

# **GKCM Market Overview & Recommended Stocks**

**April 2022**

## Most Indicators of economic activity remained stable during Q1 2022

- According to STATIN, the Jamaican economy expanded by 4.6% for CY 2021, relative to 2020.
- The hotels and restaurant industry continues to be the main driver of economic growth, increasing by 79.5% over the 12-month period.
- Inflation outturn over the quarter, soared to highs of 10.7% in February 2022.
  - This represents the seventh consecutive month of inflation breaching the BOJ's targeted range of 4-6%.
  - Consequently, the Bank aggressively increased its policy rate by a total of 200 basis points to 4.50%.
- Additionally, following the BOJ's commitment to maintaining low and predictable inflation and FX stability, over the first quarter, the Jamaican dollar strengthened by 0.84% or \$1.31 against the USD to close at \$153.78.

## Major risk Materialized

- The Russia- Ukraine invasion has exacerbated the global supply chain issues that existed.
- The invasion, along with the various sanctions imposed on Russia, have further worsened the sharp increases in international commodity and shipping prices.
- In March 2022, the average prices for both oil and grain were 30% and 23.4% above the BOJ's projection for the month respectively.

## Outlook

- The economic outlook for 2022 remains one of cautious optimism. The economy is expected to expand between 2% to 4% over the next 12 months.
- Within the context of a rising interest rate environment, it is anticipated that the economic rebound will be skewed to the lower bound of 2%.
- The tempering of economic growth is attributable to the rising interest rate environment.
  - The higher rates is likely to impact private firms ability to investment and lower household demand for goods and services.
- Although the Government of Jamaica has lifted the current COVID-19 restrictions, the threat of a new variant, coupled with the low vaccination rate, still poses a threat to the country's economic recovery.

# MARCO OVERVIEW & OUTLOOK

## SELECTED KEY INDICATORS

March-22

Indicators	Period	Year		Change			12 Mth Trend
		2022	2021	Monthly	YTD	12-Month	
<b>CAPITAL MARKET INDICATORS</b>							
180-day GOJ T-bill	March	6.37%	1.52%	-225bps	-204bps	485 bps	↑
BOJ Policy Rate	March	4.50%	0.50%	50 bps	200 bps	400 bps	↑
FX Rate	March	153.78	146.58	-1.2%	-0.8%	4.9%	↑
JSE Main Index	March	391,232	394,660	0.03%	-1.2%	-0.9%	↓
<b>KEY MACRO-ECONOMIC INDICATORS</b>							
Inflation (Y-o-Y)	Feb	10.7%	3.8%	-100 bps	-340 bps	690bps	↑
NIR (US\$M)	Feb	3,589	3,016	2.3%	-10.3%	19.0%	↑
Tourist Arrivals	Jan	131,730	43,831	-41.0%	-41.0%	200.5%	↑
Unemployment*	October	7.1%	10.7%	-	-180bps	-360bps	↓
Real GDP Growth Rate*	Jan - Dec	4.60%	-9.9%	-	4.6%	4.6%	↑
Public Debt (J\$B)*	Jan	2,196	2,214	-0.9%	-0.9%	-0.8%	↓

\*KEY: Arrow Indicates Direction / Color Indicates Impact

Favorable

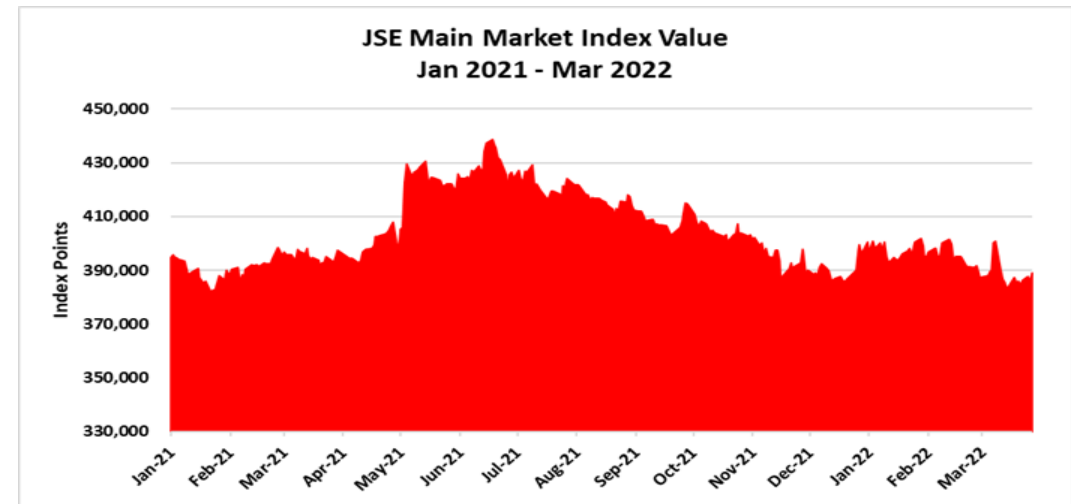
Adverse

Indifferent

\*The comparative period is 2021 relative to 2020

\*YTD is based on the GOJ fiscal year which runs from Apr - Mar

# LOCAL STOCK MARKET PERFORMANCE



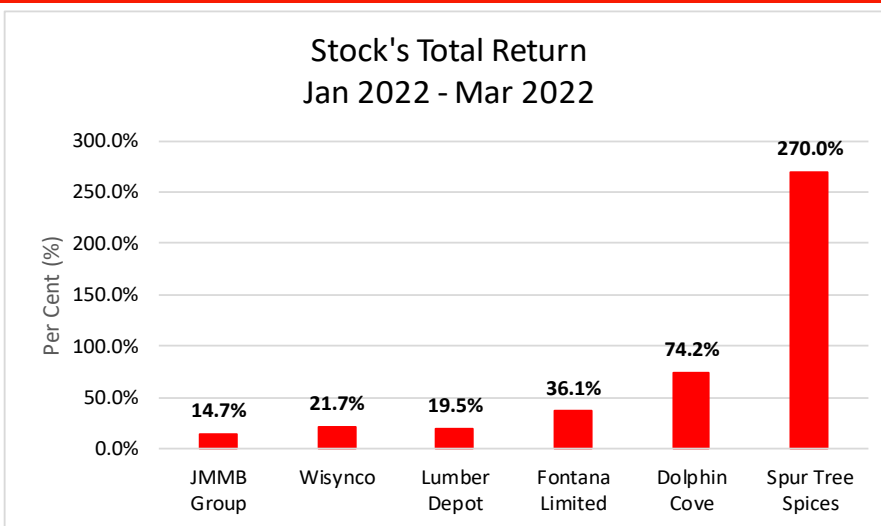
# LOCAL STOCK MARKET PERFORMANCE

- Against the backdrop of rising input prices and the upward adjustment in policy rates, equity holders can expect increased volatility in the local equities market in the upcoming quarters.
  - This is partly attributable to some market participants exiting their positions for attractively priced market-determined JMD fixed income instruments.
- During the first quarter of 2022, the Junior Market continued its rally, improving by 22.2% over the period.
- The growth recorded in the Junior Market is attributable to the following factors:
  - **Increased Profitability** – most stocks listed on the Junior Market have recorded significant growth in their earnings performance, thus making them attractive value propositions.
  - **Predominantly consists of the tourism based stocks** - the tourism sector has been leading Jamaica’s economic recovery. Consequently, investors are positioning themselves to benefit from the sector’s rebound e.g. ECL, DCOVE
- The JSE Main Index however declined by 1.8%.
  - Large market-cap stocks such as NCBFG (down 7.69%), and Massy Holdings (down 17.1%) are responsible for the Main Market’s decline.
- Over the first quarter, the sectors reporting significant gains were: Manufacturing (3.8%), and Financial Services (2.1%).
- The following table highlights the top performing stocks over the period:

Top Performers	Top Decliners
<ul style="list-style-type: none"> <li>• FESCO (113.19%),</li> <li>• Tropical Battery (106.35%),</li> <li>• FosRich Limited (94.48%)</li> <li>• SSLVC (89.36%)</li> <li>• Dolphin Cove (69.02%)</li> </ul>	<ul style="list-style-type: none"> <li>• ISP Finance Services (-21.05%),</li> <li>• Radio Jamaica Limited (-17.59%)</li> <li>• Mayberry Jamaican Equities (-15.09%)</li> <li>• Limner and Bards (-14.32%),</li> <li>• Berger Paints (-14.29%)</li> </ul>

# Update on January's Picks

Despite the uncertainties within the investment environment, our stock picks as at January 2022 all recorded gains within the first quarter of the year. See table below with the selected stocks YTD performance as at March 31, 2022.



Total Return examines trailing twelve month dividend yield and stock price appreciation

Company	Close Price		YTD Change	52 Weeks	
	@			Low	High
	31-Dec-21	31-Mar-22			
JMMB Group	\$39.44	\$44.39	12.6%	\$31.02	\$45.00
Wisynco	\$16.70	\$19.83	18.7%	\$14.02	\$21.00
Lumber Depot	\$3.02	\$3.55	17.5%	\$2.20	\$4.29
Fontana Limited	\$7.47	\$9.99	33.7%	\$5.50	\$12.49
Dolphin Cove	\$15.33	\$25.91	69.0%	\$6.80	\$30.00
Spur Tree Spices*	\$1.00	\$3.70	270.0%	\$1.30	\$4.49

\* Listed in January 2022 at an offer price of \$1.00 per share.

# Current Recommended Stocks

The recommendations are shortlisted stocks we anticipate to report strong financial performance for the quarter ended March 2022. This performance is expected to continue over the near to medium term given the current economic climate.

# JMMB GROUP LIMITED

**Sector** : Financial Services

**Ticker**: JMMBGL

**Trailing P/E**: 8.40x

**Close Price\***: \$52.86

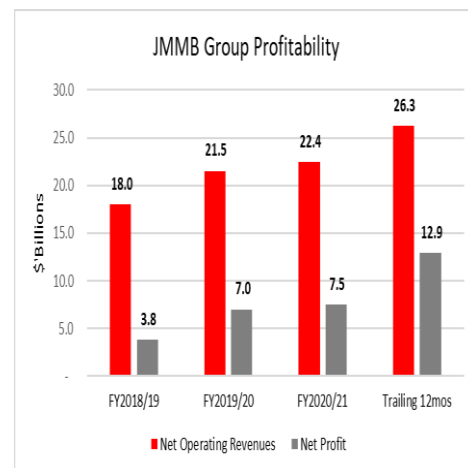
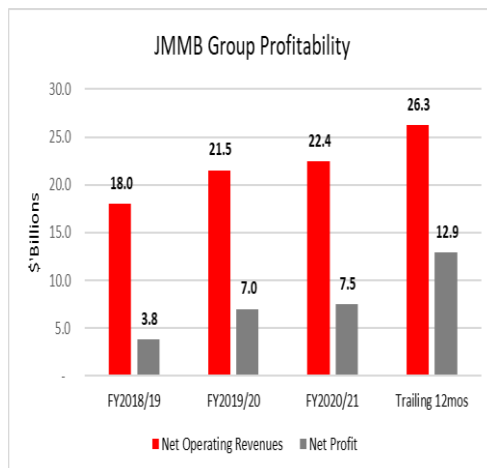
**52 Week Range**: \$31.02 - \$61.24

**Dividend Yield<sup>+</sup>**: 2.20%

**Total Return\***: 14.80%

## Justification:

- **The valuation is relatively cheap.**
  - ✓ The company is currently trading at a discount relative to its peers.
  - ✓ JMMBGL has a trailing P/E of 8.40x versus the financial services industry average of 14.96x.
- **Strong rebound in profits.**
  - ✓ For the 9 months ended December 2021, the company net profits stood at J\$8.82B.
  - ✓ This represents a \$4.8B or 113% increase in net profit when compared against 2020.
  - ✓ JMMBGL is expected to maintain its profitability in the near term.
- **Share buyback commenced in April 2022.**
  - ✓ Through this action, investors will benefit from price appreciation in the near term.



+ Dividend yield was calculated using close price as at December 31, 2021.

\* Close Price as at April 05, 2022.

\*\* Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.

# LUMBER DEPOT

**Sector** : Retail

**Ticker**: LUMBER

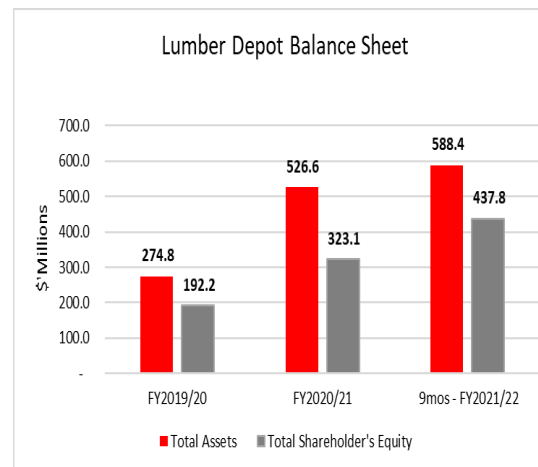
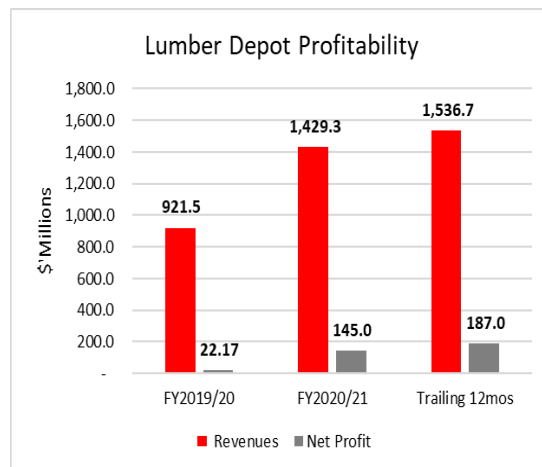
**Trailing P/E**: 13.63x

**Close Price\***: \$3.58

**52 Week Range**: \$2.20 - \$4.29

**Dividend Yield†**: 2.0%

**Total Return\***: 21.9%



## Justification:

- **Relatively cheap price valuation.**

- ✓ Lumber Depot is an attractive value proposition given its discounted price.
- ✓ The company is currently trading at a P/E of 13.63x, versus the retail sector average of 21.18x.

- **Improved financial performance.**

- ✓ For the 9-months ended January 2022, revenue rose 10.2% to J\$1.16B, while net earnings climbed by 41.6% to J\$142.9M when compared to the prior year.

- **On-going construction boom.**

- ✓ Given the positive outlook for the construction sector, Lumber Depot is poised for continued growth in profitability in the coming quarters.

† Dividend yield was calculated using close price as at December 31, 2021.

\* Close Price as at April 05, 2022.

\*\* Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.



# FONTANA LIMITED

**Sector** : Retail

**Ticker**: FTNA

**Trailing P/E**: 23.57x

**Close Price\***: \$9.94

**52 Week Range**: \$5.40 - \$8.00

**Dividend Yield<sup>+</sup>**: 2.40%

**Total Return\***: 35.90%

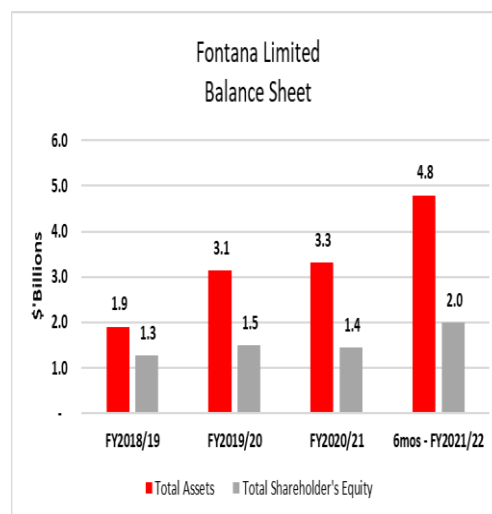
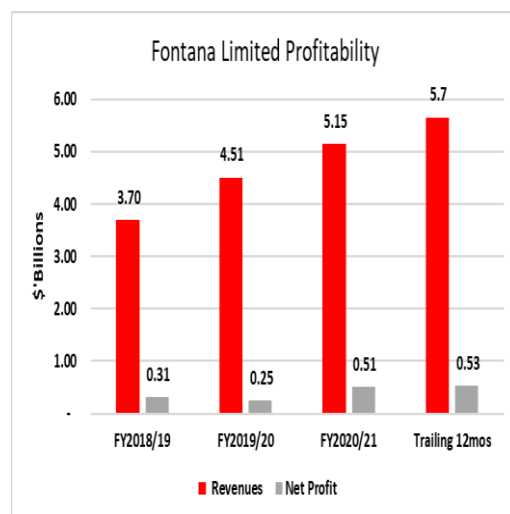
## Justification:

### ■ Robust financial performance.

- ✓ For the 6-months ended December 2021, Fontana's revenue climbed by J\$506M to J\$3.2billion. This represents a 19.1% relative to previous period in 2020.
- ✓ Over the same period, net profits grew by J\$16.17M to J\$309.96M, a 5.5% improvement over the prior year.

### ■ Expanding footprints into St. Catherine.

- ✓ Fontana Limited is set to open its seventh store location in Portmore, St. Catherine. The expected opening date is set for 2023.
- ✓ Within the first three months, Fontana Portmore is expected to earn more revenue than the cost of developing the store.



<sup>+</sup> Dividend yield was calculated using close price as at December 31, 2020.

\* Total Return captures the stock price appreciation and dividend yield as at January 07, 2022.

# CARIBBEAN PRODUCERS JAMAICA

**Sector:** Retail

**Ticker:** CPJ

**Trailing P/E:** 19.77X

**Close Price\*:** \$15.18

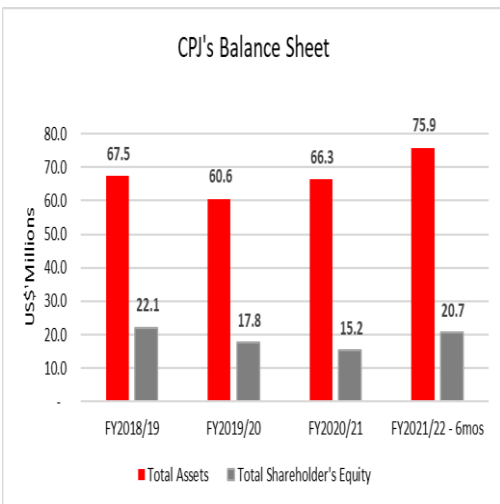
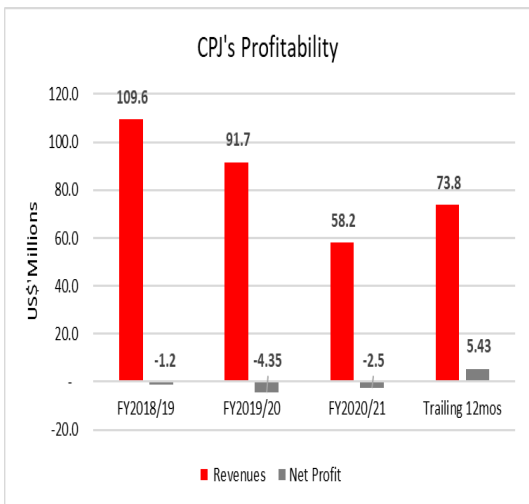
**52 Week Range:** \$3.05 - \$25.99

**Dividend Yield<sup>+</sup>:** 0.0%

**Total Return<sup>\*\*</sup>:** 16.4%

## Justification:

- **Improved financial performance.**
  - ✓ For the 6-months ended December 2021, net profit grew to US\$5.3M, compared to a net loss of US\$2.7M in 2020.
- **Set to continue benefit from the tourism sector recovery.**
  - ✓ Given the continued uptick in tourist arrivals, along with the easing of COVID-19 restrictions, the Company is likely to see continued improvements in its financial performance in 2022.
  - ✓ Additionally, CPJ has expanded its footprints in Montego Bay with the construction of a 6000sq ft. store set to open by Q2 of 2022.



<sup>+</sup> Dividend yield was calculated using close price as at December 31, 2021.

<sup>\*</sup> Close Price as at April 05, 2022.

<sup>\*\*</sup> Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.

# CARIBBEAN CEMENT COMPANY

**Sector:** Manufacturing

**Ticker:** CCC

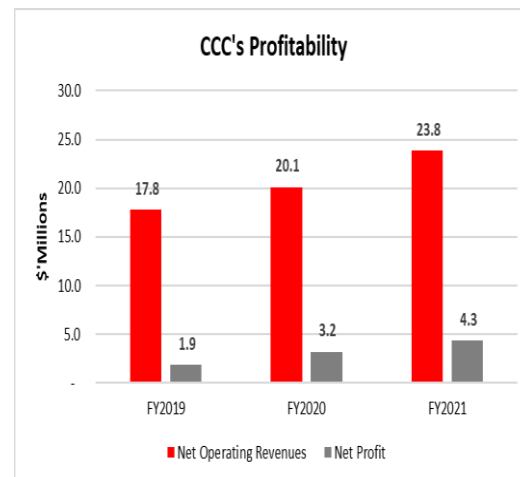
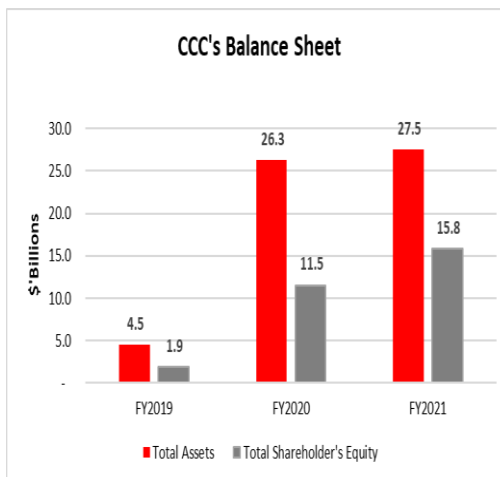
**Trailing P/E:** 14.56X

**Close Price\*:** \$74.27

**52 Week Range:** \$65.01 - \$146.12

**Dividend Yield<sup>+</sup>:** 0.0%

**Total Return<sup>\*\*</sup>:** 6.3%



<sup>+</sup> Dividend yield was calculated using close price as at December 31, 2021.

<sup>\*</sup> Close Price as at April 05, 2022.

<sup>\*\*</sup> Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.

## Justification:

### ■ Robust growth in profitability.

- ✓ For the FY ended December 2021, CCC recorded a 18.6% growth in revenues, relative to FY2020.
- ✓ For the 12-months ended December 2021, net profit grew by 35.8% or J\$1.1B to J\$4.43B when compared to FY2020.

### ■ On-going construction boom.

- ✓ For the CY 2021 the construction industry expanded 5.9%.
- ✓ Within this context, CCC will likely sustain its profitability in the upcoming term.

### ■ Relatively cheap valuation.

- ✓ CCC is currently trading at a discount with a P/E of 14.56x, relative to its manufacturing peers average P/E of 18.69x.

# SAGICOR GROUP LIMITED

**Sector:** Financial Services

**Ticker:** SJ

**Trailing P/E:** 12.75X

**Close Price\*:** \$54.58

**52 Week Range:** \$47.50 - \$68.00

**Dividend Yield<sup>+</sup>:** 3.94%

**Total Return<sup>\*\*</sup>:** 5.40%

## Justification:

- **Strong financial performance.**

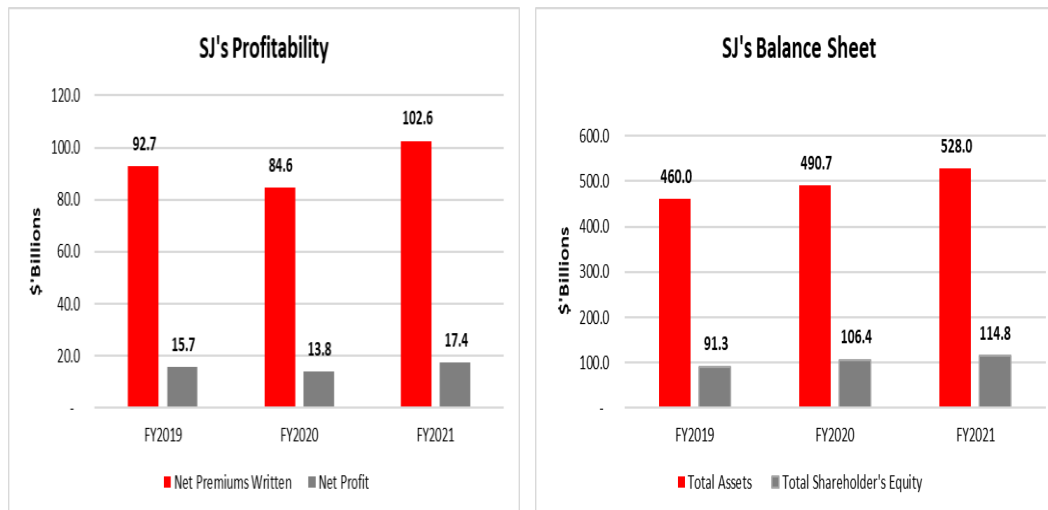
- ✓ For the FY ended December 2021, SJ recorded a 21.3% growth in revenues net of reinsurance, interest expense and credit losses, relative to FY2020.
- ✓ For the 12-months ended December 2021, net profit grew by 26.2% to J\$17.6B when compared to J\$13.7B in FY2020.

- **Acquired 100% ownership stake in Alliance Financial Services.**

- ✓ Alliance is estimated to have a 10% market share of the remittances and cambio market.
- ✓ Therefore, this acquisition should bode well in sustaining SJ's profitability in the upcoming term.

- **Discounted price valuation.**

- ✓ SJ is trading at a discounted price with a P/E of 12.75x, relative to its financial peers average P/E of 15.69x.



<sup>+</sup> Dividend yield was calculated using close price as at December 31, 2021.

<sup>\*</sup> Close Price as at April 05, 2022.

<sup>\*\*</sup> Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.

# GENERAL ACCIDENT INSURANCE CO.

**Sector:** Financial Services

**Ticker:** GENAC

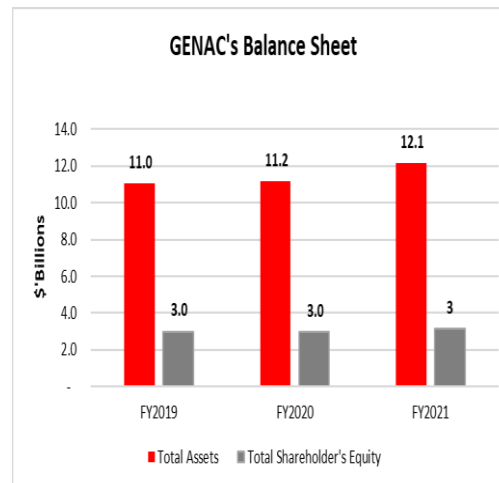
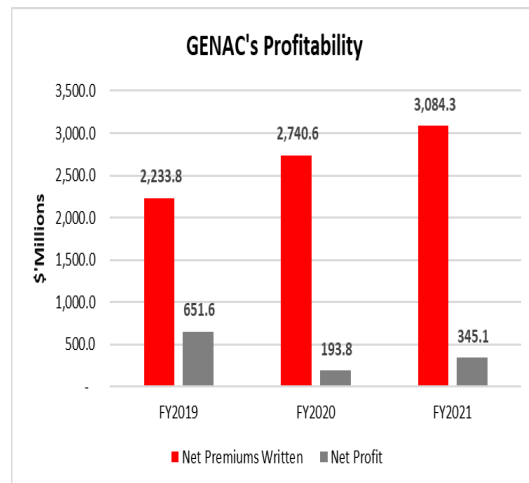
**Trailing P/E:** 15.78X

**Close Price\*:** \$6.12

**52 Week Range:** \$5.00 - \$8.00

**Dividend Yield<sup>+</sup>:** 3.17%

**Total Return<sup>\*\*</sup>:** 5.17%



<sup>+</sup> Dividend yield was calculated using close price as at December 31, 2021.

<sup>\*</sup> Close Price as at April 05, 2022.

<sup>\*\*</sup> Total Return captures the stock price appreciation and dividend yield as at April 05, 2022.

## Justification:

- **Rebound in financial performance.**

- ✓ For the 12-months ended December 2021, net profit grew by 78% to J\$345.1M when compared to J\$193.8M in FY2020.

- **Improved claims management**

- ✓ For the FY ended December 2021, GENAC recorded a 19.3% growth in net premiums written to J\$3.1B, relative to J2.8B in FY2020.

- ✓ Gross premiums written continue to increase as GENAC bolsters the management of claims.

- ✓ Consequently, GENAC will experience further growth in its profitability.

- **Poised to benefit from the rising interest rate environment.**

- ✓ Against the backdrop of higher interest rates, GENAC is anticipated to record significant growth in its net investment income in the upcoming quarters.