

## Barita Investments Limited (BIL)

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INFRINGEMENT IN THE APPENDIX**

### Executive Summary

Incorporated in September 1977, Barita's primary business activities are Equities and Fixed Income Trading, Foreign Currency Trading, Wealth Management, Investment Research, and Unitized Portfolio Management. BIL reported net operating revenues of \$1.16B for the first half of the 2018/19FY, a 137.4% or \$673.6M increase year-over-year. As a result, BIL reported a 485.3% or \$580.47M increase in pre-tax profits, which amounted to \$700.07M. BIL reported net profits of \$516.71M, a 946.7% or \$467.34M increase year-on-year. The performance led to a sharp improvement in the net profit margin, which moved from 10.1% to 44.4%.

*We recommend Barita Investment Limited as UNDERWEIGHT as we believe the stock is trading above its fair value.* Whilst the balance sheet expansion and accompanying revenue and profit growth has been exceptional since Barita was taken over by Cornerstone Investments Holding Limited, we believe holders should look to realize some of the gains they would have booked since the takeover.

### 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-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 acquired majority shares in BIL in August 2018.

### Financial Performance – Six Months ended March 31, 2019

#### *Profitability*

BIL reported net operating revenues of \$1.16B for the first half of the 2018/19FY, a 137.4% or \$673.6M increase year-over-year, as all revenue sources bar "foreign exchange trading and translation gains" saw year-over-year increases. Net interest income rose 35.5% to \$256.42M as interest rose by 16.4% to

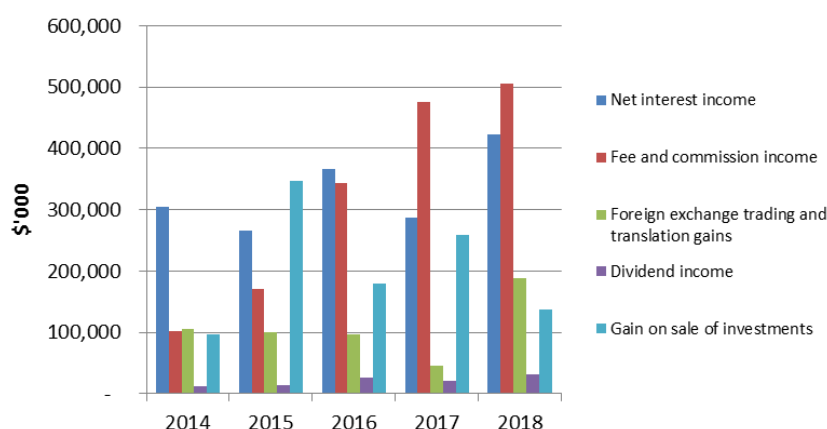
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\$595.92M while interest expense increased by just 5.3% to \$339.5M. The growth in net interest income was driven by growth in operating assets.

Fee & commission income rose 72.6% to \$414.0M while a \$609.87M gain on investment activities was realized, up from \$81.086M in the comparable period of the 2017/18FY. The asset management and investment banking business lines drove the increase in fee & commission income. Launched in December 2018, the investment banking business line generated fees of \$159.4M for the four months to March 2019. Gain on investment activities was attributed to fair value gains on investments of \$480.2M and gains on sale of investment of \$129.7M.

### 5-year Operating Performance



Dividend income more than tripled to \$19.82M while a \$138.12M loss on foreign exchange trading and translation was reported for the period, which compares to a loss of \$25.91M in the prior year period. During the period, the Jamaican Dollar strengthened resulting in the foreign exchange translation losses of \$196.6M which was partially offset by forex trading gains of \$58.5M.

Operating expenses rose by 25.1% to \$463.61M as staff costs climbed 32.6% to \$226.1M while administration costs rose 7.6% to \$215.18M. IFRS 9 provisioning of \$22.34M was also reported for the year. BIL saw a sharp decline in its efficiency ratio during the period, improving from 75.6% in the first six months of 2017/18FY to 39.8% in the first half of the current year.

As a result, BIL reported a 485.3% or \$580.47M increase in pre-tax profits, which amounted to \$700.07M. After taxes of \$183.37M (up 161.0%), BIL reported net profits of \$516.71M, a 946.7% or \$467.34M increase year-on-year. The performance led to a sharp improvement in the net profit margin, which moved from 10.1% to 44.4%.

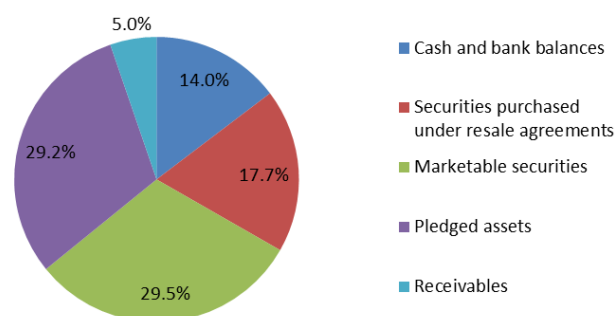
### Solvency & Liquidity

As at March 31, 2019 BIL's total assets amounted to \$27.68B, a 71.6% or \$11.55B increase year-over-year. The main drivers behind this increase were: 214% increase in marketable securities to \$8.16B; a [All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.](#)

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460.6% increase in cash and bank balances to \$3.86B; a 41.6% increase in securities purchased under resale agreements to \$4.91B and a 269.8% increase in receivables to \$1.39B. Pledged assets amounted to \$8.07B, relatively unchanged from the prior year.

**% of Total Assets as at March 31, 2019**



Total liabilities amounted to \$19.88B, a 49.8% or \$6.61B increase year-over-year. This movement was driven by a 48.3% increase in securities sold under repurchase agreements to \$17.83B while payables rose 67.3% to \$1.23B. Total debt amounted to \$17.91B an increase of 48% year-over-year. Stockholders' equity amounted to \$7.79B, a 172.5% or \$4.93B increase year-on-year. Share capital rose \$3.99B to \$4.73B following a rights issue which raised \$4.1B while retained earnings climbed 97.3% to \$2.05B. Debt to equity stood at 2.30x, down from 4.23x 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 six months ended March 2019 gains on investment activities accounted for 52.4% of net revenues with the \$480.2M in fair value gains on investments accounting for 41.3% 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 more stable revenue source. As such, the second half performance of BIL is dependent on its ability to maintain its investment trading activity. This task has been made more achievable by the significant increase in BIL's balance sheet following the \$4.1B raise from the rights issue, which allows for increased investment opportunities for the company.

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We are forecasting revenues of \$1.34B for the 2018/19FY, up 31.5% year-over-year while net profit attributable to shareholders is forecasted to rise by 170.4% to \$982.23M, which corresponds to a earning per share of \$1.39. Utilizing BIL's 1-year P/E average of 30.36x produces a price of \$42.11. Shareholders' equity is expected to close the year at \$8.14B, up 179.8% year-over-year, which corresponds to a book value per share of \$11.49. Utilizing the 1-year P/B average of 3.58x yields a price of \$41.18.

The peer group P/E ratio average is 18.25x which yields a price of \$25.32 while the peer group P/B ratio average is 2.13x which yields a price of \$24.45. These estimates produce an average price of \$33.46, which is 26.1% lower than BIL's close price of \$45.01 on June 5, 2019.

### Peer Comparison

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Operating Profit Margin	Financial Leverage
BIL	31.87B	22.62x	2.60x	12.4%	2.15%	41.19%	5.78x
MIL	10.81B	-	1.71x	(3.76%)	(0.83%)	(78.17%)	4.79x
VMIL	6.45B	13.89x	2.07x	15.13%	1.91%	41.25%	7.93x
<b>Sector Average</b>	<b>16.38B</b>	<b>18.25x</b>	<b>2.13x</b>	<b>7.92%</b>	<b>1.07%</b>	<b>1.42%</b>	<b>6.17x</b>

### Recommendation

*We recommend Barita Investment Limited as UNDERWEIGHT as we believe the stock is trading above its fair value.* Whilst the balance sheet expansion and accompanying revenue and profit growth has been exceptional since Barita was taken over by Cornerstone Investments Holding Limited, we believe holders should look to realize some of the gains they would have booked since the takeover. BIL's share price has appreciated 275% over the last twelve months but is down 13.5% calendar year-to-date.

### BIL 3-yr Trading History



## Barita Investments Limited (BIL)

### Abridged Financials

J\$000	Year Ended June 30					6M18	6M19	% change
	2014	2015	2016	2017	2018			
<b>Net revenues</b>	<b>624,996</b>	<b>905,273</b>	<b>1,017,447</b>	<b>1,109,982</b>	<b>1,304,663</b>	<b>490,093</b>	<b>1,163,688</b>	<b>137.4%</b>
Operating Expenses	505,505	521,313	669,453	778,247	760,976	370,485	463,614	25.1%
<b>Operating Profit</b>	<b>119,491</b>	<b>383,960</b>	<b>347,994</b>	<b>331,735</b>	<b>543,687</b>	<b>119,608</b>	<b>700,074</b>	<b>485.3%</b>
Profit Before Taxation	109,535	372,698	341,079	331,735	543,687	119,608	700,074	485.3%
<b>Profit for the year</b>	<b>66,450</b>	<b>242,062</b>	<b>207,216</b>	<b>203,020</b>	<b>363,241</b>	<b>49,365</b>	<b>516,706</b>	<b>946.7%</b>
<b>Total Assets</b>	<b>13,555,524</b>	<b>13,234,139</b>	<b>14,771,674</b>	<b>15,847,055</b>	<b>18,724,216</b>	<b>16,129,949</b>	<b>27,675,917</b>	<b>71.6%</b>
<b>Total Liabilities</b>	<b>11,865,194</b>	<b>11,381,508</b>	<b>12,277,403</b>	<b>13,071,143</b>	<b>15,816,472</b>	<b>13,270,701</b>	<b>19,883,574</b>	<b>49.8%</b>
<b>Shareholder's Equity</b>	<b>1,690,330</b>	<b>1,852,631</b>	<b>2,494,271</b>	<b>2,775,912</b>	<b>2,907,744</b>	<b>2,859,228</b>	<b>7,792,343</b>	<b>172.5%</b>
EPS (\$)	0.09	0.34	0.29	0.29	0.51	0.07	0.73	
Book Value per Share (\$)	2.39	2.62	3.52	3.92	4.11	4.04	11.00	
<b>Key Ratios</b>								
Net interest income/interest income	30.0%	29.8%	29.0%	25.3%	41.4%	37.0%	43.0%	
Efficiency Ratio	80.9%	57.6%	65.8%	70.1%	58.3%	75.6%	39.8%	
Net Margin	10.6%	26.7%	20.4%	18.3%	27.8%	10.1%	44.4%	
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	4.23	2.30	

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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