

PROVEN Investments Limited

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Executive Summary

Proven Investments Limited (PIL) began operations in February 2010. The Company is an International Business Corporation, with its registered office at 20 Micoud Street, Castries, St. Lucia. PIL is a private equity firm with a core strategy to acquire, grow and extract value from its portfolio of investments. Proven Management Limited (PML) is the Investment Manager of PIL's operations.

PIL has several associated companies and subsidiaries. Some of the significant contributors to PIL's earnings and its respective stake are Proven Wealth Limited (100%), BOSLIL Bank Limited (75%), JMMB Group Limited (20.01%) and Access Financial Services (24.72%). Additionally, PIL has recently acquired Heritage Educations Funds International and Roberts Manufacturing Limited and sold its 20% stake in Dream Entertainment Limited.

PIL currently trades at approximately 12.5x its trailing 12-months EPS, marginally above the 12.4x harmonic mean of the peer group. Meanwhile, PIL is relatively liquid, exchanging an average daily volume of 374.5K units over the past year, valued at approximately US\$87.7K (J\$13.1M). Over the past month, PIL has had an average bid-ask spread of about 4.6%, indicating a relatively high implicit cost to acquire shares.



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The Investment Manager (PML)

PROVEN Management Limited (PML) manages PIL's assets and liabilities. A management fee of 2% of PIL's average net asset value per annum is paid to PML. Meanwhile, MPS Holdings Limited (MPS) is an investment holding company incorporated in St. Lucia as an IBC with the same shareholders as PML. MPS owns 10,000 Manager's Preference Shares in PIL, which among other things, collectively hold 50% of the voting rights in PIL on matters other than the Investment Manager's fees (on which each Manager's Preference Share carries one vote). MPS' Preference Shares also have the right to a dividend equal to 25% of PIL's profits more than the Hurdle Rate, payable quarterly. The Hurdle Rate is a percentage return on PIL's average equity in each financial year, set annually at the 12-month LIBOR rate prevailing at the beginning of its financial year plus 200 bps, with a ceiling of 6%.

PIL's Abridged Financial Data (In US\$ Millions)

	YE 2017	YE 2018	YE 2019	YE 2020	YE 2021	CAGR	Q1 2021	Q1 2022	Change
BVPS	0.1297	0.1321	0.1451	0.1583	0.2129	13.19%	0.1736	0.2188	25.98%
EPS	0.0160	0.0091	0.0111	0.0479	0.0184	3.54%	0.0023	0.0022	-3.17%
Dividend Per Share	0.0079	0.0075	0.0081	0.0137	0.0078	-0.32%	-	-	N/A
Price Per Share	0.3000	0.2000	0.2209	0.2606	0.2453	-4.91%	0.2215	0.2590	16.95%
US Index	216.59	161.45	175.79	201.77	204.40	-1.44%	181.77	194.72	7.12%
Net Interest Income	14.50	20.39	18.73	11.18	3.04	-32.35%	0.88	0.95	7.65%
Gains on Securities Trading	1.72	4.29	1.14	3.78	7.33	43.69%	0.37	1.17	213.78%
Pension Management Income	1.97	2.36	2.83	3.43	3.17	12.72%	0.78	0.85	8.68%
Fees and Commission Income	2.37	5.08	8.20	11.57	7.80	34.73%	1.48	1.74	17.69%
Net Revenue	24.82	36.15	37.72	45.30	26.95	2.08%	5.24	6.50	24.01%
Operating Expense	18.25	23.56	25.89	37.92	20.78	3.30%	4.59	6.80	47.98%
Core Earnings	6.57	12.59	11.83	7.38	6.17	-1.56%	0.65	(0.30)	-146.06%
Share of Results from Associates	-	-	1.31	10.44	10.70	186.00%	1.54	2.44	57.96%
Preference Share Dividend	2.18	0.98	1.29	8.61	2.74	5.86%	0.21	0.14	-32.12%
Net Profit	8.85	5.68	6.97	29.98	11.53	6.84%	1.41	1.56	10.67%
Cash & Cash Equivalents	151.31	89.36	69.11	94.63	151.86	0.09%	91.16	143.22	57.12%
Investment Securities	362.26	368.20	336.74	291.40	265.29	-7.49%	285.94	251.98	-11.88%
Investment in Associates	-	-	80.97	118.99	146.17	34.36%	120.53	150.09	24.53%
Total Assets	633.33	574.39	623.32	612.98	674.54	1.59%	603.42	698.06	15.68%
Notes Payable	96.69	110.96	185.55	154.50	134.85	8.67%	148.99	141.65	-4.92%
Due to Customers	270.06	240.83	221.05	250.44	286.29	1.47%	239.70	278.90	16.35%
Repurchase Agreements	143.00	93.71	88.63	78.02	68.32	-16.86%	71.80	75.68	5.41%
Debt	112.66	127.38	185.55	154.50	134.85	4.60%	148.99	141.65	-4.92%
Equity	71.54	82.57	90.73	99.01	161.68	22.61%	108.58	166.14	53.01%
Ratios						Average			Change
P/E	18.70	22.01	19.82	5.44	13.30	15.85	2.13	14.10	560.55%
P/B	2.31	1.51	1.52	1.65	1.15	1.63	1.28	1.18	-7.17%
Dividend Yield	3.76%	3.11%	3.89%	5.02%	3.16%	3.79%	0.00%	0.00%	N/A
ROE	13.46%	7.37%	8.04%	31.60%	8.85%	13.86%	64.05%	8.51%	-86.72%
ROA	1.80%	0.94%	1.16%	4.85%	1.79%	2.11%	10.41%	1.80%	-82.76%
Debt to Equity	1.57	1.54	2.05	1.56	0.83	1.51	1.37	0.85	-37.86%
Financial Leverage	7.47	7.84	6.91	6.52	4.94	6.73	6.01	5.38	-10.49%
Dividend Payout Ratio	49.24%	82.54%	72.69%	28.58%	42.29%	55.07%	0.00%	0.00%	N/A

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Financial Overview (PIL)

Net Revenue for the Company has increased at a CAGR of 2.1% for the period under review (FY 2017 to FY 2021). However, Net Revenue fell approximately 40.5% in FY 2021, primarily due to a decline in Net Interest Income. The decline in Net Interest Income was due to a combination of lower interest income which fell by 47.8% to US\$10.6 million. The decline in interest income was due to lower income from regional and corporate bonds and other loans receivable, which fell 43.4% and 86.4% to US\$4 million and US\$934K, respectively.

In its most recent quarter ended June 2021, net revenue surged 24% to \$US6.5 million. The increase in gains on securities trading of 213.8% to US\$1.2 million and fees and commission income of 17.7% to US\$1.7 million were the primary drivers of the revenue increase.

Meanwhile, interest expense only declined 17.2% in FY 2021 to US\$ 7.5 million. All sources of interest expense declined, including the primary contributor, notes payable, by 5.7% to \$5.4 million.

Operating expense fell 45.2% in FY 2021 to US\$20.8 million. Declines in property expenses and impairment charges were the primary drivers of lower operating expenses, the former fell 87.8% to US\$1.1 million. Meanwhile, the Group recorded an impairment reversal on loans and other assets of US\$21K versus an impairment loss of US\$1.5 million in FY 2020.

Meanwhile, effective September 27, 2019 the Group disposed of a portion of its AFS stake, reducing holdings from 49.7% to 24.7%. The reduction resulted in PIL recognizing a profit of US\$24.9 million and recording its stake in AFS as an associated company. **Transactions that result in non-recurring material gains are frequent in PIL's income statements due to the nature of its business, creating significant earnings volatility.**

The three primary assets on PIL's balance sheet at the end of FY 2021 was Cash & Cash Equivalents, Investment Securities, and Investment in Associates accounting for 22.5%, 39.3% and 21.7% of PIL's total assets, respectively. Combined, these account for about 83.5% of PIL's total assets; therefore, below, we take a closer look at each.

PIL's cash and cash equivalents have been steady for the period under review, falling to a low of US\$69.1 million in FY 2019 and reaching a high of US\$151.9 million in FY 2021. Meanwhile, more recently, at the end of Q1 FY 2022, cash & cash equivalents stand at US\$143.2 million. Cash comprises cash in hand and call deposits. Cash equivalents are short-term, highly liquid financial assets that are readily convertible to known amounts of cash subject to an insignificant risk of changes in value.

Investment securities fell 9% in FY 2021 to a low for the period under review of US\$265.3 million. The decline in investment securities was due to its most significant classification, which is financial assets at fair value through other comprehensive income (OCI) falling 18.7% to US\$201.8 million. Twelve months

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after the end of FY 2021, PIL expects to recover US\$186.5 million of investment securities. **Therefore, a significant portion of PIL's investment securities has relatively low exposure to duration risk.**

At the end of FY 2021, 76.1% of Investment Securities are accounted for as financial assets at fair value through other comprehensive income (OCI). The most significant contributor to this classification is global bonds which fell 11.7% in FY 2021 to US\$148.3 million. Meanwhile, financial assets at fair value through profit and loss increased 30.2% to US\$18.7 million. The primary reason for this increase was a 4x increase in quoted equities investment to US\$7.5 million.

Investments in associates have consistently increased since FY 2019, reaching US\$146.2 million in FY 2021. PIL's 20% stake in JMMBGL accounts for 83.9% or US\$122.6 million of investment in associates, with the majority of the balance representing its 24.7% stake in Access Financial Services Limited. The 22.9% increase in investment in associates seen in FY 2021 was primarily due to the growth in the carrying amount of JMMBGL on PIL's balance sheet.

PIL's equity has consistently increased at a CAGR of 22.6% to US\$161.7 million for the period under review. Furthermore, equity surged 63.3% in FY 2021 due to the combination of an Additional Public Offering (APO), increased retained earnings and fair value gains. The APO resulted in PIL issuing 134.1 million new shares and receiving US\$30.3 million in capital.

PIL's two significant liabilities are notes payable and amounts due to customers, accounting for 20% and 42.4% of total assets. Notes payable fell 12.7% in FY 2021 to US\$134.9 million, primarily due to PIL prepaying a J\$2.9 billion note on March 11, 2021.

PIL's ROA and ROE saw a significant spike in FY 2020 due to a US\$24.9 million gain in partial disposal of a subsidiary. The surge in ROA and ROE resulted from PIL selling a portion of its stake in AFS, which was no longer recognized as a subsidiary but an associate.

The Company has consistently paid US\$ dividends for the period under review, averaging 3.8% and peaked in FY 2020 at 5%. Additionally, PIL maintained its dividend payments amid the negative impacts of COVID-19.

The debt-to-equity and financial leverage ratios for the Company have remained relatively stable and conservative. Furthermore, PIL's debt-to-equity and financial leverage fell significantly in FY 2021 due to the surge in equity experienced, for reasons previously discussed. Therefore, the Company remains well capitalized to meet long-term obligations and can continue to execute further acquisitions across the region.

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Forecast and Valuation

We used our projection of PIL's FY 2023 BVPS and then applied the harmonic mean P/B multiple of peers (adjusted for historical differences) to arrive at our price target of \$0.2525. Essential to our price target is the assumption that investor sentiment towards PIL's peer group remains relatively stable. Below are charts illustrating the relationship between PIL's P/B ratio relative to its peer group average over the last three years. We used the 90th and 10th percentile of the P/B valuation difference to derive our upper and lower price targets of \$0.2818 and \$0.2258, respectively.

Due to the volatile nature of PIL and peer MIL's earning, we view the relative value method from a P/E perspective as unreliable. PIL has experienced significant swings in earnings due to non-recurring material revenue from M&A activities. Therefore, we focus our price target assessment on the P/B ratio, which is particularly relevant to financial companies due to the relatively liquid nature of most of their assets.

Chart 1 below indicates that PIL's P/B is trading at a 2.3% premium to peers. On average, PIL has traded at a 4.3% P/E premium over the last three years relative to peers. While PIL's ROE is below the peer average, it exceeds peers except for Barita Investments (BIL). Furthermore, BIL has consistently provided substantial US\$ dividends to investors over the period under review. Therefore, the relatively high ROE and consistent dividends justify the premium to the peer group average.

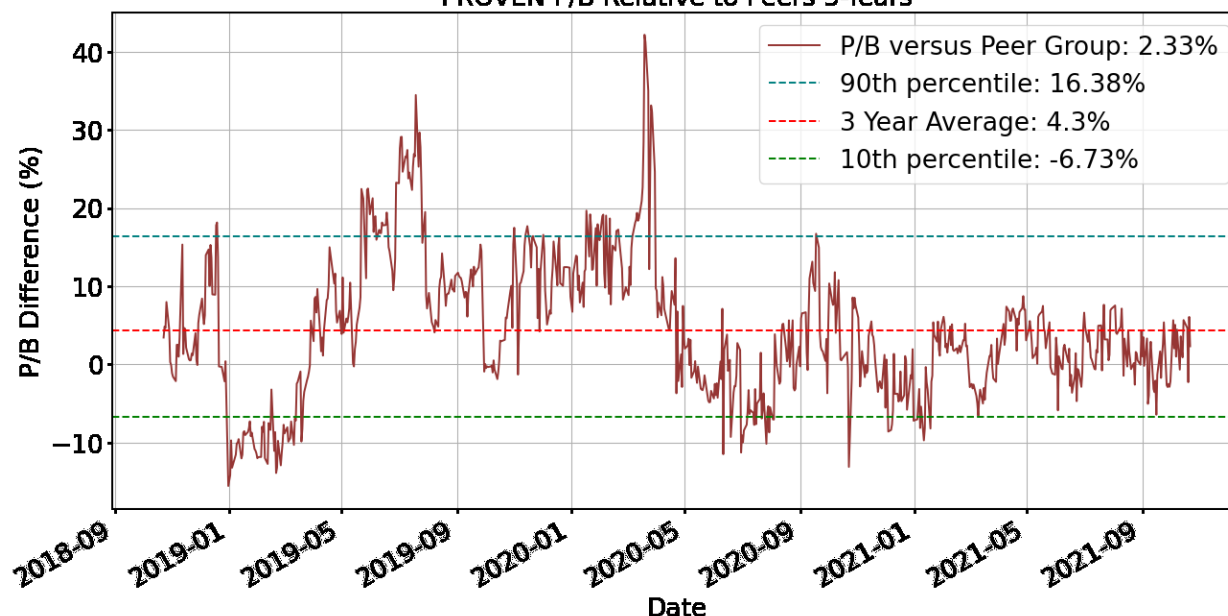
	Price Target	Implied Upside/(Downside)
Upper	0.2818	22.52%
Base	0.2525	9.78%
Lower	0.2258	-1.83%

Consumer Finance & Capital Markets Group					
Ticker	Market Cap(\$B)	P/E	P/B	ROA	ROE
BIL	103.10	22.24	3.41	6.49%	19.45%
MIL	6.63	7.38	0.46	2.87%	7.59%
PROVEN	26.20	12.52	1.05	1.80%	8.51%
VMIL	8.43	16.06	2.01	1.35%	8.44%
Mean	36.09	12.40	1.03	3.13%	10.99%

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Chart 1.

PROVEN P/B Relative to Peers 3-Years



Outlook

Our long-term outlook on PIL is positive given its track record of creating value for shareholders through its acquisition and extraction of value from investments. To that end, PIL has purchased a majority stake (50.5%) of Roberts Manufacturing Co. Limited (RML). RML produces animal nutrition, edible fats and oils from its 21-acre complex at Lower Estate, St. Michael in Barbados. Meanwhile, RML supplies its products to the Caribbean, Central America, and the US. The RML acquisition will increase the diversity of PIL's investment holdings in the real sector while increasing core earnings.

Furthermore, PIL has recently acquired a 100% stake in Heritage Education Funds International (HEFI). The cost of acquiring HEFI represents less than 10% of PIL's equity; therefore, its near-term impact on PIL may be minimal. HEFI primarily administers and manages education saving plans for clients in the Bahamas, Bermuda, Jamaica, and the British Virgin Islands. The Company has over US\$150 million in assets under management.

Finally, PIL has entered into a share purchase agreement to acquire a 100% stake in Fidelity Bank (Cayman) Limited, subject to the approval of the Cayman Islands Monetary Authority. This transaction is expected to be closed in the latter part of the calendar year 2021.

PIL has built a track record of extracting value from its investments that have rewarded investors. Therefore, we are optimistic that PIL can continue this strategy with its new proposed and completed acquisitions.

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Key Risks to Our Price Target

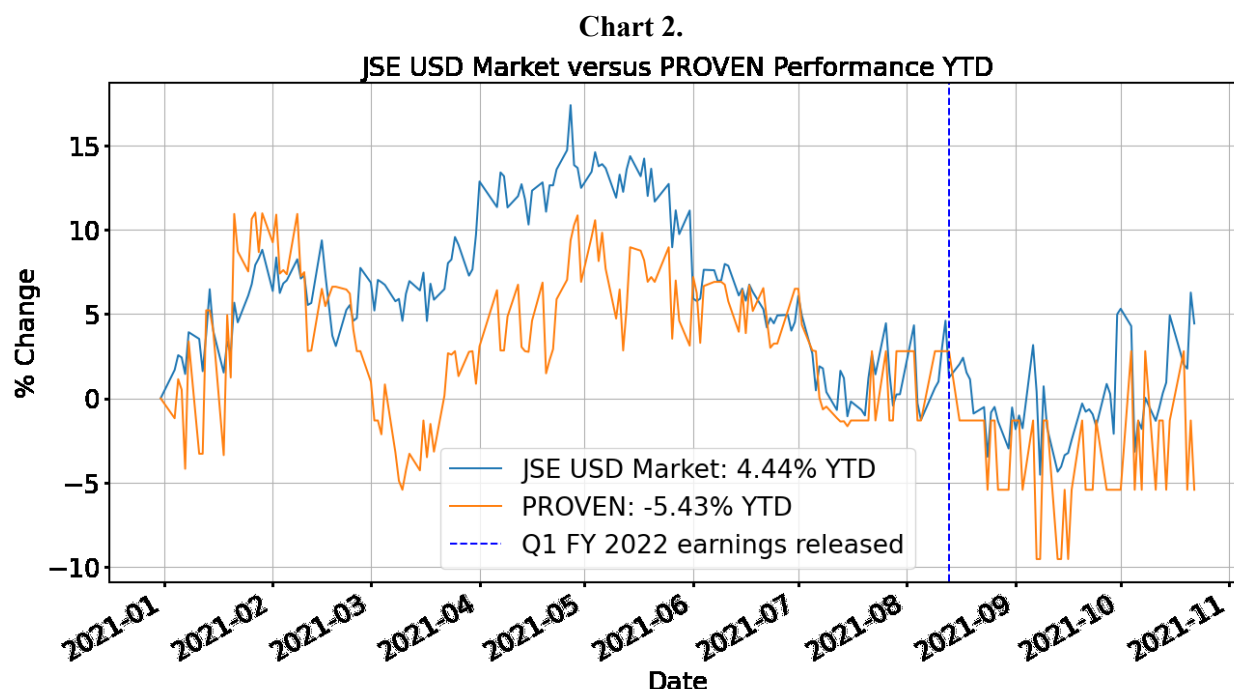
PIL has holdings in several sectors, primarily financial services, real estate and manufacturing. However, the primary earnings driver is from financial services through its subsidiaries and investment in associated companies. Therefore, factors that could impact the financial industry, such as slowing loan growth and a surge in interest rates, are particularly problematic. Finally, a significant risk factor to our price target includes a decline in sentiment towards PIL's peer group.

Recommendation

We are maintaining our **HOLD** rating on PIL at this point, given that the stock currently trades below our base price target but above our lower price target. Our rating considers several factors: PIL's balance sheet quality, earnings potential, price target, liquidity of shares, and diversified sector exposures.

We expect PIL to continue to produce steady earnings growth in FY 2022 and beyond, along with consistent dividend payments. Furthermore, we expect both M&A activities and organic growth to be drivers of improved revenue.

PIL has declined 5.4% YTD, underperforming the JSE USD Market increase of about 4.4% for the same period. See charts 2 – 4 below for volume and value exchanged annually for the period under review and PIL's YTD performance.



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Chart 3.

PROVEN Average Daily Volume (ADV)

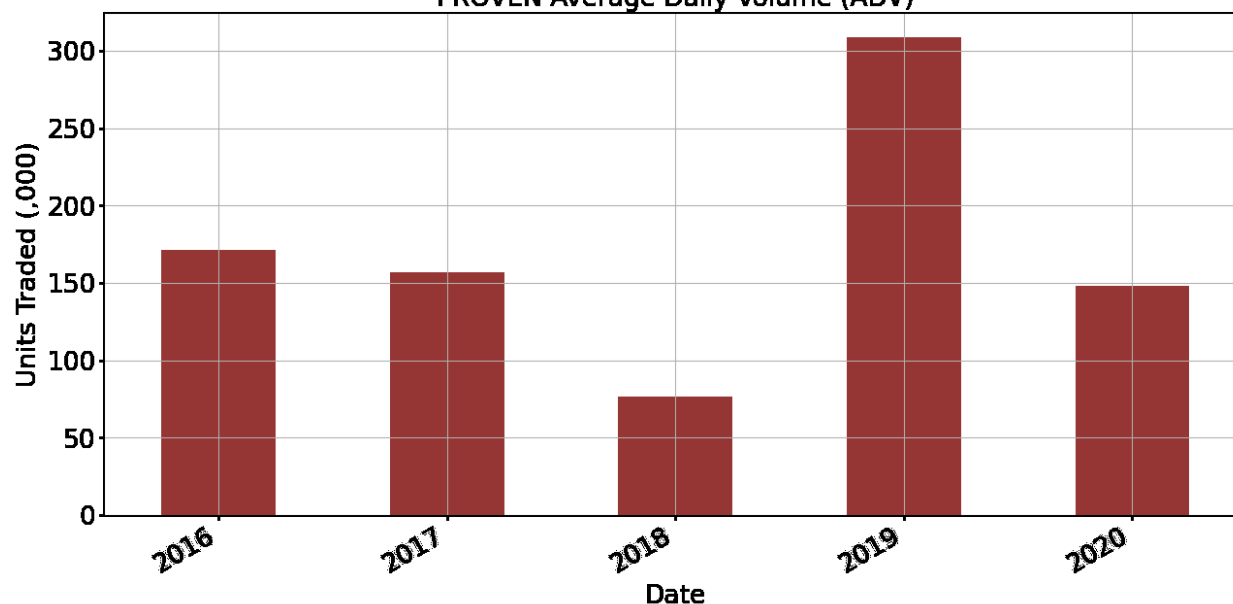
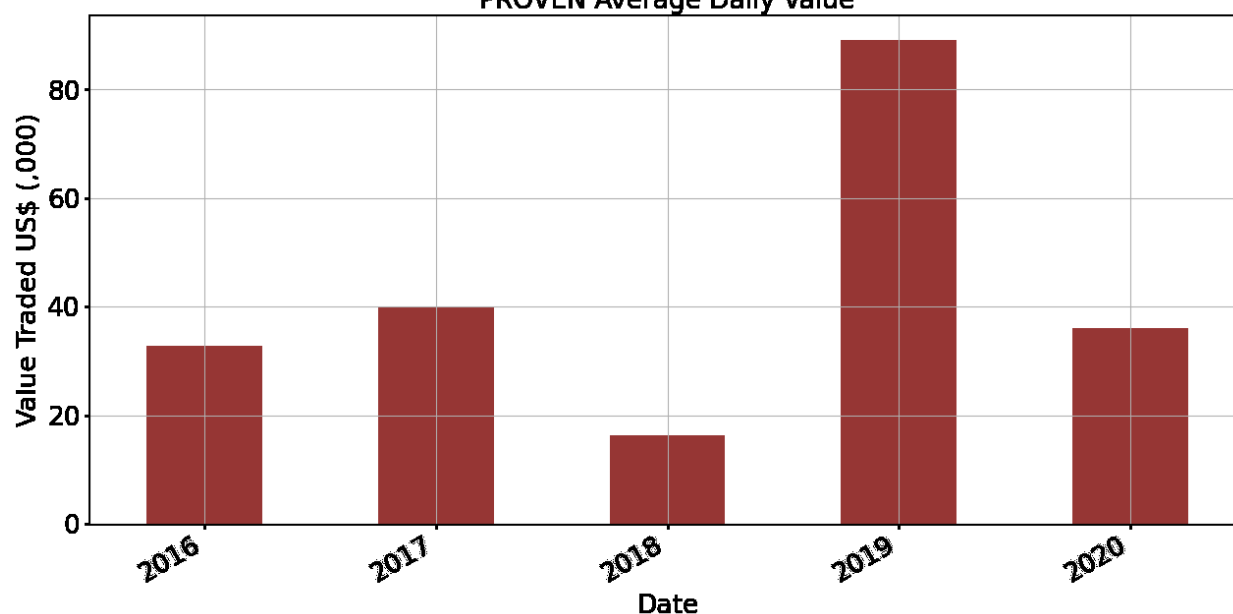


Chart 4.

PROVEN Average Daily Value



Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, IPO Prospectus, BOJ

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APPENDIXIMPORTANT 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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