

PanJam Investment Limited

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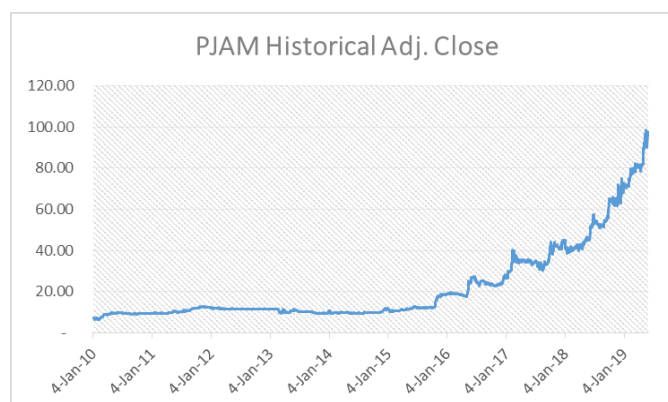
Executive Summary

PanJam Investment Limited (PJAM) is incorporated and domiciled in Jamaica, with registered office at 60 Knutsford Boulevard. Its primary activities are holding investments and controlling the operations of subsidiaries. PJAM's subsidiaries and associated companies operate in several market segments, including Property Management & Development, Investment Management, Life Insurance, Office Rental, Hotel Management and Captive Insurance.

PJAM has several associated companies including Sagicor Group Jamaica Limited, New Castle Company Limited, Chukka Caribbean Adventures Limited, and Caribe Hospitality Jamaica Limited. The principal contributor to earnings from associated companies is Sagicor Group Jamaica (SJ). In FY 2018, PJAM reported earnings from associated companies of \$4.7 billion, of which \$4.45 billion was generated from the Sagicor Group. **As at the end of FY 2018 PJAM owns 31.56% of the outstanding shares of SJ.** The primary sources of revenue for PJAM are Investment and Property Income. **PJAM's three significant assets on the balance sheet at the end of FY 2018 are Investment in associated companies, Investment Properties and Financial Assets at Fair Value through Profit and Loss which are \$26.35 billion, \$8.36 billion and \$6.59 billion respectively.**

PJAM has maintained healthy operating margins averaging 36.29% between FY 2014 and FY 2018 (the period under review) and peaked in FY 2018 at 47.59%. Meanwhile, debt-to-equity has been stable, averaging 24.14% for the period under review. However, it spiked in FY 2018 to the highest level for the period under consideration to 31.30%.

Profit attributable to shareholders has increased at a CAGR of 17% for the period under review, while the stock price has grown at a CAGR of 58% for the same period. This has resulted in significant P/E multiple expansion, which averaged 4.37x in FY 2014 and surged to an average of 12.50x in FY 2018. For 2019 the average P/E climbed to 16x and the stock is currently trading at 19x. We foresee growth in FY 2019 of about 5%, which we anticipate will not support current multiples.



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Recent Developments

PJAM reported Q1 FY 2019 revenue growth of \$60.19 million or 11.51% to \$583.08 million and profits attributable to shareholders grew by \$64.6 million or 7.81% to \$891.62 million for the same period.

In October 2018 PJAM acquired 25% of Williams Offices (Caribbean) Limited, which operates the Regus' Franchise in the Caribbean. Regus' is a workspace provider which creates co-working and meeting spaces for individuals and companies. PJAM acquired 100 million shares of JMMB Group Limited in a transaction valued at about \$2.7 billion in September 2018. Between the period of March 31, 2019 and June 5, 2019 JMMBGL has rallied more than 15% which if maintained, could aid PJAM in producing strong Q2 FY 2019 earnings.

Key Financial Data

	2014	2015	2016	2017	2018	CAGR
BVPS	20.15	20.75	24.44	29.03	32.02	12.29%
EPS	2.70	3.02	3.84	3.92	5.06	17.04%
Dividend Per Share	0.53	0.57	0.65	1.05	1.05	18.66%
Adj. Close Price	11.80	18.80	28.32	45.00	72.67	57.53%
Stock Price Performance	11.32%	59.32%	50.64%	58.90%	61.49%	48.33%
Income Statement Data (\$,000)						
Revenue	1,939,224	1,842,307	1,742,593	2,412,999	3,264,200	13.90%
Investment Income	257,268	205,722	239,333	422,702	1,060,653	42.49%
Property Income	1,551,144	1,482,694	1,382,426	1,787,009	2,071,904	7.51%
Operating Profit	785,090	574,443	431,227	937,861	1,553,305	19.64%
Pre-tax Profit	2,944,702	3,30,507	4,451,469	4,270,819	5,672,498	17.81%
Share of Profit from Associated Company	2,842,755	3,186,141	4,050,373	4,131,352	5,333,750	17.04%
Balance Sheet Data						
Inv. in Associated Companies	17,128,778	17,781,280	20,874,843	24,919,991	26,348,546	11.37%
Investment properties	4,913,445	5,194,069	5,583,427	7,839,676	8,358,674	14.21%
Financial assets at FVPL	451,812	462,802	662,944	1,063,775	6,594,390	95.46%
Non-Current Assets	23,953,778	24,969,505	29,696,135	35,887,511	41,301,610	14.59%
Current Assets	2,459,714	2,984,656	2,744,545	3,465,522	4,564,483	16.72%
Total Assets	26,413,492	27,954,161	32,440,680	39,353,033	45,866,093	14.79%
Equity	21,134,493	21,763,118	25,669,471	30,527,061	33,733,671	12.40%
Total Liabilities	5,009,822	5,854,115	6,183,447	8,553,073	11,831,977	23.97%
Debt	4,424,547	5,180,745	5,182,065	7,474,718	10,559,530	24.29%

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	2014	2015	2016	2017	2018	Average
Ratios						
Debt-to Equity	20.94%	23.81%	20.19%	24.49%	31.30%	24.14%
Operating Margin	39.09%	31.18%	24.75%	38.87%	47.59%	36.29%
Net Profit Margin	146.59%	172.94%	232.43%	171.21%	163.40%	177.32%
ROE	14.59%	14.85%	17.08%	14.70%	16.60%	15.56%
ROA	11.43%	11.72%	13.41%	11.51%	12.52%	12.12%
Dividend Payout Ratio	19.64%	18.85%	16.91%	26.77%	20.75%	20.58%
Dividend Yield	4.49%	3.03%	2.30%	2.33%	1.45%	2.72%
Stock Price Performance	11.32%	59.32%	50.64%	58.90%	61.49%	48.33%
P/E	4.37	6.22	7.37	11.47	14.35	8.76
P/B	0.59	0.91	1.16	1.55	2.27	1.29

Financial Overview

Investments income reached an all-time high in FY 2018, a key driver of this was the acquisition of 100 million units of JMMBGL at \$26.50 on September 26, 2018. This acquisition produced unrealized gains of approximately \$500 million by the end of Q3 FY 2018. Total unrealized gains at the end of FY 2018 was \$924 million versus \$274 million the previous year. The most significant contributor to revenues has historically been Property Income, which is made up of rental income and property valuation gains. The most significant operating expenses for PJAM is staff costs and direct costs associated with property management, these account for \$1.29 billion or 76.42% of 2018 operating expenses. The primary source of earnings for PJAM is the share of profit from associated companies, which was \$4.70 billion eclipsing operating profit of \$1.55 billion as at the end of FY 2018.

The three most notable contributors to total assets as at the end of FY 2018 were Investments in Associated Companies, Investment Properties and Financial Assets at fair value through Profit and Loss of \$26.35 billion, \$8.36 billion and \$6.59 billion respectively. Investment in associated companies includes Sagicor Group Jamaica Limited, New Castle Company Limited, Chukka Caribbean Adventures Limited and Caribe Hospitality Jamaica Limited. The essential investments in associated companies at the end of FY 2018 are Sagicor Group and Caribe Hospitality which are being carried at \$24.78 billion and \$523.56 million respectively. The primary contributors to liabilities are debt and other loans, which totalled \$10.56 billion versus \$7.47 billion for the same period last year. However, the increase in finance costs is curtailed by lower interest rates on debt. Equity has increased consistently at a CAGR of 12.40% for the period under review due to continuously improving profits.

Operating Margins has been volatile for the period under review peaking in FY 2018 following its lowest level in FY 2016. Operating margin volatility is partially due to irregular Investment Income. The unusual net profit margin seen for the period under review is due to the majority of earnings is derived from the share of profits from associates. In FY 2018, \$4.70 billion or 88% of profits attributable to PJAM shareholders was generated from associates.

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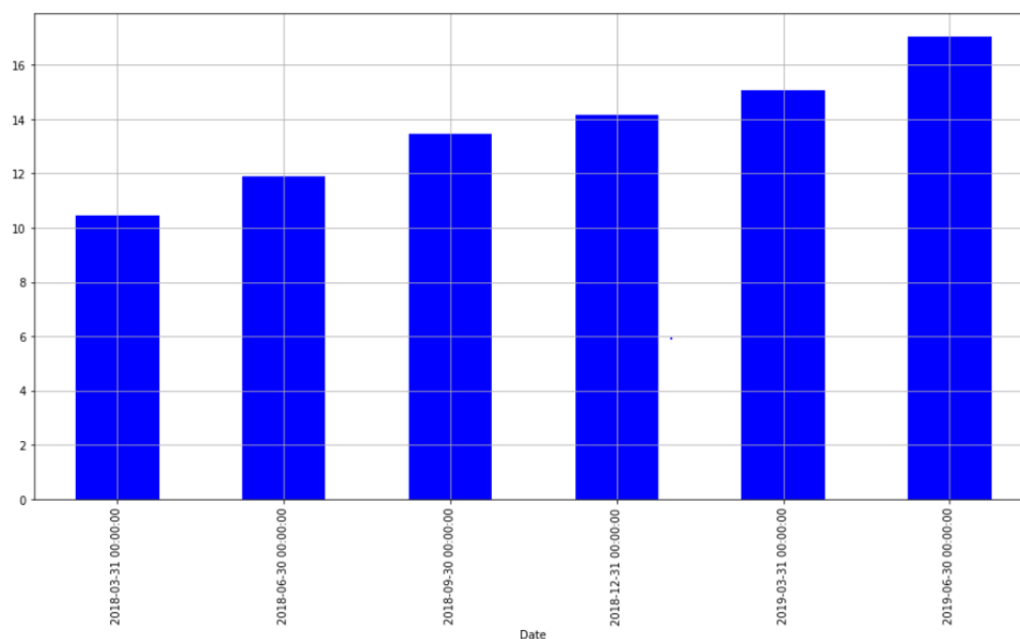
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Forecast and Valuation

We used a combination of the relative value approach and the dividend discount model to arrive at our fair value estimate of \$82.45. The relative value approach produced a price target of \$78.03. Meanwhile, the dividend discount model indicated a price target of \$86.87. **Therefore our best case and worst case price targets are \$78.03 and \$86.87 respectively.** Below we compare PJAM to its peers on some key metrics. PJAM underperforms the peer average on most metrics except for ROE and P/E. PJAM has a higher P/E and P/B multiple than GK, indicating that investors expect PJAM to grow faster than GK. Historically this has been the case, PJAM's CAGR for profits attributable to shareholders for the period FY 2014 to FY 2018 has been 17.04% versus GK's growth of 11.10% over the same period.

Ticker	Market Cap(M)	P/E	P/B	Div Yield	ROA	ROE
PJAM	100,792	17.57	2.70	1.13%	2.11%	16.61%
GK	60,708	14.07	1.33	2.79%	3.49%	10.33%
JP	28,143	31.47	2.29	0.48%	3.42%	7.53%
Average	63,214	21.04	2.11	1.46%	3.01%	11.49%

The chart below illustrates the average P/E of PJAM each quarter for the periods Q1 FY 2018 to Q2 FY 2019. It reveals a clear trend of multiple expansion each quarter. We don't expect this trend to continue in the medium to long-term. However, in the near-term, multiple expansion may continue based on our expectations of strong Q2 earnings aided by the surge in JMMB Group stock price in Q2 FY 2019.



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Outlook

Our outlook on PJAM's financial medium to long performance is positive. We expect a strong FY 2019 then a decline in FY 2020 as income from investments decline to normal levels, followed by steady growth thereafter. We anticipate continued growth in the real estate industry to drive property income. Additionally, the company has plans to grow its real estate portfolio outside of Kingston with the acquisition of five acres of undeveloped land in Freeport Montego Bay. We also foresee the Sagicor Group producing steadily improving profits in line with historical performance.

Key Risks to Our Price Target

PJAM is a conglomerate with various business operations, spanning several geographic locations. The three main drivers of profits for PJAM are investment holding, property holdings and earnings from associated companies. Therefore while the company operates in many market segments, three critical factors impact earnings, namely Sagicor Group profitability, JMMB Group Limited share price movement and Kingston corporate real estate demand. While we expect steady improvement in the medium to long-term, any significant negative deviation from any of the three, especially Sagicor's performance could lead to earnings underperforming our expectations. **Of note JMMBGL will be exposed to Sagicor Group Jamaica's performance indirectly through its investment in the Alignvest Acquisition II Corporation, ultimately resulting in PJAM having increased exposure to Sagicor Group.**

Recommendation:

We recommend an **UNDERWIEGHT** rating on PJAM at this point given that the stock trades significantly above our base case and best case price target. **PJAM's stock has seen significant P/E multiple expansion increasing from a Q1 FY 2018 average of 10.46x to 17.07x in FY Q2 2019 a 63.19% increase.** While we understand some multiple expansion as justified given the improving economic outlook and low-interest rates. We believe the current trailing 12-month P/E of 18.67x, which exceeds our estimate of justified P/E ratio indicates the market is expecting growth rates higher than our projections.

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.

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