SYGNUS Credit Investments (SCI) Ltd.

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Executive Summary

SCI is the largest publicly listed speciality private credit investment company in the Caribbean, with assets over US$100M. SCI's mandate is to provide alternative financing to middle-market businesses across the Caribbean. The portfolio companies typically generate between US$5M and US$25M in revenues, and to date, SCI has deployed an estimated US$251M in gross investment commitments.

The Group is in the process of substantially deepening its private credit business in specific English-speaking Caribbean territories. In contrast, the Puerto Rican private credit business is scheduled to launch its most significant financing product during the 2023/24 financial year. SCI has collectively targeted at least $300.0 million in new originations. However, it requires additional financing to meet the demand for its flexible debt financing solutions.

The Group is launching this multi-tranche public offering of preference shares to continue growing and expanding the business and finance SCI's pipeline of private credit opportunities, particularly from the Jamaican territory.

Share Class	No. of Shares	Price per Share	Yield	Term (Years)	Dollar Value of Shares	US Equivalent (US$1: J$160)
C	8,000,000	J$100	10.5%	2	J$800,000,000	$5,000,000
D	1,000,000	$10	8.0%	2	$10,000,000	$10,000,000
E	1,000,000	$10	8.5%	3	$10,000,000	$10,000,000
Total Being Raised						**$25,000,000**

We recommend the US- and JMD-denominated SCI preference shares as **OUTPERFORM/OVERWEIGHT/BUY**.

Company Overview

SCI is the largest publicly listed speciality private credit investment company in the Caribbean, with over US$150 million in assets. SCI's mandate is to provide alternative financing to middle-market businesses across the Caribbean. The portfolio companies typically generate between US$5M and US$25M in revenues. Over the past six years since SCI began operating, it has realised an annualised loss rate of less than 0.3 per cent on the estimated US$251.0 million of capital deployed across the Caribbean region.

SCI presents an alternative channel to financing than traditional lending, as it specialises in non-traditional forms of credit that are more customisable and flexible. SCI aims to generate risk-adjusted returns, emphasising principal protection by generating current income and, to a lesser extent, capital appreciation. The Company invests primarily in instruments such as bilateral notes and bonds, preference shares, asset-backed debt, mezzanine debt, convertible debt and other forms of structured private credit instruments.

Since its start of operations, SCI has raised US$61M in equity capital through a private sale of shares in 2017, an initial public offering (IPO) in 2018 and an additional public offering (APO) in 2020. In August 2023, SCI was assessed by Caribbean rating agency, CariCRIS, to have an investment grade rating of "jmBBB+" with a stable outlook on the Jamaican national scale and "cariBBB-" with a stable outlook on the regional rating scale by the Caribbean rating agency CariCRIS.

On February 28, 2022, SCI acquired 93.7% of Acrecent Financial Corporation ("AFC" or "Acrecent"), a private credit firm in the US territory of Puerto Rico, with assets under administration at the time of acquisition of US$151M and total assets of US$81M. SCI concluded the full integration of AFC into its operations, effective at the end of the 2023 financial year-end. SCI also increased its stake in AFC from the initial 93.7% to 95.0% during the June quarter. AFC is not consolidated into the financials of SCI as it uses GAAP instead of IFRS.

<u>Board of Directors</u>

Name	Bio
Linval Freeman, FCA, FCCA – Independent Chairman	Linval is a Fellow of the Institute of Chartered Accountants of Jamaica (FCA) and Fellow of the Association of Chartered Certified Accountants (FCCA) and a Justice of the Peace for Kingston and St. Andrew. Linval served as Director and Assurance Partner at Ernst & Young Caribbean (EY), Jamaica Office, between 2003 and 2018. During his tenure,

	Linval was instrumental in the establishment of the Advisory Service Line and the growth and development of the Assurance Service Line. He retired from the partnership on 31 July 2018. Prior to joining EY, he was a Director of PwC. Linval was appointed to the Board on December 19, 2019, and is also a member of the Board's Audit and Governance Committee. Linval is also the current Director and Chairman of the Audit and Governance Committee for Sygnus Real Estate Finance Limited. He is also a Director at Canopy Insurance Limited and a member of Council and Chairman of the Audit Committee of the University of Technology.
Ian Williams, MBA, BSc – Independent Non-Executive Director	Ian Williams is currently the President and CEO of ZNW Management and Consultancy Limited. Ian works with companies that do not have a presence across the Caribbean market to help establish new relationships and sales in the region. Previously, Ian worked with CIBC FirstCaribbean International Bank (FCIB) for 15 years, primarily within Treasury. Prior to leaving the FCIB, Ian was the Director and Head of Foreign Exchange Sales. Ian was appointed to the Board on July 1, 2017,
Damian Chin, MSc, BA, BSc – Independent Non-Executive Director	Damian is Director of Treasury/Finance at Sandals Resorts International Limited. He is also a Director of the ATL Group Pension Fund Trustees Nominee Limited. Damian was appointed to the Board on November 9, 2017, and is the Chairman of the Board's Enterprise Risk Committee.
Horace Messado, FCA, MBA – Independent Non-Executive Director	Horace is Chairman of Sygnus Real Estate Finance Limited and is a financial and regulatory consultant practising in the Jamaican and US markets. Some previous roles that Horace held include former Director of Corporate Finance and former Financial Controller at the Jamaica Public Service Company Limited; former Group Controller at MaruEnergy Caribbean Limited; former Audit Senior at Ernst & Young and former Senior Accountant at KPMG. He also acted in the roles of Trustee and Chairman of the Investment Committee of one of the largest pension funds in Jamaica. Horace was appointed to the Board on March 25, 2022. He is also the Chairman of the Audit and Governance Committee.
Hope Fisher, BSc – Independent Non-Executive Director	Hope Fisher is a Civil Servant with the Ministry of Labour & Social Security where she is currently the Director of the Bond Portfolio at the National Insurance Fund ("NIF"). She has responsibility for monitoring of the fixed income portfolio and developing the strategy to capitalise on investment opportunities. Hope was appointed to the Board on February 16, 2018, and is a member of the Board's Enterprise Risk Committee.
Peter Thompson, CFA, MSc – Independent Non-Executive Director	Peter is Group Client Investment Manager at JMMB Group Ltd. where he is responsible for the build-out of the process and structures for the management and service delivery for client portfolios across the JMMB Group. Previously he was Senior Investment Manager for Client Portfolios, Manager for Group Product Portfolio and Business Development Manager

	at JMMB Ltd. Peter was appointed to the Board on November 9, 2017, and is a member of the Board's Enterprise Risk Committee.
Ike Johnson, PhD, CFA – Non-Executive Director	Ike is Executive Vice President and Chief Operating Officer, Sygnus Group and Managing Director, Sygnus Puerto Rico Group. Ike's career started at Jamaica Money Market Brokers (JMMB), where he served as Market Risk Analyst, providing key quantitative analytical tools and introducing important risk monitoring and reporting mechanisms. He left JMMB for three years to pursue his doctoral studies in the UK, and then re-joined the company as their Senior Strategy Management Officer. Ike also served as Assistant Vice President of Business Analytics and Product Development for Scotia Investments Jamaica, a subsidiary of the Scotiabank Group. Ike was appointed to the Board on January 13, 2017.

SCI Financial Performance (USD) – Year ended June 30, 2023

Profitability

The company has reported a year-over-year increase in interest income to $14.1 million, representing a 37.9 per cent or $3.9 million increase. Interest expense increased year-over-year by 91.2 per cent to $6.0 million, resulting in a 14.5 per cent increase in net interest income to $8.14 million (FY 2022: $7.1 million).

Management notes that the interest income performance was driven primarily by growth in the private credit portfolio with higher yields. In contrast, increased debt capital levels and higher debt costs led to higher interest expense. Net interest income includes interest expenses for financing the Acrecent acquisition. However, no corresponding interest income line item exists since AFC would not have met the accounting requirements for consolidation with SCI's financials. Thus, there was an apparent "gapping" of net interest income, reflecting lower-than-expected net interest income.

Income and fair value gains from the Puerto Rico Credit Fund ("PRCF") investment compensate for this apparent "gap" in net interest income due to AFC. It represents the value flowing through to SCI from the financials of the Puerto Rico business. This value was marked-to-market and is part of the total fair value in the audited financial statements.

The total income generated from the Puerto Rico business was $1.3 million this year, which is lower than last year's income of $4.0 million. Out of this total income, PRCF investment contributed $372.4 thousand this year, compared to $1.1 million last year. Additionally, there was a fair value gain of $886.5 thousand this year, as opposed to $2.9 million last year. The decrease in income was mainly due to tax-related adjustments and upfront provisioning related to the deployment of assets driven by the company's origination activity in June 2023.

To a lesser extent, fee income marginally impacted total income. Fee income increased by 788.1 per cent to $379.2 thousand (FY 2022: $42.7 thousand) due to the growth in the group's private credit portfolio.

As a result, for the 2023 financial year end, SCI reported a Total Income of $9.8 million. This represents a year-over-year decline of 12.1 per cent or $1.4 million. The decline was primarily attributable to the decline in income attributed to the Puerto Rico business.

The company's total expenses decreased by $2.7 million or 37.5 per cent year-over-year, bringing them down to $4.5 million in 2023. The expenses declined due to a significant decrease in the provision for impairments. The impairment allowances amounted to $844.9 thousand, compared to the prior year's figure of $3.8 million in 2022. This year's lower provision mainly reflected fewer non-performing assets when compared to the previous year. Last year, SCI took full provision on a hospitality portfolio company in the Cayman Islands that was charged off. The company is still pursuing all options concerning the Cayman Islands asset. The 2023 financial year figure primarily reflected higher allowances for a portfolio company in the mining and quarrying industry.

The company's management, performance, and corporate fees increased significantly compared to the previous year. Management and corporate services fees were higher due to managing more assets, while performance fees increased because the company exceeded the hurdle rate. Professional fees also contributed to the overall increase in fees. Other expenses, such as professional and directors' fees, also increased.

As a result of the increase in revenues, the company's profit before tax increased by 34.5 per cent to $5.3 million, up from $3.9 million booked the prior year. Net income increased by 34.3 per cent or $1.3 million to $5.1 million. However, taxes rose by 41.3 per cent to $136.2 thousand. Despite the increase in taxes, the company's return on average equity for shareholders increased to 7.5 per cent from 5.7 per cent in the previous period.

Liquidity & Solvency

Total assets grew by 19.8 per cent to $163.9 million or a monetary amount of $27.0 million for the 2023 financial year-end. The year-over-year increase in total assets was primarily attributed to the 25.1 per cent increase in investments to $151.2 million and the 41.5 per cent increase in interest receivables to $5.2 million. Total assets are mainly comprised of $24.9 million attributed to the Puerto Rico Credit Fund, $22.6 million in investments measured at fair value through profit and loss, $103.70 million in investments measured at amortised cost and $263.2 thousand in finance leases measured at amortised cost.

It should be noted that there was an $83.6 million decrease in lease receivables and a 47.3 per cent decline in cash and cash equivalents to $4.5 million, which slightly offset the growth in total assets.

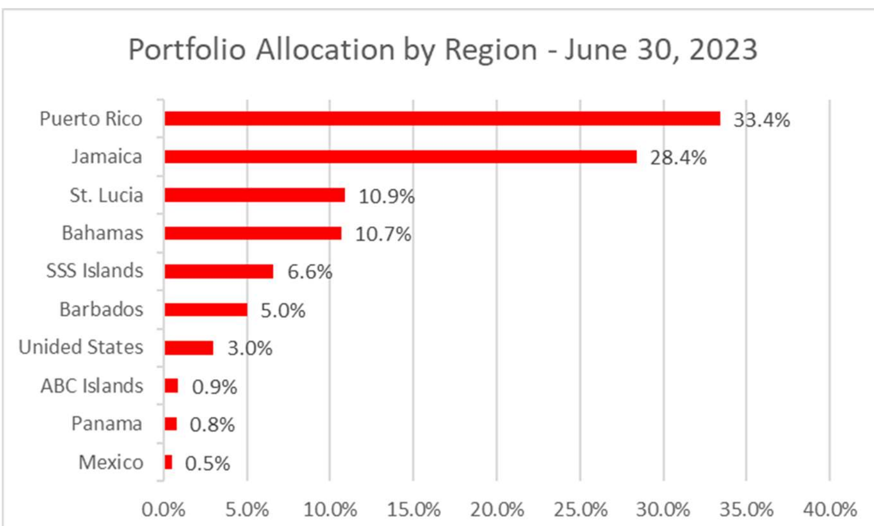
Sygnus Credit Investments		Historical				
	Units:	FY19	FY20	FY21	FY22	FY23
Net interest income	*$US '000*	3,168.0	4,492.0	6,424.2	7,104.8	8,135.3
Non-interest Income	*$US '000*	186.4	81.6	1,503.8	4,020.1	1,638.0
Total expenses	*$US '000*	1,303.8	2,619.3	2,869.6	7,205.3	4,502.5
Profit before taxes	*$US '000*	2,050.6	1,954.4	5,058.3	3,919.5	5,270.8
Net Income	*$US '000*	2,050.6	1,972.8	5,028.3	3,823.1	5,134.6
Total assets	*$US '000*	38,145.9	61,039.6	87,870.4	136,794.0	163,864.4
Total liabilities	*$US '000*	559.4	23,367.3	21,134.4	69,331.5	94,057.4
Total debt	*$US '000*	-	21,383.0	19,148.1	64,437.1	89,949.5
Shareholders' equity	*$US '000*	37,586.5	37,672.4	66,736.1	67,462.5	69,807.1
Efficiency ratio	*%*	38.9%	57.3%	36.2%	64.8%	46.1%
Management expense ratio	*%*	3.5%	5.3%	3.9%	6.4%	3.0%
Net profit margin	*%*	61.1%	43.1%	63.4%	34.4%	52.5%
Return on equity	*%*	5.5%	5.2%	9.6%	5.7%	7.5%
Debt-to-Income	*Times*	0.00 x	4.68 x	2.42 x	5.79 x	9.20 x
Debt-to-Assets	*Times*	0.00 x	0.35 x	0.22 x	0.47 x	0.55 x
Debt-to-Equity	*Times*	0.00 x	0.57 x	0.29 x	0.96 x	1.29 x

During the fiscal year ending June 2023, SCI's investment in Portfolio Companies, excluding PRCF, was diversified across a record 13 major industries and seven territories. This represents an increase from the previous year, which saw investment in 11 industries and eight territories. The newest industry exposures during the year were a health and sanitation business in Jamaica and a transportation business in the Bahamas. Jamaica represented the largest territory allocation at 43.4 per cent, while financial services represented the most significant industry at 21.6 per cent.

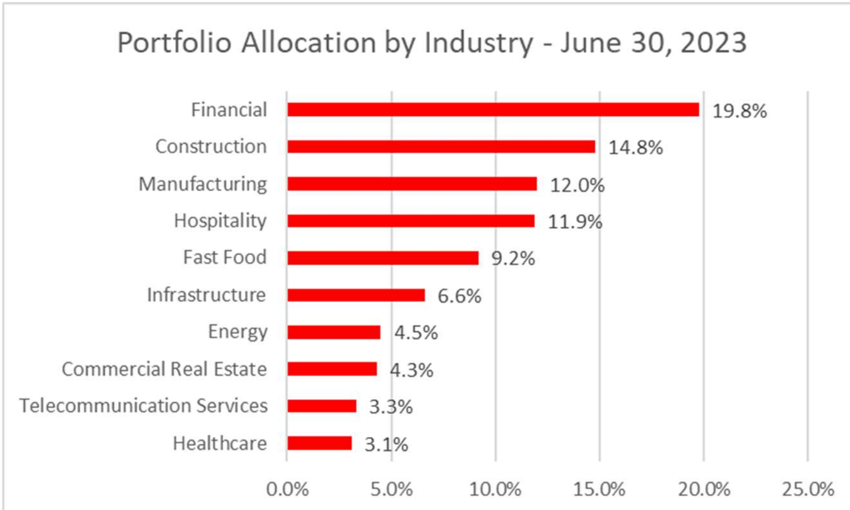
SYGNUS Credit Investments (SCI) Ltd.

Summary of Investment Activity	Units	FY22	FY23
Fair value of investment in portfolio companies	$US M	122.5	151.5
Excluding PRCF	$US M	98.3	126.6
New investment commitments during period	$US M	49.2	31.2
Dry powder to be deployed*	$US M	8.5	4.5
Number of Portfolio Company Investments	#	30	39
Average Investment per Portfolio Company	$US M	3.3	3.2
Weighted Average Term of Portfolio Company Investments	Years	1.8	1.3
Weighted Average Fair Value Yield on Portfolio Companies	%	13.3%	14.8%
Non-performing Portfolio Company Investments	#	2	2
Non-performing Investments Ratio	%	2.3%	1.4%

When considering the combined portfolio, including PRCF's underlying holdings, investments were diversified across 22 industries and ten territories. The highest allocation of SCI's combined portfolio came from Puerto Rico at 33.4 per cent, followed by Jamaica at 28.4 per cent, St. Lucia at 10.9 per cent, and the Bahamas at 10.7 per cent. It is worth noting that assets from Panama and Mexico were legacy assets "ring-fenced" during the acquisition of AFC and are being closed out.



SYGNUS Credit Investments (SCI) Ltd.



The dry powder on the Group's balance sheet is $4.47 million, including short-term instruments and cash. The Company also has revolving credit lines that are yet to be used. As of the end of the 2023 financial year, SCI's total debt increased by 39.6 per cent to $89.9 million (compared to $67.5 million in 2022). The increase in SCI's total assets was funded through capital raised from multi-series debt instruments and preference shares. As of June 2023, SCI's total liabilities amounted to $94.06 million, up from $69.3 million the previous year. Most of the liabilities, $77.07 million, consisted of notes payable, while $7.96 million were loans and borrowings. Total shareholders' equity increased by $2.33 million, or 3.5 per cent, to $69.8 million.

Share capital amounted to $60.9 million, unchanged from the start of the year, whilst retained earnings rose 39.4% or $2.6M to $9.2 million, driven by the $5.1 million net profit for the year, partially offset by a $2.5 million dividend declaration. Shareholders' equity amounted to $69.8 million, up 3.5% year-over-year. In June 2023, SCI launched its share buy-back program to deliver shareholder value and fulfil its promise to shareholders, as stated in the company's articles of association. Over three trading days, 2,614,799 shares were repurchased on the open market, including 136,525 USD ordinary shares and 2,478,274 JMD ordinary shares, amounting to a total spend of approximately US$ 246 thousand.

SCI's debt-to-equity stood at 1.29x, up from the 0.96x reported at the start of the year, slightly above management's target threshold of 1.25x and below the 2.0x limit. Debt to assets stood at 0.55x, also slightly above the target threshold of 0.50x.

Profitability, Efficiency and Management Expense Ratios

The company has had an increase in its return on average equity ("ROE") of 7.5 per cent in 2024, relative to 5.7 per cent in 2023. Return on average assets has remained flat year-over-year, amounting to 3.4 per cent. The increase in ROE was a result of the company leveraging itself with more debt.

Net profit margin has been volatile over the last five years but has increased year-over-year to 52.5 per cent from 34.4 per cent. The increase in net profit margin is primarily attributed to a one-off expense related to an impairment allowance that was recorded in 2022 relative to the current financial year.

The efficiency ratio for the company has decreased to 46.1 per cent in 2023, down from 64.8 per cent. The decrease was primarily attributed to the decline in impairment allowance from $3.8 million to $844.9 thousand. The improvement was offset by a decline in fair value gains and income from the Puerto Rico Credit Fund. The management expense ratio has improved year-over-year, from 6.4 per cent in 2022 to 3.0 per cent in 2023. The improvement reflects the lower impairment allowance at the end of the 2023 financial year.

Outlook

Over the past three years, SCI has demonstrated remarkable growth in its investment assets, which have risen from $82.8 million to $151.5 million. Despite the challenges posed by the pandemic and the global economic downturn, SCI has managed to weather the storm and even expand its operations by acquiring a business in a new territory.

SCI is on a solid growth trajectory. However, current market conditions could dampen its position to secure additional capital it once did in years prior. The company has started its share buy-back program, which will yield accretive value to shareholders. This program will continue for three years from its launch, with a total amount of up to $9.0 million allocated for repurchases.

The company is currently facing risks, which include a high inflation environment that could lead to central banks increasing interest rates in the region, thus reducing the demand for credit. The International Monetary Fund (IMF)[1] has projected that after a strong rebound from the pandemic, economic growth in Latin America and the Caribbean will moderate from 4.1 per cent

[1] https://www.imf.org/en/News/Articles/2023/10/13/pr23349-whd-regional-economic-outlook-securing-low-inflation-and-nurturing-potential-growth

in 2022 to 2.3 per cent in 2023 and remain around this rate in 2024. According to the latest IMF Regional Economic Outlook report for the Western Hemisphere, inflation is expected to converge gradually toward central banks' targets.

Locally in Jamaica, the report outlines that the country will experience real GDP growth of 2.0 per cent and 1.8 per cent for 2023 and 2024, respectively. The report also highlights the IMF's expectation that the inflation rate will rise at 5 per cent for 2023 and 2024. This bodes well for SCI as the company intends to deploy the bulk of any capital raised over the short term in the Jamaican market. It is, therefore, not anticipated that there will be significant risk. However, given the tightness in the market, the company may not be able to raise all the money required to continue on its double-digit growth path.

SCI's main priorities during this post-COVID adjustment period are to proactively manage the risk of its private credit investment portfolio, maintain ample liquidity and a flexible capital structure, deepen partnerships and build new relationships across the Caribbean to widen its regional footprint and grow the business.

The Group is in the process of substantially deepening its private credit business in specific English-speaking Caribbean territories. In contrast, the Puerto Rican private credit business is scheduled to launch its most significant financing product during the 2023/24 financial year. SCI has collectively targeted at least $300.0 million in new originations. However, it requires additional financing to meet the demand for its flexible debt financing solutions. SCI is in advanced discussions with international financing partners to diversify its funding base as it seeks to secure at least $100.0 million in medium-term financing.

Preference Share Offer Analysis

The Group is launching this multi-tranche public offering of preference shares to continue growing and expanding the business and finance SCI's pipeline of private credit opportunities, particularly from the Jamaican territory.

Share Class	No. of Shares	Price per Share	Yield	Term (Years)	Dollar Value of Shares	US Equivalent (US$1: J$160)
C	8,000,000	J$100	10.5%	2	J$800,000,000	$5,000,000
D	1,000,000	$10	8.0%	2	$10,000,000	$10,000,000
E	1,000,000	$10	8.5%	3	$10,000,000	$10,000,000
Total Being Raised						**$25,000,000**

The Company intends to:

i) Use the proceeds of the Preference Shares to pay its capital raising and Listing Expenses (estimated at US$1,025,000.00)

ii) Invest and hold the net funds raised from the Preference Share Invitation in customised credit instruments issued primarily by Medium-Sized Firms across a broad range of sectors, including but not limited to manufacturing, distribution, financial services, energy, industrial, construction, transportation, infrastructure and business services. The Company expects to earn income from interest paid on the credit instruments comprised in its investment portfolio.

These instruments will pay dividends quarterly starting March 30, 2024, then on the 30th of June, September, December and March after that and are payable on a 30/360-day basis. All three instruments will make coupon payments in the denomination in which they were issued.

SYGNUS Credit Investments (SCI) Ltd.

ɔt Instrument (US$ M)	Current Due	Total Due	Balance	Rates	Date Due
Senior unsecured J$ notes	9.7	9.7	-	Fixed rate unsecured notes with interest rates ranging between 6.50% and 9.25% per annum, payable quarterly	These notes mature between October 29, 2023 and January 2, 2024.
Senior unsecured US$ notes	28.8	32.8	3.9	Fixed-rate unsecured notes with interest rates ranging between 5.00% and 7.50% per annum, payable quarterly.	The notes mature between October 29, 2023 and October 28, 2026.
Unsecured US$ indexed notes	21.2	31.2	10.0	Fixed-rate unsecured notes with interest rates ranging between 5.00% and 9.25% per annum, payable quarterly.	The notes mature between October 29, 2023 and October 28, 2026.
Secured US$ indexed note	3.4	3.4	-	Fixed-rate secured note bearing an interest rate of 8.00% per annum payable at maturity.	The note matures on November 22, 2023.
Revolving lines of credit 1 (Sagicor)	3.2	3.2	-	Interest is payable quarterly at 6.75% (JMD rate of 10.00%).	This facility matures on February 13, 2024
Revolving lines of credit 2 (JMMB)	4.8	4.8	-	Interest is payable quarterly at 8.00% (JMD rate of 10.00%).	This facility matures on March 31, 2024.
JMD Cumulative Convertible Pref Shares	-	2.1	2.1	Cumulative dividend payable quarterly at 8.5%	
USD Cumulative Convertible Pref Shares	-	2.8	2.8	Cumulative dividend payable quarterly at 6.0%	
Total	**71.1**	**89.9**	**18.8**		

As highlighted previously, the audited financial statements for June 30, 2023, show that the company has a total of $89.9 million in debt. A deeper analysis of this total debt shows that $71.1 million, or 79.1 per cent, needs to be paid by the end of the June 30, 2024, financial year-end.

Credit Ratios	Units	FY19	FY20	FY21	FY22	FY23
Investment Assets to Total Debt	*Times*	*N/A*	*2.51 x*	*4.32 x*	*1.90 x*	*1.68 x*
Excluding Puerto Rico Credit Fund	*Times*	*N/A*	*2.51 x*	*4.32 x*	*1.53 x*	*1.41 x*
Net Interest Margin	%	100.00%	83.45%	78.14%	69.54%	57.76%
Net Interest Income to Average Earning Assets	%	9.33%	10.26%	9.42%	7.84%	7.23%
Interest Coverage Ratio	*Times*	*N/A*	*3.19 x*	*3.81 x*	*2.26 x*	*1.89 x*
Net operating income	US$ M	5.1	7.3	3.6	1.0	4.4
Interest Paid	US$ M	-	0.9	1.8	3.1	5.9
Principal Paid	US$ M	-	-	2.0	13.5	44.5
Debt Service Coverage Ratio	*Times*	*N/A*	*8.14 x*	*0.94 x*	*0.06 x*	*0.09 x*
Encashments of Investments	US$ M	14.1	60.0	29.0	23.4	12.0
Principal Paid Net of Encashments	US$ M	(14.1)	(60.0)	(27.0)	(9.9)	32.5
Debt Service Coverage Ratio (Net of Encashments)	*Times*	*N/A*	*N/A*	*N/A*	*N/A*	*0.11 x*

Net Interest Margin has declined from a high of 83.5 per cent in 2020 to 57.8 per cent in 2023. Similarly, Net Interest Income to Average Earning Assets has declined from 10.3 per cent in 2020 to 7.2 per cent in 2023. Lastly, Interest Coverage Ratio has fallen from a high of 3.8 times in 2021 to 1.89 times.

As highlighted previously, Net interest income in the last two financial years includes interest expenses for financing the Acrecent acquisition. However, no corresponding interest income line item exists since AFC would not have met the accounting requirements for consolidation with SCI's financials. Thus, there was an apparent "gapping" of net interest income, which would impact the net interest-related ratios.

For lending institutions, debt is an operating asset and, as such, makes the standard interpretation of the interest coverage ratio less appropriate. The Debt Service Coverage Ratio ("DSCR"), which considers both interest and principal payments, is more applicable for firms engaged in lending. It provides a clearer picture of a company's ability to manage its debt obligations. A DSCR of one or greater suggests a healthy financial status and indicates that the institution has sufficient income to cover its debt obligations.

The DSCR for Sygnus Credit Investments has declined to 0.06 times and 0.09 times at the end of the 2022 and 2023 financial year-ends. While this can be construed as a concern, it must be noted that the Investment Assets (excluding the Puerto Rico Credit Fund) to Total Debt is 1.41 times. Prudent investment management has ensured that SCI is not significantly leveraged, which would result in the company needing help to meet its debt obligations. The assets total $126.6 million and can more than cover the amounts due by the end of the 23/24 financial year-end. The weighted average term for a portfolio company investment is 1.3 years or about 16 months.

After considering encashments of investments, the debt service coverage ratio calculated using principal paid net of encashments improved significantly. The company had excess cash at the end of each year after making principal payments, except for the 2023 financial year.

The instruments offered to the market by SCI offer investors an aggregate internal rate of return of 8.67 per cent over three years. This return being delivered to investors is lower than the weighted average fair value yield on portfolio companies of 14.8 per cent as of June 30, 2023. SCI's investment yield is expected to benefit from the current high-interest rate environment in the short term, as companies in Jamaica will find it challenging to raise capital because of the current market conditions.

Recommendation

Share Class	Currency	Yield	GOJ Yield	Spread (bps)	Term (Years)
C	J$	10.5%	7.26%	324.50	2
D	US$	8.0%	6.90%	109.90	2
E	US$	8.5%	6.63%	187.30	3

We recommend the US- and JMD-denominated SCI preference shares as **OUTPERFORM/OVERWEIGHT/BUY.**

The Jamaican-denominated “C” class shares will yield over 300 basis points above a similar debt-like instruments issued by the Government of Jamaica. The US$-denominated “D” and “E” class shares will yield over 100 basis points and 180 basis points, respectively, above the reference similar debt-like instruments issued by the Government of Jamaica.

There are two main risks an investor will need to be aware of when deciding to invest in the offer from SCI. The first is the credit risk associated with each of SCI’s obligors. To date, the company has not had any significant losses that would require a write-off and have a material impact on the business.

The other potential risk investors must consider is the timing concerning making loan repayments to debt capital providers relative to SCI receiving repayments on loans from their obligors upon maturity. It is very much possible, especially given the current nature of the market, that Sygnus may have a debt repayment to make but has money tied up in its portfolio and cannot raise capital for refinancing. This would result in a delay in principal payments to debt holders.

Despite this, we believe the risk of continuous high-interest rates in the next two to three years when the preference shares are due is low. The Bank of Jamaica is anticipated to lower interest rates by then. In our worst-case scenario, since the repayment date is at least two years from now, the company will have ample time to slow down on the investments being made and put aside monies from encashments of investments to repay debt capital providers as they have done in the prior two years after raising debt.

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, APO Prospectus, Company Financials

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/ STRONGLY 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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