

Victoria Mutual Investment Limited

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Executive Summary

Incorporated in 1984 and domiciled in Jamaica, Victoria Mutual Investments Limited (VMIL) is a wholly-owned subsidiary of The Victoria Mutual Building Society. VMIL is the parent company and sole owner of Victoria Mutual Wealth Management Limited (VM Wealth). Driven by an objective to provide competitive credit financing solutions for clients, VMIL's primary offerings include margin loans and corporate loans. VM-Wealth is a licensed securities dealer offering investment brokering, investment advisory services and securities dealing services to its clients.

In order to provide working capital support to its operations, and to allow the Company to take advantage of new business opportunities, the Company is seeking to raise J\$689,261,487.50 by inviting subscriptions for up to 300,005,000 newly issued Ordinary Shares.

Using relative value and the dividend discount models our average estimate of the fair price is \$3.19, with a range of \$2.31 to \$3.57. As such, we recommend VMIL as a BUY as we believe the stock is priced below its intrinsic value and hold a favourable view of the Company's short to medium term outlook.

Offer Details

Issuer	Victoria Mutual Investments Limited
Issue	Up to 300,005,000 Ordinary Shares. Minimum subscription of 5,000 ordinary shares with increments of 1,000.
Subscription Price	General Public - J\$2.45 VM Group Employees Reserved Shares - J\$2.08 VM Group Members Reserved Shares - J\$2.33
Use of Proceeds	To capitalise the Company to enable it to carry out its business of providing financing solutions and to take advantage of new business opportunities.
Dividend Policy	The Board of Directors expects to distribute up to 75% of the after-tax earnings of the Company to ordinary shareholders, subject to the availability of profits for that purpose and also the need to reinvest in the Company from time to time.
Listing	The Company intends to apply to the JSE for the listing on the Main Market
Timetable of Key Dates	Opening Date: 9:00 A.M. 11 December 2017 Closing Date: 4:00 P.M. 18 December 2017

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Consideration

Description	J\$ Amount
Full subscription/purchase of Reserved Shares as set out below:	
<ul style="list-style-type: none"> 75,001,250 Ordinary Shares for permanent employees of The Victoria Mutual Building Society and its subsidiaries at J\$2.08 per Ordinary Share 	156,002,600
<ul style="list-style-type: none"> 150,002,500 Ordinary Shares for: members of The Victoria Mutual Building Society and clients of Victoria Mutual Wealth Management Limited as at August 31, 2017; at J\$2.33 per Ordinary Share 	349,505,825
75,001,250 Ordinary Shares for the general public at the price of J\$2.45 per Share. If any of the Reserved Shares are not subscribed for by the persons entitled to them they will become available for subscription by the general public at the price of J\$2.45.	183,753,062.5
Total Consideration - before transaction expenses	689,261,487.5

Post-IPO Shareholdings

Shareholder	Issued Share Capital	Percentage Ownership
The Victoria Mutual Building Society	1,200,020,000	80%
Reserved – VM Group Employees	75,001,250	5%
Reserved – VM Group Members	150,002,500	10%
General Public	75,001,250	5%
Total	1,500,025,000	100%

Company Overview

Victoria Mutual Investment Limited (VMIL) was incorporated in 1984 and is domiciled in Jamaica. It is a wholly-owned subsidiary of the Victoria Mutual Building Society, established in 1878. As part of the VM Group's strategic goal of being an integrated financial group, in 2017 the organisation initiated the recapitalisation of VMIL, as a vehicle to facilitate corporate lending and investing to support well run Jamaican businesses. To date, VMIL has successfully raised \$500 Million of debt by way of a private placement. VMIL offers a range of products including margin loans, insurance premium financing, lease financing, underwriting services and secured corporate loans, managed by the financial expertise of the VM Wealth team.



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VM Wealth Management Limited (Subsidiary of VMIL)

VM Wealth has been a member of the Jamaica Stock Exchange since 1994 and operates as a licensed securities dealer and a player in the stock brokerage and capital market businesses. Over the past five years, the Company's revenue stream has transitioned from being mainly supported by fixed income and securities trading, with 70% of total revenues coming from interest income, to 70% of revenues being generated by non-interest income sources such as asset management and capital market services.

Milestones

2011 - Established the asset management business by launching its portfolio management products which has grown to \$11.2 billion as at September 2017

2011 - Launched the capital markets business, achieving a high level of annual growth, raising 46.99 Billion up to September 2017.

2016 - Launched suite of unit trusts products which stands at over \$8 billion

SWOT Analysis

Strengths:

- Member company of a well known financial group
- Led by a team of qualified professionals

Weaknesses:

- Small operation with the VM brand most commonly associated with mortgage lending. The brand is not readily associated with wealth management and capital market operations

Opportunities:

- Cross-selling to clients of other companies in the VM Group
- New lines of business such as SME lending; margin and insurance financing, etc.

Threats:

- Competition from other financial services providers
- Adverse turn in Jamaican economic trends



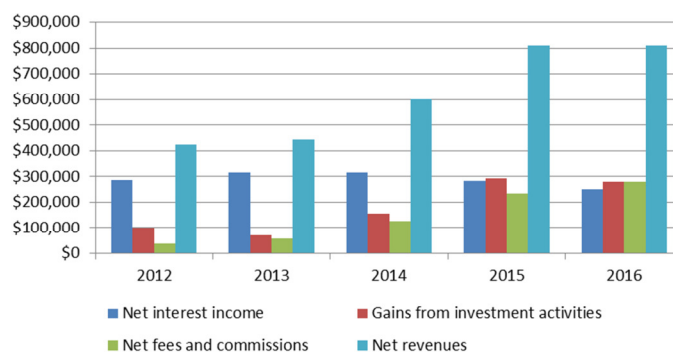
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Financial Overview – Year ended Dec. 31, 2016

Profitability

For the year ended 2016, VMIL reported net revenues of \$808.96M, relatively unchanged from the previous year. Net revenues have moved from \$422.62M in 2012 to \$808.96M in 2016, which corresponds to a compound average growth rate (CAGR) of 17.6%. This growth has been driven by non-interest income sources as net interest income as a share of total revenues has fallen over the years. Net interest income stood at \$287.71M in 2012 but has fallen at an annual average rate of 3.4% to \$250.76M in 2016, down 11.3% from the 2015 result. This can be attributed to the fall in interest rates over the past few years and contributed to the narrowing of the net interest margin which moved from 2.60% in 2013 to 1.65% in 2016.

Sources of Revenues 2012-2016



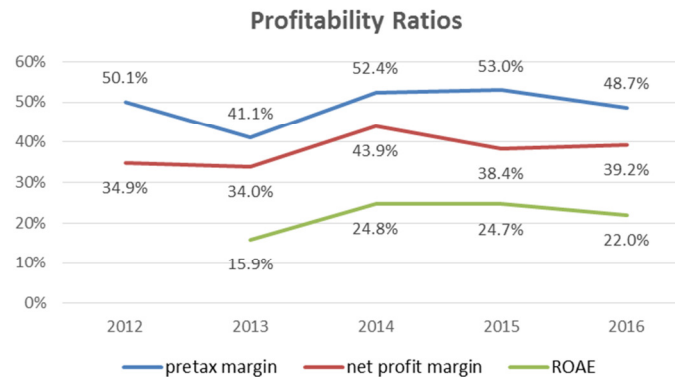
On the other hand, gains from investment activities and net fees & commissions have grown at CAGRs of 29.6% and 66.9%, respectively. Gains from investment activities moved from \$98.89M in 2012 to \$278.62M in 2016 while net fees & commissions moved from \$36.03M in 2012 to \$279.58M in 2016.

Total operating expenses amounted to \$417.07M, a 9.1% increase over the previous year. This increase was attributed to an 11.7% increase in staff costs to \$216.29M while other operating expenses rose 6.5% to \$200.78M for the year. Operating expenses have grown at an average annual rate of 18.5% since 2012.

Pre-tax profits amounted to \$393.73M for the 2016FY, down 8.2% year-over-year, however, a 35% fall in taxation expense led to a 2.0% increase in net profits for the year. A CAGR of 21.1% was observed for net profits for the 2013-2016 period. The net profit margin stood at 39.2% in 2016, up from 38.4% a year prior and 43.9% in 2014. Return on average equity for the year was 22.0%, in comparison to 24.7% for the previous year while return on average assets was unchanged at 2.0%.



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Solvency & Liquidity

For the year ended Dec. 31, 2016, VMIL reported total assets of \$16.26B, a 4.4% or 688.48M increase over the balance at the start of the year. Assets have grown at CAGR of 9.2% over the last five years. The largest asset class is investment securities, which represented 80% of all assets and amounted to \$13.08B at the close of the 2016FY. Resale agreements were up 32.8% to \$1.98B while cash & cash equivalents stood at \$316.98M, down 29.6% year-over-year.

Total liabilities amounted to \$14.65B, up 3.1% from a year prior and consisted of \$13.94B in repurchase agreements, a 4.3% increase year-over-year. Shareholders' equity rose 19.1% to \$1.57B as retained earnings climbed 10.3% to \$1.46B at the close of the 2016FY. Equity has grown at CAGR of 12.5% per annum.

Outlook & Valuation

In 2017, VM Group, as a part of its strategy to become a stronger integrated financial group, recapitalized VMIL as a vehicle to facilitate corporate lending and investing to support Jamaican businesses. The Prospectus noted that J\$500M has been raised to date by VMIL by way of a private placement. This IPO represents another fund-raising round to widen revenue streams and "tap into existing opportunities in the corporate lending landscape. As such, VMIL will offer products including: margin loans, insurance premium financing, lease financing, underwriting services and secured corporate loans, managed by the financial expertise of the VM Wealth team.

In an interview with the Jamaica Gleaner published December 6, 2017, CEO of VM Wealth Devon Barrett noted that VMIL aims to offer J\$1 billion in lending to small and medium-sized enterprises (SME) to grow the company's loan portfolio. This strategy will be partially funded from the funds raised in this IPO.

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Valuation

VMIL reported a net profit of \$273.44M for the nine-months ended September 30, 2017 on net revenues of \$732.66M. *We are forecasting revenues of \$976.88M for the year ended June 30, 2018, a 20.8% increase year-over-year. Net profits are expected to improve by 15.3% to \$365.88M, which translates to earnings per share of \$0.24* (assuming shares outstanding of 1,500,025,000).

Shareholders equity is seen increasing by 69.9% to \$2.66B or a book value per share of \$1.77. We employed price-multiples and the dividend discount model approaches to determine the fair price for VMIL. The peer group average for the P/E ratio is 14.63x which when applied to the forward EPS of \$0.24 yields a price of \$3.57. The peer group average for the P/B ratio is 1.30x, which when applied to the forward BVPS yields a price of \$2.31.

Company	Issued Shares	Market Capitalization	P/E Ratio	P/B Ratio	Return on Equity	Return on Assets
BIL	445,876,824	3,567,014,592	20.79	1.11	6.0%	1.1%
JMMBGL	1,630,552,530	43,780,335,431	14.77	1.55	10.8%	1.1%
MIL	1,201,149,291	6,125,861,384	(75.36)	0.78	-1.1%	-0.4%
NCBFG	2,466,762,828	221,268,625,672	11.58	1.91	17.4%	2.9%
SGJ	3,111,572,984	164,415,516,475	13.80	1.70	12.7%	2.4%
SIL	55,876,281	670,515,372	12.21	0.75	6.5%	5.0%
Sector Average			14.63	1.30	10.7%	2.5%
VMIL	1,500,025,000	3,675,061,250	11.58	2.35	20.0%	2.0%

With the DDM approach we assumed a growth rate of 9.5%, cost of equity of 12.68% and a pay-out ratio of 49% which resulted in a price of \$3.54 per share. Averaging these three estimates yields a price of \$3.14, 28.1% higher than the offer price of \$2.45.

Recommendation

We recommend VMIL as a BUY as we believe the stock is priced below its intrinsic value and hold a favourable view of the Company's short to medium term outlook. This stock is suitable for investors who are seeking exposure to the financial sector and a stock with potential for both capital appreciation and income generation as VMIL has paid dividends over the last five years with a pay-out ratio of approximately 50%. *Assuming a continuation of the pay-out ratio trend, we are forecasting dividends of \$0.12 per share for a yield of 4.9% which would lead to an overall potential total return of 33%.*

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Abridged Financials

J\$000	Year Ended December 31					Change %
	2012	2013	2014	2015	2016	
Net Revenues	422,623	443,326	599,951	809,634	808,958	-0.1%
Net Interest Income	287,712	316,276	317,048	282,677	250,756	-11.3%
Other Operating Income	135,290	131,747	310,441	528,463	560,047	6.0%
Operating Expenses	211,371	265,699	313,364	382,158	417,069	9.1%
Profit Before Taxation	211,631	182,324	314,125	428,982	393,734	-8.2%
Profit for the year	147,406	150,599	263,340	311,132	317,278	2.0%
Total Assets	11,441,640	13,644,306	14,961,835	15,574,066	16,262,542	4.4%
Total Liabilities	10,412,585	12,679,683	13,706,205	14,209,341	14,646,852	3.1%
Shareholder's Equity	979,055	914,623	1,205,630	1,314,725	1,565,690	19.1%
EPS (\$)	0.10	0.10	0.18	0.21	0.21	
Book Value per Share (\$)	0.65	0.61	0.80	0.88	1.04	
Key Ratios						
Net interest margin	-	2.6%	2.3%	1.9%	1.6%	
Pre-tax profit margin	50.1%	41.1%	52.4%	53.0%	48.7%	
Net profit margin	34.9%	34.0%	43.9%	38.4%	39.2%	
Return on Average Equity	-	15.9%	24.8%	24.7%	22.0%	
Return on Average Assets	-	1.2%	1.8%	2.0%	2.0%	

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, IPO Prospectus Document

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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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