

PanJam Investment Limited

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Executive Summary

PanJam Investment Limited (PJAM) is incorporated and domiciled in Jamaica; its registered office is at 60 Knutsford Boulevard, New Kingston. Its primary activities are holding investments and controlling the operations of subsidiaries. PJAM's subsidiaries and associated companies operate in several market segments, including Property Management & Development, Investment Management, Life Insurance, Office Rental, Hotel Management and Captive Insurance.

PJAM has several associated companies including Sagicor Group Jamaica Limited, New Castle Company Limited, Chukka Caribbean Adventures Limited, and Caribe Hospitality Jamaica Limited. The principal contributor to earnings from associated companies is Sagicor Group Jamaica (SJ). In FY 2019, PJAM reported earnings from associated companies of \$4.9 billion, of which more than \$4.6 billion was generated from Sagicor Group. **Of note, at the end of FY 2019 PJAM had a 30.22% stake in SJ down from 31.56% in FY 2018 and realized a gain on the sale in excess of \$1.5 billion.** The primary sources of revenue for PJAM are Investment and Property Income. **PJAM's three significant assets on the balance sheet at the end of FY 2019 are Investment in associated companies, Investment Properties and Investment Securities which are \$31.08 billion, \$9.03 billion, and \$9.99 billion, respectively.**

PJAM has maintained healthy operating margins averaging 40.68% between FY 2015 and FY 2019 (the period under review) and peaked in FY 2019 at 61.03%. Meanwhile, debt-to-equity has been stable, averaging 24.33% for the period under review. However, it declined significantly in FY 2019 to 21.86% among the lowest for the period under review.

Profit attributable to shareholders increased at a CAGR of 27.08% for the period under review. Meanwhile, the stock price has grown at a CAGR of 52.18% for the same period. This has resulted in significant P/E multiple expansion, which averaged 4.43x in FY 2015 and surged to an average of 14.99x in FY 2019. However, for FY 2020, the average P/E has tumbled to 11.59x, this indicates waning investor risk appetite, which we see as justified.



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Recent Developments

The BOJ has recently announced financial holding company designates, and deposit-taking institutions will be suspending the distribution of profits via dividends for FY 2020. This will result in a decline in cash flow to PJAM, which in FY 2019 received approximately \$1.9 billion in dividends from associated companies of which the majority was from Sagicor Group Jamaica (SJ). PJAM, paid roughly \$1.1 billion in dividends for FY 2019, given SJ's dividend freeze it may not replicate this figure in FY 2020.

In November 2019 PJAM and Portland Private Equity revealed that they had entered an agreement to each acquire a 15% stake in Outsourcing Management Limited which trades as itelbpo.

Key Financial Data

	2015	2016	2017	2018	2019	CAGR
Share Price	18.81	28.32	45.00	72.67	100.88	52.18%
BVPS	20.75	24.44	29.03	32.02	40.40	18.13%
EPS	3.02	3.84	3.92	5.06	7.85	26.94%
Dividend Per Share	0.57	0.65	1.05	1.05	1.06	16.78%
JSE Main Market Index	150,692.13	192,276.64	288,381.97	379,790.56	509,916.44	35.63%
Revenue	1,842,307	1,742,593	2,412,999	3,264,200	4,626,024	25.88%
Investments Income	205,722	239,333	422,702	1,060,653	2,249,947	81.85%
Property Income	1,482,694	1,382,426	1,787,009	2,071,904	2,229,318	10.73%
Operating Profit	574,443	431,227	937,861	1,553,305	2,823,106	48.89%
Share of Profit from Associated Company	3,192,256	3,643,077	3,932,880	4,696,259	4,953,100	11.61%
Pre-tax Profit	3,304,507	4,451,469	4,270,819	5,672,498	8,734,542	27.51%
Profits Attributable to Shareholders	3,186,141	4,050,373	4,131,352	5,333,750	8,308,325	27.08%
Investment in Associated Companies	17,781,280	20,874,843	24,919,991	26,348,546	31,078,668	14.98%
Investment properties	5,194,069	5,583,427	7,839,676	8,358,674	9,026,597	14.82%
Financial assets at FVPL	462,802	662,944	1,063,775	6,594,390	8,961,181	109.77%
Non-Current Assets	24,969,505	29,696,135	35,887,511	41,301,610	49,066,446	18.40%
Current Assets	2,984,656	2,744,545	3,465,522	4,564,483	5,334,531	15.62%
Total Assets	27,954,161	32,440,680	39,353,033	45,866,093	54,400,977	18.11%
Total Liabilities	5,854,115	6,183,447	8,553,073	11,831,977	11,315,391	17.91%
Debt	5,180,745	5,182,065	7,474,718	10,559,530	9,343,742	15.89%
Equity	21,763,118	25,669,471	30,527,061	33,733,671	42,743,201	18.38%

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Ratios	2015	2016	2017	2018	2019	Average
Operating Margin	31.18%	24.75%	38.87%	47.59%	61.03%	40.68%
Debt-to Equity	23.81%	20.19%	24.49%	31.30%	21.86%	24.33%
Financial Leverage	1.28	1.26	1.29	1.36	1.27	1.29
ROE	14.85%	17.08%	14.70%	16.60%	21.73%	16.99%
ROA	11.72%	13.41%	11.51%	12.52%	16.57%	13.15%
P/E	6.22	7.37	11.47	14.35	12.85	10.45
P/B	0.91	1.16	1.55	2.27	2.50	1.68
Dividend Payout Ratio	18.85%	16.91%	26.77%	20.75%	13.50%	19.36%
Dividend Yield	4.42%	2.89%	2.93%	2.03%	1.15%	2.68%
Stock Performance	59.39%	50.57%	58.90%	61.49%	38.81%	53.83%
JSE Main Market Performance	97.36%	27.60%	49.98%	31.70%	34.26%	48.18%

Financial Overview

Investments income reached an all-time high in FY 2019, a key driver of this was the acquisition of 100 million shares of JMMBGL at \$26.50 on September 26, 2018. The purchase of these shares aided a surge in fair value gains on financial asset at FVTPL to a record of \$1.58 billion in FY 2019 well above the FY 2018 figure of \$924.28 million. This was aided by the closing bid on JMMBGL surging 47% in FY 2019. The most significant contributor to revenue has been Property Income, which is made up of rental income and property valuation gains. The most significant operating expenses for PJAM is staff costs and direct costs associated with property management, these account for \$1.29 billion or 75.83% of 2019 operating expenses. The primary source of earnings for PJAM is the share of profit from associated companies, which was \$4.95 billion eclipsing operating profit of \$2.82 billion as at the end of FY 2019.

The three most significant contributors to total assets as at the end of FY 2019 were Investments in Associated Companies, Investment Properties and Financial Assets at fair value through Profit and Loss of \$31.08 billion, \$9.03 billion and \$8.96 billion, respectively. Investment in associated companies includes Sagicor Group Jamaica Limited, New Castle Company Limited, Chukka Caribbean Adventures Limited, Caribe Hospitality Jamaica Limited and Outsourcing Management Limited. PJAM's primary investments in associated companies operate in the financial services and the tourism/hospitality industries, which are being carried at \$28.72 billion and \$614.5 million, respectively. The primary contributor to liabilities is debt, which totalled \$9.34 billion versus \$10.56 billion for the same period last year.

Operating margin has been volatile for the period under review peaking in FY 2019 at 61.03% meaningfully higher than the low of 24.75% in FY 2016. Debt to Equity has remained low for the period under review, averaging 24.33% and reaching a low of 21.86% in FY 2019. Furthermore, financial leverage has remained relatively low, averaging 1.29x for the period under review. This indicates that long-term liabilities can be readily met. PJAM has consistently paid dividends, but the yield has declined for the period under review due to dividend growth, not keeping pace with the increase in the stock price.

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Forecast and Valuation

We used the relative value approach to arrive at our fair value estimate of \$51.11. For the upper-end price target of \$79.14, we averaged our FY 2020 EPS projection applied to our 1-year average P/E of PJAM, then used a similar method to projected BVPS. For our lower-end price target of \$33.25, we applied a similar technique to PJAM's average FY 2016 P/E and P/B.

PJAM has the lowest P/E relative to peers and has substantially higher ROA and ROE, this indicates it is attractive relative to peers.

Ticker	Market Cap(M)	P/E	P/B	Div. Yield 2019	ROA	ROE
PJAM	80,474	9.69	1.88	1.5%	16.57%	21.73%
GK	56,586	12.61	1.08	2.4%	3.1%	9.3%
JP	22,992	19.09	1.66	0.4%	3.3%	9.3%
Average	53,535	13.80	1.54	1.43%	7.66%	13.44%

Below we show the historical P/E of PJAM, which has trended higher since FY 2015, at the beginning of the bull market. However, in May 2019 P/E peaked and has trended lower due to a combination of increased EPS and declining earnings, which indicates falling investor optimism.



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Outlook

Our outlook on PJAM's near-term financial performance is negative. We expect a material decline in FY 2020 as income from investments deteriorate in part due to the decrease in JMMBGL's share price. For Q1 FY 2020 the closing bid on JMMBGL has declined approximately 17%, which is expected to result in hundreds of millions in unrealized losses furthermore, in Q2 FY 2020 the declines continued. However, in the medium to long-term growth in the company's earnings and cash flows is expected to resurface, albeit at a much slower pace than recent history. PJAM is well capitalized with debt to equity of 22% at the end of FY 2019. Furthermore, PJAM's current equity understates the value of its assets, given that investments in associates at the end of FY 2019 was \$31.08 billion. However, its stake in SJ at current market prices is worth more than \$57 billion. Therefore, PJAM's ability to withstand an economic shock that extends 12 – 18 months is highly probable.

Key Risks to Our Price Target

PJAM is a conglomerate with various business operations, spanning several geographic locations. However, it has three main drivers of profits, namely investment holding, property holdings and earnings from associated companies. Therefore, while the company operates in many market segments, three critical factors impact earnings, namely SJ's profitability, JMMB Group Limited share price movement and occupancy rates at investment properties. We expect a meaningful decline in SJ profits and have already seen a significant decrease in JMMBGL share price. A reduction in both beyond our expectations could result in PJAM's stock price falling below our base-case price target.

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Recommendation:

We recommend a **UNDERWIEGHT** rating on **PJAM** at this point given that the stock trades significantly above our fair value estimate but below our upper-end price target. Furthermore, given our forecast of a decline in PJAM's earnings we expect erosion of investor confidence which may impact the stock price. We expect a return to earnings and cash flow growth following a material FY 2020 decline. However, our expectation for growth in FY 2021 and beyond is materially lower than recent history. Furthermore, the company's exposure to the tourism/hospitality sector will constrain earnings growth in the medium-term.

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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OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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