

PanJam Investment Limited

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Executive Summary

PanJam Investment Limited (PJAM) is an investment holding company listed on the Jamaica Stock Exchange. Through its subsidiaries it provides property management services in Jamaica, including the rental, management and development of commercial real estate properties, and captive insurance.

PJAM reported total revenues of \$2.41B for the year ended Dec. 31, 2017, up \$670.41M or 38.5% year-over-year. This increase was driven by a 29.3% increase in property income to \$1.79B and a 76.6% increase in investment income to \$422.70M. Net profits attributable to shareholders for the year amounted to \$4.13B, up 2.0% or \$80.98M year-over-year.

After disposing of its stakes in Mavis Bank Coffee and Hardware & Lumber, PJAM has stated that it is targeting local and regional companies seeking equity investment. In 2017, PJAM made a minority investment in a new Starwood Aloft hotel in the U.S. and in March 2018, PJAM announced it had acquired full control of the Ocean Hotel project.

We recommend Pan-Jamaica Investment Trust Limited as **HOLD/MARKETWEIGHT** as the stock is trading close to our estimate of its fair value. We hold a positive view of the company given its track record of sound investment decisions, strong profitability and cash generation.

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Company Background

PanJam Investment Limited (PJAM) is an investment holding company listed on the Jamaica Stock Exchange. Through its subsidiaries it provides property management services in Jamaica, including rental, management and development of commercial real estate properties, and captive insurance. It also engages in investments for its own account both through actively-managed positions in Caribbean, principally Jamaican public and private companies and through securities trading, principally in equities and fixed income securities.

The company's portfolio of associated and joint venture companies engage in life and health insurance, pension fund administration and investment management, commercial and investment banking and asset management; consumer product processing and distribution (including various lines of sauces and condiments); hotel ownership and operation; real estate development; tour and attractions operations.

Financial Performance – Year ended December 31, 2017

Profitability

PJAM reported total revenues of \$2.41B for the year ended Dec. 31, 2017, up \$670.41M or 38.5% year-over-year. This improvement was driven by a 29.3% increase in property income to \$1.79B and a 76.6% increase in investment income to \$422.70M. Other income rose 121.6% to \$151.53M while commission income fell 3.5% to \$49.76M. The increase in property income was mainly due to an increase in fair value gains on property valuation which almost tripled year-over-year to \$484.51M. Rental income rose 6.7% to \$1.3B. The increase in investment income was driven by a 76.7% increase in fair value gains on financial assets to \$274.05M.

Operating profits more than doubled to \$937.86M as operating expenses rose only 12.5% relative to the 38.5% increase in total income. The main drivers of the increase in operating expenses were higher staff and property management costs. Direct costs of property management amounted to \$626.0M, up 9.3% while staff costs rose 30.4% to \$492.21M. The operating profit margin rose to 38.9% from 24.7% in the 2016FY. Earnings before interest, tax, depreciation & amortisation (EBITDA) more than doubled to \$989.73M which corresponds to an EBITDA margin of 41.0% (2016: 27.9%).

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PJAM Segment Results 2017FY vs 2016FY

2017Y (\$'000)	Property Management & Rental	Investments	Other Services
External Revenues	1,877,455	404,474	131,070
Operating Profit	780,341	47,576	109,994
Profit before taxation	608,042	3,432,309	109,944
Net profit	589,283	3,382,225	99,457
2016Y (\$000)			
External Revenues	1,360,162	296,625	85,806
Operating Profit	382,858	(18,811)	67,180
Profit before taxation	245,873	3,307,673	786,091
Net profit	221,036	3,248,863	769,887

Finance costs rose 13.8% to \$599.92M as debt outstanding rose by over \$2.29B. Interest coverage rose from 0.82x to 1.56x due to the sharp increase in operating profit. Pre-tax profits fell 4.1% year-over-year despite an 8.0% increase in share of results of associated companies. In 2016, PJAM reported an \$851.08M gain on disposal of associated companies following the sale of stakes in Hardware & Lumber and Mavis Bank Coffee Factory Limited, which was not repeated in 2017. Excluding this gain, profit before taxation would have risen 18.6% from the previous year. The share of results of associated companies amounted to \$3.93B.

Net profits attributable to shareholders for the year amounted to \$4.13B, up 2.0% or \$80.98M year-over-year, after taxation of \$79.33M, which corresponded to an effective tax rate of 1.9%, down from 2.2% in the prior year. Earnings per share corresponded to \$3.87 per share, up from \$3.80 per share in 2016. (shares outstanding: 1,066,159,890).

Solvency & Liquidity

PJAM reported total assets of \$39.4B as at Dec. 31, 2017, a \$6.91B or 21.3% increase year-over-year. This increase was driven by a \$7.04B or 23.1% increase in investments to \$37.55B. Investment properties increased by 40.4% to \$7.84B and investment in associated companies climbed 19.4% to \$24.92B. Securities purchased under agreements to resell almost quadrupled to \$1.02B. Cash & cash balances

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surged 89.6% to \$107.32M while deposits rose 18.3% to \$590.70M. Prepayments and miscellaneous assets rose 9.9% to \$1.21B.

Total liabilities rose 38.3% or \$2.37B to \$8.55B as loan liabilities rose 44.2% or \$2.29B to \$7.47B. Total debt amounted to \$7.47B, up 44.2% from the balance at the start of the year. Shareholders' equity rose 18.9% or \$4.86B to \$30.53B due to a 20.9% increase in retained earnings to \$21.20B. Investment reserves stood at \$3.54B, up 27.2% or \$755.45M while the property revaluation reserve rose 13.3% to \$3.94B. This increase in equity was outpaced by the growth in indebtedness, leading to an increase in PJAM's leverage as the debt-to-equity ratio moved from 0.20 as at Dec. 31, 2016 to 0.25x as at Dec. 31, 2017.

Outlook & Valuation

After disposing of its stakes in Mavis Bank Coffee and Hardware & Lumber, PJAM has stated that it is targeting local and regional companies seeking equity investment, specifically companies they have identified with "strong potential for growth, hard currency earnings, steady cash returns and relatively low susceptibility to economic fluctuations." In 2017, PJAM made a minority investment in a new Starwood Aloft hotel near the Miami International Airport and in March 2018, PJAM announced it had acquired full control of the Ocean Hotel project. The project involves the transformation of the former hotel into a hotel and condo complex inclusive of ground-floor commercial units.

As such, we are forecasting operating revenue of \$2.59B for the 2018 financial year, up 7.2% year-over-year while net profit attributable to shareholders is forecasted to rise by 19.5% to \$4.94B, which corresponds to a earning per share of \$4.63. Utilizing PJAM's 1-year P/E average of 9.55x and the \$4.63 EPS estimate produces a price of \$44.19. Shareholders' equity is expected to close the year at \$34.74B, a 13.8% increase year-over-year, which corresponds to a book value per share of \$32.58. Utilizing the 1-year P/B average of 1.45x and the \$32.58 estimate yields a price of \$47.19. **These estimates yield an average price of \$45.69, which is 8.9% higher than PJAM's last traded price of \$42.0 on April-11-2018.**

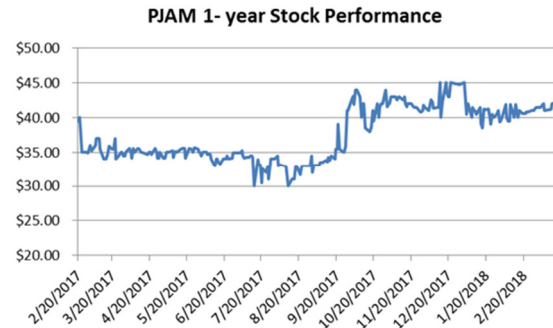
Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Yield 2017
GK	44,693,348,882	10.86	0.99	9.4%	3.2%	1.6%
JP	17,359,568,237	26.23	1.54	6.1%	2.1%	0.7%
SJ	140,993,420,540	11.68	2.06	19.3%	3.5%	3.6%
Sector Average	61,735,035,083	14.85	1.51	12.4%	5.1%	2.1%
PanJam	43,893,802,671	10.62	1.44	14.7%	11.5%	2.3%

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Recommendation

We recommend Pan-Jamaica Investment Trust Limited as HOLD as the stock is trading close to our estimate of its fair value. We hold a positive view of the company given its track record of sound investment decisions, strong profitability and cash generation. A stable financial history is buoyed by the fact that PJAM is also a consistent dividend payer, making it a suitable option for equity investors with a taste for income. The dividend yield in 2017 was 2.3% and 2.0% in 2016. Year-to-date, the PJAM stock fell 6.2% but is up 13.4% from a year earlier.



Our recommended price range on Pan Jam is between \$44.19 and \$47.19 with an average price of \$45.69.

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Abridged Financials

J\$000	Year Ended December 31						Change %
	2012	2013	2014	2015	2016	2017	
Turnover	1,681,803	2,106,271	1,939,224	1,842,307	1,742,593	2,412,999	38.5%
Operating Expenses	977,639	1,053,838	1,181,134	1,267,864	1,311,366	1,475,138	12.5%
Operating Profit	704,164	1,052,433	758,090	574,443	431,227	937,861	117.5%
Profit Before Taxation	2,231,797	2,624,156	2,944,702	3,304,507	4,451,469	4,270,819	-4.1%
Profit for the year	2,086,930	2,491,106	2,842,755	3,186,141	4,050,373	4,131,352	2.0%
Total Assets	21,432,431	23,310,321	26,413,492	27,954,161	32,440,680	39,353,033	21.3%
Total Liabilities	4,781,691	5,211,808	5,009,822	5,854,115	6,183,447	8,553,073	38.3%
Shareholder's Equity	16,420,481	17,840,566	21,134,493	21,763,118	25,669,471	30,527,061	18.9%
EPS (\$)	1.96	2.34	2.67	2.99	3.80	3.87	
Book Value per Share (\$)	15.40	16.73	19.82	20.41	24.08	28.63	
Key Ratios							
Operating profit margin	41.9%	50.0%	39.1%	31.2%	24.7%	38.9%	
Net Margin	125.6%	119.8%	147.2%	176.6%	249.7%	173.7%	
Return on Average Equity	13.4%	14.5%	14.6%	14.9%	17.1%	14.7%	
Return on Average Assets	11.2%	11.1%	11.4%	11.7%	13.4%	11.5%	
Debt/Equity (x)	0.26	0.25	0.21	0.24	0.20	0.25	

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

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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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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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