

## Victoria Mutual Investments Limited

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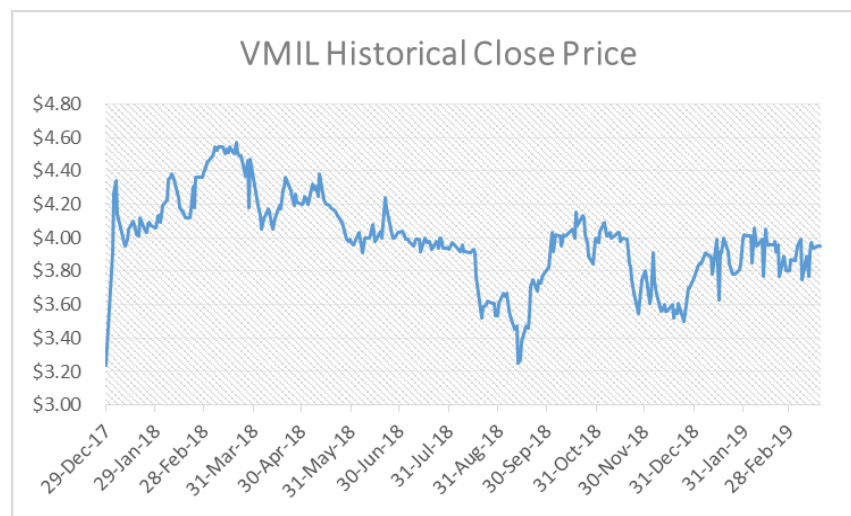
#### Executive Summary

Victoria Mutual Investments Limited (VMIL) was incorporated in 1984. The company has a wholly-owned subsidiary Victoria Mutual Wealth Management Limited (VMWM), which was established in 1994. The primary activities of VMWM are investment brokering, advisory services and money market dealing. Meanwhile VMIL offers margin loans, insurance premium financing, lease financing, underwriting services and corporate loans. VMIL was listed on the Jamaica Stock Exchange on December 29, 2017.

VMIL has undergone a significant shift in its source of revenue for the period under review (FY 2014 to FY 2018). In FY 2014 less than 15% of revenue was generated from Net Fees & Commissions, recently in FY 2018 more than 60% of revenue was made from Net Fees and Commissions. In FY 2018 VMIL generated \$826.68 million in Fees and Commission income of which \$614.48 million was earned from corporate advisory services and \$102.34 million was generated from unit trust fees.

Profits improved by \$51.30 million or 14.81% in FY 2018 however, EPS fell by \$0.02 to \$0.27 due to increased shares outstanding following its IPO at the end of 2017. FY 2018 earnings growth was stifled by a provision for credit loss on financial assets of \$105.44 million. The main contributor to this loss was impairment of Government of Barbados (GOB) bonds, excluding which, profits would have surged \$156.74 million or 45% to \$503.04 million.

VMIL's peak closing price was on March 20, 2018 at \$4.57, while its lowest closing price was \$3.24 on its first day of trading December 29, 2017. VMIL now trades at trailing 12-month P/E and P/B of 14.44x and 2.15x respectively.



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### Recent Developments

For FY 2018 VMIL produced growth in revenue and profits of \$340.32 million or 35.21% and \$51.30 million or 14.81% respectively. Revenue growth for FY 2018 was primarily due to a \$326.52 million or 65.28% surge in revenue from Net fees and commission income. FY 2018 performance was aided by strong Q4 FY 2018 performance which saw profits surge \$83.78 million or 115.05% to \$156.60 million. Meanwhile, earnings for FY 2018 was impacted by a provision for credit losses on financial assets of \$105.44 million. In Q2 FY 2018 VMIL made a provision for expected credit losses of \$109.56 million primarily due to Government of Barbados global bonds held.

Effective January 1, 2019 VMIL executed some senior management changes. Rezworth Burchenson was promoted to CEO and Managing Director of VMIL and VMWM, concurrently Colando Hutchinson was appointed Deputy CEO of VMWM.

### Key Financial Data

	2014	2015	2016	2017	2018	CAGR
<b>BVPS</b>	1.00	1.10	1.30	2.11	1.81	15.93%
<b>EPS</b>	0.22	0.26	0.26	0.29	0.27	4.83%
<b>Dividend Per Share</b>					0.14	
<b>Dividend Payout Ratio</b>					52.82%	
<b>Dividend Yield</b>					3.72%	
<b>Income Statement Data (\$,000)</b>						
<b>Net Interest Income</b>	317,048	282,677	250,756	246,989	275,450	-3.46%
<b>Gain on Inv. Activities</b>	156,692	294,088	278,624	193,077	182,799	3.93%
<b>Corporate advisory Services</b>		153,851	164,094	316,537	614,476	58.66%
<b>Net Fees and Commission Income</b>	126,211	232,869	279,578	500,163	826,681	59.98%
<b>Operating Costs</b>	313,364	382,158	417,069	498,630	767,740	25.11%
<b>Pre-tax Profits</b>	314,125	428,982	393,734	467,825	539,035	14.45%
<b>Profits</b>	263,340	311,122	317,278	346,302	390,495	10.35%
<b>Balance Sheet Data</b>						
<b>Investment Securities</b>	11,743,276	13,088,110	13,076,406	11,683,640	13,241,358	3.05%
<b>Total Assets</b>	14,961,835	15,574,066	16,262,542	20,068,454	21,610,199	9.63%
<b>Equity</b>	1,205,630	1,314,725	1,565,690	2,534,022	2,722,424	22.58%
<b>Repos</b>	13,392,180	13,363,857	13,940,198	13,164,960	15,454,981	3.65%
<b>Borrowings</b>				506,109	1,410,625	
<b>Total Liabilities</b>	13,706,205	14,209,941	14,646,852	17,484,432	18,837,775	8.27%

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	2014	2015	2016	2017	2018	Average
<b>Ratios</b>						
<b>Efficiency Ratio</b>	49.94%	47.11%	51.44%	51.59%	50.68%	50.15%
<b>Net Profit Margin</b>	41.97%	38.36%	39.13%	35.83%	30.43%	37.14%
<b>Net Interest Margin</b>	2.31%	1.95%	1.69%	1.64%	1.74%	1.87%
<b>ROE</b>	24.84%	24.69%	22.03%	16.89%	15.13%	20.72%
<b>ROA</b>	1.84%	2.04%	1.99%	1.91%	1.91%	1.94%
<b>P/E</b>	N/A	N/A	N/A	11.26x	14.19x	
<b>P/B</b>	N/A	N/A	N/A	1.54x	2.07x	
<b>Close Price</b>	N/A	N/A	N/A	3.84x	3.76x	

### Financial Overview

VMIL has three primary revenue sources Net Interest Income (NII), Gains from Investment Activities (GIA) and Net Fees & Commissions (NFC). NII has trended lower since FY 2014 but produced a minor rebound in FY 2018. The major contributor to this bounce was reduced interest expense on repurchase agreements which declined from \$472.18 million in FY 2017 to \$359.47 million in FY 2018. The result is that VMIL reported its best NII Margin of 37.67% for the period under review (FY 2014 – FY 2018). This is meaningfully higher than the five-year average NII Margin of 34.25%. GIA has trended lower since FY 2015 from its peak of \$294.09 million.

The surge in FY 2015 was due to gain on investment securities particularly equities of \$137.11 million. This gain was in part due to VMIL's interest in Jamaica Stock Exchange's stock which rallied more than 1000% in FY 2015. For the period FY 2016 to FY 2018 fixed income securities activities accounted for the majority of revenue of GIA. However, revenue from fixed income securities activities has trended lower since FY 2016 from \$203.30 million to \$109.48 million in FY 2018. NFC was the primary revenue source in FY 2018 accounting for \$826.68 million or 63.61% of FY 2018 revenue. The principal contributors to NFC in FY 2018 are corporate advisory services (CAS) and management fees for the Unit Trust (UT) Funds, which were \$614.48 million and \$102.24 million respectively. CAS has increased at a CAGR of 58.66% over the period FY 2015 to FY 2018 and has been a critical driver of revenue growth for the period under review. Meanwhile, Management Fees from UT funds has increased meaningfully from \$2.76 million in FY 2016 when it was launched to \$102.24 million in FY 2018 an increase of 82.62% over FY 2017 levels of \$55.98 million. The net effect is that Net Revenue has increased at a CAGR for the period under review of 19.97% to \$1.30 billion.

The most significant asset on the company's balance sheet is Investment Securities which accounts for \$13.24 billion or 61.27% of total assets as at the end of FY 2018. The majority of Investment Securities is in Government of Jamaica (GOJ) securities, \$9.97 billion or 75.32% of Investments Securities as at the end of FY 2018 and half of the GOJ securities are denominated in USD. Of Investment Securities as at the end of FY 2018 \$4.67 billion matures in 1 to 5 years and \$6.97 billion matures in 5 or more years. The most substantial liability on the balance sheet is repurchase agreements (repos) at the end of FY 2018 it accounted for \$15.45 billion or 82.04% of total liabilities, about half of which was denominated in USD.

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### Forecast and Valuation

We used the relative value approach to arrive at our base case target of \$5.21. In our base case assumption is that sentiment remains at present levels. We see this as probable given that Q2 FY 2018 was negatively impacted by the write-down of GOB bonds however, the stock was able to recover after releasing the negative earnings. Our worst case sees a price target of \$4.13 above the stock's current price. Applying the dividend discount model we arrived at a price target of \$6.06. The table below indicates that VMIL has among the lowest P/E ratios but the highest P/B ratio. The relatively high P/B is fair given that the ROE and dividend yield is the highest among peers. Also of note, the current ROE is depressed due to impairment of the GOB bonds. Adjusting for the impairment ROE would have been around 19%, considerably above VMIL's peers.

Ticker	Market Cap(M)	P/E	P/B	Div Yield	ROA	ROE
VMIL	5,850	14.44	2.15	3.08%	1.91%	15.13%
BIL	18,945	51.19	5.82	3.68%	2.15%	12.40%
MIL	9,621	65.55	1.32	0.00%	0.59%	2.39%
JMMBGL	52,161	13.13	1.99	1.55%	1.37%	15.00%
PROVEN	17,924	23.70	1.85	3.54%	1.03%	7.42%
<b>Average</b>	<b>20,900</b>	<b>33.60</b>	<b>2.63</b>	<b>2.37%</b>	<b>1.41%</b>	<b>10.47%</b>

### Outlook

Our outlook on VMIL is positive given strong growth at its CAS (Corporate Advisory Services) and Fee income from Unit Trust. However, we expect the growth in CAS to slow from its recent pace. We also project Fee income from the UT to get boosted by increased management fees on some UT offerings from 1% up to 2% of net asset value (NAV), growth in funds under management and the introduction of a new unit trust funds in Q4 FY 2018. Growth in the off-balance sheet is erratic with Q1 FY 2018 even reporting a decline of \$920 million or 4.63% from Q4 FY 2017 levels. Meanwhile, Q3 FY 2018 produced a surge of \$4.36 billion or 22.22% from Q2 FY 2018 levels. However, growth in off-balance sheet activities has trended higher indicating that there will be a boost in fee income.

### Key Risks to Our Price Target

We expect the key drivers of growth to be from advisory services and fees. We expect growth in off-balance-sheet assets such as unit trust products coupled with the increased fees in at the beginning of FY 2019 on select offerings to help drive revenue. Therefore the key risks to our price target are that VMIL is unable to produce material growth for these key revenue sources.

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### Recommendation:

We recommend an **OVERWEIGHT** rating on VMIL at this point given that the stock trades significantly below our base case and considerably below our worst case scenario. Additionally, VMIL has a higher ROE versus peers despite trading below many of its peers versus its P/E. We see a credible path to growth from Fee income and CAS.

*Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.*

## 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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