

## PanJam Investment Limited

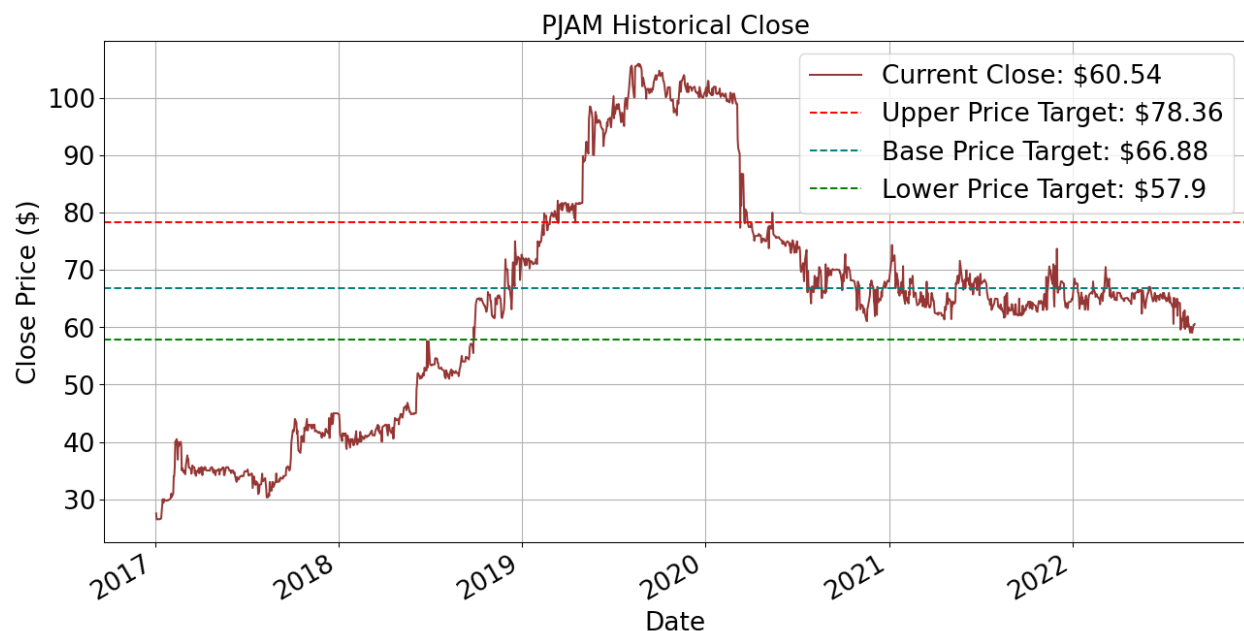
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INFRINGEMENT IN THE APPENDIX**

### 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 21, PJAM reported earnings from associated companies of \$5.5 billion, significantly higher than the \$3.9 billion reported the prior year. The primary sources of revenue for PJAM are Investment and Property Income.

PJAM currently trades at approximately 10.6x, its trailing 12-months EPS in line with the 10.8x harmonic mean of the peer group. Meanwhile, PJAM has modest liquidity, exchanging an average daily volume of 119.9 thousand units over the past year, valued at approximately \$7.8 million. Over the past month, PJAM has had an average bid-ask spread of about 2.4%, indicating a relatively modest implicit cost to acquire shares.



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### Abridged Financial Data (In Billions)

	YE 2017	YE 2018	YE 2019	YE 2020	YE 2021	CAGR	Q2 2021	Q2 2022	% ▲
<b>Per Share Data</b>									
Share Price	45.00	72.00	101.00	68.00	68.63	11.13%	69.70	66.00	-5.3%
BVPS	29.03	32.02	40.40	44.51	48.92	13.94%	45.92	45.60	-0.7%
EPS	3.93	5.06	7.85	3.31	6.78	14.62%	2.20	1.10	-49.8%
Dividend Per Share	0.85	1.05	1.31	0.38	1.00	4.15%	0.26	0.92	260.8%
JSE Main Market Index	288,382	379,791	509,916	395,615	396,156	8.26%	425,564	384,186	-9.7%
<b>Abridged Income Statement (in J\$ Billions)</b>									
Revenue	2.4	3.3	4.6	2.1	4.3	15.53%	2.2	1.1	-51.9%
Investments Income	0.4	1.1	2.2	(0.5)	2.1	48.56%	1.1	(0.0)	-104.0%
Property Income	1.8	2.1	2.2	2.1	2.1	4.10%	1.0	1.0	0.2%
Operating Profit	0.9	1.6	2.8	0.3	2.5	27.73%	1.3	(0.1)	-105.7%
Profit from Assoc. Company	3.9	4.7	5.0	3.9	5.5	8.52%	1.5	1.8	17.0%
Pre-tax Profit	4.3	5.7	8.7	3.3	7.2	14.07%	2.5	1.2	-49.7%
Profits to PJAM Shareholders	4.1	5.3	8.3	3.5	7.2	14.91%	2.3	1.2	-49.7%
<b>Abridged Balance Sheet Statement (in J\$ Billions)</b>									
Investment in Assoc. Companies	24.9	26.3	31.1	35.3	38.0	11.12%	35.5	34.8	-1.9%
Investment properties	7.8	8.4	9.0	9.5	10.0	6.34%	9.6	10.1	5.2%
Financial assets at FVPL	1.1	6.6	9.0	7.6	9.4	72.29%	8.3	8.8	6.2%
Non-Current Assets	34.9	35.6	41.1	49.7	49.5	9.14%	47.7	45.9	-3.9%
Current Assets	4.5	10.3	13.3	12.8	18.3	42.16%	16.6	18.3	9.9%
Total Assets	39.4	45.9	54.4	62.6	67.8	14.56%	64.4	64.1	-0.3%
Total Liabilities	8.6	11.8	11.3	15.1	15.5	15.98%	15.4	15.4	0.0%
Debt	7.5	10.6	9.4	13.7	13.6	16.15%	13.7	13.6	-0.2%
Equity	30.5	33.7	42.7	47.2	52.0	14.22%	48.7	48.4	-0.5%
<b>Abridged Cash Flow Statement Statement (in J\$ Billions)</b>									
CFO	0.3	(3.3)	1.2	1.0	1.1	39.80%	0.4	0.3	-25.9%
CFI	0.9	1.6	2.2	(3.9)	1.4	13.05%	2.1	0.1	-93.4%
CCF	(0.2)	1.4	(3.0)	2.7	(1.8)	71.32%	(0.8)	(1.8)	137.3%
<b>Ratios</b>						<b>Average</b>			
Operating Margin	38.9%	47.6%	61.0%	15.3%	58.1%	44.18%	61.2%	-7.2%	-111.8%
Net Profit Margin	171.2%	163.4%	179.6%	170.6%	167.6%	170.47%	106.2%	111.1%	4.6%
Debt-to Equity	0.25	0.31	0.22	0.29	0.26	0.27	0.3	0.3	0.3%
Financial Leverage	1.28	1.33	1.31	1.30	1.31	1.31	1.3	1.3	-1.3%
ROE	14.7%	16.6%	21.7%	7.8%	14.5%	15.07%	11.7%	12.5%	6.5%
ROA	11.5%	12.5%	16.6%	6.0%	11.1%	11.53%	8.7%	9.4%	7.9%
P/E	11.5	14.2	12.9	20.6	10.1	13.85	13.8	11.6	-16.3%
P/B	1.5	2.2	2.5	1.5	1.4	1.85	1.5	1.4	-4.6%
Dividend Payout Ratio	21.6%	20.7%	16.7%	11.5%	14.7%	17.06%	11.6%	83.5%	619.1%
Dividend Yield	2.4%	2.0%	1.4%	0.5%	1.5%	1.57%	0.4%	1.4%	263.2%

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## PanJam Investment Limited

### Financial Overview

#### Income Statement Review

Net revenue surged 109.2% to \$4.3 billion in FY 21 due to Investment income, increasing to \$2.1 billion versus a loss of \$523.3 million the previous FY. The increase in investment income was primarily due to fair value gains on financial assets at FVTPL of \$1.4 billion versus a loss of \$1.1 billion in the previous FY. The gain was attributable to holdings in companies listed on the JSE and the improvement in market conditions.

More recently, Net Revenue for Q2 FY 22 fell 80.2% to \$278.3 million. In contrast, property income increased 4.8% to \$527.5 million, as the Company maintains a stable occupancy of 92%. However, investment losses overshadowed the growth in property income. A loss of \$280.5 million on its investment portfolio, versus a gain of \$868.9 million for the same period in the previous year, resulted in a material decline in Q2 FY 22 net revenue. Due to the nature of investment gains, it has a history of high volatility.

Meanwhile, property income fell 1.8% to \$2.1 billion in FY 21 due to fair value gain on properties declining 21.4% to \$254.4 million. Rental income increased by 2% to \$1.9 billion (2020: \$1.8 billion) due to inflationary increases offset by a reduction in occupancy level from 96% to 91% in 2021. Additionally, property income continued its 5th consecutive year of improvement at a CAGR of 9.1% to \$1.8 billion. Rental income has been a consistent source of operating revenue for PJAM. Direct property expenses increased by 5% to \$0.9 billion (2020: \$0.8 billion). The increase was driven by higher maintenance and occupancy costs.

A gain of \$326.2 million on disposal of property at Bamboo Avenue in Kingston resulted in other income declining 68% to \$140.6 million in FY 21.

The two primary operating expenses are direct costs of property management and staff costs, accounting for 46.9% and 32.4% of operating expenses, respectively. Meanwhile, operating expenses increased 9.1% to \$1.9 billion, due primarily to staff costs increasing by \$120.4 million or 25% to \$601.5 million. Additionally, direct costs associated with property management increased by 5% to \$869.5 million. Increased expenses were due to the reinstatement of costs that were reduced in the prior year due to the global pandemic. In the recent 6M, Operating expenses increased by 30.8% to \$582.7 million due to increased staff costs related to the recently opened ROK hotel.

Share of profits from associated companies improved by 41.1% to \$5.5 billion due to improved results at Sagicor Group Jamaica, Outsourcing Management and New Castle. New Castle Company, the distributors of the Walkerswood, Busha Browne and Jamaica Joe lines of sauces and seasonings, contributed \$265 million (2020: \$193 million) to the Company's share of results of associated companies, driven by increased sales in the U.S. market. Outsourcing Management Limited, which trades as itel, contributed \$41 million (2020:\$32 million) to PJAM's share of results of associated companies.

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Chukka Caribbean Adventures and Caribe Hospitality Jamaica, operator of the Courtyard by Marriott Kingston, saw moderate improvement in business activity during 2021. However, business remains unprofitable as the sector was still negatively impacted by travel restrictions, land-based visitor arrivals, and cruise ship reduction.

A gain on disposal of an associated company, primarily from income from the sale of its stake in Downing Street Realty Funds, marginally aided FY 21 profit.

### Balance Sheet Review

The three most significant assets on PJAM's balance sheet are financial assets designated at FVTPL, Investment Properties and Investment in Associated Companies, accounting for 13.8%, 14.8% and 56.1% of total assets, respectively.

Financial assets designated at FVTPL surged by \$1.8 billion or 23.6% to a record \$9.4 billion in FY 21. The increase was due to the rise in equity and debt securities by \$769.1 million and \$1 billion, respectively. Meanwhile, PJAM's investment properties increased by \$493.6 million or 5.2% to \$10 billion, aided by \$368.1 million in new property and a fair value gain of \$254.4 million.

Investment in associated companies increased by \$2.7 billion or 7.5% to \$38 billion, primarily due to a share of net profits from associated companies of \$5.5 billion. Most of the associated companies' figure are due to PJAM's 30.2% stake in Sagicor Group Jamaica Limited.

PJAM has consistently increased equity attributable to PJAM shareholders at a CAGR of 14.2% over the review period to \$52 billion. However, equity only increased 10.1% in FY 21 due to an 18.8% decline in investment and other reserves. Furthermore, PJAM's equity declined to \$48.4 billion at the end of June 2022 due to an 86.6% yoy fall in investment and reserves.

Investment assets at the Company are down 5.8% to \$55.6 billion yoy in Q2 FY 22. The decline in investment assets is primarily due to a yoy decline in repurchase agreements and financial assets designated at amortized cost by 76.9% and 78.4% to \$499.1 million and \$301.8 million, respectively. Meanwhile, financial assets at FVTPL increased by 6.2% yoy to \$8.8 billion in Q2 FY 22. Therefore, PJAM's earnings may be more exposed to asset price volatility.

On the liabilities side, borrowings, including bank loans, remain the primary liability, accounting for 21.2% of total assets at the end of Q2 FY 22. Borrowings have remained relatively stable, declining 0.2% yoy to \$13.6 billion.

Meanwhile, liabilities comprise 22.8% of total assets in FY 21 (24.1% FY 20). The primary contributor to liabilities is borrowings, accounting for 20.1% of total assets, amounting to \$13.6 billion. Of this figure, \$3 billion is due in FY 22, which is a VR bond yielding 3.7% at the end of FY 21. Given the current interest rate environment, refinancing this note will likely result in increased interest expense for PJAM.

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In 2021, the Company did not issue any new debt (2020: \$6.5 billion). However, finance costs for the year were up 9% to \$914.4 million (2020: \$835.9 million) on a higher interest rate on variable rate loan facilities.

PJAM has no loans denominated in foreign currencies during either 2021 or 2020. Additionally, securities denominated in foreign currency, mainly U.S. Dollars, increased to 49% of the total portfolio (2020: 38%). Therefore, the Company receives a net benefit from the devaluation of the USD versus the JMD. Furthermore, the Company indicated that a 6% appreciation of the USD versus the JMD is expected to increase profit before tax by \$377.6 million in FY 21.

### Cash Flow Statement Review

Cash flow from operating activities has historically underperformed earnings due to profits from associated companies being a significant contributor to profits. PJAM has generated positive operating cash flow for most of the review period. The operating cash outflow in FY 18 was primarily due to a cash outflow of \$3.4 billion on assets designated for FVTPL, which includes spending on 100 million shares of JMMBGL for about \$2.7 billion.

The most consistent primary source of cash inflow from investing activities is dividends from associated companies, which surged 1704.4% to \$1.4 billion in FY 21. The surge was largely due to the FY 20 figure being suppressed due to the BOJ's recommendation to Financial Holding Companies, including Sagicor Group, to defer dividend payments to shareholders holding more than 1% of its shares.

Meanwhile, cash flow from investing activities was only \$136.4 million in the recent 6M period. The decline was primarily due to cash outflow on the acquisition of PP&E of \$997 million, which consumed the majority of the \$1.3 billion in inflows from dividends from associated companies.

Dividend payments and net loans directly impact cash flow from financing activities. Loans of \$6.5 billion boosted FY 20 financing cash flow. While FY 21 net cash outflows from financing activities were primarily due to dividends payments and interest expenses. More recently, outflow from financing activities was primarily for dividend payments of \$1.3 billion in the 6M period, a 373.7% increase compared to last year.

### Ratios Review

PJAM's operating margin has been volatile for the period under review, peaking in FY 19 at 61% before falling to 15.3% in FY 20 and subsequently recovering to 58.1% in FY 21. The volatility in operating margins is linked to fluctuations in investment income.

Debt-to-Equity has remained low for the period under review, averaging 0.27x and at the end of June 2021 was 0.3x. Furthermore, financial leverage has remained relatively low, averaging 1.3x for the period under review; therefore, we believe long-term liabilities are sustainable.

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## PanJam Investment Limited

PJAM has consistently paid dividends, but the amount paid in FY 2020 declined by 71% to \$0.38. PJAM decided to suspend May and August 2020 dividend payments, leading to the material dividend decline. In the subsequent paragraph, we discuss the rationale for the dividend suspension.

While PJAM remains well capitalized, the BOJ's recommendation significantly hindered its FY 2020 cash flows. In FY 2019, PJAM received \$1.9 billion in dividends from associated companies, with Sagikor Group (SJ) being the primary contributor. However, due to the Bank of Jamaica's recommendation to all financial holding companies to defer dividend payments to shareholders holding more than 1% of its shares, PJAM only received \$76.2 million in dividends for FY 20.

### Forecast and Valuation

**We used our projection of PJAM's FY 23 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 \$66.88.** Essential to our price target is the assumption that investor sentiment towards PJAM's peer group remains relatively stable. Below are charts illustrating the relationship between PJAM's P/B and P/E ratios relative to its peer group average over the last five years. **We used the 80th and 20th percentile of the P/B and the P/E valuation difference to derive our upper and lower price targets of \$78.36 and \$57.90, respectively.**

Chart 1 below indicates that PJAM's P/E is trading at a 1.6% discount to peers. PJAM has traded above a 12.4% P/E discount to peers 50% of the time over the last five years. PJAM's volatile earnings may explain its usual pattern of trading at a discount to peers on a P/E basis.

Meanwhile, PJAM usually trades at a premium to the peer group average on a P/B basis. As indicated in the chart below its P/B exceeds peers by 17.2% 50% of the time over the last five years. While currently, PJAM only trades at a 2.9% premium to peers on a P/B basis. The premium that PJAM usually commands on a P/B basis may be explained by its historically higher ROE and ROA versus the peer group.

The peer group P/B ratios deteriorated to 1.3x, well below elevated levels of more than 2x in 2019. In fact, the peer group P/B is currently below the low experienced during the March 2020 market sell-off and close to the low over the last five years of about 1.2x. Therefore, we view the sentiment towards conglomerates as relatively negative and see limited risk to the downside, assuming no material exogenous shocks to the market.

	Price Target Implied Upside/(Downside)	
<b>Upper</b>	78.36	29.44%
<b>Base</b>	66.88	10.47%
<b>Lower</b>	57.90	-4.36%

## PanJam Investment Limited

Large Cap. Conglomerates					
Ticker	Market Cap(\$B)	P/E	P/B	ROA	ROE
GK	93.74	11.29	1.35	4.31%	12.51%
JP	22.04	10.50	1.20	4.82%	11.89%
PJAM	64.18	10.62	1.33	9.41%	12.45%
H Mean	59.99	10.79	1.29	6.18%	12.29%

### Chart 1

PJAM P/E Relative to Peers 5-Years

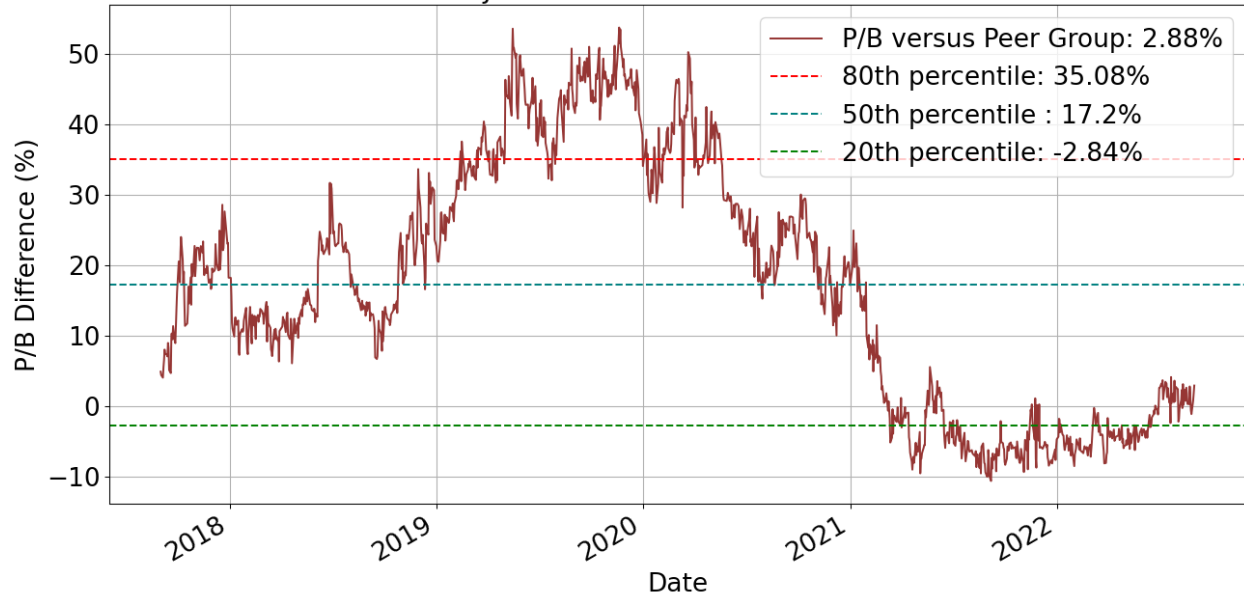


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**Chart 2**

PJAM P/B Relative to Peers 5-Year



Historical Peer Group P/B



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### Outlook

We expect PJAM to improve its earnings in the medium to long-term, as the tourism sector continues to show much improvement from the pandemic lows. Furthermore, PJAM's investment properties continue offering consistent rental income gains. Additionally, the opening of the ROK hotel could aid revenue growth in the near to medium term.

Some headwinds for PJAM's profit growth include ROK hotel officially opening after the end of Q2 FY 22; therefore, operating expenses may remain elevated. Meanwhile, finance expenses will likely increase going forward and may peak at the tail end of FY 23 or early FY 24. The impact of higher interest rates on finance expenses is evident, given that borrowings remained flat while finance expenses increased.

The volatility of PJAM's investment portfolio designated at FVTPL is a significant factor in PJAM's near to medium-term operating profit. JMMBGL shares are about 28.3% of investments at FVTPL; therefore, movement in JMMBGL's shares may materially impact PJAM's near-term earnings.

FY	Q1	Q2	Q3	Q4	YE
2023	1.05E	0.47E	2.63E	1.42E	5.57E
2022	1.00	0.10	2.47E	1.29E	4.86E
2021	0.95	1.24	2.33	2.27	6.78

### Key Risks to Our Price Target

PJAM is a conglomerate with various business operations spanning several sectors. However, it has three main drivers of profits: investment holdings, 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. Therefore if any of these pillars of profit materially fail to meet our expectations, our price target may not be met. Finally, a significant risk factor to our price target includes a decline in sentiment towards PJAM's peer group.

### Recommendation:

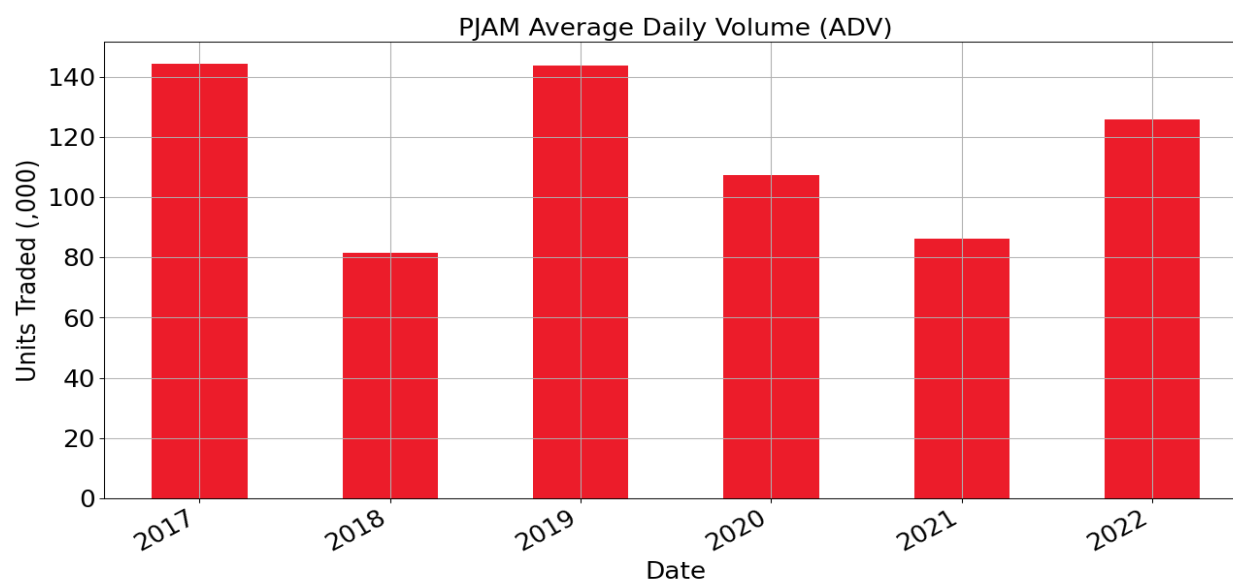
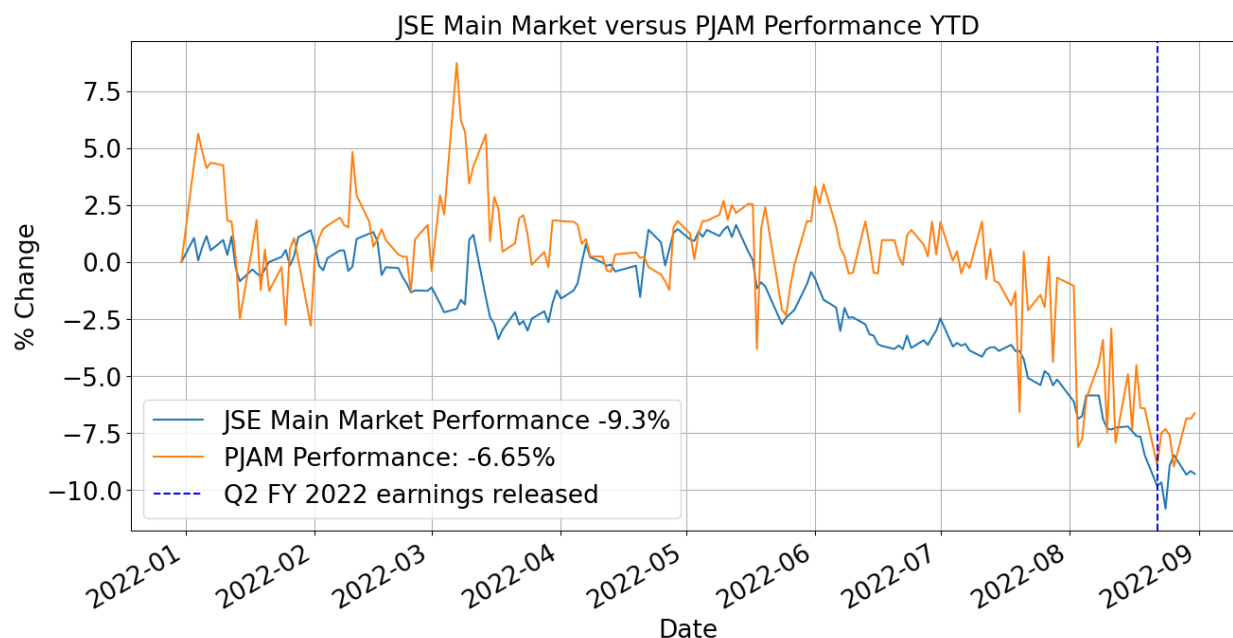
**We are downgrading our rating on PJAM to MARKETWEIGHT. We see this as appropriate given that the stock currently trades below our price target of \$66.88. However, it trades above our lower price target of \$57.90. Our rating considers several factors: PJAM's balance sheet quality, earnings potential, price target, liquidity of shares, and diversified sector exposures.**

Our optimism for PJAM is curtailed by the negative impact of the rising rate environment on its finance cost and investment portfolio. However, we maintain a favourable long-term outlook given the operational improvement at several associated entities and steady improvement in property investments.

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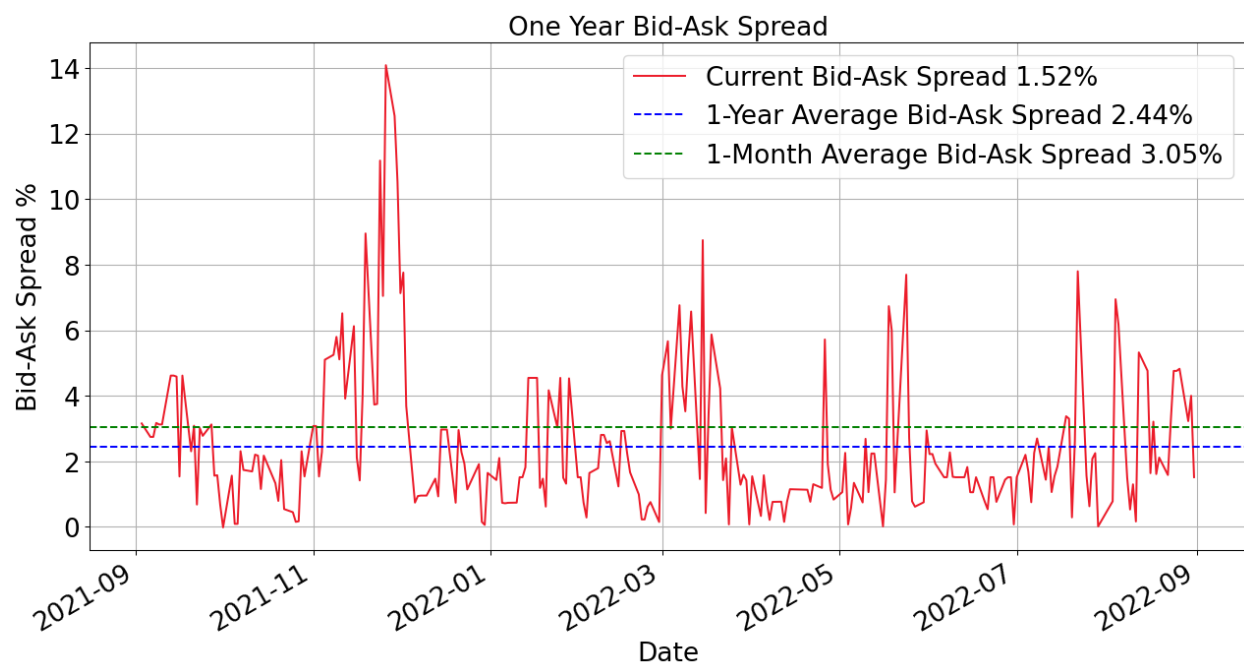
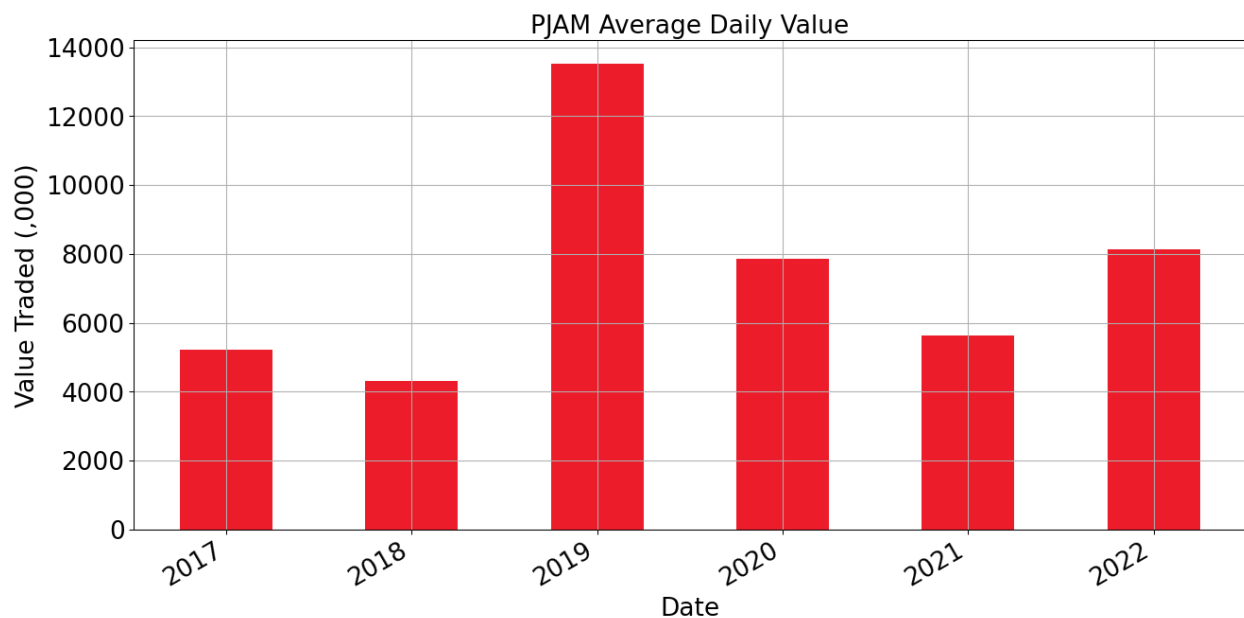
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PJAM has declined 6.7% YTD, marginally outperforming the JSE Main Market decrease of about 9.3% for the same period. Finally, PJAM's stock has modest liquidity, trading an average daily value of 119.9 thousand units over the past year, valued at approximately \$7.8 million. **See the charts below for additional historical volume and price information.**



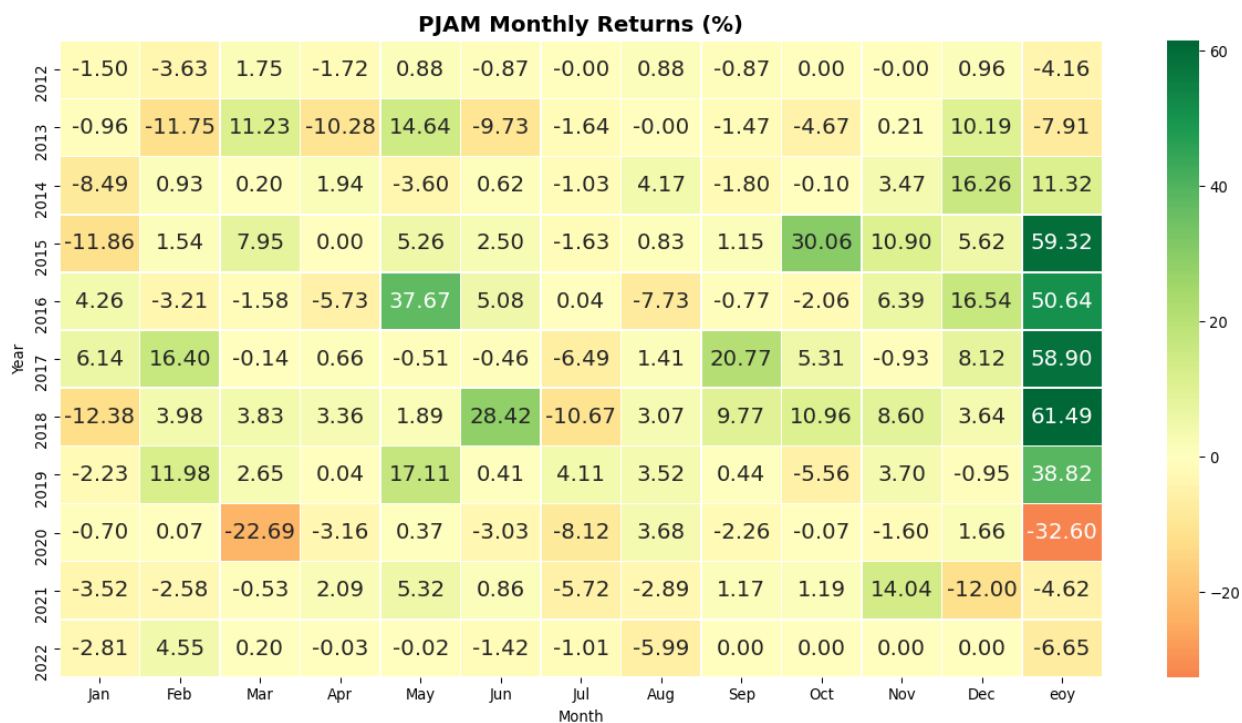
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Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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## PanJam Investment Limited

# 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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