

Proven Investments' Sale Offer of Access Financial Shares

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INFRINGEMENT IN THE APPENDIX**

Transaction Overview

Proven Investment Limited (PROVEN) is inviting individuals to apply to purchase 68,627,460 units or 25% of the issued shares of Access Financial Services Limited (AFS). Proven currently owns 136,486,292 shares or 49.72% of the issued shares of AFS and if this sale is successful will see its stake reduced to 24.72% of issued shares. Proven retains the right to upsize the Offer by an additional 34,313,730 ordinary shares (i.e. up to 50% additional shares).

The successful completion of this transaction will result in Proven relinquishing Board control. The Company stated that while it continues to be pleased with its portfolio investment, it is opting to reduce its holding in AFS to realize profits on its investment and raise liquidity to fund new acquisition opportunities. The proceeds will be used to settle a transaction relating to another portfolio investment.

Term Sheet

| | |
|-----------------------------|---|
| Instrument | Ordinary Shares |
| Company | Access Financial Services Limited |
| Selling Shareholder | Proven Investments Limited |
| Lead Broker | NCB Capital Markets |
| Shares on Offer | 68,627,460 shares of which 2,343,700 shares represent reserved shares |
| Invitation Price | \$32.00 |
| Minimum Subscription | 1,000 shares in increments in multiples of 100 |
| Use of Proceeds | None of the net proceeds from this Invitation will be payable to the Company as all the shares the subject of this Invitation are being sold by the Selling Shareholder |
| Important Dates | Opening Date – 9:00am on September 26, 2019 Closing Date - 4:30pm on October 11, 2019 |

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Company Background

AFS was incorporated in 2000 and was the first to list on the Junior Market of the Jamaica Stock Exchange in 2009. The company is one of the leading microfinance firms in Jamaica, providing financing for personal, micro, small & medium enterprise loans. AFS operates under the brand names: Access Financial Services Limited and DamarkMCL. The Company operates via an island-wide retail network of twenty-four (24) branches which includes 6 DamarkMCL locations which are connected with the two local acquisitions. In December 2018, AFS acquired a title loan micro-lending company based in Florida, U.S.A. - Embassy Loans Inc.

Financial Performance – Three Months ended June 30, 2019

Profitability

AFS reported net trading income of \$515.45M for the first three months of the 2019/20 financial year, a 24.8% or \$102.34M increase, year-over-year. Driving this increase was a 330.1% or \$117.2M surge in fee & commission income to \$152.74M while net interest income fell 3.9% to \$362.72M. Of the \$152.74M reported in fee & commission, \$103M was contributed by Embassy Loans who also added \$44M to interest income. Total interest income rose just 1.6% to \$407.94M while interest expense climbed 87.9% to \$45.22M. While earnings assets have risen for AFS, a competitive space and low interest rate environment have limited interest income generation whereas cost of funds have increased due to a greater debt balance.

Other operating income amounted to \$23.24M, up 16.5% year-over-year as the booking of \$14.42M in bad debt recoverable offset a 72.1% decline in foreign exchange gains to \$2.28M and a 47.1% decline in other income to \$6.04M. Total net revenues amounted to \$538.69M, up 24.4% or \$105.63M year-over-year.

Operating expenses rose 90.2% or \$179.15M, year-over-year, amounting to \$377.7M. This increase was driven by: a 64.8% increase in staff costs to \$166.25M; a 370.6% increase in allowances for credit losses to \$71.8M and a 73.4% increase in other operating expenses to \$114.06M. Marketing expenses were also up 126.6% to \$17.53M. Depreciation & amortisation was the only expense line which saw a year-over-year reduction, down 9.2% to \$8.06M. The increase in allowances for credit losses were due to the implementation of IFRS 9 provisioning methodology while the inclusion of Embassy Loan's operating expenses added \$110M to total costs. The efficiency ratio increased from 45.8% a year prior to 70.1% in the current period.

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Profit before taxation amounted to \$160.99M, down 31.4% year-over-year, due to the significant increase in operating costs. AFS booked a tax credit for the three months period of \$4.0M relative to a tax expense of \$17.79M in the comparable period of the previous financial year. As such, net profits amounted to \$164.98M, down 23.9% year-over-year. The net profit margin moved from 50% in the comparable period of the previous financial year to 31% for the three months ended June 2019.

Solvency & Liquidity

AFS reported total assets of \$5.53B as at June 30, 2019, a 43.3% or \$1.67B increase year-over-year. This movement was driven by a 35.4% or \$1.12B increase in loans and advances which grew to \$4.28B. Of the \$1.12B increase in loans, \$667M was attributable to the acquisition of Embassy Loans. Intangible assets also rose by 961.7% or \$428.24M to \$472.77M. Cash & cash equivalents were up 22.8% or \$98.58M to \$530.51M. Cash provided by operating activities amounted to \$158.58M, down from \$220.77M for the comparable period of the previous year. Property, plant & equipment rose 5.5% to \$63.21M while deferred tax assets climbed 13.1% to \$147.18M.

Total liabilities rose 136.4% or \$3.13B as loans payable climbed \$1.61B or 149.1% to \$2.70B. Payables rose 139.1% to \$429.97M. The increase in borrowings was driven by the issuance of a \$900M due 2025 bond on November 2018 to finance the purchase of the Embassy Loans. Shareholders' equity fell 5.3% to \$2.4B as retained earnings amounted to \$2.31B, down 5.2% year-over-year. Leverage more than doubled as the debt-to-equity ratio moved from 0.43x at June 30, 2018 to 1.12x as at June 30, 2019.

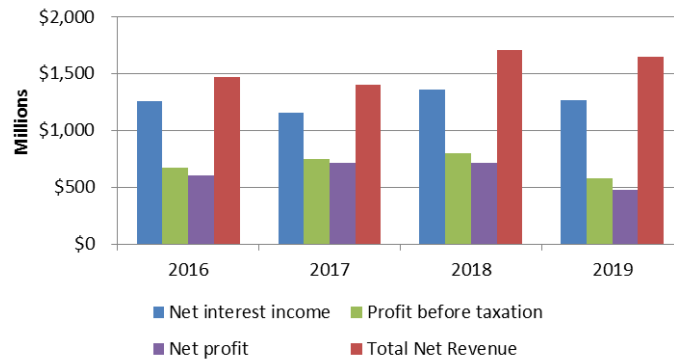
Outlook & Valuation

In our 2018 report we stated that AFS's operating performance has slowed down since it first listed in 2009 and further added that it was inevitable that the rapid growth witnessed in the earlier years of listing would eventually normalize. Our outlook was driven by an environment of falling interest rates, narrowing credit spreads and increased competition from new players entering the micro-financing industry to fill the void created by traditional financial institutions underserving the sector. These headwinds have continued to drag on AFS' performance, culminating in the total net revenue falling 3.3% to \$1.65B year-over-year in the 2018/19 financial year and a 33% decline in net profit which amounted to \$476.85M. The net interest margin fell from 41.9% to 34.2% while the efficiency ratio increased from 52.9% to 65.0%.

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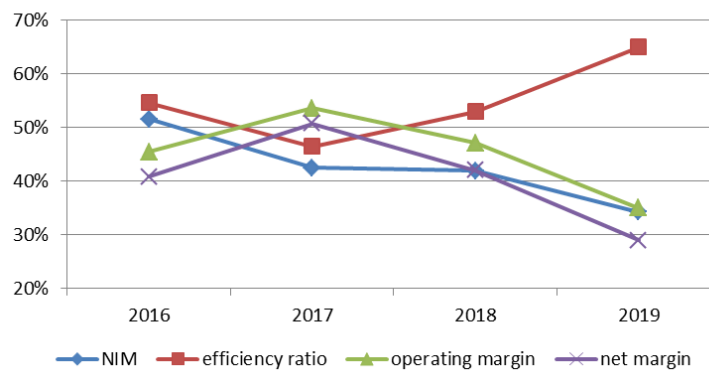
AFS Operating Performance 2016-2019



Interest rates are expected to remain low in the short to medium term due to accommodative central bank monetary policy while the micro-finance sector will continue to be competitive as AFS must now contend with traditional financial institutions, which have begun to actively target the MSME sector having rolled out products and services to better meet their needs.

AFS can be considered a mature player in the space and must look to new revenue streams to continue to grow. The Company has been active in its inorganic growth strategy, having acquired 3 companies locally and overseas in the past few years. Management has noted the risks from competition and has reiterated a focus on a customer first strategy to retain patronage. Operational and technological innovations are also being targeted to improve the Company's efficiency.

AFS Profitability Margins 2016-2019



In December 2018, AFS launched its MyAccess mobile app as a low-cost convenient delivery channel. From the app, customers can apply for loans, check the status of loan applications and

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check account balances using a smartphone. The Company has also increased its social media presence.

The Company must also prepare for the eventual regulation of the Jamaican micro-financing sector as the Government has committed to regularizing the sector in an effort to protect consumers. The Microcredit Act (2019) was tabled in the House of Representatives in February 26 and seeks to regulate persons who provide microcredit services and ensure that such persons are licensed by the Regulatory Authority.

The Act will require microcredit providers to keep proper accounting and other records and to make reports to the Regulatory Authority on a timely basis. The Act also seeks to protect the interest of borrowers by discouraging excessive interest rates and predatory lending practices by microcredit institutions. The Bill prohibits false and misleading advertising by institutions and makes it an offence to use threats and violence in the process of collecting a debt.

This Bill may prove to be a boon for AFS as one of the largest microfinance providers who took the steps to list on the Junior Market. AFS has had to comply with the regulatory requirements for listing on the stock exchange which includes ensuring that their corporate governance structure is in place and adequate and the timely publication of unaudited and audited financial statements. As a listed entity with accountability to its shareholders and regulators, AFS cannot easily engage in predatory lending practices as it is under greater scrutiny than its peers. As such, we believe that AFS is better suited than most firms to deal with this transition and it could be an opportunity for the Company to acquire market share from smaller firms who may not be able to confirm to the new standards.

We estimate net revenues of \$1.86B for the 2019/20 financial year, a 13.4% increase year-over-year and profits attributable to shareholders of \$461.44M, down 3.2% year-over-year (EPS: \$1.68). Shareholders' equity is expected to close the current year at \$2.49B, up 12.2% from the prior year, and corresponds to a BVPS of \$9.08.

Utilizing AFS's 1-year P/E average of 20.75x and the \$1.68 EPS estimate produces a price of \$34.88. A 1-year P/B average of 4.75x and the \$9.08 BVPS estimate yields a price of \$43.12. The Dividend Discount Model produces a price of \$26.80 assuming a cost of equity of 10.81%. These estimates yield an average price of \$36.53, which is 14.2% higher than the Offer Price of \$32.00.

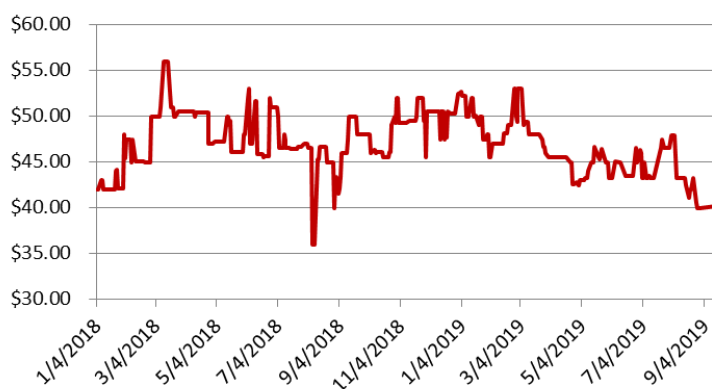
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| SYMBOL | Mkt Cap (\$Bn) | Close Price 24/09/2019 | P/E ratio (x) | P/B ratio (x) | ROA | ROE | Dividends Paid 2018 | Dividend Yield 2018 |
|-----------------------|------------------|---------------------------|------------------|------------------|-------------|--------------|------------------------|------------------------|
| AFS | \$11,046,275,962 | \$40.24 | 25.98 | 4.60 | 9.05% | 17.23% | \$0.93 | 2.55% |
| ISP | \$2,625,000,000 | \$25.00 | 49.77 | 7.52 | 8.93% | 16.11% | - | 0.00% |
| LASF | \$6,241,484,404 | \$4.92 | 22.92 | 3.71 | 7.18% | 17.27% | - | 0.00% |
| Sector Average | \$20.15 | | 32.89 | 5.28 | 8.4% | 16.9% | | |

Recommendation

We recommend Access Financial Services Limited as MARKETWEIGHT as the offer price is below our estimate of the company's fair value while acknowledging that the Company's growth rate has slowed and there remain notable headwinds for its future prospects. Year-to-date, AFS has depreciated 4.2% and is down 13.5% from a year prior. The stock is suitable for investors who are seeking income as AFS is a consistent payer of dividend. Given our EPS estimate and an average pay-out ratio of 44% over the past three years, the potential dividend yield is estimated at 2.3%, giving a potential total return of 16.5%.

AFS 3-year Stock Performance



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



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Abridged Financials

| J\$000 | Year Ended December 31 | | | | |
|-------------------------------|------------------------|------------------|------------------|------------------|---------------|
| | 2016** | 2017 | 2018 | 2019 | Change % |
| Total Net Revenue | 1,470,742 | 1,402,149 | 1,704,354 | 1,648,322 | -3.3% |
| Operating Expenses | 803,032 | 651,622 | 902,404 | 1,071,163 | 18.7% |
| Profit Before Taxation | 667,710 | 750,527 | 801,950 | 577,159 | -28.0% |
| Profit for the year | 599,881 | 710,548 | 716,028 | 476,846 | -33.4% |
| Total Assets | 2,639,136 | 3,222,430 | 3,518,543 | 4,830,492 | 37.3% |
| Total Liabilities | 1,340,450 | 1,390,885 | 1,215,267 | 2,608,663 | 114.7% |
| Shareholder's Equity | 1,298,686 | 1,831,545 | 2,303,276 | 2,221,829 | -3.5% |
| EPS (\$) | 2.19 | 2.59 | 2.61 | 1.74 | |
| Book Value per Share (\$) | 4.73 | 6.67 | 8.39 | 8.09 | |
| Key Ratios | | | | | |
| Net interest Margin | 51.6% | 42.5% | 41.9% | 34.2% | |
| Efficiency Ratio | 54.6% | 46.5% | 52.9% | 65.0% | |
| Pre-tax profit margin | 45.4% | 53.5% | 47.1% | 35.0% | |
| Net Margin | 40.8% | 50.7% | 42.0% | 28.9% | |
| Return on Average Equity | 50.2% | 45.4% | 31.1% | 21.1% | |
| Return on Average Assets | 23.3% | 24.2% | 20.4% | 11.4% | |
| Debt/Equity (x) | 0.79 | 0.62 | 0.42 | 1.00 | |

** fifteen months ended March 31, 2016. AFS changed its year-end to March 31, in line with Proven Investments Limited, of which it is an associate company for.

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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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