

## PanJam Investment Limited

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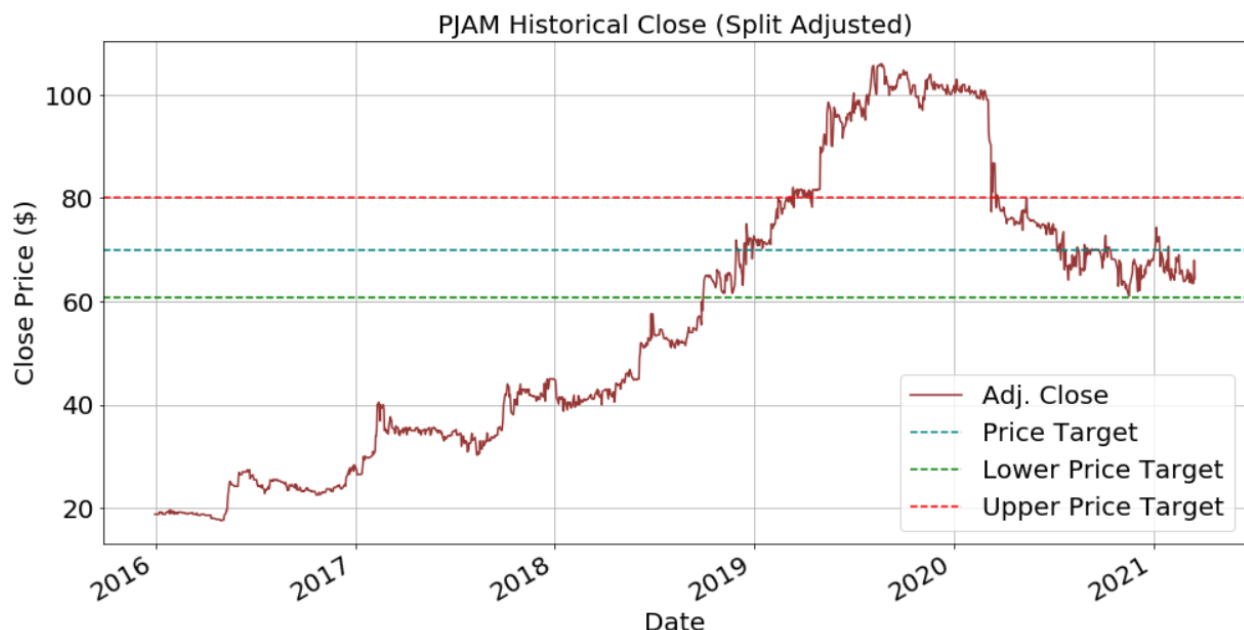
### Executive Summary

PanJam Investment Limited (PJAM) is incorporated and domiciled in Jamaica, and its registered office is at 60 Knutsford Boulevard. Its primary activities are holding investments and controlling the operations of subsidiaries. PJAM's subsidiaries and associated companies operate in several business 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 2020, PJAM reported earnings from associated companies of \$3.90 billion, significantly lower than the \$5 billion reported the prior year. The primary sources of revenue for PJAM are Investment and Property Income.

PJAM's debt-to-equity has been stable, averaging 0.25x for the period under review; however, it surged in FY 2020 to 0.29x.

Profit attributable to shareholders CAGR was -3.6% for the period under review (FY 2016 to FY 2020) due to the weakness experienced in FY 2020. Meanwhile, PJAM's stock price has grown at a CAGR of 24.5% for the same period.



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### Recent Developments

PJAM recently released its results for the financial year ended December 2020. The significant decline experienced in FY 2020 was primarily contained to the first half. In the 4<sup>th</sup> quarter ended December 2020, revenue increased 6.1% to \$1.2 billion, mainly due to a 116% surge in Investment Income. Furthermore, operating profit increased by 21.2% to \$758.3 million. However, net profit to PJAM shareholders fell 20.7% to \$1.5 billion due to a 28.7% decline in the share of results from associated companies to \$993 million.

### Key Financial Data

	2016	2017	2018	2019	2020	CAGR
Share Price	28.32	45.00	72.67	100.88	67.99	24.48%
BVPS	24.44	29.03	32.02	40.40	44.51	16.17%
EPS	3.84	3.92	5.06	7.85	3.31	-3.71%
Dividend Per Share	0.65	1.05	1.05	1.06	0.63	-0.76%
JSE Main Market Index	192,277	288,382	379,791	509,916	395,615	19.77%
Revenue	1,742,593	2,412,999	3,264,200	4,626,024	2,054,466	4.20%
Investments Income	239,333	422,702	1,060,653	2,249,947	(523,250)	N/A
Property Income	1,382,426	1,787,009	2,071,904	2,229,318	2,138,113	11.52%
Operating Profit	431,227	937,861	1,553,305	2,823,106	315,080	-7.55%
Profit from Assoc. Company	3,643,077	3,932,880	4,696,259	4,953,100	3,866,414	1.50%
Pre-tax Profit	4,451,469	4,270,819	5,672,498	8,734,542	3,345,585	-6.89%
Profits to PJAM Shareholders	4,050,373	4,131,352	5,333,750	8,308,325	3,504,520	-3.55%
Investment in Assoc. Companies	20,874,843	24,919,991	26,348,546	31,078,668	35,339,651	14.07%
Investment properties	5,583,427	7,839,676	8,358,674	9,026,597	9,531,152	14.30%
Financial assets at FVPL	662,944	1,063,775	6,594,390	8,961,181	7,584,640	83.91%
Non-Current Assets	29,696,135	35,887,511	41,301,610	49,066,446	52,455,443	15.28%
Current Assets	2,744,545	3,465,522	4,564,483	5,334,531	10,115,835	38.56%
Total Assets	32,440,680	39,353,033	45,866,093	54,400,977	62,571,278	17.85%
Total Liabilities	6,183,447	8,553,073	11,831,977	11,315,391	15,097,652	25.00%
Debt	5,182,065	7,474,718	10,559,530	9,343,742	13,663,531	27.43%
Equity	25,669,471	30,527,061	33,733,671	42,743,201	47,186,371	16.44%

### Financial Overview

Investment income in FY 2020 retreated to a loss of \$523.3 million from a record gain of \$2.2 billion in FY 2019, due to a loss of \$1.1 billion on financial assets in FY 2020 versus a gain of \$1.6 billion in FY 2019. The investment income decline was primarily due to the Company's Jamaican equities portfolio performance. Historically property income has been a critical revenue source, and it has two components: rental income and fair value gains on property valuation. In FY 2020, rental income continued its steady

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ascend to \$1.8 billion, increasing 4.8% over the prior year. Meanwhile, other income was boosted in FY 2020 by \$326.2 million from the sale of its property located at Bamboo Avenue, Kingston. The ultimate effect was revenue deteriorating 55.6% to \$2.1 billion in FY 2020.

The main operating expenses for PJAM are the direct cost of property management and staff costs; these account for \$828.4 million (48.7%) and \$481.1 million (28.3%) of FY 2020 expenses, respectively. Expenditure related to properties increased by 7.3%; however, staff costs fell 15.3% in FY 2020, resulting in operating profit declining 88.8% to \$315.1 million.

The primary source of earnings for PJAM is the share of profit from associated companies, which was \$3.9 billion, a decline of 21.94% from the previous year. Due to a combination of associated company Sagicor Group (SJ) recording a 12% decline in profit attributable to its shareholders and weakness in PJAM's hospitality associates. The global pandemic negatively impacted the Courtyard by Marriott Kingston and Chukka Caribbean Adventures.

The three most significant contributors to total assets at the end of FY 2020 were Investments in Associated Companies, Investment Properties and Financial Assets at fair value through Profit and Loss of \$35.3 billion (56.6%), \$9.5 billion (15.2%) and \$7.6 billion (12.1%), respectively. Investment in associated companies includes Sagicor Group Jamaica Limited (30.22%), New Castle Company Limited (33.33%), Chukka Caribbean Adventures Limited (18%), Caribe Hospitality Jamaica Limited (35%), Williams Offices (Caribbean) Limited (25%) and Outsourcing Management Limited (15%). PJAM's principal investment in associated companies operates in the financial services industry, carried at \$33.3 billion on its balance sheet.

The primary contributor to liabilities at the end of FY 2020 is debt, which totalled \$13.7 billion versus \$9.3 billion at the end of the prior year. The increase is primarily due to two new debt obligations: a \$4.4 billion 7.75% bond maturing in 2045 and a \$2.5 billion 6.35% loan with NCB.

Ratios	2016	2017	2018	2019	2020	Average
Operating Margin	24.75%	38.87%	47.59%	61.03%	15.34%	37.51%
Net Profit Margin	232.43%	171.21%	163.40%	179.60%	170.58%	183.45%
Debt-to Equity	20.19%	24.49%	31.30%	21.86%	28.96%	25.36%
Financial Leverage	1.27	1.28	1.33	1.31	1.30	1.30
ROE	17.08%	14.70%	16.60%	21.73%	7.79%	15.58%
ROA	13.41%	11.51%	12.52%	16.57%	5.99%	12.00%
P/E	7.37	11.47	14.35	12.85	20.57	13.32
P/B	1.16	1.55	2.27	2.50	1.53	1.80
Dividend Payout Ratio	16.91%	26.77%	20.75%	13.50%	19.08%	19.40%
Dividend Yield	2.89%	2.93%	2.03%	1.15%	0.83%	1.96%
Stock Performance	50.57%	58.90%	61.49%	38.81%	-32.60%	35.43%
JSE Main Market Performance	27.60%	49.98%	31.70%	34.26%	-22.42%	24.22%

PJAM's operating margin has been volatile for the period under review peaking in FY 2019 at 61.03% before falling to 15.3% in FY 2020. Debt to Equity has remained low for the period under review,

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averaging 0.25x but increased significantly in FY 2020 to 0.29x. Furthermore, financial leverage has remained relatively low, averaging 1.30x for the period under review. This indicates that long-term liabilities can be readily met. PJAM has consistently paid dividends, but the amount paid in FY 2020 is similar to FY 2016.

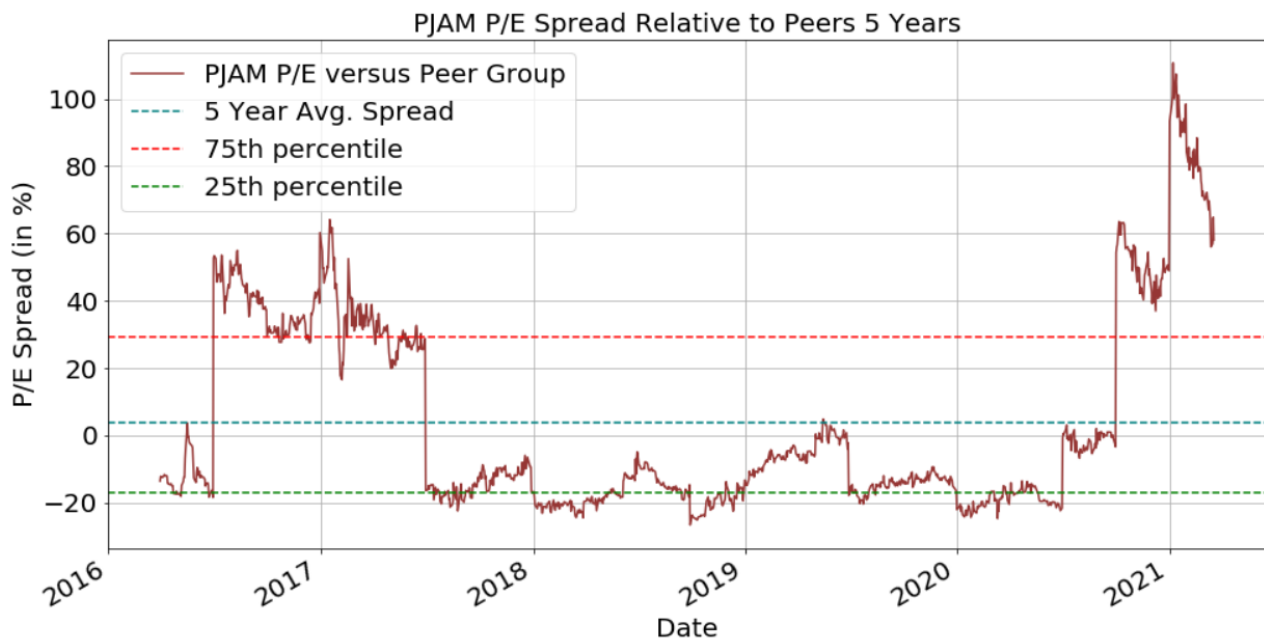
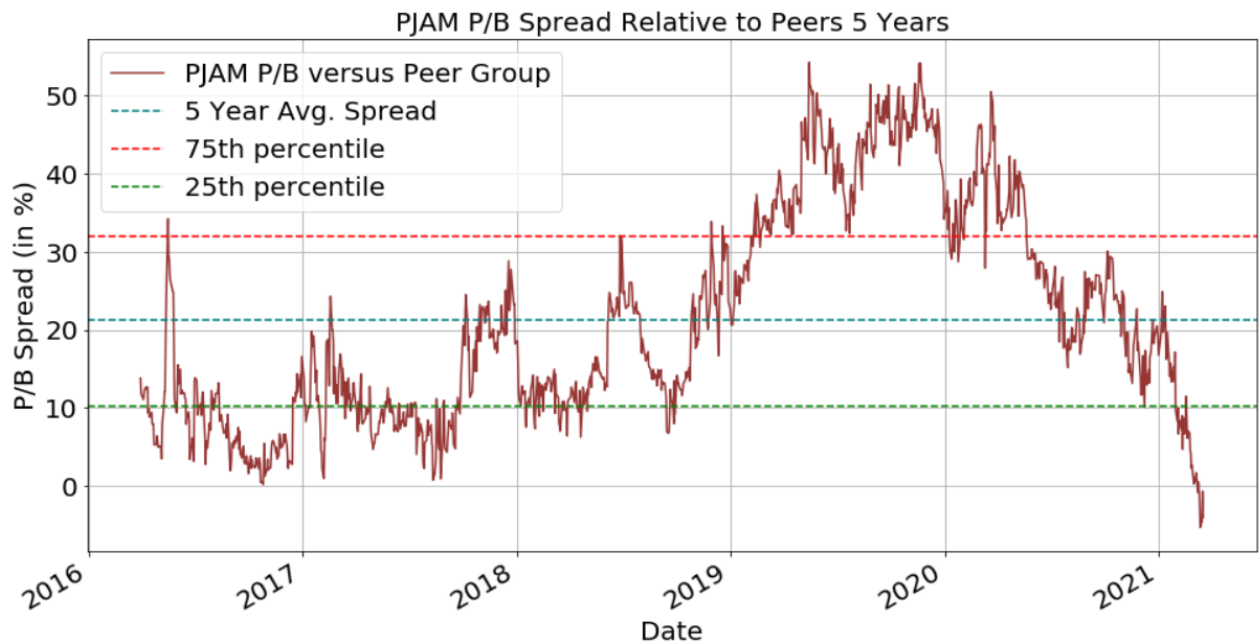
While PJAM remains well capitalized, its cash inflow was significantly hindered in FY 2020. In FY 2019, PJAM received \$1.9 billion in dividends from associated companies, with Sagicor Group (SJ) being the primary contributor. However, due to the Bank of Jamaica's recommendation to all financial holding companies not to pay dividends to shareholders owning more than 1% of ordinary shares, PJAM only received \$76.2 million in dividends for FY 2020. The Company converted its share of SJ's 2020 dividends to a short-term interest-bearing promissory note.

### Forecast and Valuation

**We used our projection of PJAM's FY 2021 EPS and BVPS and then applied the harmonic mean P/E and P/B multiple of peers (adjusted for historical differences) to arrive at our price target of \$69.91.** Inherent in our price target is the assumption that investor sentiment towards PJAM's peer group remains relatively stable. Below is a chart illustrating the relationship between PJAM's P/B ratio and its peer group average over the last five years. **We used the 75th and 25th percentile of P/B and the P/E valuation difference to derive the upper and lower price targets of \$80.14 and \$60.75, respectively.**

The chart below indicates that PJAM's P/B is at its lowest point relative to peers in the last five years. PJAM's P/B ratio and peers' P/B ratio gap may be explained by GK and JP recording strong FY 2020 earnings; however, PJAM was not as fortunate. Meanwhile, PJAM has an elevated P/E ratio relative to historical levels, which may constrain investor sentiment.

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Over the last five years, PJAM's P/B ratio has exceeded peers by an average of approximately 21%, which may be attributed to usually superior ROE relative to peers.

### Outlook

Our long-term outlook on PJAM is upbeat, given the strength of the Company's balance sheet and long-term growth potential. While in the near-term, the Company could face some challenges as its hospitality subsidiaries continue to combat the negative impact of COVID-19. PJAM's investment portfolio and continued growth of its rental income could help lift FY 2021 earnings. Furthermore, PJAM can raise debt capital if needed to sustain operations.

### Key Risks to Our Price Target

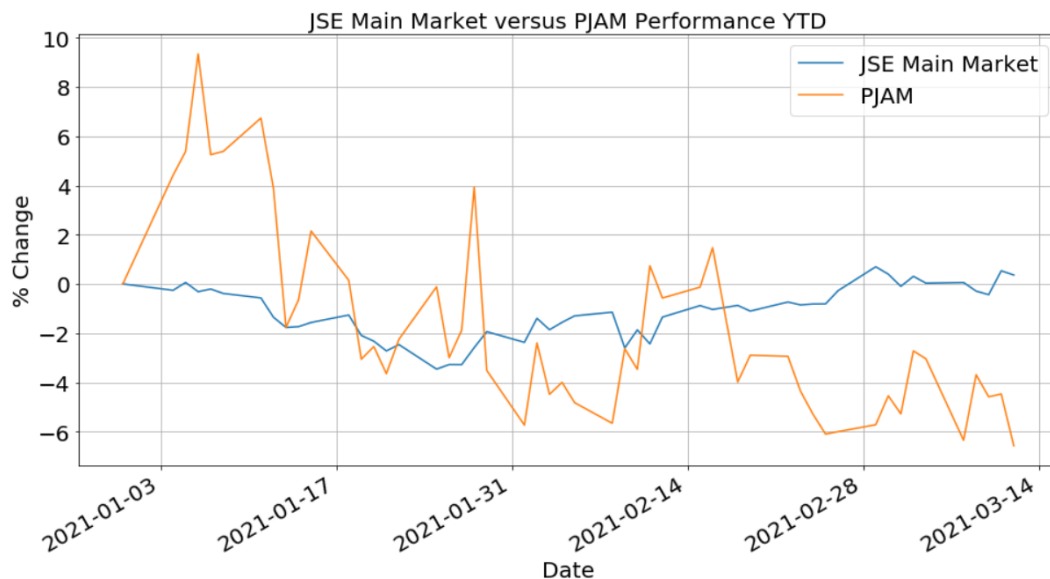
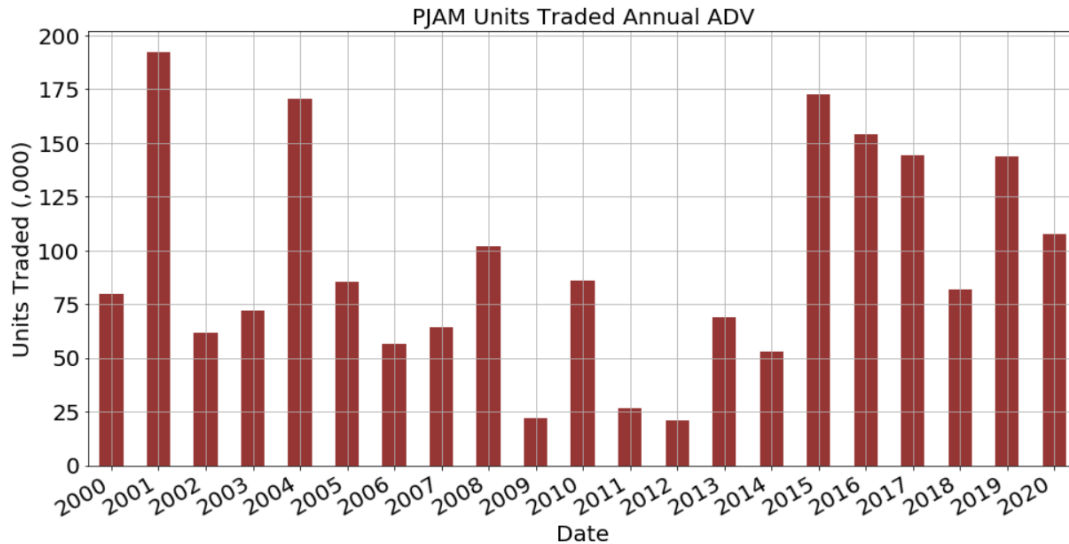
PJAM is a conglomerate with various business operations spanning several geographic locations. However, it has three main drivers of profits: investment holding, property holdings, and earnings from associated companies. Therefore, while the Company operates in many market segments, three critical factors impact earnings: SJ's profitability, return on investment holding, and occupancy rates at investment properties. PJAM has maintained improved rental income throughout 2020; however, risks remain as the global pandemic continues to impact the economy. If SJ's profitability fails to meet our expectations, this could significantly impact our projections for PJAM's earnings. Finally, our price target's significant risk factors include a decline in PJAM's peer group's sentiment.

### Recommendation:

**We maintain our HOLD rating on PJAM at this point, given that the stock currently trades roughly in line with our price target. Our recommendation considers the stability of PJAM's balance sheet and liquidity of shares.**

We expect a return to earnings and cash flow growth following the material FY 2020 decline. However, our expectation for growth in FY 2021 and beyond is materially lower than in recent history. Furthermore, the Company's exposure to the tourism/hospitality sector will constrain earnings growth in the medium-term.

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**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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**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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