

**Business Profile:** Barita Investments limited (BIL) is a publicly traded company and a member dealer of the Jamaica Stock Exchange (JSE). They are both a licensed cambio and primary dealer for the Bank of Jamaica (BOJ), and is licensed and regulated by the Financial Services Commission (FSC). Products and services offered include cambio trading, fixed income trading, stock brokerage, pooled funds management, retirement planning and wealth management. Since being acquired by Cornerstone Financial Holdings (Cornerstone), services have expanded to include investment banking. Currently, Cornerstone has 76.49% shareholdings in Barita while Rita Humphreys-Lewin (Founder) has 6.49%. If shares from the APO scheduled to open on August 26, 2020 are subscribed in full without intervention from Cornerstone's committed participation, their respective shareholdings will be reduced to 63.18% and 5.36%. Their strategic focus is growing the investment banking business segment as well as asset under management to create a larger and more diversified revenue base focusing on non-interest earnings such as commission and fee income. Approximately 20% of the funds earned through this APO will aid in seeding new managed funds, expanding product offerings to suit a wider range of investor profiles. Barita states that majority of the proceeds raised, if successful, will see the business expanding both locally and regionally.

## Financial Highlights

**Revenues for FYE September 2019** increased to J\$3.98B representing a 205% improvement over 2018. The main revenue generating segment for 2019 was the gain on sale of investments which contributed 47% to total revenues. Gain on sale of investments increased by 1272.84% YoY, due to increased trading activities supported by favourable market conditions within the year as well as increased capitalization of the company. Fees & commission income and net interest income increased by 67.73% and 54.16% YoY, respectively. The increase in fees and commission income was driven by the investment banking business launched in December 2018 (Q1 2019), which experienced rapid client acquisition. This was supported by growth in their asset management segment. Interest earning assets such as repos more than doubled during FYE 2019, largely supported by the additional capital generated by the second rights issue in August 2019. From September 2014 to September 2019 revenues increased by a CAGR 24.4%.

**Revenues for the Nine Months ended June 2020** were J\$3.78B compared to J\$2.82B for the same period in 2019. The company realized positive performances in all major revenue generating segments. Firstly, net interest income increased by 91.47% driven by growth in fixed income and credit portfolios. Fees and commission increased by 93.11%, showing continued positive performances in the fund management and the investment banking segments. The company aims to continue supporting growth in the aforementioned segments by launching new asset management products and expanding their investment banking business. Gains on investment activities increased by 6.86% driven by realized securities trading gains. Foreign exchange recorded a gain during this period rebounding from a loss in the comparative period last year thus increasing by 382.83%.

## Investment Opportunity Additional Public Offering (APO)

Barita Investment Limited (BIL)	APO
Current Total Shrs/Out (MM)	825.00
Size of Offer (MM)	173.73
Total Upsized Offer (MM)	260.60
Max Total Shrs/Out	1,085.60
Offer Price	\$52.00

## Pertinent Information/Dates

- Invitation Open Date August 26, 2020
- Invitation Close Date September 16, 2020

## Reasons for Invitation/Use of proceeds

- Increase the company's investment banking underwriting capacity.
- Upgrade the technology platform to leading global standards.
- Seed new managed funds and expand product offering to suit a wider range of investor profiles.
- Retail footprint expansion (local and regional)
- Working capital needs to develop talent pool, brand visibility and operating capacity.

## SWOT Analysis

**Strengths:** consistent growth in the asset management and securities trading lines.

**Weakness:** revenue growth historically has been highly dependent on revenues generated from repurchase agreements (net interest income).

**Opportunities:** recently launched investment banking business.

**Threats:** possible contraction of the economy due to COVID-19, competition from companies in the finance sector.

BIL's Financial Snapshot				
	Projected 2021	Trailing 12month	2019 (audited)	2018 (audited)
Net Revenue (\$M)	6,164.01	4,931.21	3,979.77	1,304.66
Revenue Growth	25.00%	23.92%	205.40%	17.54%
Dividend Yield	4.02%	1.55%	1.50%	1.61%
Return on Equity	10.00%	15.03%	20.5%	12.40%
EPS (\$)	2.33	2.82	2.42	0.82
Price/Earnings	23.68	20.29	35.73	33.38
Source: Company's data, SJIL estimates				

## Financial Highlights Cont'd

**Operating Expenses** were J\$1.53B in FYE 2019 compared to J\$0.76B in 2018, representing a 100.46% increase. Administrative costs represented 58.79% of the total operating expenses, increasing by 138.77% YoY. The company attributes this to increased investments in infrastructure and technology as well as increased marketing efforts. The five year CAGR between FYE 2014 and FYE 2019 reflects a 24.72% increase in expenses. For the nine months ending June 2020, operating expenses rose by 56.13% to J\$1.30B compared to J\$835.03M in the corresponding period in 2019. Staff cost and administrative expenses increased during this time period by 37.91% and 1126.10% respectively. Administrative expense will likely continue to increase as the company seeks to increase marketing and business development efforts and improve facilities.

**Net profit** rose to J\$1.71B in FYE 2019 compared to J\$0.36B in FYE 2018 reflecting a 371.53% increase YoY. This strong performance was due to the upsurge in revenues, despite the high operating expenses as net profit margin improved from 27.84% in 2018 to 43.04% in 2019. For the nine months ended June, net profit was J\$2.00B, 40% higher compared to J\$1.43B in the corresponding period of 2019. Barita's profit continues to grow showing resilience during the COVID-19 pandemic. The CAGR reflected a 17.12% growth in net income between 2014 and 2019.

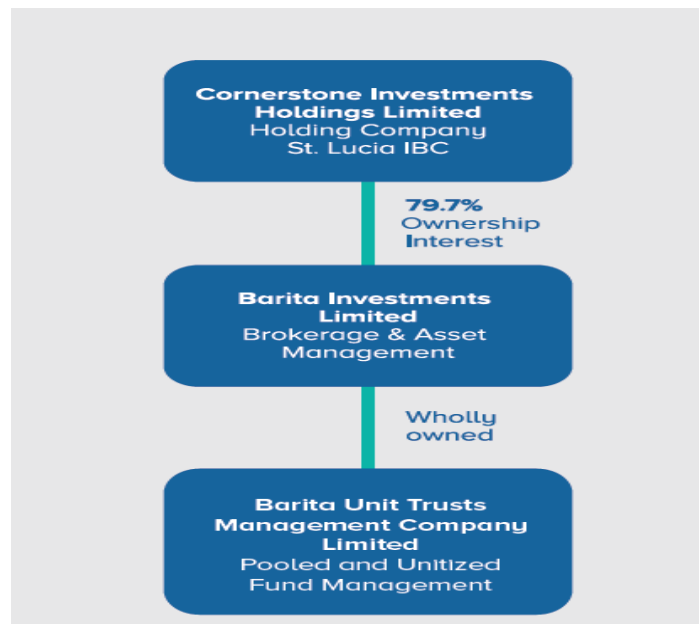
## Total Assets:

As at June 2020 (Q3 2020), assets grew by J\$3.40B to J\$52.07B compared to March 2020. Securities purchased under resale agreements fell by J\$6.26B to J\$2.52B signifying the maturity of most of their securities collateralized by the Government of Jamaica (GOJ). Marketable securities which consists of both GOJ and corporate bonds decreased by J\$3.24B to J\$4.90B. Pledged assets increased by J\$9.28B to J\$30.79B signifying more securities being used as collateral under repo agreements with customers and financial institutions. Receivables also increased during this period moving from J\$2.27B to J\$5.91B. Interest earning assets slightly decreased during the June quarter translating to a fairly commensurate fall in net interest income. Total assets recorded a 5 year CAGR (2014-2019) of 24.78%

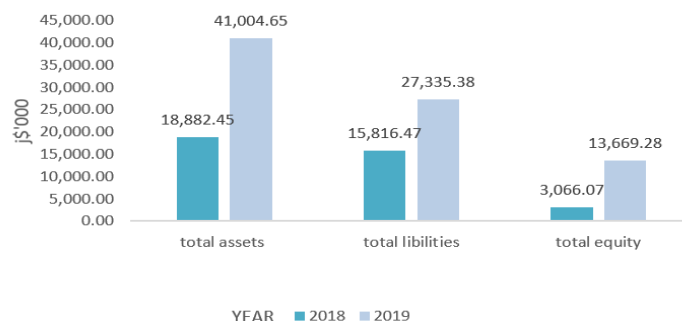
## Total Liabilities

As at June 2020 (Q3 2020), liabilities grew by J\$2.56B QoQ. This was mainly attributable to an increase in securities sold under repurchase agreements which were partially offset by a reduction in payables. Securities sold under resale agreements increased by J\$4.22B to J\$30.74B while payables declined by J\$1.3B to J\$4.93B compared to Q2 2020. The company's liabilities have increased by a CAGR of 18.17% during FYE 2014- FYE 2019

## CORPORATE STRUCTURE



Financial Position YoY (2018-2019)



## Total Equity

Total shareholder's equity grew by 345.03% YoY to J\$13.7B as at September 2019 compared to J\$3.07B as at September 2018. There were two non-renounceable rights issues in 2019 that raised a total of J\$9.33B (J\$4.07B in February and J\$5.26B in August). This produced a J\$10.70B growth in share capital comprising mostly of ordinary shares. Equity grew by 5.85% to J\$15.24B as at June 2020 compared to J\$14.4B as at March 2020. This was primarily as a result of an uptick in retained earnings which increased by J\$990.86M to J\$3.96B due to an increase in net profit for June indicating that all profits earned during that period was retained in the business. With the new APO scheduled to open in August, we will likely see further growth in total equity by the end of the company's financial year from the increase in share capital.

## Investment thesis:

- **Strategic Growth:** One of the company's main objectives is expanding both physically and digitally to meet increasing demand for their products and services. Injection of funds from the APO is intended to expand their footprint both locally and regionally and could create an avenue for higher market share through the increased client base which comprises of real sector clients locally and regionally. If successful, this would definitely accelerate the growth of the business.
- **Revenue diversification:** The newly launched investment banking business which contributed J\$300M towards revenue in FYE 2019, creates a supplementary route to improve revenue growth. This initiative, along with new marketing approaches aimed at growing their managed fund portfolio, will diversify revenues and reduce reliance on interest income.
- **Strong management:** Barita has an experienced management team which has contributed to the growth and success of the organization. The company states that the team has achieved growth in all areas of the business during 2019 which led to the strongest financial performance in history. BIL has also sought to aggressively develop their talent pool with the aim of building high quality human capital and supporting growth within various areas of the organization. The company's stated objective of building a culture of high performance and accountability for the future appears to be in train.
- **Revenue Growth:** There has been strong growth in the asset management and investment banking business lines which has led to increased revenues from fees and commission income. They aim to seed new managed funds in order to expand products offerings to appeal to a wider range of investors.
- **Financial Strength:** Increased capitalization through two rights issues in 2019 aided in strengthening the company's financial position and flexibility which should contribute to a higher risk capacity. According to Senior Management this APO will place them in good position to pursue opportunities and deals in their pipeline.

## Key Risk:

- **COVID-19** A resurgence (second wave) in coronavirus cases could result in a reinstatement of more stringent containment/lockdown measures. This would likely result in increased negative investor sentiments and by extension a further downturn in capital markets. Also, it could result in delays in the implementation of initiatives to drive continued growth in the business.
- **Competition:** The Jamaican financial landscape has become increasingly competitive with numerous entities vying for market share. BIL's limited number of branches has made it difficult to target prospective clients and investors in certain geographical areas. They aim to expand their branch network. However, attaining a larger client base will require a considerable amount of effort as prospective investors/clients may have already formed strong partnerships with competitors.
- **Dilution Effect:** Barita pursued two rights issues in 2019 which increased their outstanding shares. This APO will increase shares outstanding which may put investors at risk of a reduction in their earnings per share (EPS).
- **Spread Risk:** Barita's fixed income securities are mostly funded with repos. While interest rate spreads continue to narrow due to lower interest rate, net interest income will likely wane, thus reducing revenues.

## Outlook

During FYE 2019, Barita generated an impressive J\$3.98B in revenues. With three months remaining in the current fiscal year, Barita has already made J\$3.78B in revenues and is on track to make this their best annual performance to date. Despite the COVID-19 pandemic, the company was able to generate J\$1.5B in revenues for the April-June quarter (Q3 2020), the highest quarter for this year thus far. Their strategy of continuous focus on diversifying revenues and placing more emphasis on non-interest income such as fees and commission income appears to be on track as this segment continues to perform well.

An APO is scheduled to open on August 26, 2020 as the company seeks to raise at least J\$9B issuing an additional 173.73M shares which could be upsized by an additional 86.87M shares in the event it is oversubscribed. They plan to use the proceeds to increase the company's investment banking underwriting capacity, fast track digital transformation, fund new investment strategies and focus on expanding their footprint. Whilst this augers well for the company's growth prospects, investors have to be mindful of a dilution effect on EPS due to the possibility of the growth in shares outpacing that of earnings.

BIL has displayed resilience in the face of the COVID-19 pandemic which has significantly impacted global economies and financial markets. They have attributed this to being both strategic and tactical, as they entered into risk-off mode before the market downturn. Despite the resilience demonstrated thus far, a resurgence of the virus before a full recovery of the economy will likely result in a reduction in economic activity, adversely affecting the financial industry, and by extension Barita's future profitability.

## Valuation and Recommendation

Based on the aforementioned points, for Barita we assume a LTGR of 7%. With the estimated beta of 0.82, risk free rate of 5.17% and an estimated cost of equity of 11.87% resulting in a **fair value of \$53.52**. Based on a relative valuation model, with a 1-yr forward P/E of 23.54x and a P/B of \$3.23 with equal weighting we obtained a, **target price is \$59.76**.

### Assuming the APO is successful:

Adding an additional J\$9.0B to Equity and assuming that this will initially be used for repos based on the previous capital raises, with shares outstanding of 998.73M. Using the assumptions above, resulted in a **fair value of \$51.62 with a target price of \$55.86**

### Assuming the APO is successful and is upsized:

Adding an additional J\$13B to Equity and assuming that this will initially be used for repos based on the previous capital raises, with shares outstanding of 1085.6M. Using the assumptions above, resulted in a **fair value of \$49.76 with a target price of \$55.17**.

We are recommending **Marketweight** for Barita's APO. Based on where the offer is priced, we think that the offer is fairly valued and as such, recommend investors participate in the offer if it is aligned to their current strategy. Barita has shown tremendous growth in profitability, and strategic plans are in place for future growth; however, the resurgence of the COVID-19 virus in Jamaica could create delays in planned initiatives that will likely impact the company's near term growth prospects.

## Price Performance

The table illustrates BIL's performance relative to the Main Market (3 years)



## General Disclosures:

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## Appendix

### INVITING OFFERS FOR THE SUBSCRIPTION

of up to **173,733,220** New Ordinary Shares (with the ability to upsize by inviting offers for an additional **86,866,610** New Ordinary Shares in the capital of **Barita Investments Limited** (the "Company" or "Barita")

New Ordinary Shares allotted to each investor pool and subscription price per New Ordinary Share for each investor pool

Small Investors (as described herein)	Hotel-workers, Farmers and Civil Servants (as described herein)	Cornerstone, Existing Shareholders, Barita Clients & Key Investors (as described herein)	Non-Reserved
4,591,838	9,045,228	147,115,384	12,980,770
J\$49.00	J\$49.75	J\$52.00	J\$52.00

Publication of Prospectus	Wednesday August 12, 2020
Opening Date	Wednesday August 26, 2020
Closing Date	Wednesday September 16, 2020 Subject to the right of the Company to designate an earlier or later date in the circumstances set out in this Prospectus
Expected dispatch of investor statements and any refund if applicable	Within 10 days of Closing Date

Use of Proceeds	J\$ Amount
To increase the Company's Investment Banking underwriting capacity	\$1,500,000,000.00
To upgrade the technology platform (hardware and software) to leading global standards: - User Experience (clients and internal staff) - Data Security - Availability - Throughput and Performance - Scalability (regional and international) - Economy and Efficiency	\$1,087,500,000.00
Seed new managed funds and expand product offering to suit a wider range of investor profiles	\$1,800,000,000.00
Footprint Expansion (local and regional);	\$4,259,500,000.00
Working capital needs to develop talent, brand and operating capacity to accommodate the existing growth trajectory	\$200,000,000.00
Transaction Fees	\$153,000,000.00
<b>TOTAL</b>	<b>\$9,000,000,000.00</b>

The Company invites the public in Jamaica to subscribe for up to 173,733,220 New Ordinary Shares in the capital of the Company, subject to the terms and conditions of this Prospectus. The New Ordinary Shares will, upon issue, rank pari passu in all respect with the Company's Existing Ordinary Shares.

ISSUED ORDINARY SHARES AT THE DATE OF THIS PROSPECTUS	
Issued and fully paid Ordinary Shares (Converted to stock units)	825,003,263
Issued Preference Shares	100,000,000
<b>TOTAL</b>	<b>925,003,263</b>

TOTAL ISSUED ORDINARY SHARES IN THE EVENT THAT THE INVITATION IS FULLY SUBSCRIBED	
Issued and fully paid Ordinary Shares (Converted to stock units)	825,003,263
Issued Preference Shares	100,000,000
<b>Total before subscription of shares in the Invitation</b>	<b>925,003,263</b>
Non-Reserved Shares	12,980,770
Reserved Shares	160,752,450
<b>Total after subscription of shares in the Invitation</b>	<b>1,098,736,483</b>



## TOP 10 LARGEST SHAREHOLDERS

As at June 30, 2020 the holders on the register with the ten largest holdings of Existing Ordinary Shares are as follows:

### (a) Pre-Additional Public Offering

TOP 10 SHAREHOLDERS	NO. OF SHARES	% SHAREHOLDING
Cornerstone Financial Holdings Limited	631,013,778	76.49%
Rita Humphries-Lewin	53,550,974	6.49%
Pimento Grove Limited	6,734,053	0.82%
JCSD Trustee Services Limited A/C Barita Unit Trust Capital Growth Fund	6,317,377	0.76%
Karl Wright	6,200,000	0.75%
Karl Lewin	6,196,437	0.75%
Barita Unit Trusts Management Company Ltd.	6,124,458	0.74%
John O. Minott	5,749,117	0.70%
Barita Finance Limited	5,892,567	0.71%
George William Cooper/Joseph Cooper	5,380,000	0.65%
<b>SUB-TOTAL</b>	<b>733,158,761</b>	<b>88.86%</b>
Other Shareholders	91,844,502	11.14%
<b>TOTAL</b>	<b>825,003,263</b>	<b>100.00%</b>



(c) Proposed holdings post-Additional Public Offering (assuming the Invitation is upsized and all New Ordinary Shares, including after upsizing of the Invitation, are subscribed for in full)

TOP 10 SHAREHOLDERS	NO. OF SHARES	% SHAREHOLDING
Cornerstone Financial Holdings Limited	631,013,778	58.13%
Rita Humphries-Lewin	53,550,974	4.93%
Pimento Grove Limited	6,734,053	0.62%
JCSD Trustee Services Limited A/C Barita Unit Trust Capital Growth Fund	6,317,377	0.58%
Karl Wright	6,200,000	0.57%
Karl Lewin	6,196,437	0.57%
Barita Unit Trusts Management Company Ltd.	6,124,458	0.56%
John O. Minott	5,749,117	0.53%
Barita Finance Limited	5,892,567	0.54%
George William Cooper/Joseph Cooper	5,380,000	0.50%
<b>SUB-TOTAL</b>	<b>733,158,761</b>	<b>67.53%</b>
Other Shareholders	91,844,502	8.46%
<b>TOTAL (before subscription for shares under the Invitation)</b>	<b>825,003,263</b>	<b>76.00%</b>
Reserved Shares	241,128,675	22.21%
Non-Reserved Shares	19,471,155	1.79%
<b>TOTAL (after subscription for shares under the Invitation)</b>	<b>1,085,603,093</b>	<b>100.00%</b>