

Equity Analysis: JMMB Group Ltd (JMMBGL) 9M 2023-24

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- Recommendation: **OVERWEIGHT**
 - Price Target: **\$32.45**
 - Close Price: \$25.17
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- Shares Outstanding: 1,955,552,532 units.
 - Financial Year End: March 31

ABOUT THE COMPANY

Jamaica Money Market Brokers Group Ltd. (JMMBGL) was founded on November 1992 with initial operations in Jamaica. The company has since expanded its operations and now has subsidiaries in Jamaica, the Dominican Republic and Trinidad and Tobago. The Group acquired a 22.5% stake in Sagicor Financial Company (SFC) on December 5, 2019, which has since increased to 23.2%.

JMMBGL has six (6) business lines which provide services in security brokering, commercial banking, asset management, pension fund management, remittances, insurance brokerage, corporate advisory as well as other finance and banking related services.

The Group categorizes its operations into three main segments: Financial and related services, Banking and related services and Other services which includes insurance brokerage, investment and real estate holdings.

FINANCIAL PERFORMANCE

J\$'000	FY 2021/22	FY 2022/23	9M 2022/23	9M 2023/24
Net Interest Income	11,800,418	11,178,636	8,436,814	6,389,119
Operating Profit	8,071,013	3,582,650	4,216,656	1,123,347
Net Profit to Parent	11,022,838	6,167,184	(245,091)	16,708,907
Total Assets	613,288,950	665,348,447	639,242,626	725,972,200
Shareholder Equity to parent	54,122,657	53,332,991	46,717,329	71,043,083
Total Liabilities	557,704,205	610,988,188	590,933,849	653,197,560
Book value per share (\$)	27.68	27.27	23.89	36.33
Earnings per share (\$)	5.64	3.15	(0.13)	8.54

Dividend Payments

JMMBGL's dividend policy outlines that it will pay approximately 15% to 30% of its annual Net Profits After Tax (NPAT) generated by core business activities. Over the last five (5) years on average the group paid out 12.19% of its NPAT with an annual dividend yield of 1.0%.

Outlook

JMMB Group's outlook is cautiously optimistic, despite facing some recent challenges. The global economic environment has been challenging, impacting JMMB's profitability. However, there are signs of improvement as the group actively pursue strategic initiatives focused on diversification, cost management, and core business growth intended to improve their financial performance in the medium to long term. Advancement in the digital arena is expected to enhance customer experience and increase engagement underpinned by the Mobile App which was launched February 15, 2024 and offers a suite of functions including effortless bill payment, wire funds locally and overseas and track equities portfolio. The newest move by JMMB Group Limited (JMMBGL) to diversify its business line and increase its footprint in the Caribbean comes after JMMB International Limited obtained a securities dealer license in Barbados as a securities business, dealer, and underwriter on October 12, 2023.

Projections and Valuations

We used a combination of a Comparative and an Absolute approach to determine the value for the stock. For the Absolute approach, a cost of equity of 10.60% was used to determine the appropriate equity charge and discount the expected residual income. For the comparative approach, a 2023 forward BVPS \$38.83 was used with an applied P/B of 1.00x which was deemed appropriate to determine a relative value. By averaging all approaches, we obtained a consensus target price of **\$32.45**.

Risks to Price Target

The target price may not be reached as the group continues to grapple with higher for longer interest rates compressing interest margins which may negatively impact both banking and investments core business activities. Persistent exposures to high economic volatility and low consumer sentiment may result in the downward revaluation of investment securities in part driven by a reduction in market participation. Intensive investments for the Barbados expansion could potentially drag on earnings as well as the underperformance of its other regional branches.

NINE MONTHS ENDING DECEMBER 31, 2023:

Over the nine-month period JMMB Group Limited interest income improved 15.30% above the prior year to close at \$29.73 billion while interest expense peaked at \$23.34 billion representing a 34.55% increase. Higher interest expense was chiefly attributable to economic headwinds underscored by tight monetary policy where interest rates remain elevated compressing net interest income to \$6.39 billion when compared to \$8.47 billion reported for a corresponding period. This was also reflected in the lackluster performance in Fee & Commission and Foreign Exchange trading figures at \$3.89 billion and \$2.03 billion showing a contraction of 9.92% and 17.80% respectively.

Gains on securities trading spiked to \$5.01 billion or 43.43% which was due to a one-off gain of approximately \$14.6 billion where its associated company closed on a business acquisition during the period. It should be noted that JMMB Group holds a 23.44% stake in Sagicor Financial Company Limited. Higher dividend flows posted at \$102.21 million or by an equivalent climb of 57.73% assisted in offsetting the overall decline in Operating Revenue to \$17.60 billion or by 6.87%. JMMB continues to reap the rewards of its regional diversification strategy, which countered Jamaica's underperformance with contributions from Dominican Republic and Trinidad & Tobago, accounting for 21% and 27% of Operating Revenue, respectively.

Operating expenses presented an increase of 12.22% to \$16.48 billion against the prior year's results of \$14.68 billion over a similar period. This was mostly influenced by the group's long-term growth initiatives, which aim to strengthen its core position within the financial sector through digitization, standardization, and advanced financial reporting systems along with higher inflation. Profit Before tax climbed to \$15.84 billion underscored by a significant growth in Share of Profits totaling \$16.28 billion of which \$14.2 billion was due to Sagicor Financial Company Limited successful acquisition of Ivari Holdings.

Net Profit for the 9-month period was commendable totaling \$16.99 billion when compared to a net loss of \$7.78 billion reported for a corresponding period in the prior year. It should be noted that normalized net earnings, excluding the one-off gain of \$14.2 billion would amount to \$2.79 billion. Equity-holders of the parent company for the same period was posted at \$16.71 billion which translates to earnings per share of \$8.54 relative to a loss of \$0.13 for the previous year over a corresponding period.

As at December 31, 2023, JMMB's Total Asset stood at \$725.97 billion, which represents a 13.57% climb relative to its position in December 30, 2022. Other Receivables was the main contributor, growing three-folds to \$11.37 billion when compared to \$3.59 from the prior year. Investment Associate grew by 44.47% to \$51.01 billion, underscored by the recent acquisition while Investment Properties closed the period 28.68% higher at \$2.96 billion while return on assets stood at 2.49%.

Total Liabilities climbed to \$653.20 billion from \$590.93 billion or by 10.54%, which was largely influenced by higher borrowings where Notes payable pivoted higher to \$83.71 billion showing an equivalent increase of 50.01%. Similarly, interest payment experienced a 20.96% increase to \$5.73 billion against the backdrop of higher for longer interest rates as a measure to quell stubbornly high inflation. Customer deposits, which represent one of the group's core business activities, saw an increase of 19.46% to close the period at \$195.44 billion when compared to \$163.60 billion gained in the year prior.

Total Equity rose to \$72.77 billion from \$48.31 billion or by 50.64%, which was primarily associated with a sharp reduction in Investment revaluation reserve which fell to \$10.51 billion or by 40.20%. This was complemented by improvements in Cumulative translation reserve and Retained Earnings which grew by 42.09% and 42.56% respectively. Equity attributable to shareholders of the company was posted at \$71.04 billion while return on equity amounted to 28.86% with a book value per share of \$36.33 for the period.

JMMB Group Limited continues to be adequately capitalized with ratios remaining above the minimum requirement of 10% where JMMB Investments and Bank in Jamaica stood at 16.81% and 12.51 respectively, JMMB Bank (T&T) at 13.73%, and JMMB (Dom Rep) at 71% vs 15.5%.

OUTLOOK

Embracing Digital Transformation

As part of JMMB Group Limited smart growth strategy digital transformation is at the forefront with the launch of its Mobile App on February 15, 2024. Following the December introduction of the JMMB Moneyline IPO platform, which enabled non-JMMB clients to participate in several public offerings, the fintech solution is a vital component of several optimization initiatives centred on the development of its digital framework. With the touch of a finger, customers are now able to handle their banking and investing needs which includes but not limited to functions that allow clients to receive a receipt for transfers, whether internal or external along with effortless bill payment, wire funds locally and overseas and track equities portfolio while managing their credit/debit card. Additionally, the group has also effectively completed the delivery of the eagerly anticipated Business Visa Debit Card, which facilitates easier business transactions with a more satisfying customer experience for corporate clients. The remittance arm of the business is expected to show robust growth underpinned by the Money Transfer Visa Prepaid Card solution which allows for seamless transactions both online and at any Visa accepted Point of Sale machine.

Regional Expansion into the Bajan Market

The newest move by JMMB Group Limited (JMMBGL) to diversify its business line and increase its footprint in the Caribbean comes after JMMB International Limited obtained a securities dealer license from the Barbados Financial Services Commission as a securities business, dealer, and underwriter on October 12, 2023. JMMB International is expected to begin by providing corporations, institutions, and high net worth individuals with a condensed array of investment alternatives. Products that will be made available include a variety of capital markets solutions, access to regional stock and fixed income markets, and JMMB International Access, an online international brokerage service.

INVESTMENT POSITIVES

- **Regional Diversification:** The group was approved in October 2023 for a securities dealership license from the Barbados Financial Services Commission which will now enable it to offer a concise suite of financial services penetrating the Bajan market.
- **Digital Optimization:** Advancements in the digital arena through its Mobile App and Money Transfer Visa Prepaid services are expected to enhance customer engagement fostering sustainable growth.
- **Strategic Investment:** The group strategic 23.44% stake in Sagicor Financial Group has aided in bolstering earnings for the period maintaining its trend in producing positive results.
- **Diversification of business lines:** The array of business lines offered such as personal banking, wealth management, insurance etc has afforded the company latitude to tap into different market segments diversifying its revenue stream.

INVESTMENT NEGATIVES

- **Higher for longer Interest rate:** High interest rates may continue to wane on interest income margins reducing earning potential.
- **Volatile market conditions:** The market remains information dependent with investors changing investment positions based on interest rate predictions have depressed the equity market resulting in lower fees & commission income.
- **Regional territories:** Though the group expanded further into the Caribbean territory to diversify income flow, the region is susceptible to contagion market factors.



CONCLUSION

JMMB Group's outlook is cautiously optimistic, despite facing some recent challenges. The global economic environment has been challenging, impacting JMMB's profitability. However, there are signs of improvement as the group actively pursue strategic initiatives focused on diversification, cost management, and core business growth intended to improve their financial performance in the medium to long term. Advancement in the digital arena is expected to enhance customer experience and increase engagement underpinned by the Mobile App which was launched February 15, 2024 and offers a suite of functions including effortless bill payment, wire funds locally and overseas and track equities portfolio. The newest move by JMMB Group Limited (JMMBGL) to diversify its business line and increase its footprint in the Caribbean comes after JMMB International Limited obtained a securities dealer license in Barbados as a securities business, dealer, and underwriter on October 12, 2023.

Based on our assessment of the current state of the company and what is anticipated for the foreseeable future, we have obtained a price target of \$32.45, which is 28.92% above the stock's May 13th market price of \$25.17. We deem JMMBGL to be a suitable stock for value investors with a moderate risk tolerance. Therefore, we recommend investors with an appetite for exposure to the banking & financial sector to **OVERWEIGHT** JMMBGL in their portfolio, as the stock is undervalued, and associated risks are skewed to the upside.

SOURCES

Supreme Ventures Limited Annual Reports, Jamaica Stock Exchange (JSE), The Gleaner Company, Loop News Jamaica, The Jamaica Observer, and the Financial Services Commission (FSC), RJR News, OUR Today, Caribbean National Weekly

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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.
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