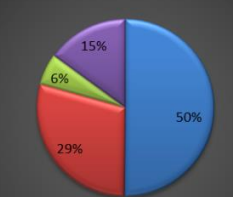
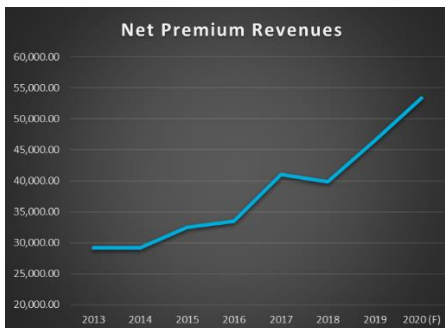
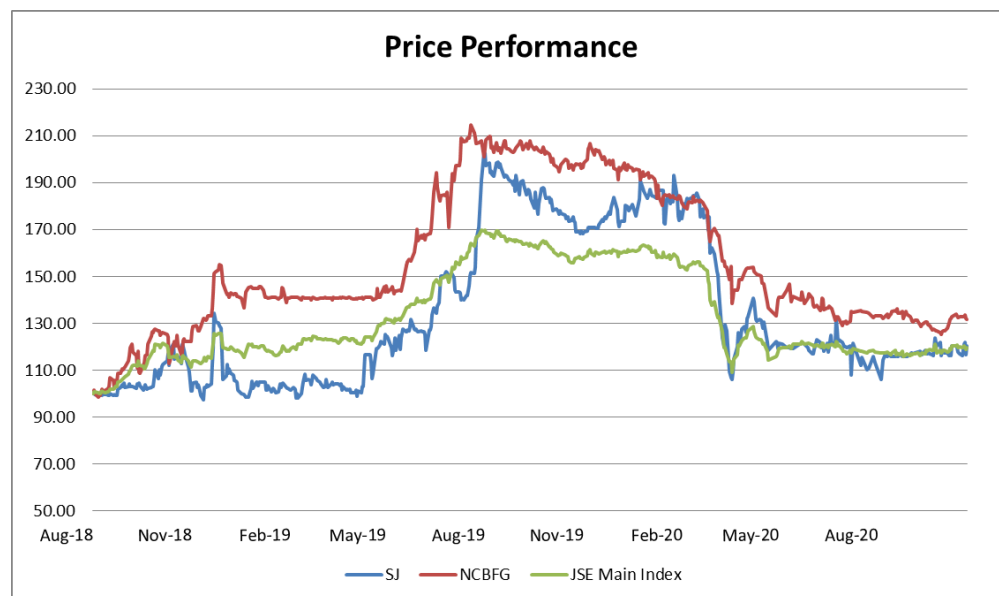


Company: Sagcor Group Ja. Ltd. (SJ)	Positive Factors / Risks	Financial Highlights	Outlook/Valuation/Recommendation																																								
<p>Description: Sagcor Group Jamaica Limited (SJ) is a full-service financial institution offering life, health and general insurance, pensions, banking, investments, and real estate services. SJ is owned by Sagcor Financial Company Limited (SFC) (49.11%) and PanJam Investment Ltd. (30.20%). SJ has 11 subsidiaries and operates in Jamaica, the Cayman Islands and Costa Rica.</p>	<p>Positive Factors</p> <ul style="list-style-type: none"> A strong management and board A history of, by and large, effectively implementing and fulfilling its strategic goals. The premier and dominant insurance provider in Jamaica. The entity's dominance in the insurance sector, and its strong brand are expected to continue to support the growth of its banking and investment services. Well capitalized – the group exceeds all the minimum requirements for its key regulatory ratios which has helped it weather the crisis. 	<p>Quarter Ended June 30, 2020</p> <p>Net Loss – Sagcor recorded a Net Loss in Q2 2020, due to the negative impact of several one-off transactions, in addition lower revenues and higher expenses. The one-off transactions included: higher than normal Expected Credit Losses (ECL) on loans to the Tourism, Entertainment and Energy sectors; goodwill impairment of J\$150M; a J\$1.45B loss from X-Fund; and impairments of investments in subsidiaries of J\$1.3B. Excluding the one-off transactions, Sagcor was still profitable though down 16.91% YoY.</p> <p>Total Revenues – Net Premium Revenues for the quarter increased by 16.77% to J\$12.51B when compared to the same period in the previous year. Net Investment Income (NII) declined by 4.58% year-over-year (YoY) in Q2 2020 because of substantial Expected Credit Losses (ECL) on the group's portfolios of loans which was partially offset by realized and unrealized capital gains as bond prices recovered in Q2 2020. Hotel Revenues declined by 89.35% YoY in Q2 2020 and Fees and Other Income contracted by 19.35% YoY, both as a result of the effects of COVID-19. The overall impact on Total Revenues was a 1.91% contraction YoY in Q2 2020.</p> <p>Assets grew by 11.09% YoY to J\$472.13B in Q3 2020. The growth was primarily driven by increases in Right-of-Use Assets (110.05%), Other Assets (65.83%), Cash Resources & Cash Reserve at Central Bank (27.32%), Loans and Leases, after Allowance for Credit Losses (21.46%), Pledged Assets (21.01%) and, Financial Investments (1.12%).</p> <p>Equity increased by 13.2% YoY in Q2 2020, pushed by higher retained earnings (12.12% YoY), despite the company recording a Net Loss in the period as it attributed a loss of J\$2.77B to its minority shareholders and a profit of J\$2.47B to stockholders of the parent company.</p>	<p>Outlook</p> <p>Life insurance premiums have increased throughout the pandemic, YoY, and it is expected that, as restrictions are lifted and businesses recover, sales in this area will increase further. In FYE 2021, NII is expected to grow in tandem with higher premium revenues as the company employs an asset-liability matching strategy. A protracted return to a fully open economy could see moratoriums becoming loan losses for the company and place downward pressure on Sagcor's bottom line. Provided that there is a meaningful recovery, with the advent of a vaccine that is available locally, we would expect businesses to recover and Sagcor to return to loan portfolio growth. However, we still anticipate a strong lag in the tourism sector which would, via X Fund, create a drag on Sagcor's bottom line.</p> <p>Recommendation: Given the above, and based on our dividend discount model, we arrived at a fair value of J\$43.23 per share. We therefore place a HOLD recommendation on Sagcor's stock.</p>																																								
<p>Revenue Segments</p>  <table border="1"> <caption>Revenue Segments Data</caption> <thead> <tr> <th>Segment</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Net Premium Revenues</td> <td>50%</td> </tr> <tr> <td>Net Investment Income</td> <td>29%</td> </tr> <tr> <td>Hotel Revenues</td> <td>6%</td> </tr> <tr> <td>Fees and Other Income</td> <td>15%</td> </tr> </tbody> </table>	Segment	Percentage	Net Premium Revenues	50%	Net Investment Income	29%	Hotel Revenues	6%	Fees and Other Income	15%	<p>Risks</p> <ul style="list-style-type: none"> COVID-19 – higher credit losses and provision for credit losses, lower investment income, lower fee income and weaker hotel revenues, all as a result of the COVID-19 pandemic. Competition – the financial services industry remains highly competitive as the number of insurance companies, deposit-taking institutions, and private credit investment companies have increased in recent years. Regulations – the BOJ placed restrictions on dividend payments which has exerted negative pressure on the value of share ownership. Also, post the COVID-19 pandemic, the industry could see regulators returning to the table to continue discussions about a movement towards BASEL III compliance. The associated reform would reduce Sagcor's risk-taking capacity which may slow down the growth of its lending business. 																																
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Appendix



Financial Snapshot				
	2020 (F)	2019	2018	2017
Total Revenues (\$M)	82,776.51	92,669.32	70,656.79	69,732.40
Revenue Growth	-10.68%	31.15%	1.33%	16.80%
Operating Margin	11.95%	27.68%	32.49%	28.43%
Return on Equity	7.73%	18.90%	19.93%	19.33%
Dividend Yield	0.33%	1.98%	3.20%	3.60%
EPS (\$)	1.87	4.01	3.64	3.09
Price/ Earnings	24.29x	18.11x	10.28x	11.51x
Price/ Book	1.81x	3.11x	1.97x	2.03x
<i>Source: Company's financials, Bloomberg, & SIJL's estimates</i>				

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