VM Wealth Management Limited

Company Analysis: Dolla Financial Services Limited 6M 2023

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Dolla Financial Services

- Recommendation: **OVERWEIGHT**
- Target Price: **$3.52**
- Current Price: **$2.22**

- Shares Outstanding: 2,500,000,000 units
- Financial Year End: December 31st

ABOUT THE COMPANY

Dolla Financial Services Limited (Dolla) was formed in Kingston, Jamaica in October 2009 with the primary goal of providing a full suite of financial products including loans, remittance and bill payments and cambio services to the public. In 2014, the Company began its cambio and remittance and bill payments after receiving its licenses from the Bank of Jamaica (BOJ). In 2016, the Company expanded its reach beyond the Corporate Area after it acquired the loan portfolio of M Twenty-Four Investments Limited (M-24) located in Lucea, Hanover, and M-24's CEO, Kadeen Mairs, was appointed to spearhead the subsequent operations. In 2018, the Company made the decision to shutter its cambio and remittance and bill payments division and focus on its core business of microcredit services.

Dolla is a subsidiary of private equity investment company, First Rock Capital Holdings Limited, after it acquired a controlling interest in 2020. The Company operates from ten (10) locations island wide and one (1) location in Guyana, through its wholly owned subsidiary, Dolla Guyana Inc. In 2022, the company formed an asset-based subsidiary, Ultra Financier Limited (Ultra), which targets high net worth clients and has contributed upwards of 23% of DOLLA's loan portfolio. The Company received its microlending license in 2023, which will propel its suite of personal and business loans to individuals, entrepreneurs, and medium sized enterprises (SMEs) in the manufacturing, agriculture, trading and service sectors among others. The Company also customizes loan products for larger borrowers on a case-by-case basis.

FINANCIAL PERFORMANCE SUMMARY

J$'000	FY 2021	FY 2022	6M 2022	6M 2023
Interest Income	379,049	739,739	298,310	591,693
Total Net Interest Income & Other Revenues	321,237	635,364	268,907	502,317
Operating Expense	153,440	339,724	136,579	269,911
Net Profit	129,549	280,472	119,141	227,161
Total Assets	861,094	2,244,747	1,189,075	2,816,318
Total Equity	314,984	720,981	653,540	897,960
Loans, net of provisions for credit losses	750,503	1,725,742	1,047,634	2,565,746
Total Liabilities	546,110	1,523,766	535,536	1,918,356

Dividend Policy

The company has adopted a dividend policy targeting a payout not exceeding 50% of net profits available for distribution. At the end of 2022, the company had a payout ratio of 30.95% and during the current financial year DOLLA has made two dividend payments, with a YTD payout ratio of 22.14%.

Outlook

We anticipate that Dolla will experience growth in its interest income as it continues to expand its loan portfolio amidst the current high interest rate environment. Also, the company intends to expand its footprint locally and regionally, which could lead to new strategic partnerships with key stakeholders.

Projections and Valuation

We used a Comparative approach to determine the value for the stock, with a 2024 forward BVPS and EPS of **$0.74** and **$0.26**, respectively. An applied P/B and P/E of **4.00x** and **16.00x** were deemed appropriate and were used to determine a relative value. By averaging all two prices, we obtained a consensus target price of **$3.52** which represents a substantial l upside of 58.77% relative to its current price.

Risks to Price Target

The BOJ and other central banks are expected to maintain their aggressive stance in a bid to tame the high inflation environment. As such, our target price may not be realized if interest rates spike to a higher than anticipated level which would have a significant impact on the general cost of borrowing. Also, any unexpected shock to the economy is likely to cause a significant deterioration in the credit quality of its loan portfolio, thus putting downward pressure on the business' financial performance.

SIX MONTHS ENDED JUNE 30, 2023

During the six months ending on June 30, 2023, interest income nearly doubled, rising from $298.31 million in 2022 to $591.69 million. This substantial 98.35% increase was attributed to higher interest rates in the local capital market and, more significantly, increased loan volumes resulting from expansions and new partnerships. Similarly, interest expenses nearly quadrupled, reaching $101.18 million at the end of the six-month period, primarily due to increased borrowing. Nonetheless, net interest income surged by 80.50%, leaping from $271.76 million in the previous period to $490.52 million, but the net interest margin deteriorated from 32.87% to 25.78%.

Fees and other income experienced an extraordinary sevenfold increase during the reporting period, driven by a significant rise in loan disbursements. Despite recording foreign exchange losses of $5.67 million, the company's total net interest income and other revenue increased by 86.80% to $502.32 million. Administrative expenses increased by $133.33 million year-over-year (YOY), driven by inflationary pressures and additional expenses related to the company's physical expansions. Pre-tax profit increased by 75.63% to $232.41 million, but the operational expense ratio worsened during the six months, increasing from 50.79% to 53.73%. Despite benefiting from tax remission for listing on the JSE Junior Market, DOLLA paid $5.24 million in corporate tax during the reporting period, representing a 60.23% decline in taxation. Consequently, DOLLA achieved a net profit of $227.16 million, marking a substantial 90.67% increase. The Earnings per share (EPS) decreased from $0.41 to $0.09, primarily due to a significant rise in the number of shares issued during the initial public offering (IPO) in 2022.

Turning to the balance sheet, total assets more than doubled, primarily driven by the $1.52 billion increase in loans, net of provisions for credit losses, as the company's loan portfolio expanded through a $1.50 billion bond raise. Notably, cash and cash equivalents and intangible assets decreased. The trailing twelve-month (TTM) return on average assets (ROA) decreased from 54.13% to 42.33% as average asset growth outpaced TTM net profit growth. Total liabilities expanded nearly fourfold, growing from $535.54 million to $1.92 billion, largely due to increased borrowing, resulting in loans payable increasing from $429.90 million to $1.78 billion. These proceeds were utilized to grow the company's loan book and expand high-value loan offerings through its new subsidiary, Ultra Financier Limited.

Higher net profit drove the $248.46 million increase in retained earnings, which was the primary contributor to the 37.40% growth in total shareholders' equity. The TTM return on average equity (ROAE) decreased during the reporting period from 139.69% to 109.28%, due to TTM net profit growing slower than average equity. DOLLA's Debt-to-Equity ratio increased to 2.14x from 0.82x as the growth in borrowings outpaced the growth in the company's share capital and retained earnings.

OUTLOOK

Corporate Deals are Expected to Boost Clientele

DOLLA has established collaborations with several firms spanning different sectors, aiming to become the leading financial service providers for their clientele. Among these businesses are Century 21 Heave-Ho Properties Limited and FosRich Company Limited. This strategy is projected to expand the customer base and boost earnings through increased interest income and fees and commissions. Coupled with efforts to reduce costs, this is expected to propel the company's growth in net profit and market share.

Growth in Subsidiaries

While pausing the expansion of its second location in Guyana, DOLLA intends to broaden its presence in other Caribbean markets, including The Bahamas, St Lucia, and Barbados. However, the company is seeking professional guidance to navigate the regulatory requirements in these regions. DOLLA is also exploring entry into the Dominican Republic through Ultra Financier Limited. On the local front, Ultra's strategy involves establishing branches in urban areas like Kingston and Montego Bay. These two locations are expected to suffice for Ultra's growth in Jamaica, but beyond the country's borders, DOLLA envisions concentrating on cities with a significant population of high-net-worth individuals who may require access to credit.

INVESTMENTS POSITIVES

- Dolla maintains a well-diversified loan portfolio in relation to its sector concentration, ratio of business to personal loans as well as secured to unsecured loans. This has allowed the Company to reduce, on average, the credit risk of the loan portfolio.
- Geographic diversity safeguards from the impacts of a country-based downturn on the company’s operations.
- Improving economic conditions, especially in Guyana, are expected to translate to improved performance and asset quality of the company.
- DOLLA appeals to the unbanked and underbanked, by providing a wide range of loan products to a diversified customer base.
- The Company is expected to enjoy a 10-year tax relief by listing on the Junior Market of the JSE, which can allow more dividend payments to shareholders.
- The company’s operations remain resilient, having grown the loan portfolio during the COVID-19 pandemic and ongoing economic shocks, with minimal to zero non-performing loans within the company and across its subsidiaries.

INVESTMENTS NEGATIVES:

- The aggressive tone of the BOJ and the US Federal Reserve increases the DOLLA’s cost of funds, as the company is continuously seeking capital to expand its loan portfolio. This, amidst the high local inflationary environment, can stymie the company’s growth in net profit and pull the EPS.
- While recession probabilities are waning, a slowdown within the region may cause a relapse in the rate of loan delinquency.
- Some loan types do not require collateral which increases credit risk for DOLLA.

CONCLUSION

In Jamaica, the microfinance sector has played a significant role in contributing to the economy, particularly in terms of supporting the MSME sector, enhancing financial inclusivity, and addressing poverty. Nevertheless, the industry's long-term viability, especially in a region prone to economic volatility and natural disasters, hinges on several critical factors. These include proficient risk management, well-defined regulatory structures, fostering collaboration between microfinance entities, fintech firms, and traditional banks, as well as harnessing the potential of data analytics.

DOLLA has demonstrated substantial year-over-year growth and, through strategic partnerships and physical expansion, aims to further expand its loan portfolio, customer base, and market presence throughout the region. While there are concerns regarding the company's performance, notably in light of the high levels of inflation and interest rates, DOLLA continues to exhibit a notable degree of resilience.

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SOURCES

Dolla Financial Services Limited Website and Financials, The Gleaner Company, Loop News Jamaica, The Jamaica Observer, and the Financial Services Commission (FSC), PSOJ, Bloomberg, JSE

DEFINITIONS

- **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.