

Jamaica Stock Exchange (JSE) Equity Analysis – Q3 2024



Target Price: \$ 16.90

Current Price: \$12.99

Recommendation: Buy

Company Overview:

The Jamaica Stock Exchange (JSE), established in 1968, is the principal stock exchange in Jamaica, providing a regulated platform for the trading of equities, bonds, and other securities. Headquartered in Kingston, the JSE operates multiple markets, including the Main Market, Junior Market, USD Market, and Bond Market, catering to various types of investors and companies. It plays a vital role in the country's financial ecosystem, fostering capital formation and economic growth. The JSE is recognized globally for its strong regulatory framework and was ranked as one of the world's best-performing stock exchanges in recent years.

Investment Positives

- **Monopoly Position** - Only stock exchange within Jamaica and the most advanced in the Caribbean
- **Expected Relative Returns** - General investor sentiment to the stock market is likely to improve as the yield on fixed income instruments reduce in response to expected interest rate cuts.
- **Increased Investor Participation** - Over the years the percentage of the Jamaican population that has a brokerage account has steadily increased, which leads to greater income for the JSE.
- **ESG & Global Recognition** - The JSE has gained international recognition for its governance and sustainability efforts, making it attractive to socially responsible investors.
- **Market Growth Potential** - With more companies going public and increased investor participation, the JSE stands to gain from higher trading volumes and new financial products.
- **Dividend Payments** - The company has a history of paying dividends, providing investors with a potential income stream.
- **Below Market P/E** - The current P/E for the JSE is 18.71, while the Market P/E is 33.47

Investment Negatives

- **Dependence on Market Activity** - The JSE's revenue is tied to listing fees, trading volumes, and market performance. A downturn in the Jamaican stock market or reduced investor participation could negatively impact earnings.
- **Economic Vulnerability** - Jamaica's economy, while growing, is still susceptible to external shocks, currency depreciation, and global financial instability, which could affect market confidence and JSE revenues.
- **Limited Growth Beyond Jamaica** - Unlike larger stock exchanges that expand into multiple markets, the JSE operates in a relatively small economy with limited diversification opportunities outside Jamaica.
- **Dividend & Earnings Volatility** - The JSE's profitability fluctuates with market conditions, which could lead to inconsistent dividend payments and earnings unpredictability.

Financial Performance:

(\$M)	FY 2022	FY 2023	Q3 2023	Q3 2024
Revenue	2,161.46	2,184.92	1,649.31	1,953.22
Operating Profit	731.83	618.64	402.62	511.17
Net Profit	503.23	416.00	277.47	364.43
Total Asset	2,607.55	3,058.34	2,935.53	3,365.25
Total Equity	2,223.14	2,618.95	2,408.40	2,739.75
ROAE	24.46%	17.18%	15.98%	18.88%
EPS	\$0.72	\$0.59	\$0.5276*	\$0.6929*

*Annualized I/S figures

Financial Analysis:

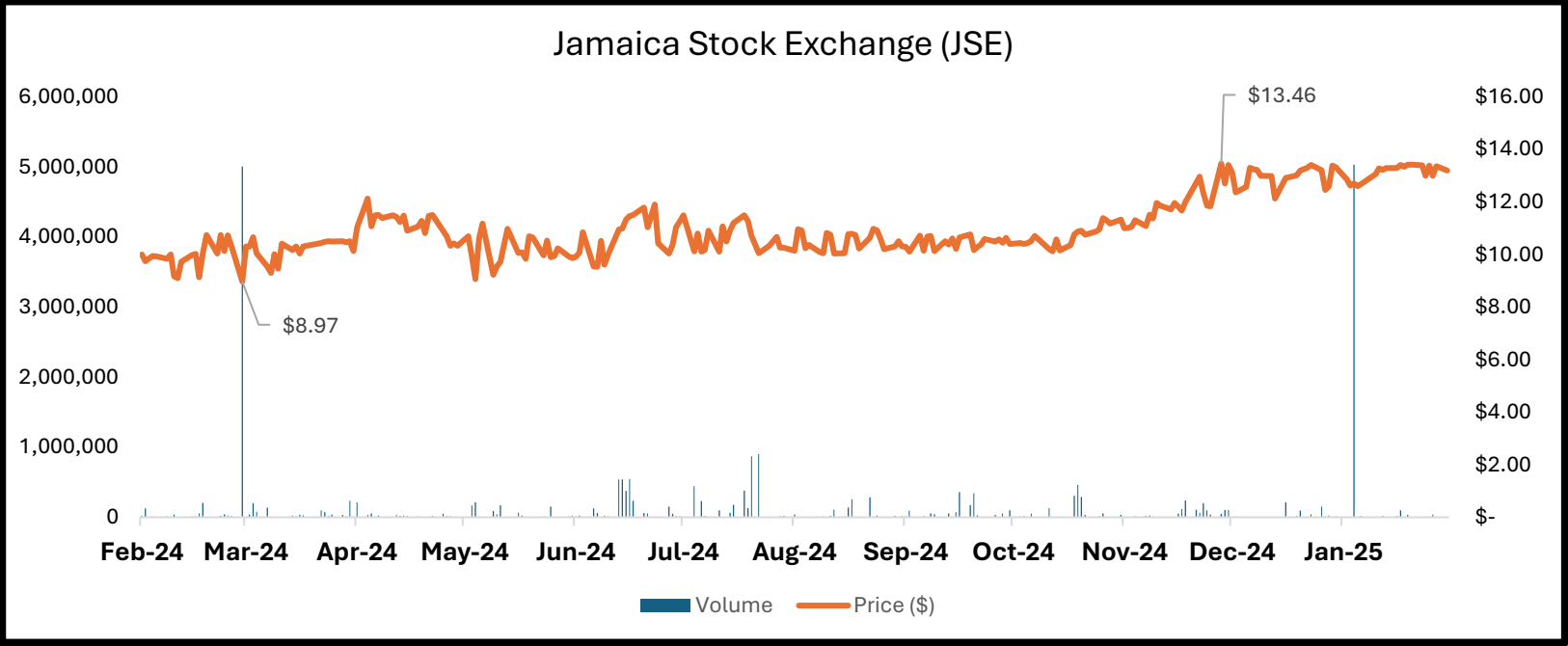
December 2023 FY:

- YOY profitability decreased primarily due to a decrease in cess fee and transaction fee income, which the JSE attributed to reduced trading volume, along with a significant increase in staff costs, property expenses, and depreciation & amortization.

September 2024 Q3:

- The JSE saw notable increase in cess fee income compared to the same YTD period of the prior year, suggesting that transaction volumes have significantly increased.
- Overall, the JSE saw revenue increase by 18.43% while operating expenses increased by 15.67%, which trickly down into the income statement allowing for improved profitability when compared to the same YTD period of the prior year.

52 Week	Price	Volume
High	\$13.46	5,031,631.00
Low	\$8.97	50.00
Average	\$11.02	102,198.30
Current	\$12.99	2,237.00



Recommendation

The performance of the Jamaica Stock Exchange share price is historically very reflective of the broader economic conditions and how favourable it is to the equity market. Prior to the Covid-19 pandemic coming to Jamaica, the stock market was the best performing stock market in the world, in economic environment characterised by low interest rates, low inflation levels, and an overall growing economy. In 2020, due to the high inflation levels, historically high interest rates, and extreme slowdown of economies around the world, investor sentiment towards the equities market fell drastically, which was reflected in the JSE's share price. As the Jamaica and the rest of the world, continue to recover from the effects of covid-19 with generally controlled and low inflation, and a trend of interest rate cuts by central banks around the world, including the Bank of Jamaica (BOJ), this suggests the sentiment towards the equity market will improve in the coming years. Increased investor sentiment towards the equities market may also encourage companies looking to raise capital to list on the JSE leading to increased fee income.

It should be noted that the downside risks to the performance of the stock market could stem from delays in interest rate cuts as a result of unanticipated inflation spikes and international conflicts which could impact supply chains putting upward pressure on inflation. Investors should especially be aware of this with President Donald Trump coming into office and has set tariffs in place with major trading partners, including China. This could potentially lead to increased inflation on American products or products passing through the USA. This inflation is likely to trickle down to Jamaica as the USA is one of the primary countries from which Jamaica imports goods through.

Based on the general positive outlook on the equities market, increased market participation by the Jamaican market, and our valuation of the Jamaica Stock Exchange using a combination of the DCF model with an assumed long-term growth rate of 11% and cost of equity of 12% and the market approach using an applied P/E of 13.2x and an applied P/B of 1.4x. We believe that upside risks to the JSE's share price performance outweigh the downside risks. As such we believe that the JSE is **Overweight.**