

Jamaica Stock Exchange Limited

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Executive Summary

The Jamaica Stock Exchange Limited (JSE) is incorporated in Jamaica and has its registered office at 40 Harbour Street Kingston. The JSE's main activities are the regulation of the operations of the Stock Exchange in Jamaica, and it operates a platform that allows participants to execute transactions efficiently. JSE has a wholly-owned subsidiary, the Jamaica Central Securities Depository Limited (JCSD). The JCSD, in turn, has a subsidiary JCSD Trustee Services, which as the name implies provides trustee custodianship and related services.

The most significant contributor to revenue is CESS Income, derived from a fee of 0.33% applied to all transactions that occur on the Stock Exchange. In FY 2018 the JSE generated a record \$494.71 million in CESS Income. This was due to a surge of trading activity which resulted in transactions valued at more than \$81 billion. Other meaningful revenue sources include Trustee Services (\$309.82 million), Annual Listing Fees (\$117.63 million) and Transaction Fees (\$111.81 million).

Revenue and profits rose to \$1.41 billion and \$413.06 million respectively, record levels for the JSE. Profits surged \$192.40 million or 87.19% in FY 2018 aided by revenue growth of \$402.47 million or 39.95%.

The JSE's stock price is currently in a strong uptrend starting in early 2019, resulting in a YTD increase in excess of 75%. The JSE's stock performance is on pace to exceed all FYs for the period under review except for FY 2015 when the JSE's stock surged more than 11 fold.



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Recent Developments

The JSE ended Q1 FY 2019 with approximately \$23 billion in transactions crossing the floor, a marginal increase over the \$21 billion for the same period in Q1 FY 2018.

The JSE has signed a seven-year agreement with Nasdaq Inc. to provide matching engine and market surveillance technology. With the new technology, the JSE will be able to offer new products and experience improved latency.

Key Financial Data

	2014	2015	2016	2017	2018	CAGR
BVPS	0.80	0.89	1.15	1.35	1.60	19.01%
EPS	0.00	0.25	0.32	0.31	0.62	252.84%
Dividend Per Share	0.00	0.20	0.24	0.15	0.30	14.41%
Dividend Payout Ratio	0.00%	80.00%	73.63%	46.97%	48.31%	
Dividend Yield	0.00%	5.38%	4.28%	2.08%	3.15%	
Stock Performance	-12.78%	1,084.71%	47.85%	27.27%	35.71%	
Income Statement Data (\$,000)						
Cess Income	68,632	301,882	330,229	285,776	494,711	63.85%
Fee Income	198,638	330,086	457,516	611,563	808,148	42.02%
Revenue	379,759	750,915	917,589	1,007,469	1,409,941	38.81%
Operating Profit	-4,030	254,785	334,736	338,052	592,502	N/A
Net Income	3,128	174,953	223,589	220,668	413,063	238.99%
Balance Sheet Data						
PP&E	82,428	86,177	257,069	342,820	491,222	56.24%
Non-Current Assets	462,205	494,631	646,485	745,837	787,616	14.25%
Cash and Equivalents	14,330	64,009	146,310	143,164	240,943	102.50%
Current Assets	165,459	296,713	472,666	509,141	724,212	44.64%
Total Assets	627,664	791,344	1,119,151	1,254,978	1,511,828	24.58%
Equity	561,023	621,927	808,081	948,780	1,125,367	19.01%
Current Liabilities	64,028	125,645	234,195	225,691	332,303	50.94%
Non-Current Liabilities	2,613	43,772	76,875	80,507	54,158	113.37%
Total Liabilities	66,641	169,417	311,070	306,198	386,461	55.18%
						Average
Cash Ratio	0.22	0.51	0.62	0.63	0.73	0.54
Current Ratio	2.58	2.36	2.02	2.26	2.18	2.28

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	2014	2015	2016	2017	2018	Average
Ratios						
Efficiency Ratio	101.06%	66.04%	63.52%	66.33%	57.98%	70.99%
Operating Margin	-1.06%	33.93%	36.48%	33.55%	42.02%	28.99%
Net Profit Margin	0.82%	23.30%	24.37%	21.90%	29.30%	19.94%
ROE	0.56%	29.58%	31.27%	25.12%	39.83%	25.27%
ROA	0.49%	24.66%	23.41%	18.59%	29.86%	19.40%
P/E	78.50x	14.88x	17.19x	22.58x	15.32x	26.69x
P/B	0.39x	4.19x	4.77x	5.17x	5.92x	4.09x
Close Price	0.31	3.72	5.50	7.00	9.50	

Financial Overview

CESS Income is directly correlated to trading activity and has been a critical revenue source for the JSE. The growth in Cess Income for the period under review is linked to a surge in transactions from FY 2014 at \$15 billion to \$81 billion in FY 2018. Fee Income is the most significant contributor to revenue and the largest contributor to Fee Income in FY 2018. Trustee Services and Annual Listing Fees came in at \$309.81 million and \$117.63 million respectively. Ultimately the different sources of revenue resulted in revenue increasing at a CAGR 39% for the period under review (FY 2014 to FY 2018) to \$1.41 billion. The increased revenue aided profit growth which has surged from \$3.13 million to \$413.06 million for the period under review.

The company has experienced steady growth in its non-current assets for the period under review at a CAGR of 14.25%. The main contributors to non-current assets in FY 2018 are PP&E (\$491.22 million) and Investment in Securities (\$141.86 million). Investment Securities are primarily constituted of GOJ US\$ 8% 2039 Global Bonds. Current assets as at FY 2018 is principally made of trade & other receivables (\$247.77 million) and cash & cash equivalents (\$240.94 million) and repurchase agreements (\$214.39 million). Trade & other receivables is largely made of Fees Receivable (\$99.34 million) and Cess Receivable (\$99.65 million). The most significant liability is payables & accruals which stands at \$259.54 million at the end of FY 2018 or 67.16% of total liabilities. Meanwhile, total equity has increased steadily at a CAGR of 19.01% to \$1.13 billion, due to consistent profitability however, it has been constrained by the relatively high dividend payout ratio.

JSE cash ratio while below 1x has trended higher and as at FY 2018 was 0.75x indicating a strong liquidity position. Additionally, the current ratio has remained above 2x for the period under review further highlighting that near-term liabilities are likely to be readily met. The efficiency ratio at JSE has mostly trended lower for the period under review, falling below 60% in FY 2018 among the best in the financial industry. However, we note that while some segments of JSE operations are present in other financial entities the overall JSE operations is meaningfully dissimilar, therefore there is no true comparison. The JSE has produced relatively high operating and profit margins of 42.02% and 29.30% respectively experienced in FY 2018 the highest for the period under review.



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Forecast and Valuation

We used a combination of the relative value approach and the dividend discount model to arrive at our fair value estimate of \$15.02. Applying the relative value approach we arrived at a price target of \$13.08. Meanwhile using the dividend discount model indicated a price target of \$16.90. **Therefore our best case and worst case price targets are (between) \$13.08 and \$16.97 respectively.** Several of the JSE's business operations are unique; therefore it has no listed peer. Thus we compare JSE's historical metrics to current metrics. Both P/E and P/B averages represent past 52-weeks while, dividend yield past 4-years and ROA and ROE represent last 5-years. As indicated below P/E and P/B are both significantly above the 1-year averages. However, the company just completed its best FY for the period under review measured by profitability which resulted in above average ROA and ROE.

Ticker	Market Cap(M)	P/E	P/B	Div Yield	ROA	ROE
JSE	12,644	29.09	11.24	0.00%	29.86%	39.83%
Average		20.10	6.69	3.72% ¹	19.40%	25.27%

Outlook

Our outlook on the JSE is positive given the initiatives being undertaken such as improving the technology deployed to allow the company to offer more products and services efficiently and create a more vibrant market and by extension more potential revenue and profits. However, our optimism is curtailed given the strength seen in FY 2018 trading activity, which may be difficult to replicate. In Q4 FY 2018 NCBFG's sale of JMMBGL shares accounted for \$9 billion or 36% of the \$25 billion traded in that quarter. This leads us to be cautious given the volatile nature of this revenue source. For Q1 FY 2019 JSE has exceeded CESS Revenue from FY Q1 2018 based on trading activity which was up approximately 10%. We expect CESS Income of about \$150 million in Q1 FY 2019 an increase of \$24 million or 19% above Q1 FY 2018. **The growth in Cess Income is in part due to the change in fee structure effective October 1, 2018.**

Key Risks to Our Price Target

We expect the key drivers for revenue growth to be Fee Income in particular from the trustee services. The major risk to revenue growth in our view is CESS Income, while we expect it to be healthy in the short to medium-term, it is very dependent on large one-off transactions. Therefore we see underperformance of this revenue source as a major potential source of risk.

¹ Four year average



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Recommendation:

We recommend an **UNDERWIEGHT** rating on JSE at this point given that the stock trades significantly above our base case and best case price target. Additionally, JSE could see slower growth going forward. However, the potential for new revenue sources, continued optimism in the local stock market and P/E multiple expansion above our projections lead us to not be overly negative on the likelihood for the stock price to go higher. Therefore an investor in this stock at the current price and beyond should be aware that the implied downside is significant.

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**.

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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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