



Sagicor Group Jamaica Limited

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INFRINGEMENT IN THE APPENDIX**

Summary

Sagicor Group Jamaica (SGJ) is a leading financial services group in Jamaica, commanding the largest market share in many of the lines of business it operates. SGJ primary business segments include: the Individual Insurance Division; Employee Benefits; Sagicor Bank Jamaica Limited; and Sagicor Investments Jamaica Limited. SGJ is incorporated and domiciled in Jamaica and is listed on the Jamaica Stock Exchange. It is 32.45% (2015 – 32.45%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica and wholly owned by Sagicor Financial Corporation (SFC). The other significant shareholder in SGJ is PanJam Investment Limited.

We view **SGJ's outlook** favourably as all its segments continue to grow and contribute positively to profitability. SGJ sits in market-leading positions for many of its operating categories and enjoys strong brand recognition and client satisfaction levels. After two full years of operations of the expanded Commercial Banking division since acquiring RBC Jamaica, the segment reported a 40.2% increase in profits to \$1.85B in 2016.

With the shares of SGJ currently trading over 13% above our estimate of its fair price we place a SELL recommendation on Sagicor and would advise investors to speak to their advisor about realising some of their gains. SGJ is a blue-chip company with strong revenues and profitability and a foothold in the financial services sector. The company also returns income to shareholders having paid out \$1.11 per share in dividends in 2016 for a yield of 5.6%, and has paid \$1.28 per share year-to-date, for a dividend yield of 4.4%. The stock is suitable for investors with a medium risk appetite and a medium-to-long term investment horizon as SGJ as a mature company is unlikely to generate meteoric earnings growth seen in less mature companies.

Sagicor Group Jamaica Limited

Company Background

Sagicor Group Jamaica (SGJ) is a leading financial services group in Jamaica, commanding the largest market share in many of the lines of business it operates. SGJ primary business segments include: the Individual Insurance Division; Employee Benefits; Sagicor Bank Jamaica Limited; and Sagicor Investments Jamaica Limited. SGJ is incorporated and domiciled in Jamaica and is listed on the Jamaica Stock Exchange. It is 32.45% (2015 – 32.45%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica and wholly owned by Sagicor Financial Corporation (SFC). The other significant shareholder in SGJ is PanJam Investment Limited.

Financial Performance – Nine Months ended September 2017

Profitability

For the nine months ended September 30, 2017, SGJ reported total revenues of \$53.53B, an 18.1% or \$8.21B increase year-over-year. Net premium revenue rose 27.3% to \$31.82B, net investment income was down marginally (0.5%) to \$15.48B while fee and other income climbed 30.4% to \$6.24B. Earned premiums were 12% higher, y-o-y, in the Individual lines of business while Group Insurance and Annuities premiums were rose strongly in Q3 on new business closed.

Investment income before interest expense and capital gains were 5% higher than the income recorded for the comparable period of 2016. Lower yields on invested assets during the period impacted results negatively. Realized capital gains from securities trading were significantly below the prior year's results, due to impairment charges and realized losses. The increase in fees and other income was related to the expansion of SGJ's Cards and Payments business.

Net insurance benefits amounted to \$16.41B, up 4.8% from the previous year while net movement in actuarial liabilities rose 49.5% to \$8.74B. Benefits paid include death claims, health claims, annuity payments, surrenders and funds withdrawals. The increase in actuarial liabilities was due to growth in SGJ's in force business. A decline in investment yields also led to higher actuarial liabilities from present-valuing of future obligations.

Group administrative expenses totalled \$13.32B for the period and were up 23% from the prior year. Commissions and sales expenses rose 12.0% to \$3.54B while amortisation and impairment of intangible assets amounted to \$501.17M, a 15.9% increase on the comparable period of 2016. These increases were attributed to business expansion, particularly in the Cards and Payments business, compensation cost for salary increase and bonuses to team members and higher credit losses in the Retail Banking division.

Profit before taxation amounted to \$11.19B, a 19.5% increase y-o-y, driven by the improvement in core operations and a 51.6% increase in the share of profit from associates (Sagicor Real Estate X Fund) to

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Sagicor Group Jamaica Limited

\$749.12M. Net profits attributable to shareholders amounted \$9.08B, a 22.8% increase from the prior year, driven by the increase in pre-tax earnings and an improvement in the effective tax rate, which fell to 18.8% for 9M17, from 21.0% in 9M16.

Solvency & Liquidity

SGJ reported total assets of \$362.26B as at September 30, 2017, a 3.6% or \$12.58B increase from the Sept. 30, 2016 balance. Assets under management as at Sept. 30, 2017 stood at \$671.08B, up from \$614.57B as at Sept. 2016 as a result of new business generation, generic growth and strong capital appreciation. Financial investments rose 4.2% or \$9.43B to \$235.84B while net loans & leases climbed 8.9% or \$4.65B to \$57.12B. Investment in associated companies surged 42.5% to \$7.64B while cash resources rose 3.0% to \$24.69B.

Total liabilities amounted to \$298.71B, a 1.6% or \$4.64B increase from a year prior. A 6.4% or \$12.21B decline in deposit & security liabilities was more than offset by a 10.7% or \$9.2B increase in policyholders' funds to \$95.26B and a 34.0% or \$4.34B increase in other liabilities to \$17.14B. The recognition of redeemable preference shares of \$2.05B also contributed to the increase in SGJ's liabilities.

Shareholders' equity climbed 14.0% to \$64.55B as retained earnings rose 15.4% to \$49.28B and equity reserves climbed 34.0% to \$6.78B.

Outlook & Valuation

We view SGJ's outlook favourably as all its segments continue to grow and contribute positively to profitability. SGJ sits in market-leading positions for many of its operating categories and enjoys strong brand recognition and client satisfaction levels. After two full years of operations of the expanded Commercial Banking division since acquiring RBC Jamaica, the segment reported a 40.2% increase in profits to \$1.85B in 2016.

| Valuation | Multiple | Price |
|-----------------|----------|----------------|
| 1-yr PE | 10.52x | \$32.92 |
| 1-yr PB | 2.16x | \$35.83 |
| Peer Group PE | 9.30x | \$29.09 |
| Peer Group PB | 1.63x | \$27.10 |
| Average: | | \$31.23 |

As such, we are forecasting net revenues of \$71.38B for the year ended December 2017, a 19.6% increase from the prior year's result. Net profit attributable to shareholders is seen rising 8.5% to \$12.22B for an earnings per share of \$3.13. Shareholders' equity is forecasted to rise to \$64.93B, for a book value per share of \$16.63.

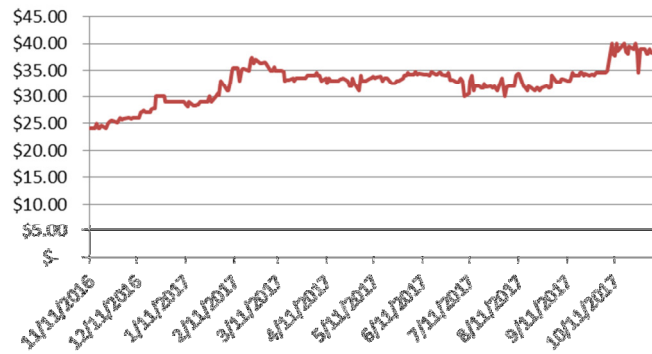
We utilized the price multiples approach to determine a fair price for SGJ, which yielded an average price of \$31.23, which is 13.0% below the last traded price of \$35.85 on January 23, 2018.

Sagicor Group Jamaica Limited

Recommendation

*With the shares of SGJ currently trading over 13% above our estimate of its fair price we place a **SELL** recommendation on Sagicor* and would advise investors to speak to their advisor about realising some of their gains. SGJ is a blue-chip company with strong revenues and profitability and a foothold in the financial services sector. The company also returns income to shareholders having paid out \$1.11 per share in dividends in 2016 for a yield of 5.6%, and has paid \$1.28 per share year-to-date, for a dividend yield of 4.4%. The stock is suitable for investors with a medium risk appetite and a medium-to-long term investment horizon as SGJ as a mature company is unlikely to generate meteoric earnings growth seen in less mature companies.

SGJ 1-yr Trading Performance



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Sagicor Group Jamaica Limited

Abridged Financials

| J\$000 | Year Ended December 31 | | | | | 6M16 | 6M17 | Change % |
|-----------------------------|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | | | |
| Net Revenue | 35,507,391 | 42,356,165 | 45,630,223 | 54,998,042 | 59,700,875 | 45,326,451 | 53,533,546 | 18.1% |
| Net Insurance Benefits | 13,091,571 | 15,754,497 | 17,246,703 | 19,091,129 | 21,053,273 | 15,650,993 | 16,409,410 | 4.8% |
| Expenses | 10,812,496 | 12,098,629 | 17,216,171 | 19,459,308 | 20,154,497 | 14,979,302 | 17,976,326 | 20.0% |
| Profit before taxation | 6,916,749 | 7,014,463 | 8,861,626 | 11,611,923 | 14,212,019 | 9,361,698 | 11,185,872 | 19.5% |
| Profit for the year | 5,864,574 | 6,297,935 | 8,512,779 | 9,793,445 | 11,258,039 | 7,394,933 | 9,082,446 | 22.8% |
| Total Assets | 174,531,916 | 198,310,297 | 284,215,813 | 300,389,927 | 340,954,832 | 350,678,042 | 363,262,894 | 3.6% |
| Total Liabilities | 139,917,082 | 160,689,454 | 238,150,455 | 253,820,516 | 284,543,850 | 294,074,441 | 298,709,455 | 1.6% |
| Shareholder's Equity | 32,855,555 | 35,925,841 | 46,065,358 | 46,569,411 | 56,410,982 | 56,603,601 | 64,553,439 | 14.0% |
| EPS (\$) | 1.50 | 1.61 | 2.18 | 2.51 | 2.88 | 1.89 | 2.33 | |
| Book Value per Share (\$) | 8.41 | 9.20 | 11.79 | 11.92 | 14.44 | 14.49 | 16.53 | |
| Key Ratios | | | | | | | | |
| Pre-tax profit margin | 19.5% | 16.6% | 19.4% | 21.1% | 23.8% | 20.7% | 20.9% | |
| Efficiency ratio | 27.5% | 25.9% | 33.6% | 31.9% | 31.4% | 30.9% | 31.5% | |
| Net Profit Margin | 16.5% | 14.9% | 18.7% | 17.8% | 18.9% | 16.3% | 17.0% | |
| Return on Average Equity | 19.1% | 18.3% | 20.8% | 21.1% | 21.9% | | | |
| Return on Average Assets | 3.5% | 3.4% | 3.5% | 3.4% | 3.5% | | | |
| Debt/Equity (x) | 2.38 | 2.40 | 3.29 | 3.43 | 3.14 | 3.36 | 2.79 | |

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Sagicor Group Jamaica Limited

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.

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Sagikor Group Jamaica Limited

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