) is incorporated in Saint Lucia under the International Business Companies Act. The Company is domiciled in Saint Lucia, with registered office at 20 Micoud Street, Castries, Saint Lucia. The primary activities of the Company are the holding of tradable securities for investment purposes and holding other investments.

Subsidiaries	Country of Incorporation	Nature of Business	Percentage Ownership
Proven Wealth Limited	Jamaica	Funds Management, Investment Advisory services, Money Market and Equity Trading	100
Proven REIT Limited	St Lucia	Real Estate Investment	100
Proven Kingsway Limited	St Lucia	Real Estate Investment	100
BOSLIL Bank Limited	St Lucia	Private Banking	82.82
Asset Management Company Limited	Jamaica	Hire Purchase Financing	100
Proven Fund Management Limited	Jamaica	Pension funds management	100
Access Financial Services	Jamaica	Retail Lending	49.72

SWOT Analysis:

<p>Strengths:</p> <ul style="list-style-type: none"> • Efficient tax structure: as an IBC, company pays 1% corporate tax. The JSE listing means dividend payment will be tax-free. • Greater flexibility in investment strategies which include international securities and deals • Diversified income streams • Diversity in product offerings to clients 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • Highly leverage • PIL is not regulated locally • High risk business model and as such financial performance can be volatile
<p>Opportunities:</p> <ul style="list-style-type: none"> • Brokering structured deals • Further acquisition could significantly boost earnings • Group could benefit from synergies from BOSLIL Bank Limited 	<p>Threats:</p> <ul style="list-style-type: none"> • Market liquidity tightness may hinder the company’s ability to close profitability deals. • Revenues may be affected negatively by changes in the global economy.

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Abridged Financial Statements

US\$'000	Year Ended March								3-months ended June		Change %
	2011	2012	2013	2014	2015	2016	2017	2018	2017	2018	
Interest Income	8,417	7,076	7,361	7,868	18,632	25,726	24,149	28,490	6,873.92	7,207.32	4.9%
Interest Expense	5,283	3,979	4,474	4,649	10,982	12,000	9,646	8,099	2,361.78	1,929.48	-18.3%
Net Interest Income	3,134	3,097	2,887	3,219	7,650	13,726	14,503	20,391	4,512.15	5,277.85	17.0%
Other operating Revenue											
Dividends	308	899	1,260	679	440	1,325	1,357	807	241.47	273.78	13.4%
Fees and commissions	173	140	55	206	699	2,042	2,368	5,076	1,213.70	893.78	-26.4%
Net fair value and realized gains	3,070	3,310	4,151	2,962	387	(1,035)	1,720	4,293	455.56	41.09	-91.0%
Net foreign exchange gains	11	(417)	1,572	1,185	218	1,503	1,902	(444)	196.05	1,197.85	511.0%
Other income	213	7	61	366	542	1,887	1,966	2,360	95.94	129.59	35.1%
Goodwill and impairment	-	(9)	(41)								
Gain on purchase of subsidiary/ pension inc	5,009	179			1,443	1,548	1,006	3,667	538.80	701.09	30.1%
	8,784	4,109	7,058	5,398	3,729	7,270	10,319	15,759	2,741.52	3,237.17	18.1%
NIM and other revenue	11,918	7,206	9,945	8,617	11,379	20,996	24,822	36,150	7,253.66	8,515.02	17.4%
Expenses											
Staff costs	1,024	1,252	1,425	1,320	2,852	4,506	8,310	8,608	4,391.53	4,436.06	1.0%
Depreciation	47	76	88	76	137	1,887	1,343	1,659	441.38	442.64	0.3%
IFRS 9 Provisioning										408.22	
Impairment of loans and other assets/ inv.				45	442	889	1,156	2,273			
Impairment (reversal) / loss on investments							1,744	(921)			
Preference share dividend	1,668	538	1,064	969	1,456	331	2,184	976	148.43	266.32	79.4%
Property expenses					29	844	565	2,155			
Other operating expenses	1,884	1,913	2,823	2,192	4,824	6,969	7,796	8,866	4,981.33	5,553.25	11.5%
	4,623	3,779	5,400	4,602	9,740	17,170	20,433	24,537			
Gain on acquisition of subsid./ share of assoc.					4,274	896	8,030	48			
Profit Before Taxation	7,295	3,427	4,545	4,015	5,913	4,722	12,419	11,661	2,272.33	2,961.77	30.3%
Profit for the year	6,602	3,294	4,155	3,780	5,973	4,283	11,462	9,507	1,985	2,849	43.5%
Total Assets	141,106	140,196	144,156	148,718	364,345	348,386	633,330	576,915	598,728.09	575,122.56	-3.9%
Total Liabilities	106,859	106,976	108,260	115,699	310,581	276,075	543,473	469,563	509,448.56	470,437.75	-7.7%
Shareholder's Equity	34,247	33,220	35,896	33,019	53,764	72,311	89,857	107,352	89,279.53	104,684.81	17.3%
EPS (\$)	0.011	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.003	0.005	
Book Value per Share (\$)	0.055	0.05	0.06	0.05	0.09	0.12	0.14	0.17	0.143	0.167	
Key Ratios											
Net Margin	55.4%	45.7%	41.8%	43.9%	52.5%	20.4%	46.2%	26.3%	27.4%	33.5%	
Pre-tax Margin	61.2%	47.6%	45.7%	46.6%	52.0%	22.5%	50.0%	32.3%	31.3%	34.8%	
P/E Ratio		17.08	16.55	29.78	18.84	27.74	16.37	13.15	12.55	12.50	
Price / Book Value		1.69	1.92	3.41	2.09	1.64	2.09	1.16	1.61	1.13	
Return on Average Equity		9.76%	12.02%	10.97%	13.77%	6.79%	14.14%	9.64%	2.22%	2.72%	

Financial overview

During the 3-months ended June 2018, net revenue grew by 17.4% to US\$8.51M from US\$7.25M last year. The increase in net revenue was due to an increase in net interest income and improvements in foreign exchange gains. Meanwhile, operating expenses grew 11.5% to US\$5.55M for the period ending June 2018 relative to US\$4.98M for the same period last year, on account of administrative and general expenses, preference share dividend and IFRS Provisioning. The Efficiency Ratio, including all income and expense items, decreased to 65.22% compared to 66.63% for the same period last year. From this

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perspective, net profit of US\$1.79M or earnings-per-share (EPS) of US\$0.0029 represents a 58.43% increase when compared to the same period last year.

Total assets moved to US\$575.12M as at June 2018 from US\$598.73M reported last year. The reduction in the asset base was influenced by declines in cash balances and available-for-sale investments. Total liabilities decreased by 7.7% to US\$470.44M as at June 2018, mainly as a result of a reduction in “client liabilities” and liabilities “due to customers”. Meanwhile, shareholder’s equity increased by 17.3% to US\$82.08M million as at June 2018 amidst an increase in share capital.

Table 1: Ratio Analysis

	2011	2012	2013	2014	2015	2016	2017	2018	Jun-18	
Debt Ratios	Total Debt/PBT	14.65	31.22	23.82	28.82	52.53	58.47	43.76	40.27	39.71
	Net Debt/PBT	14.16	30.37	23.04	27.67	50.68	55.56	31.58	32.60	31.81
	Equity/Total Assets	24.3%	23.7%	24.9%	22.2%	14.8%	20.8%	14.2%	18.6%	18.2%
	Long-Term Debt/Equity	20%	120%	158%	140%	155%	102%	108%	103%	107%
	Long-Term Debt/Total Assets	4.9%	28.5%	39.4%	31.0%	22.8%	21.1%	15.3%	19.2%	19.4%
	Total Debt/Equity	3.12	3.22	3.02	3.50	5.78	3.82	6.05	4.37	4.49
	Total Debt/Total Assets	75.7%	76.3%	75.1%	77.8%	85.2%	79.2%	85.8%	81.4%	81.8%
Net Debt/ Equity	3.02	3.13	2.92	3.36	5.57	3.63	4.36	3.54	3.60	
Liquidity	CFO/Total Liabilities	0.47	-0.27	-0.04	-0.10	0.04	-0.05	0.03	-0.16	n/a
	Interest Expense/ Free Cash Flow	0.11 -	0.13 -	0.95 -	0.42	0.87 -	0.93	0.62 -	0.09	n/a
Profitability	Return on Equity	19.3%	9.9%	11.6%	11.4%	11.1%	5.9%	12.8%	8.9%	10.9%
	Return on Assets	4.7%	2.3%	2.9%	2.5%	1.6%	1.2%	1.8%	1.6%	2.0%
	Operating Margin	61.2%	47.6%	45.7%	46.6%	52.0%	22.5%	50.0%	32.3%	34.8%
	Net Income Margin	55.4%	45.7%	41.8%	43.9%	52.5%	20.4%	46.2%	26.3%	33.5%
	Operating Efficiency Ratio	38.8%	52.4%	54.3%	53.4%	85.6%	81.8%	82.3%	67.9%	65.2%

The above ratios revealed that debt levels remained stable for the 3 months ended June 2018 relative to financial year 2017/2018. The profitability of the company has shown some improvements in the review period relative to a year ago. Similarly, there has been an improvement in the operating efficiency which bodes well for shareholders’ value going forward.

Forecast and Valuation

The recent acquisition of International Financial Planning (Cayman) Limited (IFP) will enhance shareholders’ value going forward through additional fee income and customer reach. IFP is a licensed securities dealer with offices in Cayman, Bermuda & the British Virgin Islands with assets under management of close to US \$160M. IFP was acquired for US\$14.2M. Further, PIL has plans for a real estate on Millsborough Avenue in Kingston 6 Jamaica, which is expected to come on stream in the next 12 to 18 months. Proven REIT is looking to expand its real estate offerings with the acquisition of a two-acre property, formerly occupied by Red Bones, on Braemar Avenue in New Kingston. On the other hand, PIL continues to benefit from its ownership stake in both Access Financial Services Limited and BOSLIL Bank Limited. Combined, Access Financial Services Limited and BOSLIL Bank Limited, represents the lion share of net earnings for the 3 months ended June 2018. This trend is expected to continue for the near term.

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Within the context of these plans, the projected profit for the financial year ending March 2019 is US\$9.64M or EPS of US\$0.015. Using a forward P/E of 16 times (Historic Average was 19.93 times), the projected price for end March 2019 is US\$0.246.

The book value for the financial year ending March 2019 is expected to reach US\$0.18 per share. Assuming a forward P/B 1.4 times (Historic Average was 21 times, the projected price for the next financial year end is US\$0.245.

Dividend Discounted Method:

Dividend Discount Model	
Dividend per share	0.008
Value of stock	0.25

Recommendation

The recent acquisitions bodes well for PIL's strategic initiatives to broaden its product offerings and expand its business lines while enhancing efficiency and profitability. The recent political uncertainty, rising trade tensions and monetary tightening in the US may negatively impact global asset prices. Such volatility in prices may create entry point opportunities. Within the Caribbean region, countries like Barbados and Trinidad and Tobago have embarked on fiscal adjustments to ensure their economic recovery. The management of PIL needs to carefully balance the growth in business capacity and earnings with the desire of diversified income streams. This balance ought to be viewed in light of expense controls; volatility in international financial assets prices and risk management mechanisms. The average valuation based on the above analyses is US\$0.248 which represents a 3.5% capital gain from current price of US0.24. **With this said, PIL is recommended as a Hold at this time.**

Source: <http://www.jamstockex.com>, *JMMB Investment & Research, Bloomberg, Various Company Financial Statements*

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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**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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