



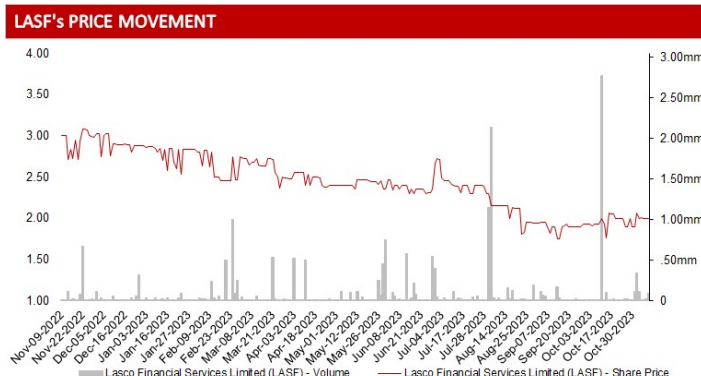
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## EXECUTIVE SUMMARY

Lasco Financial Services Limited (LASF) provides a range of financial services to customers in Jamaica. The main business activities are money transfer within Jamaica and, to and from the rest of the world; currency exchange; consumer loans to salaried borrowers; and business loans and support to micro and small businesses.

LASF reported net revenues of \$2.27B for the 2023FY, a 9.5% decrease year-over-year. Driving this downturn was a 9.5% decrease in remittance services to \$1.0B, while cambio services fell 4.0% to \$795.67M and loans were down 28.6% year over year. Net profits declined from \$306.45M to \$213.96M, down 30.2%. More recently, LASF reported net revenues of \$1.15B for the 6M period FY2024, a downturn of 3.2% year over year.

Utilizing LASF's 2-year P/E average of 14.17x and the \$0.16 EPS estimate produces a price of \$2.20. With the 2-year P/B average of 1.79x and the \$1.77 BVPS estimate yields a price of \$3.17. The Discount Cash Flow (DCF) produces a price of \$2.02. These estimates yield a price range between \$2.02 and \$3.17.



## LASF's Statistics

Financial Year End	March
Stock Price (10/11/2023)	\$ 1.96
Trailing EPS	\$ 0.09
Book Value per share	\$ 1.69
Trailing P/E	22.16x
P/B	1.16x
Net Profit FY2022/23 (millions)	\$ 214
Price Target	\$ 2.46
Dividend Yield	2.02%

## Company Overview

LASF is publicly traded on the Junior Market of the Jamaica Stock Exchange. The LASCO Financial Services Group is comprised of LASCO Financial Services Limited and its subsidiary LASCO Financial Services (Barbados) Limited. LASCO Financial Services Limited (LASF) was formed in

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2010 from the amalgamation with LASCO Remittance Services Limited and LASCO Properties Limited. The main business activities are money transfer within Jamaica and to and from the rest of the world; currency exchange; consumer loans to salaried borrowers; and business loans and support to micro and small businesses. LASF licensed to provide cross border remittance services and are a licensed Cambio providing currency exchange; and is a Visa International Principal with license to issue prepaid cards. LASF is a major cash payout partner for both MoneyGram and Ria Express in Jamaica, with over 140 locations and continues to be a major cash disbursement network and a major remittance service provider. LASF's subsidiary LASCO Microfinance has received approval of its application for licensing of its institution to operate as a microcredit institution under the new micro credit regulations.

## ***Financial Overview***

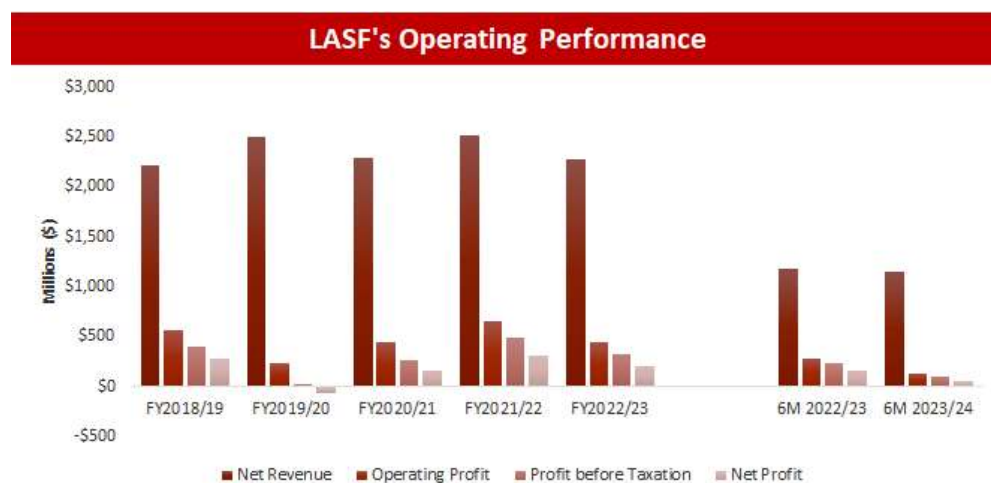
### ***Profitability***

LASF reported net revenues of \$2.27B for the year ended March 2023, a downturn of 9.5% or \$238.58M. The remittance segment, the major contributor, was down 9.5% year over year. LASF highlighted that the reduced income was as a result of the 17% decrease in commission imposed by key partner Moneygram and LASF'S inability to maintain the increased market share for MoneyGram business gained when a key competitor was suspended. The cambio revenue segment also showed a downturn by 4.0% year over year, which is mainly attributable to income received from corporate trades and this has been impacted by lower spreads. Additionally, the Loans revenue deteriorated by 28.6% year over year, as LASF was cautious with their lending and considered the environment to be high risk. More recently, the company reported a downturn in revenue for the six-month period of \$1.15B, a 3.2% decrease over the \$1.19B achieved in September 2022, which LASF noted represents a reduction in transactions over the period and lower cambio gains.

For the year ended March 2022, operating expenses decreased marginally from \$1.85B to \$1.83B, down by 1.3% year over year. Operating expenses as a percentage of revenues move from 73.7% in the comparable period of the previous financial year to 80.4% of revenues in the current year period. Administrative & other expenses rose to \$1.18B, up 6.9%, while selling & promotional expenses declined to \$646.83M, down 13.4% year over. Subsequently, for the six-month period ended September 2023, operating expenses rose by 12.4% year over year, to \$1.01B from \$900.09M in September 2022. This increase was driven by the \$64.68M increase in selling and promotions, and the \$46.73M increase in administrative costs.

For the year ended March 2023, LASF reported a 32.5% or \$214.38M decrease in operating profits to \$445.6M. The operating profit margin moved from 26.3% to 19.6% for the period under review. Finance costs fell 30.1% to \$116.64M, which resulted in an interest coverage ratio of 3.8x, down from 4.0x from the prior year period.

Net profits decreased to \$213.96M from \$306.45M. LASF net profit margin fell to 9.4% from 12.2% for the FY2022/23. The effective tax rate fell from 37.9% to 35.0%. Notably, the 10-year preferential tax treatment that LASF received after listing on the Jamaica Stock Exchange's Junior Market ended in 2020. LASF's return on average equity and return on average assets deteriorated to 10.5% and 4.6% respectively. Subsequently, net income fell to \$56.0M for the six-month period ending September 2023, down from \$156.75M for the corresponding six-month period 2022.



### *Liquidity & Solvency*

LASF reported total assets of \$4.56B as at March 31, 2023, a 2.2% or \$103.76M decrease year over year. This movement was driven by a 18.1% or \$366.65M decrease in loans and other receivables, which fell to \$1.65B, partially offset by a 56.2% or \$240.70M increase in short term deposits to \$668.78M. Cash and bank balances was relatively stable reported at \$961.29B for the FY2022/2023. Intangible assets amounted to \$849.39M, an uptick of 0.4%, while deferred tax asset was up 12.8% to \$119.26M. Notably, Gross loans increased from \$1.01B to \$1.04B year over year.

Furthermore, total assets fell to \$4.09B at the end of Q2 FY2024, a year over year decrease of 7.7%. This was driven by a downturn in short term deposits and intangible assets to \$283.87M and \$845.02M respectively. Notably, cash and bank balances was relatively stable, reported at

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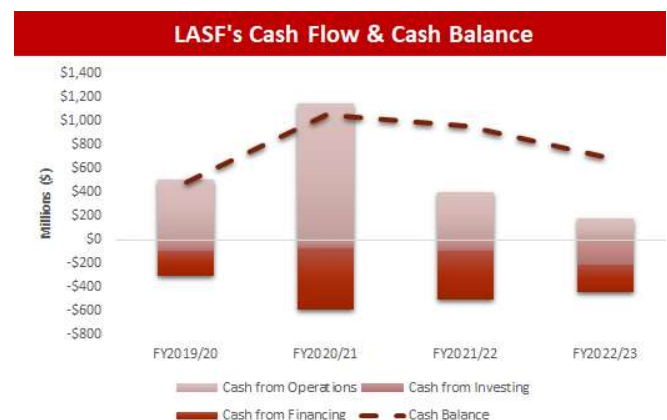
\$724.45M. LASF highlighted that cash holdings were utilized to pay down debt. LASF's loans and other receivables was up 19.0% year over year, booked at \$1.82B.

For the year ended March 2023, total liabilities amounted to \$2.45B, down 9.3% or \$251.60M from a year prior. Loans fell 3.2% or \$41.30M to \$1.24B. Payables amounted to \$584.04M, down 38.6%. Taxation payable amounted to \$144.06M down 40.9% year over year, while lease liability was down 2.9%, booked at \$198.79M. More recent, total liabilities stood at \$1.93B as at September 2023, down 16.7% year over year. This decline was driven by a 42.9% downturn in loans to \$741.17M from \$1.30B the prior comparable period. Notably, payables rose 54.3% to \$856.19M from \$554.75M.

For the 2022/23FY, shareholders' equity amounted to \$2.11B, up 7.5% or \$149.95M year-over-year. This increase was driven by an 8.1% increase in retained earnings to \$1.99B. Total debt amounted to \$1.70B, up 14.7% year-over-year, which resulted in an increase in LASF's leverage. Debt-to-equity stood at 0.81x, up from 0.76x as at March 31, 2022. More recent, as at September 2023, debt to equity improve year over year to 0.43x from 0.71x the prior comparable period.

### **Cash Flow Statement Review**

Cash from operating activities (CFO) represented inflows of \$179.53M for the twelve-month period, relative to inflows of \$402.15M in 2022. The deterioration in CFO was driven by the downturn in profit and increase in cash used for payables. Notably, the changes in operating assets and liabilities moved from an outflow of \$188.13M in FY2021/22 to an inflow of \$37.17M in FY2022/23, a main driver to this increase in cash received from receivables which moved from an outflow of \$392.32M to an inflow of \$400.54M. Additionally, payables moved from an inflow of \$199.62M to an outflow \$374.74M. Subsequently, cash flow from operating activities fell by 60.4% to \$110.36M in Q2 FY2023/24.



Cash from investing activities represented an outflow of \$209.36M for the period, relative to an outflow of \$92.57M in FY2021/22. The increase of cash invested in short-term deposits was the primary outflow from investing activities, amounted to \$240.70M.

Cash from financing activities represented an outflow of \$225.0M for the period, relative to an outflow of \$412.80M in FY2021/22. This was mainly due to loan repayments and interest paid, which amounted to \$132.58M and \$98.83M respectively. Notably, LASF also received a loan amount of \$90M for the 2022/23FY. Moreover, LASF made dividend payments, which amounted to \$64.01M for the period under review. As such, the company experienced a loss of \$254.84M to its cash and cash equivalents (not accounting for currency translation gains).

## Outlook & Valuation

The Jamaica economy is expected to have a positive recovery based on the projected upward trends of various indicators such as, real GP growth, which is expected to moderate to the range of 1.0% to 3.0% for FY2023/24. Moreover, according to the BOJ, global growth is projected to slow between 2.0% and 3.0% for 2023 and 2024. This outlook reflects a slowdown for 2023, which largely stems from the lagged effects of monetary policy tightening among major economies. Additionally, the US economy is estimated to grow by 1.0% to 2.0% in 2023, while growth of 0.0 to 1.0% is projected for 2024.



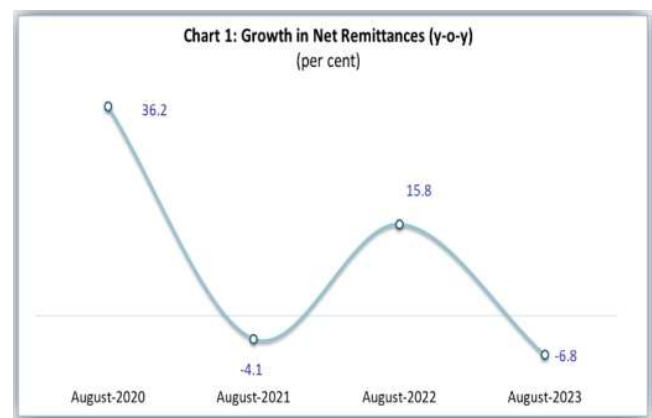
During the December 2022 quarter, BOJ increased its policy rate on 18 November 2022 by 50 basis points (bps) to 7.0%. Rising interest rates have not tempered demand for loans by private sectors, as growth in loans and advances as at May 2023 expanded by 12.0%. Furthermore, the BOJ highlighted that the quality of the DTIs' loan portfolio remained fairly stable with a ratio of non-performing

loans (NPLs) to gross loans at May 2023 of 2.6%, slightly below the 2.8% recorded a year earlier. Notably, for 2022/23FY, there was a downturn in LASF's non-performing loan to gross loans to 14.1% from 21.3% a year ago. The BOJ noted that private sector credit is projected to grow at an average rate of 9.6% up to the June 2025 quarter. The projected annual expansion over the near term reflects a more optimistic economic outlook supported by continued recovery from the impact of the pandemic. Notably, this may result in an improvement in LASF's gross loans and its net profits, accordingly. However, as lending institutions continues to pass on the policy rate increases to the price of loans, there is a risk that the pace of loan growth could moderate over the latter part of the forecast horizon. More recent, the BOJ decided to hold the policy interest

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rate at 7.00%, to ensure that the inflation rate continues to trend downward to the Bank's target range (4%-6%) and to continue ensuring relative stability in the foreign exchange market.

The remittance and cambio segment continues to be the greatest contributor to LASF's revenue. According to the BOJ's Remittances report, net remittance fell by 6.8% to US\$270.0M as of August 2023 when compared to the US\$289.8M recorded in the same month last year. This decrease was due to a 5.9% decline in total remittance inflows to US\$289.2M, coupled with a 9.4% increase in remittance outflows to US\$19.1M. The decline in gross remittance inflows was due to a fall of 3.2% in inflows through Remittance Companies and a decrease of 20.4% in inflows through the Other Remittances channel.



Source: Bank of Jamaica (BOJ)

The United States of America (USA) remained Jamaica's largest source of remittances as of August 2023, followed by the Canada, United Kingdom and the Cayman Islands, with respective ratios of 69.0%, 11.6%, 9.8% and 5.6%. Net remittance inflows for the fiscal year to August 2023/24 declined by 3.2% or US\$44.1M to US\$1,347.2M, compared to US\$1,473.5M in the similar period last year. The US, like many other economies, has seen rising inflation over the last few months. In combating this, these economies have implemented several interest rate hikes. With liquidity in the US and other remittance source markets deteriorating, as most of the world grapples with higher than usual inflation, it is expected that remittance flows to Jamaica could continue to slow in the short to medium term. Additionally, due to the easing of COVID-19 restrictions, Jamaicans residing outside of the country may now have an increased opportunity to travel with "cash-in-hand" instead of using remittance companies.

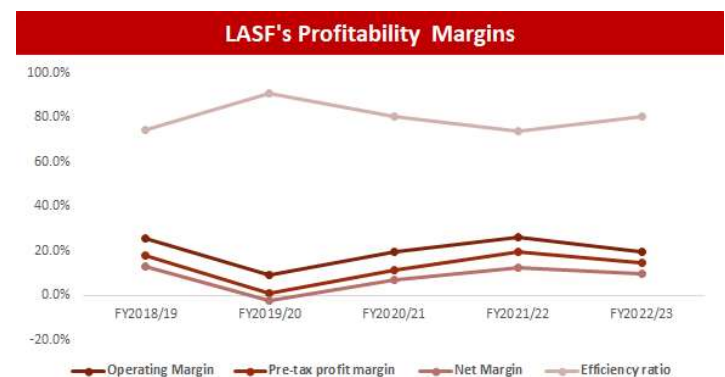
LASF highlighted their initiative to convert its clientele to receiving remittance payments to their accounts through the addition of its 'Boss Money' remittance transfer service or on its electronic Lasco Pay card product. Since then, LASF extended the LASCO Gold Visa debit card (prepaid) to the public July 2022, which offers services through the company's remittance agent network and through the LASCO Gold Mobile app. LASF noted that unbanked customers can benefit from the LASCO Gold Visa debit card, as they will be able to load their cards with funds and conduct transactions at points of sales and online, including cross border. As such, we anticipate additional revenues from LASF's card business to supplement income. However, the sole

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approved wallet for Jamaica's Central Bank Digital Currency, Lynk has partnered with MoneyGram to enable users to receive remittances. Furthermore, Lynk's intentions to offer to a wider cross-section of the unbanked population and increased access to card-based and digital services, may result in a slowdown in the responsiveness to LASF's mobile app and card business and therefore lower margins.

Cambios are susceptible to shocks in currency availability and margins based on consumer demand and demand pressures to fund portfolio related transactions. LASF's major source of USD funding is consistent due to inflows from remittance settlement, while a smaller percentage is from retail cash purchases from its branch network. This augurs well for LASF's cambio services revenue generation.

LASF operating margin have deteriorated amidst an increase in its efficiency ratio. An increasing efficiency ratio is negative to the business, as it represents a rise in the share of operating expenses to net revenues. The significant increase in operating expense and rise in efficiency ratio has led to the net profit margin falling from north of 12.7% in FY2018/19 to as low as -2.3% for the FY2019/20. More recent net margin was booked at 9.4%, as LASF reported a downturn in net profits for the 2022/23FY, down 30.2% year over year.



We are forecasting revenues of \$2.17B for the year ended March 2025, and net profits of \$198.78M, which corresponds to earnings per share (EPS) of \$0.16. We are forecasting a forward book value of \$2.27B as at March 31, 2025, which translates to a book value per share of \$1.78.

Based on these assumptions, we arrived at our price target of \$2.02 using the Discounted Cash Flow (DCF) model. Utilizing LASF's 2-year P/E average of 14.17x and the \$0.16 EPS estimate produces a price of \$2.20. With the 2-year P/B average of 1.79x and the \$1.78 BVPS estimate yields a price of \$3.17. **The average of our price forecasts, \$2.46 is 25.7% higher than the closing price of \$1.96 on November 10, 2023.**

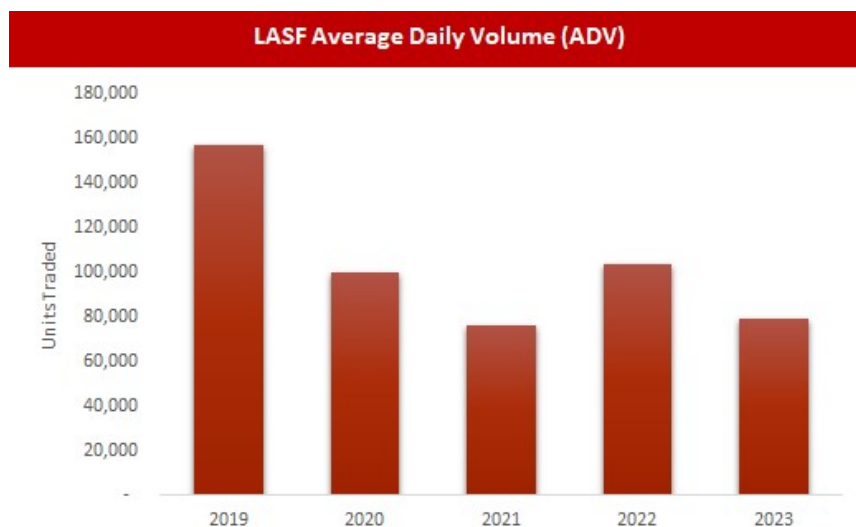
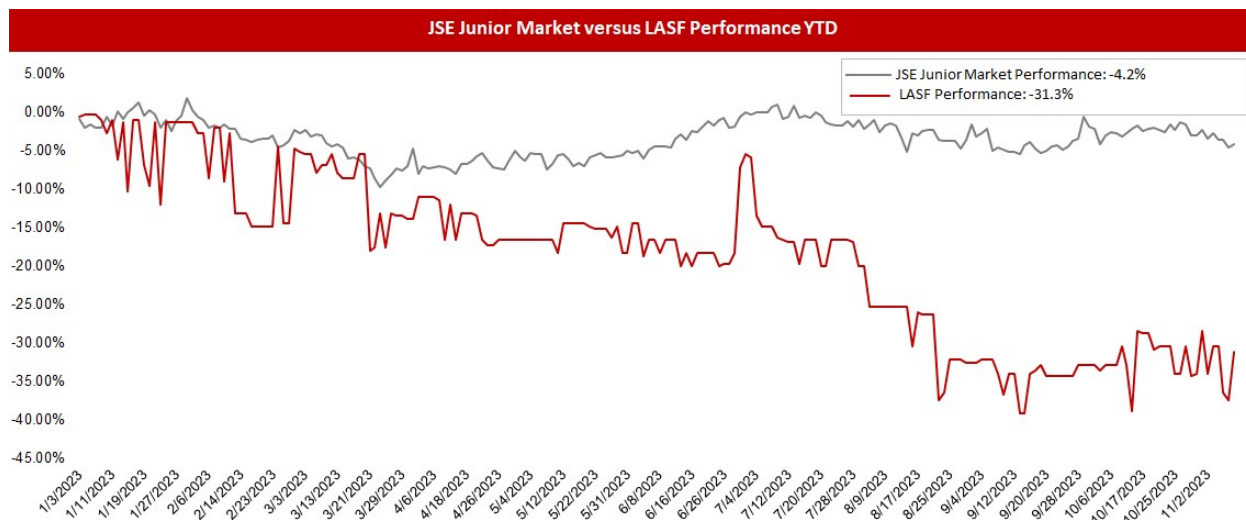
## Recommendation

***We are revising our recommendation on LASF to UNDERPERFORM/UNDERWEIGHT***, given the near to medium term challenges. We anticipate that remittance flows to Jamaica could continue to slow in the short to medium term, relative to the previous financial year based on current market trends. Furthermore, reduced commission imposed by MoneyGram and increased competition within the market is likely to impact LASF revenue. Nevertheless, additional revenue is expected from its card business to supplement income. Shares of LASF is most suitable for the medium to long-term investor with a medium to high-risk appetite, as the company operates within a highly competitive industry.

LASF's YTD stock performance depreciated by 31.3%, while the JSE Junior market declined by 4.2%. LASF's liquidity has been on a declining trend, however the average daily volume stood at 103.75K units traded for 2022YE in comparison to 75.97K units traded the 2021YE. **The following charts illustrate several key data points on LASF's trading history.**

Abridged Financials \$'000	Year Ended March 31						Six Months		
	2019	2020	2021	2022	2023	Change	Sep-22	Sep-23	Change
Net Revenue	2,211,508	2,507,304	2,293,041	2,511,915	2,273,336	-9.5%	1,187,883	1,150,338	-3.2%
Operating Expenses	(1,646,063)	(2,276,990)	(1,845,610)	(1,851,939)	(1,827,736)	-1.3%	(900,095)	(1,011,502)	12.4%
Operating Profit	565,445	230,314	447,431	659,976	445,600	-32.5%	287,788	138,836	-51.8%
Profit before Taxation	396,645	21,969	260,384	493,081	328,960	-33.3%	233,067	95,937	-58.8%
Profit for the year	281,755	(56,918)	156,753	306,449	213,962	-30.2%	156,751	56,004	-64.3%
Total Assets	3,893,393	3,962,905	4,300,541	4,663,814	4,560,051	-2.2%	4,433,876	4,094,374	-7.7%
Total Liabilities	2,301,804	2,422,834	2,603,251	2,701,617	2,450,020	-9.3%	2,314,927	1,928,339	-16.7%
Total Shareholder's Equity	1,591,589	1,540,071	1,697,290	1,962,197	2,110,031	7.5%	2,116,832	2,166,035	2.3%
EPS (\$)	0.22	(0.04)	0.12	0.24	0.17		0.12	0.04	
Book Value per share (\$)	1.26	1.22	1.34	1.53	1.65		1.65	1.69	
<b>Key Ratios</b>									
Operating Profit Margin	25.6%	9.2%	19.5%	26.3%	19.6%		24.2%	12.1%	
Pre-tax profit margin	17.9%	0.9%	11.4%	19.6%	14.5%		19.6%	8.3%	
Net Margin	12.7%	-2.3%	6.8%	12.2%	9.4%		13.2%	4.9%	
Efficiency ratio	74.4%	90.8%	80.5%	73.7%	80.4%		75.8%	87.9%	
Return on Average Assets	7.7%	-1.4%	3.8%	6.8%	4.6%		3.6%	1.3%	
Return on Average Equity	19.0%	-3.6%	9.7%	16.7%	10.5%		7.4%	2.6%	
Debt/Equity (x)	1.12	1.29	0.98	0.76	0.81		0.71	0.43	

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**Source:** [www.jamstockex.com](http://www.jamstockex.com), [www.boj.org.jm](http://www.boj.org.jm), Bloomberg, Company Financials, Company Prospectus, JMMB Investment Research.

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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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