Victoria Mutual Investments Limited

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Transaction Overview

VM Investments Limited (VMIL), a prominent subsidiary of VM Financial Group, has announced the launch of a bond offer to raise J$5.433 billion to support its strategic growth initiatives. This bond issuance is a critical component of VMIL's broader financial strategy, designed to refinance existing debt and fund future acquisitions and private equity investments.

The bond offer comprises three tranches, catering to retail and institutional investors with attractive interest rates. Two tranches provide fixed interest rates during their respective terms: 9.75% per annum for 18 months and 10% per annum for 24 months. The third tranche matures in three years, pays a fixed coupon in the first two years of 10.5% per annum and then transitions to a floating interest rate in the third year. **For this tranche**, investors contributing initial amounts exceeding J$5 million are eligible for higher returns, with rates reaching up to 11.5%.

VMIL's strategic objective with this bond issue is to extend the maturity profiles of its current debt obligations. By improving the maturing profile of its debt obligations, the company aims to bolster its liquidity, streamline cash flow management, and create a stable platform for sustained growth.

The company intends to list the bonds on the Jamaica Stock Exchange (JSE) Bond Market, enhancing their marketability and providing investors with liquidity options.

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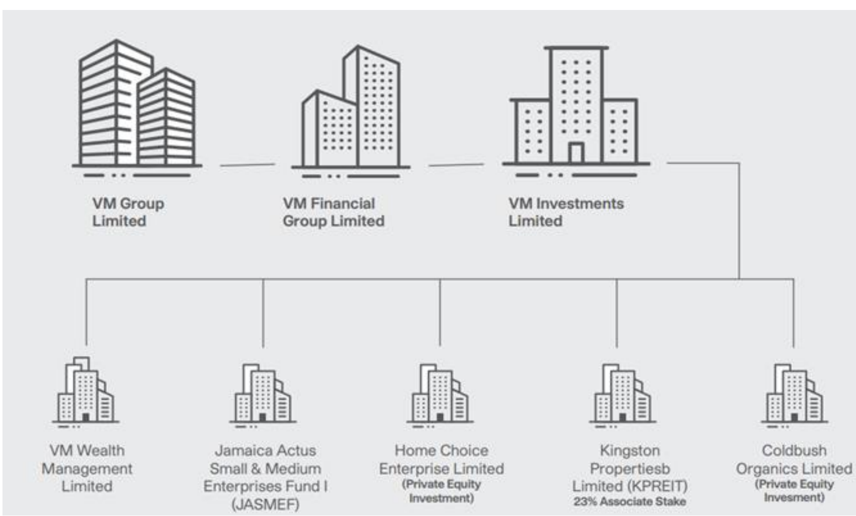
Company Overview

VM Investments Limited (VMIL), established in 1984 and headquartered in Kingston, Jamaica, operates as a critical arm of the VM Financial Group. As an investment holding company, VMIL specializes in delivering financial solutions that facilitate wealth creation for its clients and stakeholders. The company's operational focus spans a diverse range of services, including investment banking, securities trading, private equity investments, lease financing, margin loans, and corporate lending solutions.

The company operates primarily through its two key subsidiaries: VM Wealth Management Limited (VMWM) and VM Wealth Funds Limited (Barbados). VM Wealth Management serves as a licensed securities dealer, providing investment brokering, advisory services, and asset management solutions. It has established itself as a cornerstone of VMIL's operational success, generating substantial revenue through trading and client management. Meanwhile, VM Wealth Funds Limited, a mutual fund company domiciled in Barbados, offers innovative financial instruments designed to meet diverse client needs across the Caribbean.

In addition to its core operations, VMIL holds significant shareholdings in companies such as Kingston Properties Limited (KPREIT) and Home Choice Enterprise Limited, further diversifying its portfolio and income streams. It also has indirect investments in Coldbush Organics Limited, underscoring its commitment to private equity and long-term growth opportunities. Please see chart below of VMIL's holdings in various companies:



Source: VMIL Bond Prospectus 2024

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Term Sheet

Issuer	VM Investments Limited (VMIL)
Broker & Listing Agent, Arranger	VM Wealth Management Limited
Trustee, Registrar & Paying Agent	The Bonds will be issued and constituted under a Trust Deed between the Issuer and JCSD Trustee Services Limited. JCSD Trustee Services Limited, the Bond Trustee will also act as paying agent and will affect payment of interest and principal on behalf of the Issuer
Securities to be issued	Unsecured Corporate Bonds
Issue Size	J$5,433,965,621.00

Facility Description	**Tranche D**	**Tranche E**	**Tranche F**
Facility Amount	J$1,000,000,000.00§	J$2,000,000,000.00	J$2,433,965,621.00
Tenure	18 Months	24 Months	36 Months
Coupon	9.75% Initial investments above J$5M will receive a 10.00% coupon. **	10.00% Initial investments above J$5M will receive a 11.00% coupon. **	10.50% 10.50% per annum for the first 2 years THEREAFTER the Interest Rate would be based on the Ninety (90) Day Weighted Average Treasury Bill Yield (WATBY) PLUS a Fixed Margin of 2.0% Initial investments above J$5M will receive a 11.50% coupon per annum for the first 2 years THEREAFTER the Interest Rate would be based on the Ninety (90) Day Weighted Average Treasury Bill Yield

§ Where demand for a particular Tranche of Bonds exceeds the proposed amount allocated thereto, VMIL reserves the right in its sole discretion to allot more Bonds in that Tranche, and fewer Bonds in other Tranches, subject always to the aggregate principal amount of Bonds not exceeding J$5,433,965,621.00.

** Investors who sell down their holdings below the J$5M threshold will continue to receive the higher coupon rate. Conversely, investors who increase their holdings above the J$5M threshold will not be eligible for the higher rate. In relation to Bonds in Tranche F, a CariCRIS rating upgrade of VMIL would result in 0.25% reduction of the Fixed Margin payable in respect of each increase of each band of VMIL's rating according to CariCRIS's rating scale provided that in all cases the fixed margin.

			(WATBY) PLUS a Fixed Margin. **

Interest Calculation

Interest will be calculated and paid at the Agreed Rate and shall accrue from day to day (as well after as before any judgment) and be prorated on the basis of a 365-day year (or 366-day year in the case of a leap year) for the actual number of days comprised in each Interest Period**. Interest will be payable quarterly in arrears**. The first Interest Payment will become due and payable on three (3) months after the Issue Date in December and thereafter each three (3) month period expiring on June 27, 2026, October 27, 2026 and October 27, 2027 provided that the last interest payment will be payable on the Maturity Date.

Use of Proceeds

The Company intends to use the net proceeds of the Invitation to refinance maturing debt facilities and covering transaction costs. The debt schedule below indicates a total of $5.40 billion to be refinanced, which leaves $31.77 million to cover transaction costs.

Tranche	Amount	Interest Rate
Tranche A	$642,966,218	6.75%
Tranche B	$4,759,227,353	11.25%
Total to be Refinanced	$5,402,193,571	
Transaction Costs	$31,772,050	

Repayment

Bullet payment in full at maturity

Issue Date

December 27, 2024

Maturity Date

Tranche D- June 27, 2026
Tranche E- December 27, 2026
Tranche F- December 27, 2027

Financial Covenant

Maximum Debt to Equity: 5.00x

Subscription

i. Minimum Subscription: J$10,000.00

ii. Minimum Transfer/Trading block: J$5,000.00

Subscription price

J$100.00 per Bond, being 100% of the face value of the Bond, plus the JCSD Processing Fee of J$172.50 per Application must be included in each payment.

Early Repayment

Following forty-five (45) days) after the Issue Date, the Issuer will have the option to prepay, without premium or penalty, any or all tranches of Bond, in whole or in part, plus any accrued and unpaid interest up to the date of repayment, subject to 30 days prior written notice.

Transferability

Bonds may be transferred by means of a book entry in the records of the JCSD or any other similar depository/agency on provision of written transfer duly signed by the registered Bondholder and the transferee and authenticated by the Trustee.

Event of Default	Upon the occurrence of an Event of Default, Bondholders may resolve by ordinary resolution to accelerate repayment of the Bonds. Events of Default include inter alia i. non-payment of principal or interest for more than 14 days; ii. misrepresentation or breach of warranty; iii. default in respect of any covenant (other than for payment of money) iv. cross default under any other financial indebtedness; v. cessation of the issuer to operate as a going concern; vi. Insolvency Event with respect to the issuer; vii. enforcement action by any secured creditor over the assets of the company; viii. enforcement action by judgement creditor; ix. the Trust Deed or a bond becomes or allege to be unlawful or unenforceable; x. the cancellation by any regulatory agency of a Material Licence; xi. failure to satisfy a judgment exceeding US$1 million or in any other currency within 45 days unless the judgement is subject to a bona fide appeal
Taxation	Interest will be paid net of withholding tax except in the case of holders who are exempt from such withholding. As it relates to the Jamaican resident holders who are not exempt from withholding tax, the withholding tax rate will be 25%. In the case of non-resident holders, the withholding rate may be reduced by applicable treaty where such treaty exists and is applicable.
Negative Covenants	Negative covenants include, inter alia • No merger without consent • No sale of assets exceeding 50% of the tangible net worth of the Issuer million without Trustee's consent • No repayment of related party loans which may cause a breach of covenants • No reduction in capital so as to breach any financial covenants

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Financial Overview

Income Statement Review

VMIL's net operating revenue has grown at a compound annual growth rate (CAGR) of 2.8% over the past five years. However, the company has cited the lingering impacts of the COVID-19 pandemic as a key reason for the slow growth, particularly in its two primary revenue streams: Net Interest Income (NII) and Net Fees and Commissions. In FY2023, the company experienced a 19.4% decline in net revenue, which totalled $1.88B.

Despite this overall decline, total interest income improved by 7.9%, increasing from $1.40B in FY2022 to $1.51B in FY2023, primarily due to higher interest earned on loans. However, NII sharply decreased by 81.1%, falling from $253.04M to $47.82M. This was largely driven by a 42.2% surge in interest expense, which rose to $1.64B, outpacing the growth in interest income. The primary contributors to the increase in interest expense were repurchase agreements, which amounted to $786.80M, and loans and borrowings, which amounted to $854.17M. Subsequently, during the nine-month period of FY2024, NII rebounded, increasing by 15.0% to $118.10M, driven by a 3.4% reduction in interest expenses, reported at $1.17B.

Over the same five-year period, VMIL's other operating revenue grew at a CAGR of 6.6%. However, in FY2023, this segment declined by 12.0%, falling to $1.83B. Gains from investment activities contributed $866.34M, representing 46.0% of net revenue. Notably, this gain resulted from a one-time swap transaction with the VM Wealth Unit Trust Property Fund, exchanging assets for shares in Kingston Properties Limited (KPREIT). Meanwhile, Net Fees and Commission Income, which accounted for 50.2% of net revenue, declined by 6.6% to $944.93M. This decline was primarily due to a 38.5% decrease in corporate advisory services revenue, which totalled $308.96M. On a positive note, fees from managing unit trust funds rose by 22.6% to $413.78M, making it the largest contributor to net fees and commissions. Dividend income also fell sharply, declining by 52.9% to $15.56M.

In contrast, during the nine months of FY2024, other operating revenue surged by 49.5%, reaching $1.89B. This growth was driven by a significant increase in gains from investment activities, which rose to $1.12B, and an 18.1% improvement in net fees and commissions, amounting to $724.37M. For the September 2024 period, the company recorded a 46.9% increase in net revenue, which totalled $2.01B.

Operating costs increased significantly in FY2023, rising by 33.8% to $1.87B. This was primarily due to a 19.3% increase in staff costs, which totalled $912.57M, and a 7.2% rise in other operating expenses, which amounted to $810.70M. Key contributors to this increase were a 67.7% surge in legal and professional fees, which totalled $194.30M, and a $104.39M rise in management fees. This upward trend in operating expenses persisted in the nine months of FY2024, with total costs rising by 21.2% to $1.43B. This was driven by a 27.0% increase in staff costs to $843.80M and a 25.5% rise in other operating costs, which reached $710.32M.

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Despite these cost pressures, VMIL's share of profit from its associate, KPREIT, contributed $164.41M to the bottom line in FY2023. This resulted from the company's acquisition of a 23% shareholding in KPREIT, effective December 30, 2022. However, pre-tax profit still declined significantly by 81.5%, falling from $936.28M in FY2022 to $173.30M in FY2023.

Overall, VMIL's net profit for FY2023 fell sharply by 72.3% to $198.84M, compared to a record $716.59M in the prior year. In contrast, during the nine-month period of FY2024, net profit surged to $647.21M, representing a 225.5% increase over FY2023's full-year result and a significant improvement from $190.49M during the comparable period in FY2023. This remarkable turnaround was largely driven by gains from VMIL's investment in KPREIT and improved revenue performance during the period.

Balance Sheet Review

In FY2023, VM Investments Limited (VMIL) saw a modest increase in total assets, which rose by 2.0% to $29.51B. This growth was primarily driven by a significant 108.8% increase in resale agreements, which ended the year at $1.57B. Investment securities, the largest component of total assets, accounted for 60.7% of the balance sheet and grew to $18.28B from $17.56B in FY2022. This represents a notable year-over-year increase and outpaces the five-year compound annual growth rate (CAGR) of 2.3% for this segment. Additionally, investment in the associated company, Kingston Properties Limited (KPREIT), grew by 9.1% to $1.72B, further supporting asset growth. However, the overall growth in total assets was tempered by a 14.9% reduction in loans receivable, which fell to $4.65B. The decline in loans was attributed to a 59.8% decrease in new loans granted, which amounted to $1.24B for FY2023. Furthermore, a deterioration in the quality of collateral (primarily shares) associated with a portion of these loans led to an increase in the loss allowance. Cash and cash equivalents also experienced a significant 26.4% decline, falling to $877.65M by the year's end.

As of September 30, 2024, VMIL's total assets reached $30.03B, reflecting a 5.9% increase compared to the same period in 2023. This growth was underpinned by a $2.12B rise in investment securities, partially offset by a $168.15M decrease in resale agreements and an $828.06M reduction in loans receivables. Cash and cash equivalents rebounded to $1.13B, a significant improvement from $462.13M recorded in September 2023. Additionally, investments in the associated company rose by 6.0% to $1.78B.

On the liabilities side, VMIL reduced total liabilities by 3.8% in FY2023, closing the year at $25.46B compared to $26.45B in FY2022. This reduction was driven by a 7.9% decline in repurchase agreements, which amounted to $14.36B, and a 19.4% decrease in customer payables, which fell to $1.18B. However, borrowings increased by 15.5% to $8.68B, driven largely by a 52.9% surge in fixed and variable unsecured bonds, which totalled $7.15B, up from $4.62B a year earlier.

Shareholders' equity experienced significant growth in FY2023, increasing by 62.8% to $4.05B. This improvement was driven by an 8.0% rise in retained earnings, which reached $2.69B, and a contribution of $1.55B from non-controlling interest. The issuance of 1,500,000 non-redeemable, non-cumulative preference shares also played a key role in enhancing the equity position.

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By September 30, 2024, total liabilities stood at $25.34B, reflecting a slight reduction of $313.41M compared to September 30, 2023. This reduction was primarily driven by a decrease in borrowings and repurchase agreements, which fell to $7.63B and $14.42B, respectively. However, customer payables increased by $1.54B during the period. Shareholders' equity continued to grow, reaching $4.69B as of September 2024, an increase of $1.98B compared to the same period in 2023.

Cash Flow Statement Review

VM Investments Limited (VMIL) faced notable pressures on its cash flow in FY2023, primarily stemming from lower net profit, increased working capital requirements, and higher interest payments. Operating cash flows reflected these challenges, with net cash used in operating activities widening significantly to an outflow of $3.05B in FY2023, compared to $2.02B in FY2022. This increased outflow highlights the strain on liquidity caused by rising operational costs and adjustments in receivables and payables. Resale agreements, which had contributed an inflow of $3.29B in FY2022, reported an outflow of $809.38M in FY2023, while repurchase agreements saw an outflow of $1.41B. In contrast, loans receivable generated an inflow of $608.25M, reflecting repayments, while accounts payable contributed an outflow of $522.17M. These shifts in working capital components underscore the challenges VMIL faced in managing operational liquidity during the year.

Cash flows from investing activities also contracted in FY2023, generating $153.11M, a 71.3% decline compared to FY2022. Key drivers of this inflow included $77.25M in dividends received and $41.0M from finance lease repayments.

On the financing side, VMIL recorded a 32.9% increase in net cash inflows reported at $2.57B, driven by proceeds from new bonds and equity instruments. The company raised $530.0M through a bond issue in December 2023 and secured an additional $1.50B from the issuance of preference shares. These funds were instrumental in offsetting repayment obligations on existing debt and provided critical support to the company's liquidity during the year.

Despite the positive inflows from financing activities, VMIL's overall net cash and cash equivalent position weakened for FY2023, falling to a loss of $321.46M. This underscores the ongoing need for robust liquidity management to navigate operational challenges and financial obligations effectively.

Notably, VMIL demonstrated a significant improvement in its cash flow performance during the nine months ending September 2024. Net operating cash flow shifted to an inflow of $2.17B, a marked turnaround from the $2.22B outflow reported for the comparable period in 2023. Additionally, the company recorded a gain of $260.83M in its net cash and cash equivalents as of September 2024.

This improved cash flow position in 2024 highlights VMIL's ability to stabilize its financial operations, supported by better working capital management and strategic financing initiatives. However, sustained focus on maintaining robust liquidity and operational efficiency will be critical to further strengthening the company's financial stability.

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Ratios

VM Investments Limited (VMIL) faced notable challenges in its key financial ratios in FY2023, primarily driven by rising expenses and declining profitability. However, the company demonstrated notable improvements in the first nine months of FY2024, reflecting better financial management and operational performance.

VMIL's efficiency ratio, a measure of operating expenses relative to revenue, deteriorated significantly in FY2023, rising to 99.5% from 59.9% in FY2022. This sharp increase underscores the impact of expenses outpacing revenue growth, as operating costs surged due to higher staff costs and other operating expenses. The elevated efficiency ratio indicates reduced operational efficiency during the year, highlighting the need for more robust cost controls.

Over the five-year period from 2019 to 2023, VMIL experienced a steady contraction in its net interest margin, reaching its lowest point in FY2023 at 0.18%, compared to 0.91% in FY2022. This decline was driven by a surge in interest expenses, which outpaced the growth in interest-earning assets. The reduced net interest margin reflects the challenges posed by a rising interest rate environment and higher borrowing costs.

The net profit margin also reached its lowest level in five years, falling to 10.6% in FY2023, down from 30.7% in FY2022. This decline was primarily due to rising operating expenses and lower net revenue. However, profitability rebounded in the nine-month period of FY2024, with the net profit margin surged to 32.2% for the nine months ending September 2024. This improvement reflects better revenue performance and gains from strategic investments.

VMIL's solvency ratios showed a positive trend during the review period. The debt-to-equity ratio, which peaked at 9.3x in FY2022, improved to 5.7x in FY2023 and further to 4.7x by September 2024. This improvement was primarily driven by an increase in total equity, supported by retained earnings and the issuance of preference shares. Similarly, financial leverage decreased by 17.2% in FY2023 to 8.9x and further improved to 7.9x by the end of Q3 FY2024. These improvements highlight the company's efforts to strengthen its capital structure and reduce reliance on debt.

VMIL's ability to generate returns for shareholders and efficiently utilize its assets weakened in FY2023. Return on equity (ROE) fell sharply to 6.08% in FY2023, down from 25.85% in FY2022, reflecting reduced profitability. Similarly, return on assets (ROA) contracted to 0.68% from 2.39%, indicating lower returns relative to total assets. However, both metrics showed marked improvement in the first nine months of FY2024, with ROE rising to 17.7% and ROA increasing to 2.3%. These improvements were driven by enhanced profitability and better asset utilization during the period.

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Investment Positives and Negatives

Positives

- VMIL's unsecured bonds offer competitive interest rates ranging from 9.75% to 10.50%, with premium rates for larger investments. These rates provide attractive returns, making the bonds an appealing fixed-income instrument for income-seeking investors.

- The proceeds from the bond issuance are earmarked for refinancing existing debt, extending maturity profiles, and supporting strategic growth initiatives. This targeted use of funds enhances VMIL's financial flexibility, liquidity, and ability to pursue acquisitions and portfolio diversification, contributing to long-term stability.

- VMIL's balance sheet demonstrates resilience, with a total asset base of $29.51B as of 2023, driven by substantial investment securities valued at $18.27B. This strong asset backing provides confidence in company's ability to generate income.

- As a key player in Jamaica's financial services sector, VMIL benefits from a diversified business model that includes investment banking, securities trading, and private equity investments. Its established market position and reputation reduce the likelihood of systemic risks undermining its operations.

- VMIL's shareholder equity improved significantly in 2023, bolstering its capital structure and reducing its debt-to-equity ratio. This financial strengthening enhances the company's capacity to meet financial obligations.

- VMIL maintains strong compliance with regulatory requirements and has implemented robust governance frameworks. These measures mitigate operational and reputational risks, fostering investor confidence.

Negatives

- As these bonds are unsecured, they lack specific asset backing, placing investors at higher risk compared to secured instruments. In the event of financial distress or liquidation, bondholders' claims rank below those of secured creditors, increasing the potential for capital loss.

- VMIL's net profit fell by 72.3% in 2023, reflecting rising operational costs and declining revenue. This trend indicates challenges in sustaining profitability, which could hinder the company's ability to meet bond obligations if it persists.

- The efficiency ratio deteriorated to 99.53% in 2023, suggesting that rising operational costs are eroding profitability. Increased inefficiency could strain VMIL's ability to generate surplus cash flow for interest and principal payments.

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- The company has large exposure to market risks, including interest rate volatility and economic downturns. Rising interest rates could erode the market value of these fixed-income instruments, making them less attractive in the secondary market and negatively impacting their liquidity.

- The Bonds have the call feature which allows the issuer (VMIL) to prepay or redeem all or a specified principal amount of interests in the Bonds with no penalty, with a notice period of 30 days. Hence, it is possible that investors might not realise the anticipated return from these instruments.

Key Risks

- **Credit Risk:** The unsecured nature of the bonds means that investors rely solely on VMIL's financial strength and ability to meet its debt obligations. Should VMIL encounter financial distress or liquidity issues, bondholders may not receive timely interest or principal repayments. The absence of collateral amplifies the risk of capital loss, especially in scenarios where VMIL's creditworthiness is adversely impacted by deteriorating market conditions or operational challenges.

- **Liquidity Risk:** VMIL's ability to manage liquidity effectively is critical to honouring its obligations under the bonds. **A mismatch between asset liquidity and short-term liabilities could jeopardize its capacity to make timely bond payments. The company depends heavily on market conditions to refinance its debt. Adverse events, such as tightening credit markets or significant economic downturns, could impair VMIL's ability to secure funding at favourable terms, increasing the risk to bondholders.**

- **Market Risk:** The value of the bonds is susceptible to fluctuations in interest rates and market sentiment. **Rising interest rates make existing fixed-coupon bonds less attractive compared to new issues with coupons, potentially reducing their market value.** Additionally, broader economic or industry-specific disruptions could undermine VMIL's financial performance and ability to service the bonds.

- **Prepayment Risk:** This relates to the risk that bonds may be repaid prematurely, potentially leading to diminished returns for investors than previously anticipated. **The risk is elevated as the company has the option to prepay the Bonds with no penalty.**

Outlook

VM Investments Limited (VMIL) is well-positioned to capitalize on the evolving economic landscape in Jamaica and globally, leveraging a robust strategic plan to deliver long-term growth and shareholder value. Against the backdrop of declining interest rates, both locally and internationally, VMIL's refinancing initiatives and targeted growth strategies underscore its focus on financial sustainability and market competitiveness.

The Federal Reserve (Fed) in the U.S. reduced interest rates by 100 basis points in 2024, driven by subdued inflation expectations. Similarly, the Bank of Jamaica (BOJ) gradually lowered its policy rate to 6.00%, a reduction of 100 basis points since August 2024, supported by stable inflation within its 4%-6% target range. Moreover, the IMF is projecting stable global growth and easing inflation in 2025. Therefore, rate cuts by major central banks are likely, including the BOJ. **This downward trajectory of interest rates creates favourable conditions for companies like VMIL by improving debt repayment capacity and bolstering private equity performance.**

The BOJ's cautious approach to rate reductions reflects its focus on managing the exchange rate while mitigating the risk of capital outflows in a changing interest rate environment. For VMIL, this economic backdrop presents both opportunities and risks. In low interest rate environment, monetary policy is more relaxed and liquidity level rises. This helps to lower financing costs, which benefits debt servicing and profitability. Conversely, for Tranche F of VMIL's bond, the potential for reduced returns for investors, in the latter part of the bond's tenure due to its **Weighted Average Treasury Bill Yield (WATBY) component should be sufficient consideration in an environment of falling interest rates.**

VMIL's focus on portfolio diversification is central to its growth strategy. Investments in private equity and securities trading are designed to generate stable income streams and mitigate the risks associated with market volatility. Subsidiaries like VM Wealth Management Limited and VM Wealth Funds Limited are critical to this approach, allowing VMIL to expand its footprint in asset management and investment advisory services across both domestic and regional markets.

Strategic acquisitions further strengthen VMIL's competitive position. Notably, the company's acquisition of Republic Funds (Barbados) Incorporated, now VM Wealth Funds Limited (Barbados), expands its product offerings and market reach. Additionally, the newly acquired associate Kingston Properties Limited (KPREIT) is expected to enhance revenue diversification. These acquisitions not only bolster VMIL's income potential but also provide access to new client segments and innovative financial products, aligning with the company's long-term vision.

Despite positive developments, VMIL faces challenges, including rising operating costs and the one-off nature of certain revenue gains in FY2023. Financing costs continue to exert pressure on profitability. However, with declining interest rates, the refinancing of existing debts, and contributions from acquisitions, the company's bottom line is poised for improvement in the medium to long term.

The macroeconomic environment, characterized by stable inflation and falling interest rates, bodes well for VMIL's debt management and growth prospects. However, risks such as geopolitical instability, exchange rate volatility, and regulatory changes remain key considerations.

A cornerstone of VMIL's strategic outlook is the refinancing of its existing debt through the issuance of unsecured corporate bonds. This move is aimed at extending the maturity profile of the company's liabilities, thereby enhancing its financial flexibility and liquidity management. By reducing the refinancing risks associated with short-term obligations, VMIL is expected to better manage cash flows and pursue growth initiatives without immediate repayment pressures.

Under our base-case assumption, we forecasted the refinanced of existing debt replaced with the issuance of VMIL's new debt and sustained other existing financial liabilities, whilst increasing equity in line with the company's five-year average equity growth. This resulted in an appropriate debt-to-equity ratio beneath the stipulated standard in its financial covenant.

Base Case						
	Financial Covenant	Ratio	Proj. FY 2024	Proj. FY 2025	Proj. FY 2026	Proj. FY 2027
Max.	5.00	Total Debt/Total Equity	4.56	3.68	2.72	2.36

In our worst case scenario, we anticipate a deceleration in equity, whilst new debt is issued on the stated issue date. We predict that VMIL's debt to equity may not meet the required level as per the financial covenant by the end of the financial year in December 2024. However, for the remaining projected years, the debt-to-equity ratio would stay under the requisite financial covenant threshold.

Worse Case						
	Financial Covenant	Ratio	Proj. FY 2024	Proj. FY 2025	Proj. FY 2026	Proj. FY 2027
Max.	5.00	Total Debt/Total Equity	5.33	4.94	4.18	4.17

Under the most favourable conditions, equity growth approximately 5% above its five-year average growth. We predict VMIL's debt to equity to stay within its stipulated covenant.

Best Case						
	Financial Covenant	Ratio	Proj. FY 2024	Proj. FY 2025	Proj. FY 2026	Proj. FY 2027
Max.	5.00	Total Debt/Total Equity	4.39	3.41	2.39	1.94

Recommendation

Based on the risks associated with these instruments, as well as the current yields of other similar assets, an appropriate rating is **UNDERPERFORM/UNDERWEIGHT**. Furthermore, this recommendation reflects VMIL's downturn in net revenue, profitability margins and weak cash flow generation for the 2023FY. While the recent turnaround to profitability is a positive signal, the sustainability of this improvement remains uncertain, given the substantial one-off gain from investments. Although favourable macroeconomic trends, such as declining interest rates, may provide some relief in terms of borrowing costs, VMIL's ability to benefit from these conditions is tempered by operational cost constraints. Investors are advised to adopt a cautious view until the company demonstrates consistent improvements in cash flow generation, profitability, and operational resilience.

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	YE 2019	YE 2020	YE 2021	YE 2022	YE 2023	CAGR	Q3 2023	Q3 2024	Chg. (%)
BVPS	2.88	2.76	2.04	1.66	2.70	-1.64%	1.80	3.13	73.46%
EPS	0.40	0.29	0.29	0.48	0.13	-24.06%	0.13	0.43	239.76%
Dividend Per Share	0.19	0.03	0.16	-	-		-	0.03	N/A
Stock Price	9.00	6.00	6.15	4.00	2.75	-25.65%	2.93	2.75	-6.14%
Main Market Index	509,916	395,615	396,156	355,897	325,700	-10.60%	327,042	318,326	-2.67%
Abridged Income Statement (in Millions)									
Net Interest Income	260.4	289.6	369.2	253.0	47.8	-34.54%	102.7	118.1	15.02%
Gain on Investment Activities	485.9	594.0	670.2	946.5	866.3	15.55%	595.7	1,116.9	87.50%
Net Fees and Commission Income	933.1	925.3	800.8	1,011.8	944.9	0.31%	613.5	724.4	18.08%
Operating Revenue	1,683.0	1,875.6	1,856.1	2,337.0	1,882.5	2.84%	1,367.6	2,009.3	46.92%
Operating Costs	881.4	1,240.7	1,197.9	1,400.7	1,873.6	20.75%	1,179.3	1,428.7	21.15%
Pre-Tax Profits	786.2	598.9	658.2	936.3	173.3	-31.48%	242.9	659.0	171.29%
Profits	598.0	433.6	440.0	716.6	198.8	-24.06%	190.5	647.2	239.76%
Corporate advisory services	528.3	499.4	313.0	502.2	309.0	-12.55%	-	-	N/A
Abridged Balance Sheet (in Millions)									
Investment Securities	16,718.2	16,366.6	20,399.8	17,560.2	18,276.8	2.25%	17,795.7	19,917.9	11.93%
Earning Assets	20,655.5	23,747.3	24,451.1	18,312.4	19,847.4	-0.99%	18,207.4	20,161.5	10.73%
Total Assets	25,327.7	29,493.1	30,924.6	28,941.8	29,506.8	3.89%	28,356.5	30,028.8	5.90%
Equity	4,326.8	4,133.6	3,056.6	2,488.6	4,050.2	-1.64%	2,703.2	4,688.9	73.46%
Repo Liabilities	16,999.4	20,312.8	19,649.3	15,589.3	14,356.0	-4.14%	14,724.5	14,425.0	-2.03%
Borrowings	2,410.6	3,042.6	5,522.0	7,494.1	8,657.0	37.66%	9,317.5	7,635.0	-18.06%
Total Debt	19,410.0	23,355.5	25,171.2	23,083.4	23,013.1	4.35%	24,042.0	22,060.0	-8.24%
Total Liabilities	21,000.9	25,359.5	27,868.0	26,453.2	25,456.6	4.93%	25,653.3	25,339.9	-1.22%
Ratios						**Average**			
Efficiency Ratio	58.08%	59.79%	64.28%	59.94%	99.53%	68.32%	89.96%	77.34%	-14.02%
Net Profit Margin	35.54%	23.12%	23.71%	30.66%	10.56%	24.72%	13.93%	32.21%	131.25%
Debt/Equity	4.49	5.65	8.24	9.28	5.68	6.67	8.89	4.70	-47.10%
Debt/Equity (ex-Repos)	0.92	1.20	2.67	4.32	2.74	2.37	4.03	2.32	-42.31%
Financial Leverage	6.66	6.48	8.40	10.80	8.94	8.26	10.40	7.90	-24.03%
Dividend Yield	3.26%	0.41%	2.60%	0.00%	0.00%	1.26%	0.00%	1.17%	N/A
Dividend Payout Ratio	47.7%	10.4%	52.8%	0.0%	0.0%	22.17%	0.0%	7.4%	N/A
Interest Coverage	2.51	2.03	1.96	1.89	1.17	1.91	1.28	1.63	26.68%
Debt-to-EBITDA	13.69	17.63	16.73	10.57	11.96	14.12	10.20	9.71	-4.77%
Debt-to-EBITDA (Borrowings Only)	1.70	2.30	3.67	3.43	4.50	3.12	3.95	3.36	-14.95%
P/E	22.57	20.76	20.96	8.37	20.75	18.68	7.77	6.29	-18.98%
P/B	3.12	2.18	3.02	2.41	1.02	2.35	1.63	0.88	-45.89%
ROE	16.97%	10.25%	12.24%	25.85%	6.08%	14.28%	21.16%	17.74%	-16.19%
ROA	2.55%	1.58%	1.46%	2.39%	0.68%	1.73%	2.04%	2.25%	10.32%

Source: http://www.jamstockex.com; JMMB Investment & Research; VMIL Bond IPO 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/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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