

Barita Investments Limited (BIL)

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INFRINGEMENT IN THE APPENDIX**

Transaction Background

Barita Investments Limited is seeking to raise J\$3,505,378,635.00 in equity financing via a Rights Issue. Existing shareholders are being offered the right to subscribe for 77,897,303 new ordinary shares a price of J\$45 per share. BIL intends to use the proceeds of the Offer to pursue investment opportunities and for general corporate purposes.

Term Sheet

Issuer	Barita Investments Limited
Arranger	Sagicor Investments Jamaica Limited
Instrument	At least 77,897,303 new ordinary shares. BIL reserves the right to upsize the offer by an additional 38,948,652 shares, i.e. up to 50%.
Issue Size	J\$3,505,378,635.00
Use of Proceeds	To better pursue viable opportunities for investment and for general corporate purposes
Record Date	August 20, 2019
Opening Date	September 2, 2019
Last date for Renunciation and/or Splitting	September 10, 2019
Offer closes	For acceptance by Existing Ordinary Shareholders, September 13, 2019 For applications for Excess Shares, September 20, 2019
Provisional Allotment Expires	September 13, 2019

Company Background

Barita Investments Limited was incorporated in September 1977. The Company is licensed by the Financial Services Commission, is a member of the Jamaica Stock Exchange, a Primary Dealer and Cambio Dealer for the Bank of Jamaica.

Its primary business activities are Equities and Fixed Income Trading, Foreign Currency Trading, Wealth Management, Investment Research, and Unitized Portfolio Management via its wholly-

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owned subsidiary Barita Unit Trusts Management Company Limited. Today, BIL and its subsidiary Barita Unit Trusts Management Company Limited, handles over J\$70B of funds under management, with a complement of 80 members of staff. BIL serves its clients island-wide through its Head Office in Kingston and two (2) branches in Mandeville and Montego Bay.

Cornerstone Investments Holdings Limited (an international business company incorporated under the laws of St. Lucia) acquired majority shares in BIL in August 2018.

Financial Performance – Nine Months ended June 30, 2019

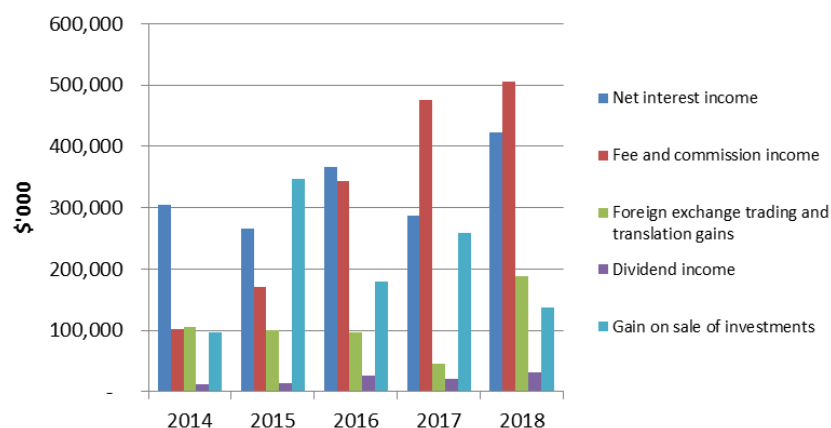
Profitability

BIL reported net operating revenues of \$2.82B for the first nine months of the 2018/19FY, a 234.5% or \$1.97B increase year-over-year, as all revenue sources saw year-over-year increases. Net interest income rose 42.3% to \$436.90M as interest income rose by 40.3% to \$1.04B while interest expense increased by 38.8% to \$598.85M. The growth in net interest income was attributed to both the increased size of BIL's investment portfolio and improved net interest margin management.

Fee & commission income rose 98.0% to \$721.60M while a \$1.24B gain on investment activities was realized, up from \$111.59M in the comparable period of the 2017/18FY or 1,007.3%. Foreign exchange trading & translation gains amounted to \$88.59M, up \$42.96M y-o-y. Fee & commission income growth was driven by continued growth in BIL's asset management business and the impact of the introduction of the investment banking segment. Since its launch in December 2018, the investment banking unit generated fee income of \$331.3M up to June 2019. The gain on investment activities included fair value gains on investments of \$1.03B and gains on sale of investment of \$203.9M, driven by increased capitalization of the Company as well as positive year-to-date performance of investments.

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5-year Operating Performance



Dividend income rose 39.8% to \$20.89M while other income amounted to \$312.19M, relative to \$871K in the comparable period of the previous financial year. The growth in dividend income is reflective of the growth in the Company's proprietary equity holdings while other income reflected the recovery of investment losses incurred by BIL earlier in the year.

Operating expenses rose by 53.1% to \$828.81M as staff costs climbed 48.4% to \$402.27M while administration costs rose 27.9% to \$345.81M. BIL also posted an impairment for expected credit loss of \$80.73M during the period when no such impairment was recorded in the previous year period. Staff costs rose as BIL grew its workforce in support of revenue expansion efforts which also led to an increase in administrative costs associated with marketing efforts and facility upgrades. Despite the increase in operating costs, the efficiency ratio improved significantly, falling from 64.3% in the nine months ended June 2018 to 29.4% in the nine months ended in June 2019.

As such, BIL reported a 561.9% or \$1.69B increase in pre-tax profits, which amounted to \$1.99B. After taxes of \$559.33M (up 367.5%), BIL reported net profits of \$1.43B, a 690.7% or \$1.25B increase year-on-year. The performance led to a sharp improvement in the net profit margin, which moved from 21.5% to 50.7%.

Solvency & Liquidity

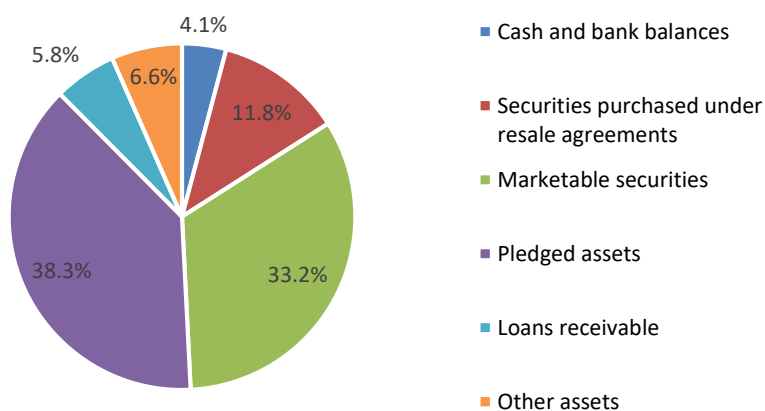
As at June 30, 2019, BIL's total assets amounted to \$31.08B, an 81.0% or \$13.91B increase year-over-year. The main drivers behind this increase were: 211.7% increase in marketable securities to \$10.33B; a 47.6% increase in pledged assets to \$11.92B; a 368.1% increase in loans receivables

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to \$1.82B; and a 143.6% increase in cash & bank balances to \$1.28B. Investments were up \$700K to \$755K while securities purchased under resale agreements fell 4.8% to \$3.68B.

Asset Distribution as at June 30, 2019



Total liabilities amounted to \$21.81B, a 56.4% or \$7.86B increase year-over-year. This movement was mainly driven by a 58.7% increase in securities sold under repurchase agreements to \$19.54B while deferred tax liabilities rose 159.0% to \$929.9M. Payables amounted to \$1.11B, up 5.2% y-o-y. Total debt amounted to \$19.6B an increase of 57.3% year-over-year. Stockholders' equity amounted to \$9.27B, a 187.4% or \$6.04B increase year-on-year. Share capital rose \$4.81B to \$5.55B following a rights issue which raised \$4.1B while retained earnings climbed 118.0% to \$2.55B. Debt to equity stood at 2.12x, down from 3.87x a year prior, driven by the increase in capital following the rights issue.

Outlook & Valuation

Barita has carried over the strong performance reported for the 2017/18FY, when net revenues rose 18% to \$1.3B while net profits climbed by 79% to \$363.24M. The 2017/18FY's performance was due to strong growth in net interest income and foreign exchange trading and translation gains, which rose 47% and 313%, respectively to \$422.29M and \$187.95M. However, for the 9M19, gains on investment activities accounted for 44% of net revenues.

Unrealized portfolio gains are generally seen as a volatile source of revenues and accordingly, financial houses in recent times have sought to increase fee & commission income, which is a

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more stable revenue source. BIL has sought to do just that, having launched its investment banking unit and has seen its fees & commission income increase 98.0% y-o-y. Continued growth in the local economy and on the Jamaica Stock Exchange is expected in the short-term which should lead to further fair value gains on equities held by BIL, albeit at potentially lower rates given historically high valuations.

This expectation is supported by another quarter of growth for the Jamaican economy as the Planning Institute of Jamaica on August 26, 2019 estimated real GDP growth of 1.0% for the April to June 2019 quarter y-o-y. This performance reflected increased activity in some industrial plants such as the Petrojam refinery, increased external demand which drove output in export industries such as Hotels & Restaurants and greater domestic demand for goods and services on the heels of higher levels of employment.

On August 28, 2019, the Bank of Jamaica announced its move to lower the policy interest rate (interest rate on overnight placements with the BOJ) by 25 basis points to 0.50% effective the same day. The decision reflected the central bank's assessment that inflation is projected to average 4.3% over the next 2 years, within the inflation target of 4.0% to 6.0%, but in the absence of a policy response, is expected to fall below the lower limit of the target at various points over this period.

With interest rates expected to remain low in the short- to medium-term with support from the central bank to further stimulate expansion in private sector credit and business activity, we expect BIL to continue to benefit from increasing equity values as the underlying companies benefit from the current economic environment and the investment banking unit to benefit from companies seeking to raise capital/refinance debt while rates are at historical lows.

We are forecasting net revenues of \$3.48B for the 2018/19FY, up 167.0% year-over-year while net profit attributable to shareholders is forecasted to rise by 392.1% to \$1.79B, which corresponds to a earning per share of \$2.27. Utilizing BIL's 1-year P/E average of 31.16x produces a price of \$70.86. Shareholders' equity is expected to close the year at \$12.14B, up 317.4% year-over-year, which corresponds to a book value per share of \$15.44. This increase is driven by our profit projections and the assumption that the rights issue is fully subscribed. Utilizing the 1-year P/B average of 4.30x yields a price of \$66.38.

The peer group P/E ratio average is 23.66x which yields a price of \$53.80 while the peer group P/B ratio average is 3.42x which yields a price of \$52.75. ***These estimates produce an average price of \$60.95, which is 35.4% higher than the Rights Issue price of \$45.0 per share.***

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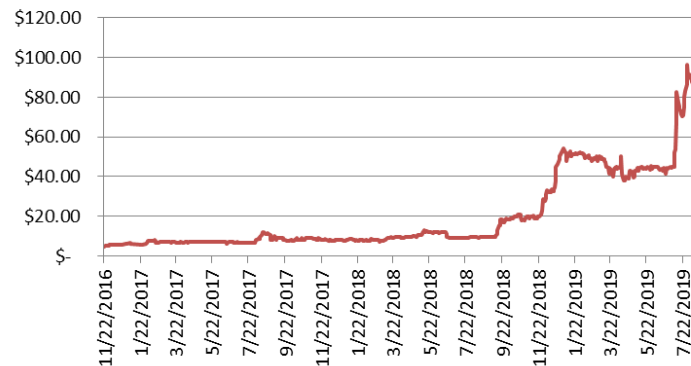
BIL Peer Comparison

	Mkt Cap	Price to Earnings (x)	Price to Book (x)	Return on Equity (%)	Return on Assets (%)	Net Interest Margin (%)	Operating Profit Margin (%)	Efficiency Ratio (%)	Financial Leverage (x)
Avg	24,629.02	23.66	3.42	13.27	2.88	2.97	52.26	47.41	5.29
BIL	50,923.59	25.87	5.49	25.88	6.70	5.39	77.90	22.10	3.44
MIL	10,738.27	n/a	1.73	(3.18)	(0.60)	1.57	37.68	61.35	6.14
VMIL	12,225.20	21.45	3.03	17.10	2.54	1.94	41.21	58.79	6.30

Recommendation

We recommend Barita Investment Limited as Overweight as we believe the stock is trading below its fair value. The Company has sought to expand its balance sheet which has led to exceptional revenue and profitability growth since it has been taken over by Cornerstone Investments Holding Limited and our outlook on the Company's latest moves is positive.

BIL 3-yr Trading History



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Abridged Financials

J\$000	Year Ended June 30					6M18	6M19	% change
	2014	2015	2016	2017	2018			
Net revenues	624,996	905,273	1,017,447	1,109,982	1,304,663	841,729	2,815,820	234.5%
Operating Expenses	505,505	521,313	669,453	778,247	760,976	541,525	828,811	53.1%
Operating Profit	119,491	383,960	347,994	331,735	543,687	300,204	1,987,009	561.9%
Profit Before Taxation	109,535	372,698	341,079	331,735	543,687	300,204	1,987,009	561.9%
Profit for the year	66,450	242,062	207,216	203,020	363,241	180,561	1,427,683	690.7%
Total Assets	13,555,524	13,234,139	14,771,674	15,847,055	18,724,216	17,170,315	31,075,695	81.0%
Total Liabilities	11,865,194	11,381,508	12,277,403	13,071,143	15,816,472	13,946,166	21,808,461	56.4%
Shareholder's Equity	1,690,330	1,852,631	2,494,271	2,775,912	2,907,744	3,224,149	9,267,234	187.4%
EPS (\$)	0.09	0.34	0.29	0.29	0.51	0.25	2.02	
Book Value per Share (\$)	2.39	2.62	3.52	3.92	4.11	4.55	13.09	
Key Ratios								
Net interest income/interest income	30.0%	29.8%	29.0%	25.3%	41.4%	41.6%	42.2%	
Efficiency Ratio	80.9%	57.6%	65.8%	70.1%	58.3%	64.3%	29.4%	
Net Margin	10.6%	26.7%	20.4%	18.3%	27.8%	21.5%	50.7%	
Return on Average Equity	4.3%	13.7%	9.5%	7.7%	12.8%			
Return on Average Assets	0.5%	1.8%	1.5%	1.3%	2.1%			
Debt/Equity (x)	6.86	5.89	4.61	4.34	4.94	3.87	2.12	

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials; Right Issue Memorandum

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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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