

Barita Investments Limited (BIL)

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INFRINGEMENT IN THE APPENDIX**

Executive Summary

Barita Investments Limited is seeking to raise J\$10,000,000,000.00 in additional equity financing. The Company is inviting offers for the subscription of 125,000,000 new ordinary shares at a price of J\$80.00 per share in an Additional Public Offer (APO). Barita may upsize this Offer by an additional 62,500,000 shares. BIL intends to use the proceeds of the Offer to: add capacity to its principal investment portfolios; expand its local and regional footprint; expand its investment banking underwriting capacity and footprint regionally; and cover transaction fees.

We recommend Barita Investment Limited as **MARKETPERFORM/HOLD/MARKETWEIGHT**.

Offer Details

Issuer	Barita Investments Limited
Lead Broker	Barita Investments Limited
Shares subject of the Invitation	Up to 125,000,000 New Ordinary Shares, inclusive of 112,500,000 Reserved shares. The directors may increase the number of new ordinary shares available to 187,500,000, or a maximum of 62,500,000 additional shares.
Issue Size	J\$10,000,000,000.00, upsizable to \$15,000,000,000.00
Invitation Price	<ul style="list-style-type: none"> • J\$80.00 for Cornerstone Investor and Key Investors • J\$80.00 for Existing Shareholders and Barita Clients • J\$80.00 for Non-Reserved Share Applicants
Minimum Subscription Amount	Applicants must request a minimum of 300 new ordinary shares; applications above this amount shall be in multiples of 100 new ordinary shares
Use of Proceeds	The proceeds will be used as follows: <ul style="list-style-type: none"> • To add capacity to the Company's principal investments portfolios • Expand local and regional footprint; • Further expand Investment Banking underwriting capacity and support expansion into the region; and • Transaction fees
Opening Date	9:00 a.m. on Monday, September 6, 2021
Closing Date	4:00 p.m. on Tuesday, September 21, 2021

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Use of Proceeds

If fully subscribed, the gross proceeds from the Invitation will be J\$10,000,000,000.00 of which approximately J\$200,000,000.00 is earmarked for transaction fees, resulting in net proceeds of J\$9.80B. Having experienced accelerated client growth and balance sheet expansion, BIL intends to use the net proceeds to further enhance its operating capacity to accommodate the continuation of these trends. The following table outlines the stated use of the net proceeds:

Use of Proceeds	J\$ Amount	%
Further expand the Investment Banking underwriting capacity and support expansion into the region	\$1,680,000,000.00	16.8%
Add capacity to the Company's principal investments portfolios to include investments in: Private Equity; Private Credit; Infrastructure; and Alternative Investments	J\$4,000,000,000.00	40.0%
Expand local and regional footprint	J\$4,120,000,000.00	41.2%
Transaction Fees	J\$200,000,000.00	2.0%
TOTAL	J\$10,000,000,000.00	100%

Company Background

Barita Investments Limited is a publicly traded company, 74.3% owned by Cornerstone Financial Holdings Limited. The Company was founded by Rita-Humphries-Lewin in 1977, and has the distinction of being one of the oldest stockbrokers in Jamaica. Barita is licensed as by the Financial Services Commission (FSC) as a Securities Dealer, is a member dealer of the Jamaica Stock Exchange (JSE) and is a Primary Dealer and Cambio Dealer for the Bank of Jamaica (BOJ).

Barita's products and services include: Cambio Trading; Fixed Income Trading; Stock Brokerage; Pooled Funds Management; Structured Products; Retirement Planning; Wealth Management and Investment Banking. Through its subsidiary, Barita Unit Trusts Management Company Limited (BUTM), Barita offers six (6) unit trust products spanning fixed income, equities and real estate.

The Company services clients island-wide through its Head Office in Kingston and branches in Mandeville and Montego Bay. Barita manages over J\$290.0B of funds as at September 30, 2020 with a team of 153 staff members.

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Share Capital Structure

Proposed holdings post-Additional Public Offering (assuming all New Ordinary Shares are subscribed for in full)

Shareholders	No. of Shares	% Shareholding
Top 10 Shareholders		
Cornerstone Financial Holdings Limited	806,566,479	66.63%
First Citizens Investment Services Limited	66,280,154	5.47%
Rita Humphries-Lewin	55,550,974	4.42%
Barita Finance Limited	14,892,166	1.23%
National Insurance Fund	8,191,553	0.68%
Pimento Grove Limited	6,734,053	0.56%
JCSD Trustee Services Limited A/C Barita Unit Trust Capital Growth Fund	6,420,126	0.53%
Karl Wright	6,272,000	0.52%
Karl Lewin	6,196,437	0.52%
John O. Minott	5,649,117	0.47%
Top 10 Total	980,753,059	81.02%
Other Shareholders	104,850,034	8.66%
TOTAL (before subscription for shares under the Invitation)	1,085,603,093	89.68%
Reserved Shares	112,500,000	9.29%
Non-reserved Shares	12,500,000	1.03%
TOTAL (after subscription for shares under the Invitation)	1,210,603,093	100.00%

Financial Performance – Nine Months ended June 30, 2021

Profitability

BIL reported net operating revenues of \$6.69B for the first nine months of the 2021FY, a 77.1% or \$2.91B increase year-over-year. This increase was driven by an 88.2% or \$2.59B increase in non-interest income to \$5.53B. Fee & commission income rose 95.2% or \$1.33B to \$2.72B while foreign exchange trading and translation gains surged 316.8% or \$1.36B to \$1.78B. The growth in fee & commission income was explained by strong performance in the investment banking and asset management business lines. Foreign exchange trading and translation gains were attributed to initiatives to hedge currency risk and scale expansion of the foreign exchange trading operations.

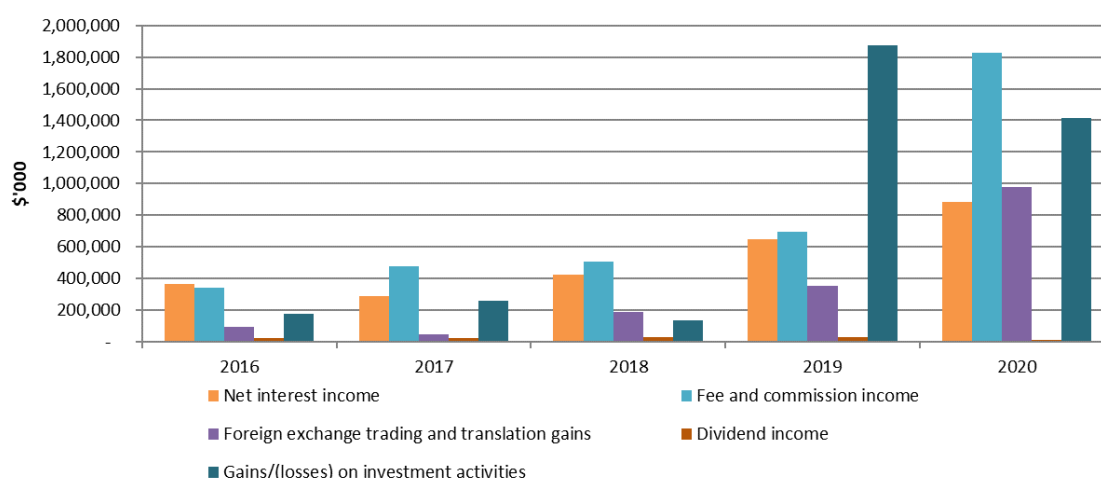
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Gains on investment activities fell 9.3% to \$1.0B. According to BIL's third quarter report, this decline was due to "continued reduction in large market value transactions locally and bout of volatility in international markets in Q3 occasioned by concerns about rising inflation and the potential for further economic damage from the rising Delta variant."

Non-interest income as a percentage of net operating revenues stood at 82.8%, up from 77.9% in the comparable period of the previous financial year. Net interest income amounted to \$1.15B, up 37.8% or \$316.46M. This increase was attributed to the growth reported in the Company's credit and fixed income portfolios, coupled with a rise in repo liabilities.

5-year Operating Performance



Operating expenses amounted to \$2.43B, up 86.6% or \$1.13B year-over-year, as all operating expense lines rose during the period. Staff costs rose 67.6% or \$375.13M to \$929.91M while administration costs rose 85.6% or \$629.48M to \$1.36B. Expected credit losses amounted to \$137.69M, a tenfold increase from the \$13.72M reported for the comparable period of the 2019/20FY. The increase in expected credit losses was attributed to expansion of the credit portfolio as well as changes in the macroeconomic outlook that may influence credit risk. Administrative and staff cost increases were explained by the continued growth of the business operations of BIL. Even with the surge in operating expenses, BIL's efficiency ratio rose to just 36.4%, from 34.5% in the comparable period of the previous financial year.

Barita's pre-tax profits amounted to \$4.30B, up 73.8% or \$1.82B year-over-year. The pre-tax profit margin stood at 64.3%, down from a margin of 65.5% in the comparable period of the previous year. Net profits amounted to \$3.67B, up 83.1% year-over-year despite a 33.7% increase

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in the income tax expense to \$628.41M. Barita's effective tax rate fell from 19.0% to 14.6%, which resulted in an improvement in the net profit margin from 53.0% to 54.9% the current year period. Return on average assets stood at 4.7% up from 4.3% a year prior while the return on equity fell to 16.7%, down from 21.9% in the prior year period.

Solvency & Liquidity

As at June 30, 2021, BIL's total assets amounted to \$84.2B, a 61.7% or \$32.13B increase year-over-year. The main driver behind this increase was a 68.8% or \$21.17B increase in pledged assets, which amounted to \$51.97B. Also contributing to the increase in total assets were a 214.6% or \$5.4B increase in securities purchased under resale agreements to \$7.91B and a 63.9% or \$3.13B increase in marketable securities to \$8.03B. The company also reported investment in associates of \$2.04B, relative to no such balance a year prior.

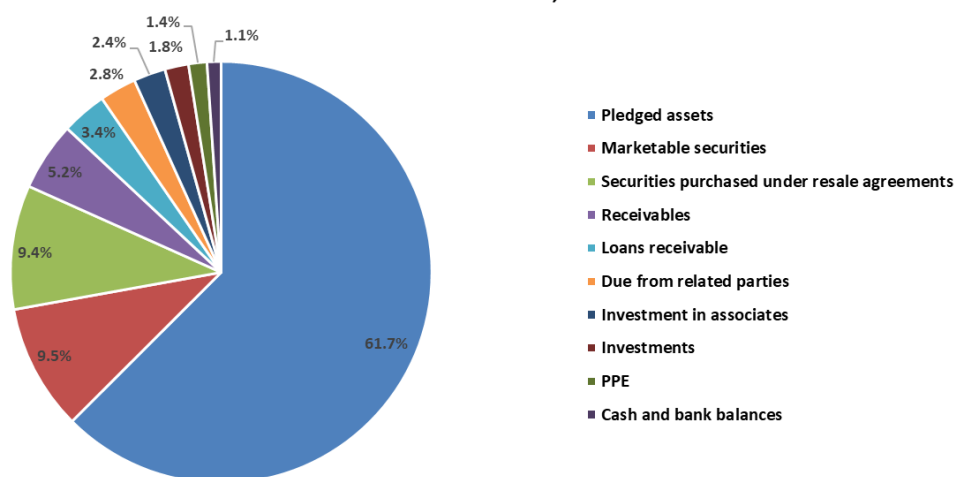
Loans receivable stood at \$2.89B, up 39.2% year-over-year, and consists primarily of margin loans while receivables amounted to \$4.37B, up 14.0% from the prior year period. Investments were relatively unchanged at \$1.51B. Cash & bank balances fell 65.3% to \$893.17M while property, plant & equipment rose 75.8% to \$1.17B and a right-of-use asset of \$238.03M was recorded for the period, reflecting new leases entered into during the current financial year.

The increase in total assets was funded by a 46.5% or \$17.1B increase in total liabilities to \$53.94B and a 98.5% or \$15.02B increase in shareholders' equity to \$30.29B. Driving the increase in liabilities was a 50.3% or \$15.47B increase in securities sold under repurchase agreements. Notes payable also rose year-over-year, up 43.5% to \$4.77B while payables amounted to \$1.72B, up 7.3% from a year prior.

Shareholders' equity rose as a result of a 121.9% or \$13.27B increase in share capital to \$24.15B and a 48.5% or \$1.92B increase in retained earnings to \$5.87B. The increase in share capital followed the \$13.5 raise in the September 2020 APO while the increase in retained earnings was driven by realized profits, net of dividends declared during the period.

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Asset Distribution as at June 30, 2021



Total debt amounted to \$51.54B, a 50.3% increase year-over-year, driven by the increase in repo liabilities. However, the increase in shareholders' equity led to a decline in Barita's leverage as measured by the debt-to-equity ratio. The debt-to-equity ratio as a June 30, 2021 was 1.70x, down from 2.25x a year prior. Cash provided by operating activities amounted to \$752.52M, which contrasts cash used in operating activities of \$1.87B in the comparable period of the previous financial year.

Outlook & Valuation

Since its takeover by Cornerstone, Barita has seen its operating performance reach record levels, which has translated into a sharp increase in its market capitalization. Over the past three financial years, BIL has seen its net operating revenues grow by an average annual rate of 67.5% while net profits have expanded at a compound average growth rate of 138.6%. This performance has been industry leading and the share price has appreciated accordingly. Cornerstone's offer price for the majority shareholding of BIL was \$9.20 per share. BIL closed at \$88.98 on September 7, 2021, which is an 867.2% increase on the takeover share price.

Over the last three years, BIL has been very aggressive in its efforts to realize its objectives, best evidenced by its talent acquisition efforts as well as the robust capitalization of its balance sheet. The Company has raised J\$23.7B in equity since 2019 through two rights issues and an additional public offering. As a result of the capital raise and growth in retained earnings, BIL's shareholder

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equity has seen a 10x increase since its value of \$3.07B at the close of the 2018FY, to \$30.3B as at the close of the 9M21 period. Even with this significant increase in equity and shares outstanding, the company has been able to move its return on equity from single digit pre-Cornerstone takeover to double digits whilst its earnings per share has continued to expand.

BIL attributed its performance over the past three years to the following initiatives:

- the launch of an investment banking division in December 2018;
- the launch of a wealth division which offers tailored portfolio management services for high net worth & corporate clients;
- the offering of structured notes; expansion of its fund management business – funds under management grew from \$74B as at September 2018 to \$290B as at September 2020;
- an active marketing and social media engagement strategy;
- and the outperformance of its managed funds.

The funds raised in this Offer, if successful, will allow the company to further expand its principal investments portfolio. This portfolio is currently focused on opportunities in the alternative investment space, which includes: private equity, private credit, infrastructure; and real estate. This emphasis on alternative investments has driven management's decision to utilize equity funding. Permanent capital has been deemed more appropriate for the foray into the alternative investment space as patient capital is necessary to allow investments to reach their targets. The Company intends to use 40% of this raise to add capacity to its principal investment portfolio.

Another 41.2% of the proceeds raised will be used to expand its local & regional footprint through a pipeline of opportunities the Company has identified. These opportunities should further drive BIL's expansion and diversification efforts as it opened two additional branches in 2021. The remaining 16.8% of APO proceeds will be used to further expand Barita's Underwriting Capacity. The Investment Banking unit has established itself as a critical unit in BIL's operations, generating \$691M in fee income in the first 9 months of the 2021FY, up \$456M or 194% from the comparable period of the 2020FY.

Fee & commission income has not been the only non-interest income revenue source that seen strong growth in recent years. Overall, non-interest income as a percentage of net operating revenue moved from 67.6% in the 2018FY to 83.1% in the 2020FY and was 82.8% for the 9M21FY period. This is a positive development for the company as interest income is susceptible to



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movements in general interest rates and by further diversifying its revenues streams, BIL has strengthened the foundation of its revenue generation.

Gains on foreign exchange trading and translation gains were a function of the expansion of the capacity of the cambio unit. Barita was the third largest cambio in the country in 2020, trading the equivalent of US\$730M, which is an improvement on its pre-takeover position of sixth by market share in 2018. Gains on investment activities amounted to \$1.0B, down 9.3% year-over-year, which suggests the company has found it challenging to replicate the sharp gains seen in previous year. However the gains in other lines was more than able to offset this decline, as the company utilized \$2.2B from its 2020 APO to expand its trading operations.

BIL's performance since takeover serves as strong evidence of the competence of the management in team realizing their vision for the company and executing on the various initiatives that they have come to the market in the past to fund. . However, our positive outlook on the company is weighted by potential headwinds in the short-term. At the forefront of our concerns is the continued march of the coronavirus pandemic, both locally and abroad. At the time of this Offer, Jamaica is witnessing its worst-case spike of the pandemic and government officials have instituted 3-day lockdowns to run over the course of four consecutive weeks in an attempt to stem the transmission of the COVID-19 virus.

These lockdowns will undoubtedly have a significant impact on economic activity in the 3rd quarter. Additionally, cost of living has seen a noticeable rise with inflation reaching its highest levels in recent years, prompting the Bank of Jamaica to signal that it may increase its policy rate in an effort to combat this development.

Historically, an increase in interest rates can be a boon to financial institutions but with businesses struggling to stay afloat with the measures implemented to stem the tide of the pandemic, higher borrowing costs may have the unintended effect of curtailing business activity and investment. This could potentially drag on BIL's investment banking and cambio units as less business investment could slow the number of deals executed and lower business activity may affect the demand for foreign currencies.

It is in this context that we are forecasting net operating revenues of \$8.92B for the 2021FY and net profits of \$4.5B, increases of 71.0% and 63.1%, respectively. It is relevant to note that for the 9M21FY period, BIL's reported net profits of \$3.67B, is already 33% higher than the full year profits for the 2020FY, with net operating revenues 28% greater than the amount generated in the 2020FY. Shareholders' equity is forecasted to increase to \$40.19B.

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As BIL's yearend is September, the Company will not be able to fully utilize the capital raised in this offer until the 2022FY. As such, we have provided projections for the upcoming year. Net operating revenues are forecasted at \$11.76B, up 32.4% year-over-year, while net profits are forecasted at \$5.68B, up 26.1% year-over-year, which corresponds to an earnings per share of \$4.69 (shares outstanding – 1,210,603,093). Book value per share is forecasted at \$44.41B, which corresponds to a book value per share of \$36.68.

BIL 3-yr Trading History



Utilizing the 1-year historical P/E and P/B ratios with our forward estimates yields prices of **\$107.52** and **\$119.33**, respectively, for an average of **\$113.42**. The Peer Group P/E and P/B multiples generated a price of \$59.12. At an Offer Price of \$80.00, BIL's P/E and P/B ratios are 19.63x and 2.87x. The wide range between the Historical and Peer Group Multiples can be attributed to investors' willingness to pay a premium for Barita given its outperformance over the last three years. As displayed below, BIL has been producing a greater return on equity and assets when compared to the peer group¹.

¹ Return on equity and return on assets based on trailing twelve months data.

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Barita Peer Group Comparison (as at September 7, 2021)

	Market Capitalization	Price to Earnings (x)	Price to Book (x)	Return on Equity (%)	Return on Assets (%)
Average	27,717,821,836	13.73	1.51	12.0%	4.3%
BIL	96,596,963,215	22.08	3.23	19.4%	6.5%
MIL	7,206,895,746	8.01	0.5	7.6%	2.9%
SIL	1,166,257,401	7.53	0.78	11.9%	8.4%
VMIL	8,550,142,500	16.5	2.05	12.5%	2.0%
PROVEN	25,068,850,320	14.55	1.00	8.5%	1.8%

Recommendation

We recommend participation in this offer and Barita Investment Limited as MARKETPERFORM/HOLD/MARKETWEIGHT. While the stock trades below our estimate of its fair value of \$113.42, which translates to a potential capital appreciation of 26.1%, we note risk factors that could lead to price volatility. Jamaica and the globe continues to battle the coronavirus pandemic as vaccination campaigns face challenges for widespread adoption and concerns abound around the threat of new strains which have proven to be more contagious than strains seen at the start of the pandemic. As Jamaica currently faces its worst-case spike to date, the government has been forced to implement “no movement” days for several weeks, whose impact on our economic performance may directly impair the execution of BIL’s strategy and financial performance.

Secondly, we note the recent public discourse around related parties of BIL and transactions between BIL and these entities as well as the drivers behind BIL’s performance to date. To allay these concerns, BIL has made several releases subsequent to the publishing of the APO prospective, inclusive of an addendum to the Third Quarter Report 2021FY. The addendum went into greater detail around the drivers of the revenue generation and profitability and further dissected its balance sheet. Public sentiment is a major driver of the market value of a stock and as long as market participants continue to express concerns around BIL there is elevated risk of price volatility that we believe investors should be mindful of.

BIL’s balance sheet expansion has allowed the Company to widen its revenue streams and improve its operating capacity, resulting in impressive top and bottom line growth. Our medium to long-term outlook for the company remains positive based on its announced initiatives, however, we remain cautious as to the short-term performance due to the current economic

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situation. This investment is suitable for investors with a moderate to high-risk appetite with a medium to long-term investment horizon as due to the strategies the company seeks to employ, the returns on investment are not expected to be fully realized within the short term.

Our recommendation and outlook on Barita is based on publicly available information at the time of publication. We reserve the right to modify / change / adjust our opinion and consequent recommendation and outlook as additional information becomes available.

Abridged Financials

J\$000	Year Ended June 30							
	2016	2017	2018	2019	2020	9M20	9M21	% change
Net revenues	1,017,447	1,109,982	1,304,663	3,979,774	5,213,969	3,776,903	6,687,670	77.1%
Operating Expenses	669,453	778,247	760,976	1,525,450	2,108,000	1,303,734	2,432,314	86.6%
Operating Profit	347,994	331,735	543,687	2,454,324	3,105,969	2,473,169	4,255,356	72.1%
Profit Before Taxation	341,079	331,735	543,687	2,454,324	3,105,969	2,473,169	4,297,161	73.8%
Profit for the year	207,216	203,020	363,241	1,712,781	2,758,529	2,003,280	3,668,756	83.1%
Total Assets	14,771,674	15,847,055	18,882,543	41,004,654	70,691,213	52,068,209	84,199,127	61.7%
Total Liabilities	12,277,403	13,071,143	15,816,472	27,335,376	43,210,533	36,827,677	53,940,480	46.5%
Shareholder's Equity	2,494,271	2,775,912	3,066,071	13,669,278	27,480,680	15,240,529	30,258,647	98.5%
EPS (\$)	0.47	0.46	0.82	2.42	3.33	2.45	3.38	
Book Value per Share (\$)	5.64	6.28	6.94	15.56	24.39	18.61	27.87	
Key Ratios								
Efficiency Ratio	65.8%	70.1%	58.3%	38.3%	40.4%	34.5%	36.4%	
Net Margin	20.4%	18.3%	27.8%	43.0%	52.9%	53.0%	54.9%	
Return on Average Equity	9.5%	7.7%	12.4%	20.5%	13.4%			
Return on Average Assets	1.5%	1.3%	2.1%	5.7%	4.9%			
Debt/Equity (x)	4.60	4.34	4.68	1.77	1.29	2.25	1.70	

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Bank of Jamaica; Company Financials; APO Prospectus

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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**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING DEFINITIONS ARE PROVIDED FOR CLARITY.

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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