

NCB Financial Group Limited

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Company Background

NCB Financial Group Limited ("the Company") is incorporated and domiciled in Jamaica. The Company is 49.29% owned by AIC (Barbados) Limited. The ultimate parent company is Portland Holdings Inc., incorporated in Canada. Portland Holdings Inc. is controlled by Hon. Michael A. Lee-Chin, OJ, Chairman of the Company. During March 2017, a Scheme of Arrangement became effective which resulted in a re-organisation of the Group. The Company's registered office is located at 32 Trafalgar Road, Kingston 10, Jamaica. The Company's ordinary stock units are listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

National Commercial Bank Jamaica Limited ("the Bank") became a wholly owned subsidiary of the NCB Financial Group Limited ("the Company"). The 2,466,762,828 ordinary stock units of the Bank were acquired by the Company and the former shareholders of the Bank were issued 2,466,762,828 ordinary stock units of the Company in exchange for their shares in the Bank. Consequently, the shares of the Bank were delisted and the shares of the Company were listed on the Jamaica Stock Exchange (JSE) and Trinidad and Tobago Stock Exchange (TTSE), effective March 16, 2017. The re-organisation has been accounted for retrospectively. The comparative financial information for previous periods has therefore been presented as if the re-organisation was in effect during those periods.

Abridged Financials:

J\$ Million	Year Ended September									9-months ended June		Change %
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016	2017	
Total Interest Income	29,402.57	35,460.70	33,304.29	30,191.94	30,475.97	32,810.39	36,899.63	37,485.88	39,156.35	29,209.41	31,629.91	8.3%
Interest Expenses	13,576.27	16,580.72	12,654.65	9,041.08	8,691.88	9,251.40	12,238.96	11,521.85	11,032.58	8,173.45	9,437.11	15.5%
Net Interest Income	15,826.30	18,879.97	20,649.64	21,150.86	21,784.09	23,558.99	24,660.67	25,964.03	28,123.77	21,035.97	22,192.80	5.5%
Non Interest Income	8,893.75	8,261.02	8,773.71	13,521.34	12,762.86	14,406.60	18,592.98	21,508.89	23,933.94	17,029.21	22,023.42	29.3%
Total Operating Income	24,720.06	27,140.99	29,423.36	34,672.20	34,546.95	37,965.58	43,253.65	47,472.92	52,057.71	38,065.17	44,216.22	16.2%
Operating Expenses	14,076.15	13,969.27	16,135.96	19,184.46	22,279.49	27,819.19	29,336.94	31,471.73	33,961.64	25,690.38	28,002.40	9.0%
share of profits of assoc., goodwill & asset c	164.10	(38.09)	200.71	2,102.36	935.19	861.18	1,553.18	382.92	832.48	389.42	2,222.95	470.8%
Profit Before Taxation	10,808.01	13,133.64	13,488.11	17,590.09	13,202.65	11,007.57	15,469.89	16,384.10	18,928.55	12,764.22	18,436.78	44.4%
Net Profit	8,701.17	10,248.19	11,074.80	13,034.43	10,045.86	8,549.83	12,327.12	12,301.79	14,448.56	9,936.53	14,717.16	48.1%
Total Assets	291,153.40	315,096.48	334,970.01	358,767.24	379,435.52	446,575.06	499,345.09	523,815.16	607,669.43	584,799.88	665,010.14	13.7%
Total Liabilities	259,840.74	274,080.53	286,162.08	297,640.85	313,092.20	374,118.55	417,498.71	435,420.95	504,564.12	488,277.38	553,326.86	13.3%
Shareholder's Equity	31,312.66	41,015.95	48,807.93	61,126.39	66,343.32	72,456.50	81,846.38	88,394.21	103,105.31	96,522.51	111,683.28	15.7%
EPS (\$)	3.53	4.15	4.49	5.28	4.07	3.47	5.00	4.99	5.86	4.03	5.97	
Book Value per Share (\$)	12.69	16.63	19.79	24.78	26.89	29.37	33.18	35.83	41.80	39.13	45.28	
Key Ratios												
Net Margin	22.7%	23.4%	26.3%	29.8%	23.2%	18.1%	22.2%	20.9%	22.9%	21.5%	27.4%	
Pre-tax Margin	28.2%	30.0%	32.1%	40.2%	30.5%	23.3%	27.9%	27.8%	30.0%	27.6%	34.4%	
P/E Ratio	5.67	3.13	3.90	5.16	5.36	5.42	3.58	5.68	7.09	10.45	11.69	
Price / Book Value	1.58	0.78	0.88	1.10	0.81	0.64	0.54	0.79	0.99	1.08	1.54	
Return on Average Equity	29.1%	28.3%	24.7%	23.7%	15.8%	12.3%	16.0%	14.5%	15.1%	12.6%	16.5%	
Efficiency Ratio	56.94%	51.47%	54.84%	55.33%	64.49%	73.27%	67.83%	66.29%	65.24%	67.49%	63.33%	

Source: www.Jamstockex.com, JMMBIR

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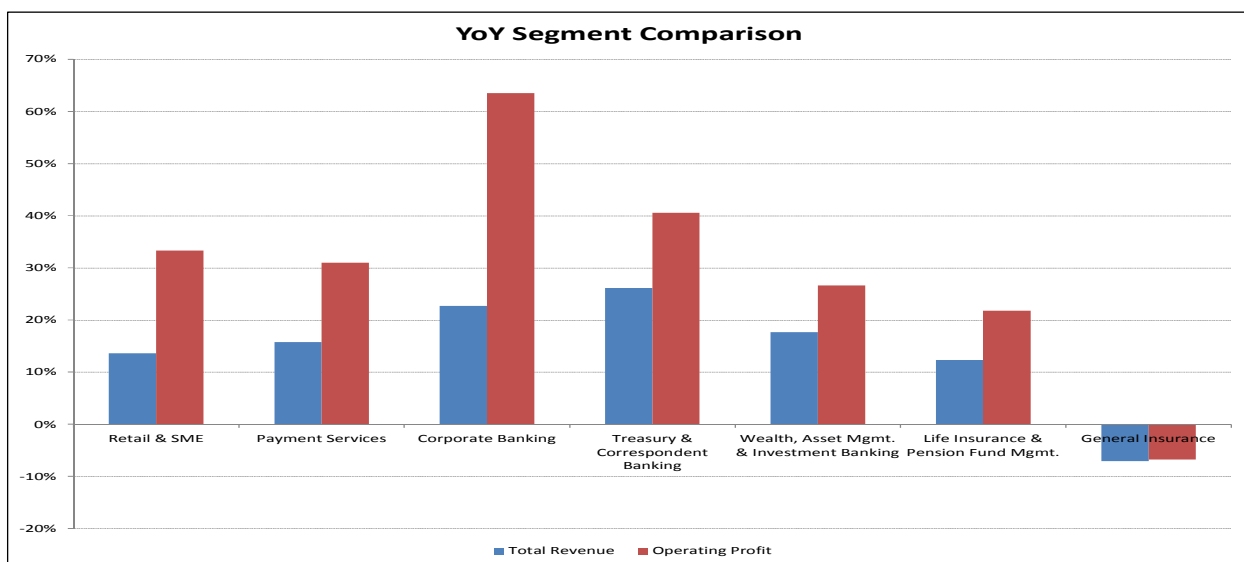
Financial overview

Net earnings for the 6-months ended June 2017 was \$14.72B, representing a 48.1% increase relative to a year ago. Net interest income grew by 5.5% from \$21.04B to \$22.19B on account of growth in the loan portfolio and a decline in funding costs. Meanwhile, non-interest income increased by 29.3% to \$22.02B from \$17.03B generated in the previous year. This outturn in non-interest income emanated from gains on foreign currency and investment activities and improvements net of fee and commission income. The movement in net fee and commission income emanated from growth in unit trust portfolios and increases in pension management fees. As a result, earnings-per-share (EPS) amounted to \$5.97 compared to \$4.03 for the same period last year.

Operating expenses increased by 9.0% or \$2.3B to \$28.0B for the 6-months ended June 2017. During the review period, staff costs increased by 18% or \$1.9B due to increases in salaries and benefits. Other operating expenses rose 11% or \$1.1B due to increased asset tax charges, property and ABM maintenance expenses and professional fees associated with its strategic initiatives.

The asset base of the NCB Financial Group Limited has increased by 13.7% to close at \$665.01B relative to \$584.8B a year ago. The improvements in the asset base emanated mainly from investment securities and growth in the loan portfolio. Influenced mainly by the growth in deposits, obligations under securitization arrangements and other borrowed funds; total liabilities rose 13.3% to \$553.33B from \$488.28B last year. Shareholders' equity rose 15.7% to \$111.68B as at June 2017 on account of increases in retained earnings and retained earnings reserves.

Graph 1: Segment Performance



Source: www.jamstockex.com, Bloomberg and JMMBIR

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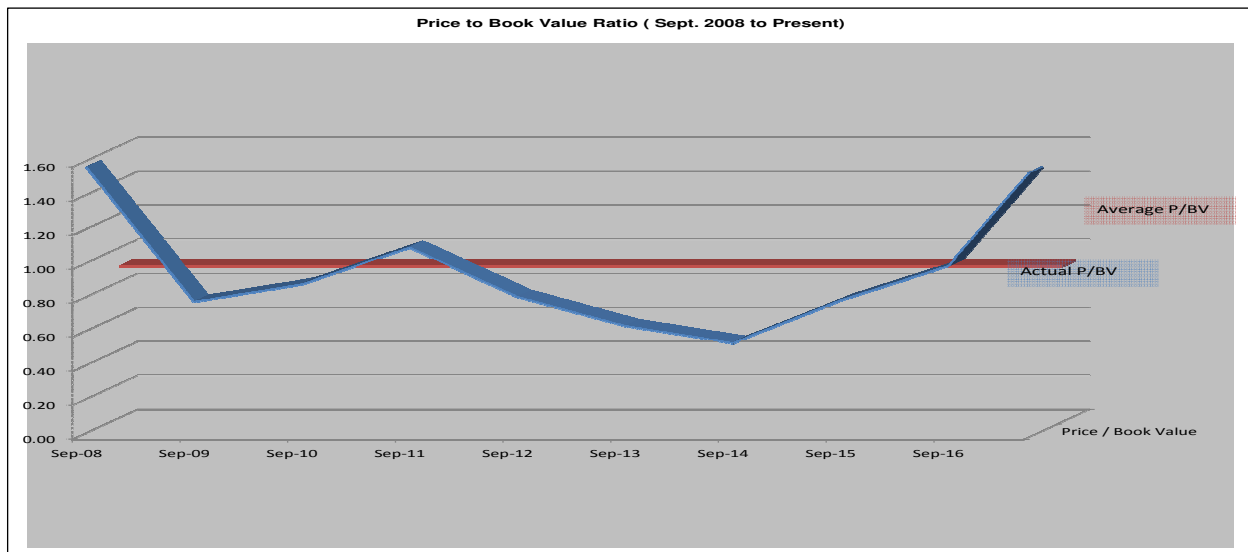
All segments showed some improvements with the exception of general insurance registering a decline (see Graph 1). The movement in operating profit has indicated improvements in operating cost management over the review period.

Forecast and Valuation

The NCB Financial Group will continue its push to deepen its footprint in the region through expansion into the Cayman Islands, Barbados and Trinidad. One of the main strategic drives going forward is the digital transformation which should improve operating efficiencies. Some of the solutions implemented were the Go self-service, online account opening, electronic statements and the mobile money solution- NCB Quisk. Notwithstanding, the NCB Financial Group will face challenges in the management of layout and implementation costs associated with digital optimization and increased network channels.

Taking these challenges into account along with the strategic focus of the company, net earnings for the 2018 financial year-end is expected to be \$21.29B (or EPS of \$8.43). Assuming a forward price-to-earnings (P/E) ratio of 11times, the forward price of the stock at the end of the 2018 financial year is likely to be \$94.91. This represents a potential 8.10% capital gain relative to the current price of \$87.80 as at September-22-2017. From a price-to-book value standpoint, book value per share is estimated to reach \$50.20 by year ended 2018. Assuming the stock trades at a price-to-book value of 1.5 times (9-year average is 0.9 times); the projected price is \$75.30 which represents a 14% capital loss from the current price level (Graph 2: Price-to-Book Value).

Graph 2: Price-to-Book Value Ratio (September 2008-Present)



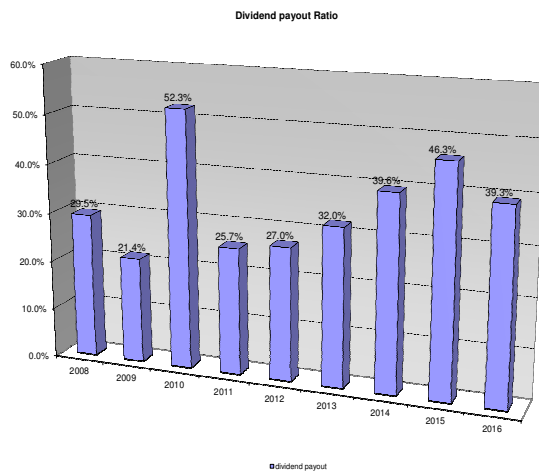
Source: www.iamstockex.com, Bloomberg and JMMBIR

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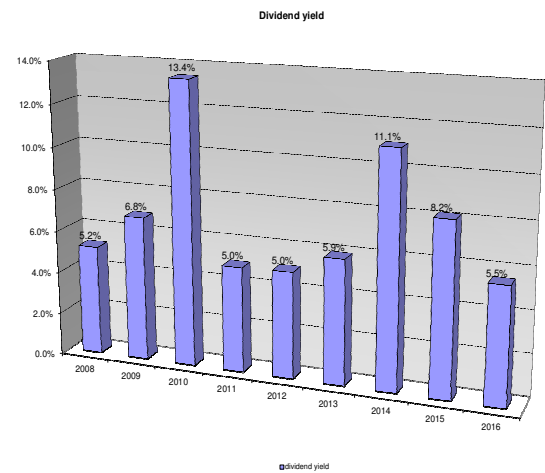
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The company has consistently paid dividend to its shareholders as is evident by the graphs below. The dividend pay-out ratio has been greater than 20% over the last 9 years with an average dividend yield of 7.4% over the review period. The pay-out ratio for 2017 remains elevated and is expected to continue over the near term.

Graph 3: Dividend payout ratio



Graph 4: Dividend yield



The value of NCBJ using the Dividend Discounted Method:

Dividend Discount Model	
Expected Dividend Payout	40%
Estimated Dividend	3.45
Value of NCB	74.06

Recommendation:

NCB has an average targeted price of \$81.42, relative to its current price of \$87.56 represents a potential 7.01% capital loss to investors. The company has paid a consistent dividend at an average yield of 6.6% over the 9 year review period. This trend should continue given the improved earning capacity. Continued improvements in operating efficiency should boost results in the medium term, which could enhance shareholders' value going forward. Given the aforementioned analysis, NCB is recommended as a hold at this time.

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**.

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UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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