

# Bond Analysis: JMMB Group Limited

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● Bond Recommendation: **PARTICIPATE**

## ABOUT THE COMPANY

JMMB Group Limited (JMMBGL or the Group) is a financial services Group incorporated and domiciled in Jamaica and listed on the Stock Exchanges of Jamaica and Trinidad & Tobago. The Group offers its products and services through 5 main business lines which include investment management, commercial banking, insurance brokerage, remittances, and other related services, with over 412,000 clients in the 3 countries that it serves (Jamaica, Trinidad & Tobago, and Dominican Republic).

Over the past 8 years, the Group has focused on regional expansion and the diversification of its business lines through acquisitions and the development of strategic partnerships. Over the next 5 years, JMMBGL is seeking to standardize, centralize, and integrate its operations across all entities within the Group, which should serve to improve its operational efficiency.

Further, the Group also intends to grow its commercial banking business line regionally with the goal of enhancing the diversification of its income and reducing the cost of its funding. To this end, in August 2022 the Group acquired Banco Múltiple Bell Bank, SA, a commercial bank domiciled in the Dominican Republic.

| JMMB Group Limited: Bond Term Summary |   |           |            |
|---------------------------------------|---|-----------|------------|
| Issuer                                | JMMB Group Limited  |           |            |
| Currency                              | USD   |           |            |
| Credit Rating (CariCRIS)              | <i>jmA+</i> (Local Scale Foreign Currency)<br><i>jmAA-</i> (Local Scale Local Currency) |           |            |
| Outlook (CariCRIS)                    | Stable  |           |            |
| Tranche                               | Tranche D   | Tranche E | Tranche F  |
| Tenor                                 | 2 years   | 3.5 years | 5 years    |
| Face Amount                           | \$6.0 Mil   | \$6.0 Mil | \$13.0 Mil |
| Interest Rate                         | 8.30%   | 8.55%     | 8.90%      |
| Issue Date                            | December 2, 2022  |           |            |
| Minimum Subscription                  | \$10,000.00 and multiples of \$1,000.00   |           |            |
| Interest Payment Date                 | Semi-Annually commencing 6 months after the issue date                                  |           |            |
| Principal Repayment                   | Principal will be repaid in full on the Maturity Date                                   |           |            |
| Day Count Basis                       | 30/360  |           |            |
| Trustee, Registrar & Paying Agent     | Jamaica Central Securities Depository   |           |            |
| Governing Law                         | Laws of Jamaica   |           |            |

**Recommendation:** We expect JMMBGL’s growth to continue as it plans to improve on its income generating capabilities by strategically expanding its earning assets both locally and regionally by inorganic means. The addition of a 7<sup>th</sup> service centre is also expected to enhance client experience and bolster its financial performance in the near to medium term. JMMBGL is expected to continue booking gains from investment in securities and share of profits through its associated company, Sagicor Financial Corporation (SFC) in which it currently has a 23.33% stake. We also view the Group’s adequate capital adequacy, sufficient asset quality, historically strong earnings and ability to navigate market risk as supportive of its creditworthiness. With the foregoing we recommend that investors **PARTICIPATE** in the USD Unsecured Fixed Rate Bonds being issued by JMMBGL. We also view the interest rates being offered on the three tranches as attractive for those investors seeking an appealing return in USD.

## ECONOMIC OVERVIEW (JAMAICA, TRINIDAD & TOBAGO, DOMINICAN REPUBLIC)

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### **Jamaica (S&P Rating: B+/Stable)**

On October 5, 2022, Standard & Poor's affirmed Jamaica's rating at 'B+' with a stable outlook. The assessment reflects the expectation that the economic recovery currently underway should persist, supported by the tourism sector. S&P expects tourism to spur more growth than any other sector in 2022 and 2023, although it views Jamaica's economy as relatively well diversified when compared to other small open economies, benefiting from vibrant agriculture, mining and manufacturing activities. Crime is expected to limit the long-term pace of growth, while slowing global growth poses near-term downside risk. The government's recent policy track record supports macroeconomic stability in the medium term. The International Monetary Fund (IMF) projects real GDP to grow by 3.0% in 2023.

### **Trinidad & Tobago (S&P Rating: BBB-/Stable)**

On July 21, 2022, S&P affirmed Trinidad & Tobago's rating at 'BBB-' while revising the country's outlook to stable from negative on a stronger economy. S&P expects that higher prices for oil and petrochemicals should have spurred an economic recovery in Trinidad during 2022 through improved incomes and stronger government revenue collection, thereby strengthening economic resilience and enabling fiscal consolidation. The IMF projects real GDP to grow by 3.5% in 2023.

### **Dominican Republic (S&P Rating: BB/Stable)**

On December 19, 2022, S&P upgraded the Dominican Republic's rating to 'BB' from 'BB-' on stronger institutions. A stable outlook was maintained. S&P expects stronger institutions to support high economic growth, although delays in key structural reforms could lead to fiscal pressures. Over the last 2 years, the Dominican Republic posted an impressive economic recovery, not only surpassing pre-pandemic income but also resuming its long-term trend growth rate. The IMF projects real GDP to grow by 4.5% in 2023.

## COMPANY OUTLOOK

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### **Strong brand equity, long history, and regional expansion**

A stable outlook for the Group reflects its strong brand equity and long history of operations in the Jamaican securities industry. This brand equity has facilitated the Group's expansion into the wider Caribbean region and has positioned it as an emerging player. We expect efforts towards enhancing the client experience to remain at the forefront of the Group's key objectives, thereby driving continued brand loyalty. Due to this, we believe that JMMBGL is well positioned to grow inorganically through the local and regional expansion of its banking business line, driven by the Group's intentions to acquire new banking operations within the Caribbean.

### **Regional expansion brings diversification benefits and growth opportunities**

While the high interest rate operating environment impacted the performance of the investments business line in Jamaica and Dominican Republic, the Group still benefitted from its regional and business line reach. The banking business line continued its positive trajectory of performance, increasing its overall contribution to Group earnings to end at 52% contribution for the six month period ending September 30, 2022. Banking and related services, funds management and the securities business lines all posted solid results across the Group's operating territories. Specifically, Trinidad & Tobago

showed growth in operating revenues and increased its overall contribution to Group profitability. The Dominican Republic portfolio of companies also delivered strong performance during the period with 18% contribution to net operating revenue. The Group’s 2019 investment in Sagicor Financial Corporation (SFC) also contributed the Group’s profitability ending the period with J\$2.2 billion in net earnings. It is anticipated that the Group’s diverse operations, strategic investments and efforts geared towards standardizing and integrating its regional operations should support its growth, profitability and improved operating efficiencies going forward.

### Stable economic outlooks for Jamaica, Trinidad & Tobago and the Dominican Republic

Against the backdrop of a potential slowdown in global economic activity, the economies within which JMMBGL operates nonetheless continue to have stable economic outlooks, with all three countries expected to post real GDP growth of at least 3.0% for 2023, according to forecasts from the IMF. Notwithstanding, a high interest rate environment in both Jamaica and the Dominican Republic is expected to temper growth for financial institutions over the short-term until inflation rates return to targeted levels set by the Central Banks of those countries.

### FINANCIAL ANALYSIS (Six Month Period Ended September 30, 2022)

| JMD (In Millions)        | FY 2019/20 | FY 2020/21 | FY 2021/22 | 6M 21/22<br>Sept 30, 2021 | 6M 22/23<br>Sep 30, 2022 |
|--------------------------|------------|------------|------------|---------------------------|--------------------------|
| Net Operating Revenue    | 21,516     | 22,439     | 26,640     | 13,465                    | 12,393                   |
| Net Interest Margin      | 2.8%       | 2.6%       | 2.3%       | 2.4%                      | 2.1%                     |
| Net Profit               | 6,993      | 7,505      | 11,442     | 5,133                     | 3,468                    |
| Total Assets             | 399,697    | 513,706    | 614,466    | 562,478                   | 637,852                  |
| Return on Average Equity | 19.6%      | 15.1%      | 20.4%      | 17.9%                     | 17.5%                    |
| Interest Coverage Ratio  | 1.9x       | 1.8x       | 1.6x       | 1.7x                      | 1.3x                     |

Source: Bloomberg & JMMGL Financial Statements

### Ongoing global uncertainty has constrained operating performance

For the six (6) months ended September 30, 2022, net operating revenue fell to \$12.39 billion from \$13.46 billion or by 7.9%. This decline was driven by an 47.3% increase in Interest Expense, along with a 52.5% reduction in Gain on securities trading (net). The ongoing disruptions in supply chains, geo-political tension, uncertainty surrounding the Ukraine/Russia war and rising inflation have all negatively impacted the environment in which the Group operates. From a contribution standpoint, the Banking & Related services segment accounted for \$6.41 billion or 52.0% of net operating revenue for the period. The segment improved by 24.0% and was primarily driven by robust growth in the company’s loan book. Its Financial and Related Services segment accounted for \$5.85 billion or 47.0% of net operating revenue and declined by 28%, which was largely attributed to lower trading gains due to lower demand for emerging market assets.

Operating expenses increased to \$9.95 billion from \$8.85 billion or by 12.4% and was primarily due to spending related to the company’s long-term growth initiatives which are intended to bolster the position of the business in the foreseeable future. Profit Before Taxation fell to \$3.78 billion from \$6.18 billion due largely to the aforementioned increases in Interest Expenses and Operating Expenses. Similarly, Net Earnings attributable to Equity holder fell to \$3.62 billion from \$5.48 billion or by 33.9%.

**Acceptable asset growth and quality continues**

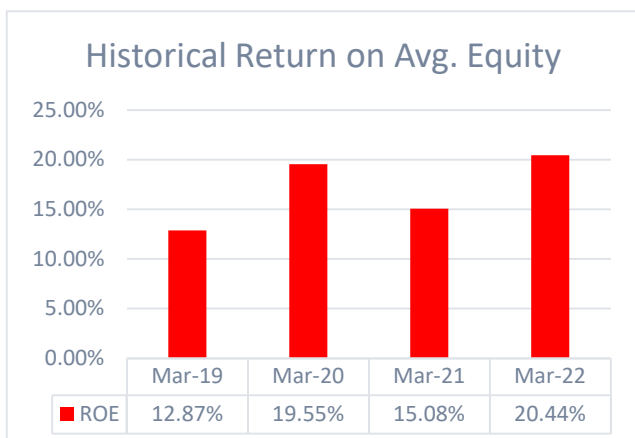
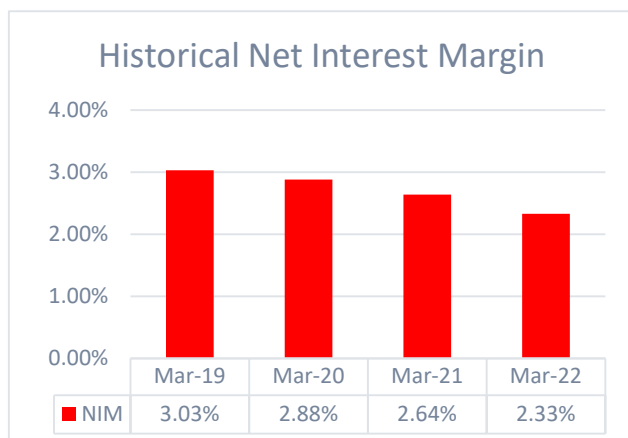
As at September 30, 2022, JMMB’s Total Asset stood at \$637.85 billion, which was a 13.4% increased relative to its position in September 30, 2021. This increase was mainly due to increases in Interest Receivable, Loans and note receivables and Investment and resale agreements, which grew by 9.6%, 23.3% and 11.3% respectively. JMMBGL affirmed that the credit quality of the loan portfolio continued to be comparable to international standards and that the Group continues to maintain enhanced monitoring to mitigate against possible deterioration in credit quality. Growth in the asset base over the six-month period was funded in part by increases in customer deposits, repos and multilateral funding. Deposits grew by 6.0% to J\$161.71 billion, while repos increased by 3.0% to J\$307.85 billion. Further, an additional tranche of funding was received from IDB Invest, a member of the Inter-American Development Bank Group. This is earmarked for the SME segment and should improve the capacity of the JMMB Bank (JA) to continue building its SME solutions suite.

**Strong capital adequacy should minimize economic and financial disruptions**

Jamaica Money Market Brokers Limited, JMMB Bank (Ja) Limited and JMMB Bank (T&T) Limited all surpassed their Capital Minimum Requirement of 10% by 5.36%, 2.05% and 5.19% respectively for the six-month period. This indicates that based on international standards, the Group has sufficient capital to act as a buffer against economic and financial disruptions that may reduce the value of assets on the Group’s balance sheet.

**Net interest margin continues to trend downward, but remains robustly above 2.0%**

The Group’s TTM (Trailing Twelve Months) Net Interest Margin (NIM) for the 6-month period ended September 30, 2022 fell to 2.1% from 2.4% recorded in the previous year as the increase in Interest Expense outpaced the growth in Interest Income. Despite the decline, NIM remained in line with historical year-end NIM that has trended above 2.0% since 2019. A favourable NIM is indicative of JMMBG’s ability to manage sensitivity to market risk.





### Adequate Earnings Quality

Earnings Quality was also found to be sufficient based on TTM Return on average equity (ROE) for the period which marginally fell to 17.5% when compared to 17.9% recorded in the previous year for the same period. Consequently, ROE remained in line with historical year-end ROE that has trended above 12.0% since 2019. We also view JMMBGL's sources of income to be stable with 71.2% of net operating revenue for the 6-month period reliably coming from steady sources such as interest income from loans, as well as income from fees and commissions.

### Liquidity constrained by assets/liabilities mismatch, however a robust liquidity management strategy is in place

For the financial year ended March 31, 2022, JMMBGL's liquidity was determined to be constrained by the mismatching of assets and liabilities. Assets maturing in 90 days were found to be insufficient to meet liabilities maturing in 90 days. According to CariCRIS, this is largely driven by the Group's moderate concentration in repurchase agreement (repo) instruments. Despite this, JMMBGL's Interest Coverage Ratio of 1.3x for the six-month period ended September 30, 2022 should support interest payments to creditors going forward. The Group also affirmed that the following strategy is in place to prevent a liquidity crunch:

- (i) Monitoring future cash flows and liquidity daily. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure funding if required;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Optimizing cash returns on investments; and
- (iv) Managing the concentration and profile of debt maturities



## CONCLUSION

We expect JMMBGL's growth to continue as it plans to improve on its income generating capabilities by strategically expanding its earning assets both locally and regionally by inorganic means. The addition of a 7<sup>th</sup> service centre is also expected to enhance client experience and bolster its financial performance in the near to medium term. JMMBGL is expected to continue booking gains from investment in securities and share of profits through its associated company, Sagicor Financial Corporation (SFC) in which it currently has a 23.33% stake. We also view the Group's adequate capital adequacy, sufficient asset quality, historically strong earnings and ability to navigate market risk as supportive of its creditworthiness. With the foregoing we recommend that investors **PARTICIPATE** in the USD Unsecured Fixed Rate Bonds being issued by JMMBGL. We also view the interest rates being offered on three tranches as attractive for those investors seeking an appealing return in USD.

#### SOURCES

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JMMBGL COMPANY WEBISTE, JMMBGL COMPANY FINANCIALS, JMMBGL ANNUAL REPORT 2022, BLOOMBERG, OPPEHNHEIMER & CO., STANDARD & POORS, CARICRIS RATINGS, IMF

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#### DEFINITIONS

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- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.