

NCB Financial Group Limited

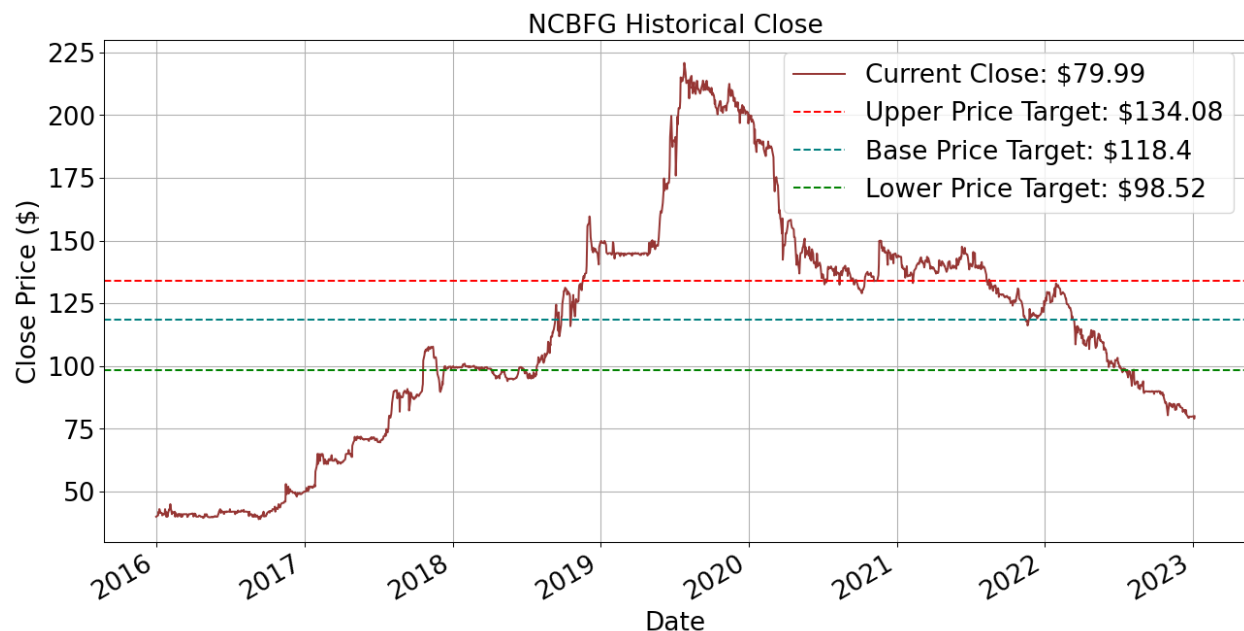
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Executive Summary

NCBFG is a financial services company incorporated and headquartered in Jamaica. It is majority owned by AIC (Barbados) Limited, which is itself ultimately controlled by Portland Holdings Inc., a Canadian company. Hon. Michael A. Lee-Chin, OJ, is the Chairman of NCBFG and serves as the head of Portland Holdings Inc. NCBFG has a presence in several countries, including Jamaica, the Cayman Islands, Trinidad & Tobago, Barbados, Bermuda, and the United Kingdom. Furthermore, NCBFG has several subsidiaries, including National Commercial Bank Jamaica (NCBJ), Clarien Group Limited, and NCB Global Holdings Limited, which controls Guardian Holdings Limited.

In recent years, NCBFG has seen strong growth in a number of critical areas, including net operating income, total assets, loans, and customer deposits. However, in FY 22, equity attributed to NCBFG shareholders declined by 7.4%.

Currently, NCBFG trades at approximately 6.8x its trailing 12-month EPS, which is below the 8.3x harmonic mean of its peer group. Meanwhile, NCBFG's liquidity has significantly decreased, with an average daily volume of 118.12K units over the past year, valued at around \$12.1 million. In the past month, NCBFG has had an average bid-ask spread of about 1.1%, which suggests a relatively low implicit cost to acquire shares.



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Key Financial Data

	YE 2018	YE 2019	YE 2020	YE 2021	YE 2022	CAGR
BVPS	52.72	59.83	65.48	70.93	65.69	5.66%
Trailing EPS	11.39	12.11	8.01	6.25	11.89	1.08%
Dividend Per Share	2.70	3.40	1.90	0.50	0.00	-100.00%
Price Per Share	124.52	208.79	130.90	127.52	89.89	-7.82%
JSE Main Market	262,729	358,320	516,043	380,426	414,890	12.10%
Abridged Income Statement (in Billions)						
Net Operating Income	69.6	91.2	108.8	121.1	149.6	21.08%
Net Interest Income	35.1	44.6	52.5	48.6	59.2	13.92%
Gain on FX & Investment Activities	15.6	15.4	8.8	22.8	16.6	1.51%
Net Revenue from B&I Activities	65.8	76.7	76.4	98.2	107.3	12.99%
Net result from Insurance Activities	3.8	14.4	32.5	23.0	42.3	82.70%
Staff costs	23.8	32.1	40.5	44.5	49.1	19.88%
Other operating expenses	16.2	25.7	31.1	39.2	44.4	28.72%
Operating Profit	26.2	26.4	27.3	26.3	45.1	14.58%
NCBFG Shareholders Profits	28.0	29.9	19.1	14.2	27.3	-0.58%
Abridged Balance Sheet (in Billions)						
Total Assets	978.6	1,616.3	1,800.3	1,921.4	2,080.5	20.75%
Loans	372.6	423.1	453.0	523.5	581.0	11.74%
Investment Securities AFS	210.4	386.2	456.8	683.9	711.7	35.63%
Customer deposits	484.8	504.7	574.0	647.1	715.3	10.21%
Other borrowed funds	65.6	125.0	125.1	137.0	153.3	23.65%
Total Liabilities	839.0	1,432.4	1,600.1	1,714.7	1,882.5	22.39%
Equity	130.0	147.6	156.1	161.5	149.5	3.55%
Ratios						Average
P/E	10.9	17.2	16.3	20.4	7.6	14.50
P/B	2.4	3.5	2.0	1.8	1.4	2.20
Dividend Yield	2.69%	2.10%	1.14%	0.36%	0.00%	1.26%
Dividend Payout Ratio	23.71%	28.08%	23.72%	8.00%	0.00%	16.70%
Cost to Income	60.7%	67.4%	68.5%	76.2%	68.6%	68.27%
ROE	22.7%	21.5%	12.6%	9.0%	17.6%	16.64%
ROA	3.3%	2.3%	1.1%	0.8%	1.4%	2.09%
Financial Leverage	6.5	8.0	8.9	9.1	9.9	7.7
Share Performance	43.09%	67.68%	-37.31%	-2.58%	-29.51%	36.11%
Main Market Performance	59.73%	36.38%	44.02%	-26.28%	9.06%	36.92%

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Financial Overview

Income Statement Review

NCBFG's net operating income (NOI) grew at a compound annual growth rate (CAGR) of 21.1% over the review period, reaching a total of \$149.6 billion. In the year ending FY 22, NOI increased by 23.5%, surpassing the CAGR for the review period. The significant rise in NOI was mainly due to robust performance in the Company's insurance activities, while banking and investment (B&I) activities saw a slight improvement.

Net revenue from B&I activities increased by 9.3% in FY 22 to \$107.3 billion. The primary contributor to growth in B&I activities was a 21.7% increase in net interest income (NII) to \$59.2 billion. The increase in NII was due to a 13.9% rise in total interest income and a 0.9% decrease in interest expense. However, the growth in B&I activities was limited by a 19.5% decline in gain on foreign exchange and investment activities to \$16.6 billion. The fall was primarily due to steep decreases in gain on sale of debt securities at fair value through other comprehensive income (FVOCI) and unrealized loss on fair value through profit or loss (FVPL) assets.

Insurance activities saw strong growth in FY 22, surging 84.3% to \$42.3 billion, the highest under the review period. The increase in insurance activities was driven by reinsurance on policyholders' and annuitants' benefits, which increased by \$42 billion to \$48.7 billion.

Operating expenses for NCBFG increased by 10.1% in FY 22, the slowest pace seen over the review period. The leading cause of the increase in operating costs was a 13.3% rise in other operating expenses. Expenses related to property, vehicles, ATM maintenance, and utilities increased by 24.4% to \$10.4 billion, contributing significantly to the overall increase. Despite this, due to NOI growth outpacing expense growth in FY 22, NCBFG was able to increase profits attributable to NCBFG shareholders by 92%, just below its FY 19 peak of \$28 billion.

Balance Sheet Review

The primary contributors to NCBFG's total assets are loans, investment securities, and pledged assets. Over the review period, total assets have consistently increased, with a notable acceleration in growth to 8.3% in FY 22 compared to 6.7% in FY 21. This growth was primarily driven by increased loans and pledged assets of 11% and 14.9%, respectively.

Investment securities are the most significant contributor to total assets, consistently increasing over the review period and accounting for 34.21% of total assets at the end of FY 22. Upon closer examination, investment securities plus pledged assets reveal that at the end of FY 22, 55.3% were accounted for at FVOCI, with the majority being Government of Jamaica debt securities.



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Net loans have also consistently increased over the review period, accounting for 27.9% of total assets at the end of FY 22. In FY 22, net loans saw an increase of 11%, roughly in line with its CAGR of 11.7% over the review period. It is worth noting that the provision for credit losses as a percentage of gross loans and advances improved to 2.3% in FY 22 compared to 4% in FY 2020. However, the FY 22 provision for credit losses was slightly higher than the 2.2% reported in FY 18.

Equity attributable to NCBFG shareholders increased at a CAGR of 3.6% over the review period to reach \$149.5 billion. However, FY 22 saw a 7.4% decline in equity due to a significant decrease in fair value and capital reserves. This decline was limited by a 28.6% increase in retained earnings to \$115.9 billion.

NCBFG's liabilities are primarily composed of customer deposits and obligations under annuity and insurance contracts. Customer deposits have exhibited consistent growth over the review period, with a CAGR of 10.2% and a similar increase of 10.5% in FY 22. These deposits constitute a significant portion of the Company's liabilities, equal to 34.4% of total assets, and serve as a primary funding source for the group's operations. Meanwhile, liabilities under annuity and insurance contracts constitute a significant portion of total assets, amounting to 21% in FY 22. Most of these liabilities are in the form of life and health insurance and annuity contracts, accounting for 88.1%.

Ratios Review

The significant drop in the price-to-earnings (P/E) ratio experienced in FY 22 can be attributed to NCBFG's share price plummeting 29.5% while earnings attributed to shareholders skyrocketed 92%. Despite increased profitability, the decline in the P/E ratio reflects a shift in sentiment towards the Company's stock.

Similarly, the price-to-book (P/B) ratio also decreased as the decrease in stock price outpaced the reduction in equity attributed to NCBFG shareholders. In fact, the current P/B ratio is at levels last seen in the calendar year 2017 and is significantly below the peak of approximately 3.9x recorded in July 2019.

The dividend yield and dividend payout declined in FY 21 and were absent in FY 22 as the Company retained capital to mitigate the risk of financial instability.

The cost-to-income ratio declined in FY 22, in line with its 5-year average, as income growth outpaced growth in cost.

Financial leverage for NCBFG has consistently increased over the review period and saw an 8.1% increase in FY 22 to a record of 9.9x. This increase was due to total equity falling by 4.2% and total assets increasing by 8.3%.

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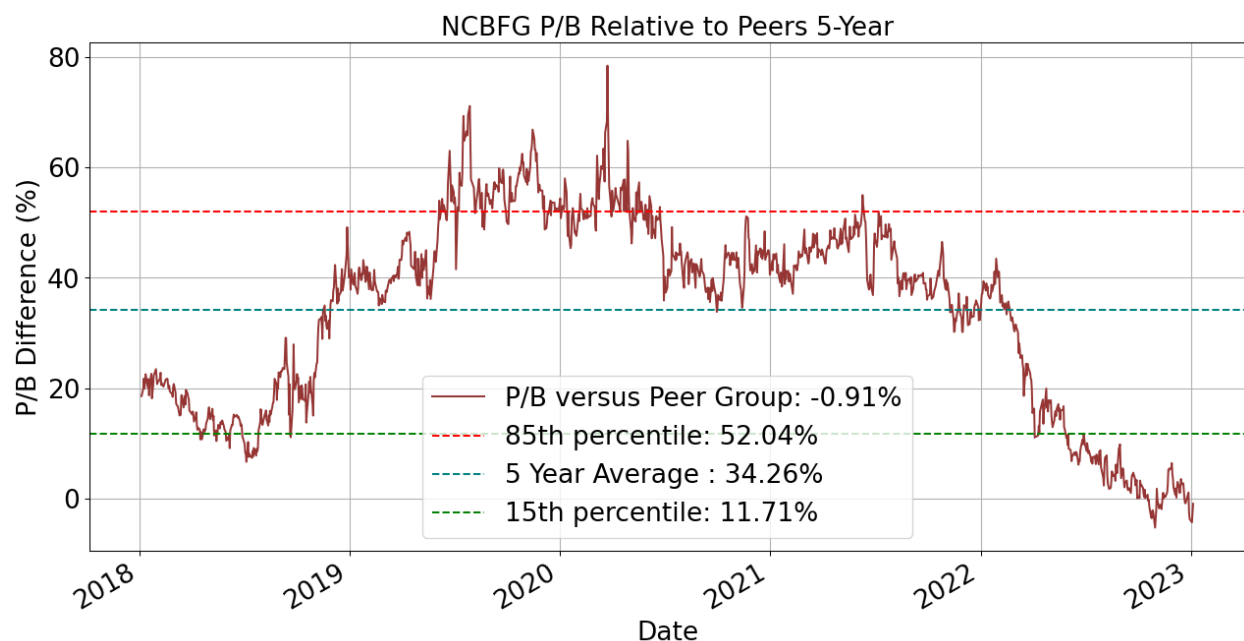
Forecast and Valuation

In order to arrive at our price target of \$118.40 for NCBFG, we employed our projection for the Company's book value per share for the fiscal year 2023 and applied the harmonic mean price-to-book multiple of comparable firms (which was adjusted to account for past discrepancies). The stability of investor sentiment towards NCBFG's peer group is a crucial factor in this calculation. The attached charts provide an illustration of the relationship between NCBFG's P/B ratio and the average P/B ratio of its peer group over the past five years. **By examining the 85th and 15th percentiles of the valuation difference between the two, we were able to determine upper and lower price targets of \$134.08 and \$98.52, respectively.**

Chart 1 shows that NCBFG's P/B ratio is currently about 0.9% below that of its peers, a significant deviation from its 5-year average of 34.2%. Additionally, over the past five years, NCBFG has traded at less than an 11.7% premium to its peers in only 15% of cases. This suggests that investor sentiment towards the Company has experienced a significant decline compared to its peers.

Chart 2 reveals that the P/B ratios of large-cap diversified financial firms have been trending downward since mid-2019, reaching their lowest point in over five years. While we believe there is potential for a further decline in sentiment towards the peer group, particularly towards the 1x level last seen in 2016, we also believe that the current outlook priced into the stock is low and has the potential to improve significantly in the medium to long term.

Chart 1.



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Chart 2.

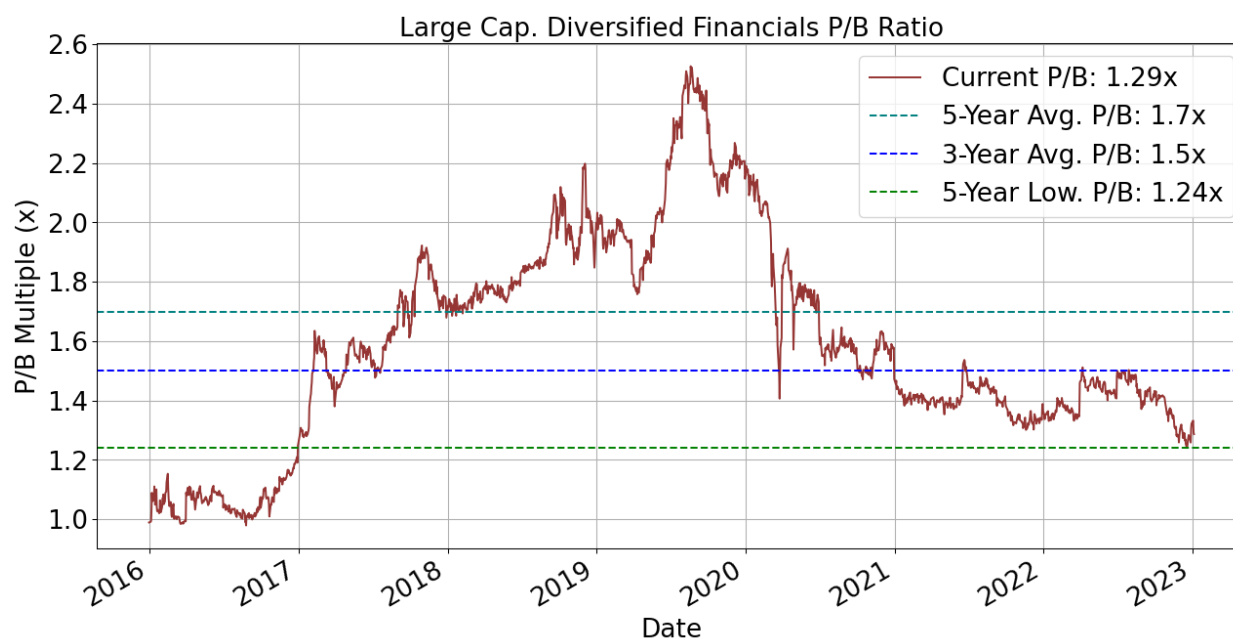


Table 2

Large Cap. Diversified Financials					
Ticker	Market Cap(\$B)	P/E	P/B	ROA	ROE
NCBFG	197.32	6.81	1.28	1.37%	17.59%
JMMBGL	63.87	6.53	1.37	1.63%	17.58%
SGJ	103.68	8.88	0.94	2.97%	10.41%
SJ	201.47	14.04	1.90	2.86%	13.18%
Mean	141.58	8.27	1.29	2.20%	14.69%

Outlook

It is concerning that NCBFG's fair value reserve has been steadily declining since Q2 FY 22 (March 2022), as this can have a significant impact on the Company's equity value. This decline is particularly noteworthy as it mirrors the sharp drop in fair value reserve seen in Q2 FY 20 when it fell from a surplus of \$11.6 billion at the end of Q1 FY 20 to a deficit of \$3.2 billion. However, it is worth noting that this decline was eventually followed by a recovery to \$11.3 billion at the end of the subsequent quarter. Given this history, NCBFG may experience a similar recovery in asset values as market uncertainties subside in the medium to long term.

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On a positive note, NCBFG has demonstrated consistent net loan growth, which has helped to drive net interest income growth, the primary contributor to interest income in FY 22. However, any slowdown in loan growth or decline in credit quality could lead to underperformance in NCBFG's B&I segment. Additionally, the increase in customer deposits seen over the review period is generally positive, as interest expense on these deposits only declined at a CAGR of 0.9%. This makes customer deposits a relatively cost-effective source of funding for NCBFG to use in expanding its asset portfolio.

Overall, it is anticipated that FY 2023 will see a decline in earnings due to a decrease in performance from insurance activities. However, earnings are expected to grow in the medium to long term.

	Price Target	Implied Upside/(Downside)
Upper	134.08	67.62%
Base	118.40	48.02%
Lower	98.52	23.17%

Recommendation:

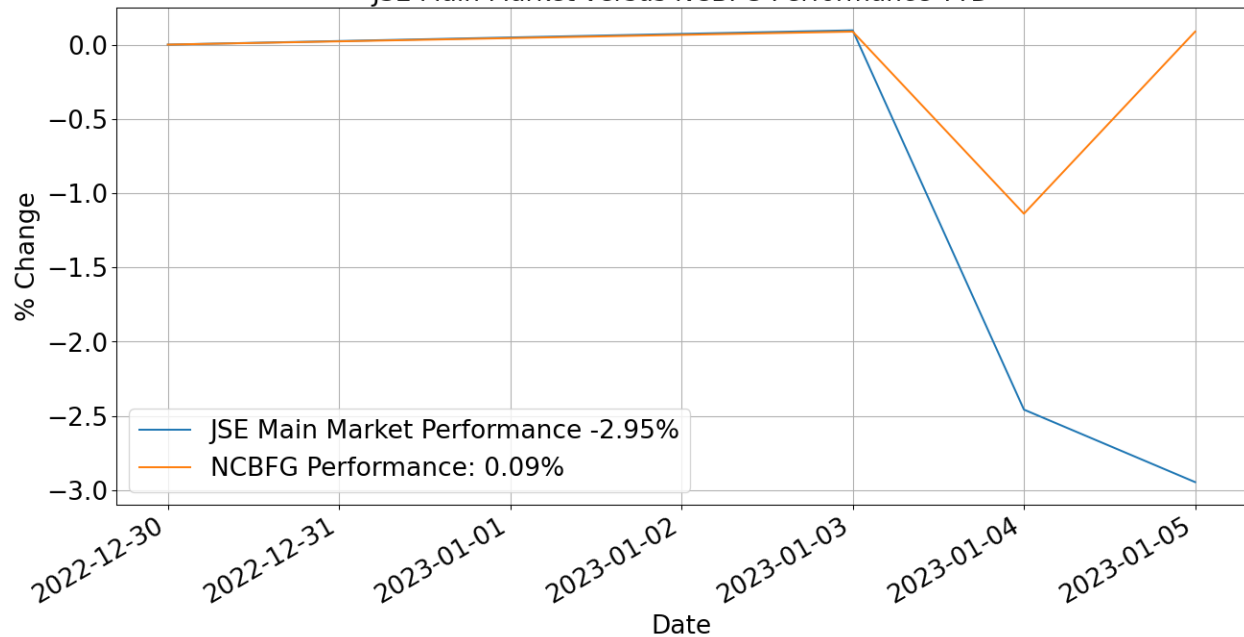
We are upgrading our rating on NCBFG to OVERWEIGHT, as the stock currently trades significantly below our lower price target. This recommendation is based on a number of factors, including the stability and growth potential of earnings, the Company's geographic and operational diversification, and the liquidity of its shares.

There are several risks to our price target; however, the most significant of which is a considerable decrease in investor sentiment towards large-cap diversified financials, leading to further declines in the stock price. Investor sentiment towards stocks like NCBFG could continue to deteriorate due to the lack of meaningful growth in the Main Market since 2019, as well as the underperformance of financial institutions' investment assets in the current rising interest rate environment. Higher benchmark interest rates also lead to a higher discount rate applied to equity investment, resulting in relatively low price multiples. However, we believe that the current market multiples already reflect negative investor sentiment.

NCBFG declined 35.7% in 2022, underperforming the JSE Main Market's decline of 10.2% over the same period. This marks the stock's third consecutive year of decline, with a 59.4% drop in price over that time. The Company's stock liquidity has also significantly declined, with an average daily volume of 118.12K units and a value of around \$12.1 million over the past year. **Please refer to the provided charts for further information on NCBFG's stock performance, volume and value traded, and historical closing bid-ask spread.**

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JSE Main Market versus NCBFG Performance YTD



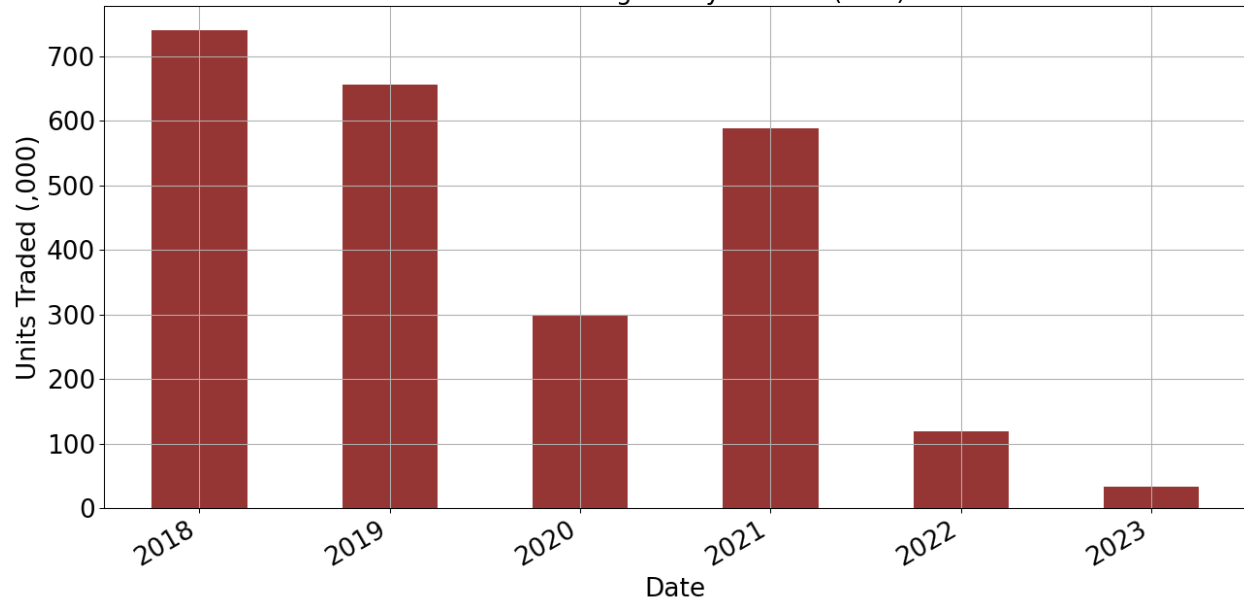
NCBFG Monthly Returns (%)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Jan	-16.10	3.52	-3.64	-9.57	-0.00	7.57	2.75	23.00	1.24	0.11	-3.94	-5.05	6.00	0.09
Feb	12.59	-0.00	-5.28	-6.73	8.28	10.55	-0.24	2.05	-0.92	-3.17	-1.68	4.58	-5.75	0.00
Mar	9.92	1.05	5.58	-9.79	-9.44	14.45	0.61	-1.91	-0.69	0.21	-19.64	-2.20	-7.60	0.00
Apr	14.35	16.28	-3.77	3.20	2.55	19.46	-0.61	10.87	-2.12	2.84	-3.84	-0.01	-0.64	0.00
May	-4.66	5.70	-3.92	16.28	-3.59	-1.70	6.83	3.84	-2.21	8.04	2.78	0.81	-6.47	0.00
Jun	-2.67	1.85	-2.86	-4.29	3.15	-1.79	-1.16	-1.62	3.38	17.66	-7.51	-0.12	-5.07	0.00
Jul	5.59	-0.87	-9.66	-5.22	5.00	3.31	-4.73	13.94	5.67	12.24	1.30	-0.69	-3.43	0.00
Aug	5.24	11.84	2.33	-2.36	-4.76	-4.17	2.49	10.79	7.98	-1.11	0.46	-4.95	-3.89	0.00
Sep	-10.07	-2.71	-0.45	2.15	-0.33	-4.28	5.30	-1.12	11.42	-0.74	-5.72	-3.53	-4.31	0.00
Oct	3.31	6.23	-7.76	-10.53	-5.24	18.10	14.44	22.99	1.39	-2.78	3.48	-0.42	-10.55	0.00
Nov	5.09	-0.00	-0.99	4.71	5.88	10.00	14.44	-15.78	23.75	0.17	8.75	-5.51	4.28	0.00
Dec	1.63	-5.14	15.00	1.12	2.78	11.89	-0.02	10.25	-4.49	-3.29	-2.77	3.57	-4.69	0.00
eoY	21.51	42.34	-16.36	-21.74	2.78	116.22	25.00	98.76	50.15	31.78	-27.16	-13.24	-35.68	0.09

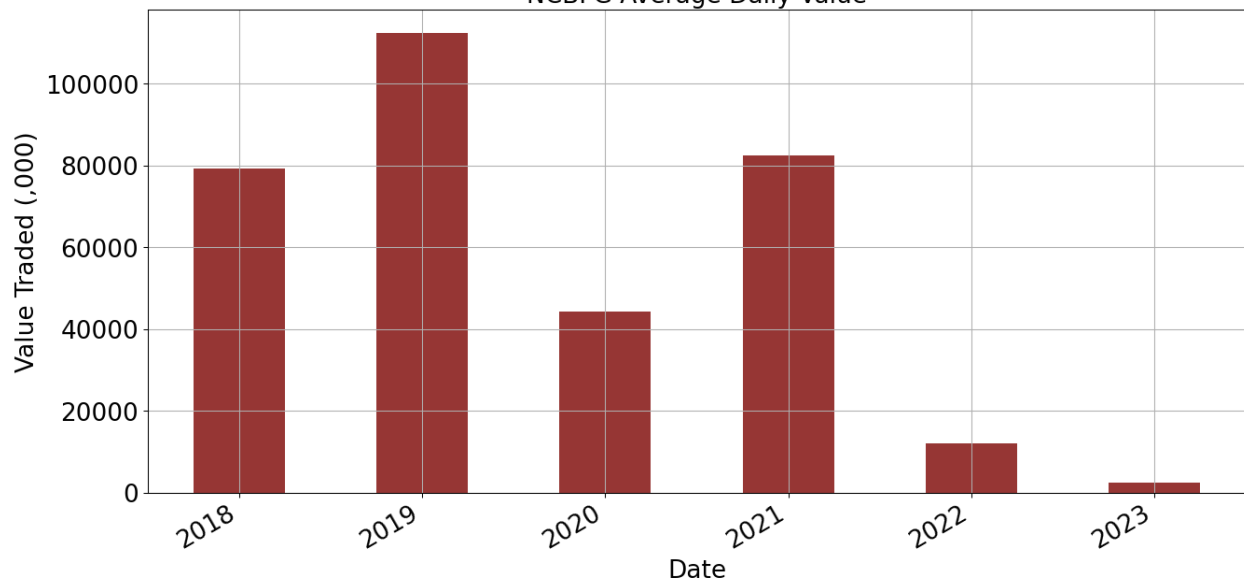
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NCBFG Average Daily Volume (ADV)

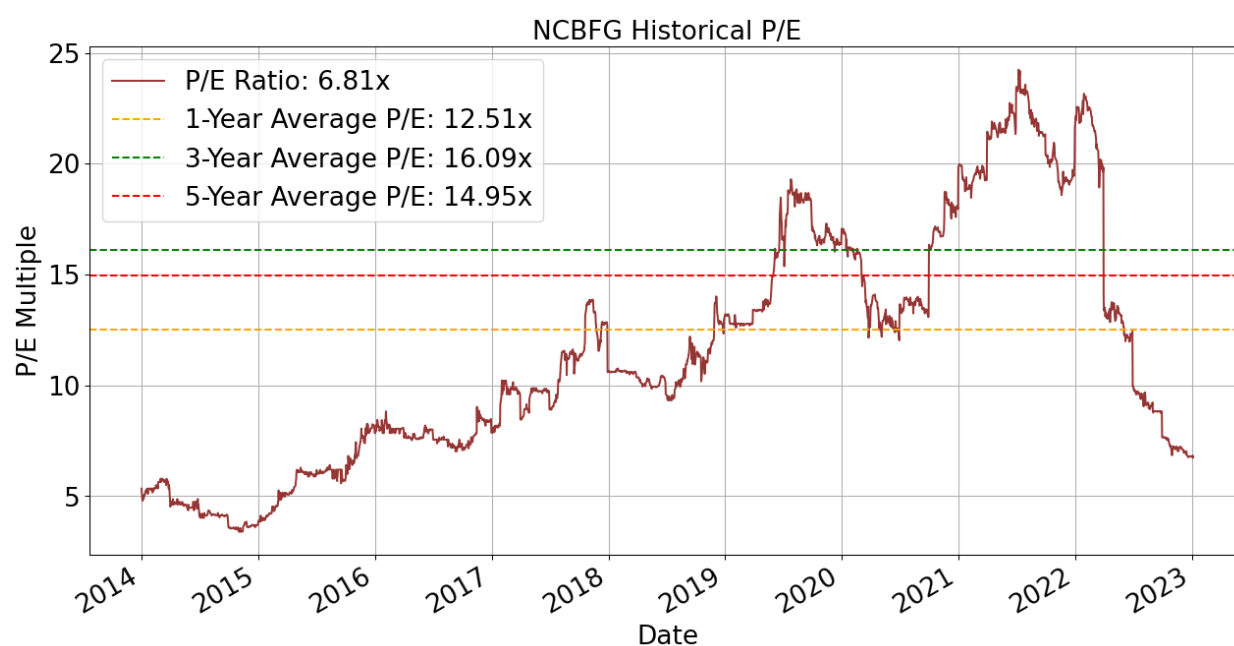
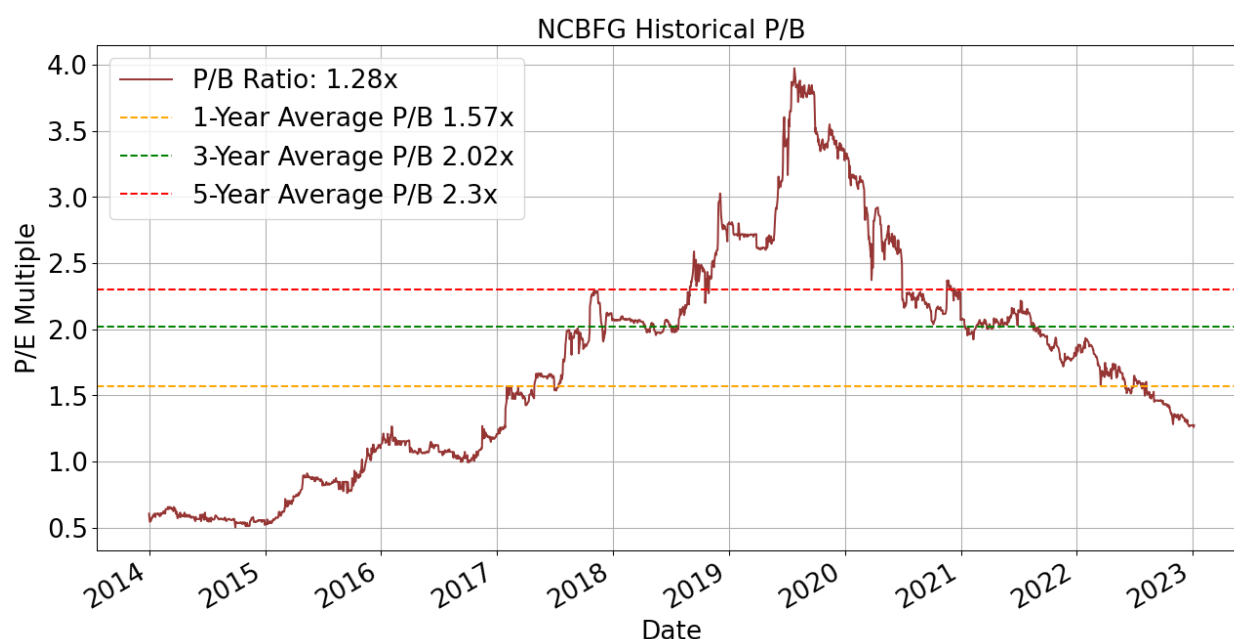


NCBFG Average Daily Value



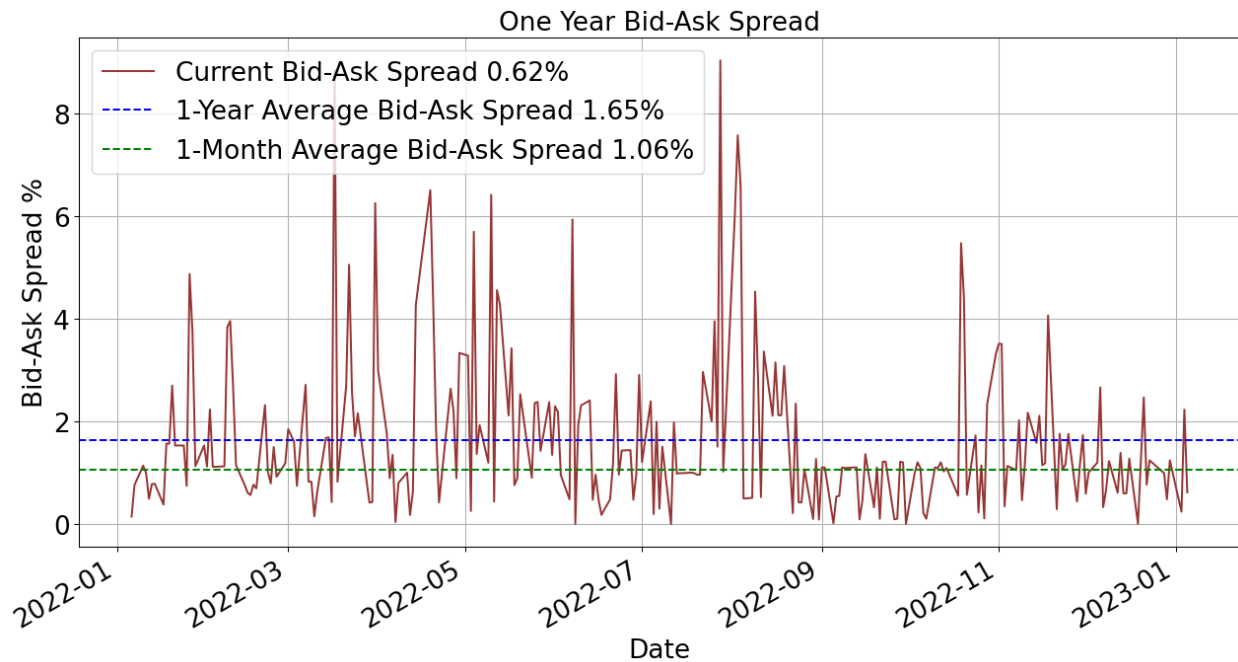
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Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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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**.

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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