

Market Guide

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"Courage taught me no matter how bad a crisis gets any sound investment will eventually pay off." — Carlos Slim Helu

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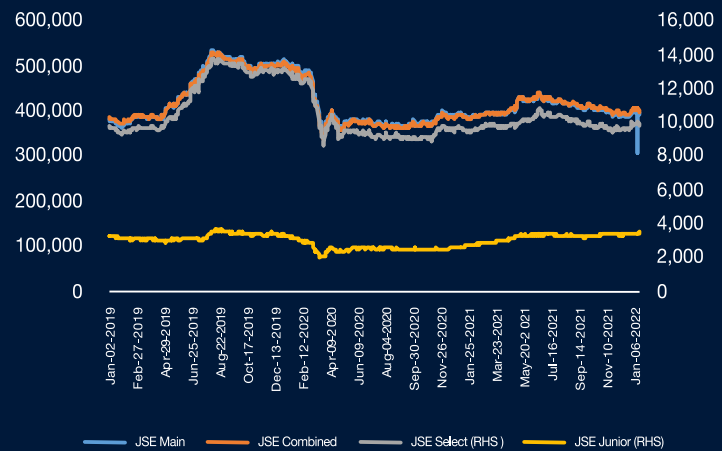
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2022 Stock Market Outlook

2022 is shaping up to be a better year for the Jamaican stock market, supported by a gradual recovery in the economy, the adaption of businesses and consumers to the new normal, and new transactions and assets that will drive greater market participation. These factors will also influence the recovery across sectors. Stocks with exposure to tourism, construction, manufacturing and distribution and some financial sector stocks should perform better this year bolstered by rising employment and greater private consumption. However, several risks could challenge the sectoral and market performance. These risks include high inflation, interest rate hikes, and new COVID-19 variants that could lead to new waves of infection. Rising inflation will impact the overall economy as well as individual listed companies, and could pose downside risks to stock market performance as fears of a sustained rise in inflation weigh on investor sentiment, input costs and compress profit margins. This could also trigger additional policy rate hikes by the BOJ, which could lower valuations. However, the government's plans to limit the use of lockdowns to reduce the infection rate should help to limit the adverse impact of new

waves of infection. While the issues that were present in 2021 will still be present in 2022, given the strategic measures put in place by companies to adapt to the 'new norm,' the adverse impact on their earnings should be less significant compared to the past 2 years, and some companies could actually see a significant recovery. For instance, banks that saw a decline in transaction volumes at the peak of the pandemic due to the restriction of movements, pivoted and accelerated the digitization of their processes. Additionally, some restaurants, and distributors whose operations were stunted by social distancing measures at the onset of the pandemic made use of digital trends by entering the e-Commerce space. These actions and further steps towards digital acceleration and innovation will continue to support business continuity and drive top and bottom-line growth. In 2022, more companies will seek to capitalise on the opportunities inherent in the pandemic, seek out ways to extend their market share, diversify revenue streams, and transform existing business models and supply chains to improve resilience. Consequently, although the evolving pandemic will continue to pose challenges

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	398,423.12	-4,411.80	1.68%
Main Market Index	392,790.90	-5,377.93	1.88%
All Jamaican Composite	434,686.58	-6,682.82	1.98%
Select Index	9,772.81	-131.01	1.61%
Junior Market Index	3,470.17	-58.33	0.47%

WINNERS & LOSERS (FOR THE WEEK ENDED JAN 14, 2022)

	\$ Change	% Change
AMG	+\$0.86	+36.75%
Dolphin Cove	+\$3.43	+21.40%
K.L.E	-\$0.42	-14.14%
MPC	-\$15.00	-13.04%

MARKET OVERVIEW

Last week, four JSE indices advanced, namely, the Junior Market Index, the JSE USD Equities Index, the JSE Cross Listed Index, and the JSE Manufacturing & Distribution Index. However, the JSE Main Index, the JSE Combined Index, the JSE All Jamaican Composite Index, the JSE Select Index, and the JSE Financial Index all declined. The main advancers were AMG Packaging & Paper, which gained \$0.86 or +(36.75%) to close at \$3.20 and Dolphin Cove Limited, which gained \$3.43 or +(21.40%) to close at \$19.46.

for commercial activity, these efforts by businesses to sustain operations and function despite the challenges, will translate into better bottom-line performances. This should create the space for improved market sentiments around existing value stocks, and new transactions, which will present additional opportunities for investors.

The local economy is expected to continue to benefit from increased vaccination rates and the further relaxation of COVID measures, as the global economy recovers, business activity picks up and private consumption rises. This is also expected support improved financial performance, investor confidence, and stock market activity. The continued reopening of economies will boost local activity, domestic employment, and the demand for products and services, which should aid revenue generation in many listed companies. This growth could be buttressed by additional relaxation of containment measures. However, higher inoculation rates are needed to limit the impact of new waves of the infection. Considering our current low vaccination rate, Jamaica is susceptible to future breakouts, which limit any significant near-term easing of restrictions. However, given the adverse economic and fiscal impact of the pandemic, the Prime Minister recently announced that the government will no longer implement 'no-movement days' to stem the spread of the virus. This will augur well for economic activity, sustained commercial operations and improved profitability, especially for those companies in the retail, entertainment, transportation and other sectors, that were adversely impacted by no movement days. With investor confidence and market performance being positively impacted by economic and financial performance, this should fuel a stronger investment

climate that is conducive to new IPOs, APOs, and cross-listings, as well as an improvement in the market indices. However, while we anticipate a rebound in market activity, we do not expect stock indices to surpass their pre-pandemic levels to reach new highs in 2022.

Although, there is uncertainty that threatens the market, there are still opportunities for investors to capitalize on the expected growth in some sectors, access to new assets and invest in stocks that will benefit from the recovery. The rising interest rate environments will likely present risks by reducing the valuations of some companies, as investors' required rate of return increases, raising the discount factor for distant future cash flows, particularly for growth stocks. However, to counter the effects, investors can invest in value stocks, which tend to outperform in high-interest rate environments. There will also be new projects implemented to encourage greater market participation and deepen the availability of assets to investors. Throughout the year, the Jamaica Stock Exchange (JSE) plans to launch a digital asset platform, upgrade its online trading platform, and provide direct access to the Canadian and US stock exchanges, amongst others. These initiatives should also help to lift investor sentiment as the JSE continues to provide new investment opportunities to the market.

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Junior Market Manufacturing Companies Kick off Third Quarter Earnings Season

With the easing of restrictions on movement during the peak holiday season and the economic recovery gathering momentum, investors are anticipating stronger results from listed companies for the 2021 third-quarter earnings season. Junior market companies Caribbean Cream Limited (KREMI), Paramount Trading (Jamaica) Limited (PTL), and AMG Packing Paper Company Limited (AMG) kicked off the season with the release of their nine months, six months, and three months unaudited results respectively, showing mixed performances. AMG and PTL saw improvements, while KREMI saw a fall-off in its bottom-line. However, all three companies have seen improvements in their stock prices since the start of the year.

As the global and local economies remain open, increased consumption, enhanced investor confidence, and better corporate earnings should support improvement in equity prices as investors price in the expected improvements in earnings. Furthermore, the government is increasingly reluctant to use lockdowns as a means to control the pandemic, which augurs well for business activity, through longer operating hours, increased employment and higher disposable incomes, which we anticipate will filter through to corporate earnings. The recovery in tourism should also translate into improved earnings for companies in the sector and those that supply it with goods and services. While the current wave of COVID-19 infections could dampen visitor arrivals, the sector is expected to perform much better than the previous winter season. That being said, markets are expected to remain volatile in light of uncertainties from the still-evolving pandemic as ongoing noise in the market increases headline risks.

AMG was the first manufacturing company to report earnings for this season. For the three months ending November 2021, AMG reported a net profit of \$35.19Mn (EPS: \$0.07), a 146.3% increase year on year. A 55.3% rise in revenues and a move to foreign exchange gains of \$4.68Mn from a loss of \$6.20Mn in 2020 were the main drivers. These increases, coupled with the decline of expenses was enough to

offset the 61.8% (or \$74.93Mn) rise in manufacturing costs due to the higher cost of inventories and direct costs. AMG stock price has appreciated by 102.53% since the start of the year to close at \$3.20 on Friday. It currently trades at a price to earnings of 26.7x, which is above the junior market manufacturing sector average of 21.3x.

Paramount Trading Limited (PTL) has also delivered a strong start to the earnings season having reported a 141.2% increase in net profit for the six months ending November 2021. Revenues, other operating income, and interest income rose by 15.2%, 77.9%, and 54.8%, respectively. The ease in curfew hours, elimination of no movement days, reopening of some schools during the quarter, and the revenue growth strategies employed by PTL drove the improvements in its topline. PTL's stock price has increased only marginally (+0.69%) to \$1.46 and currently trades at a P/E of 24.7x, which is above the junior market distribution sector average of 18.3x.

However, ice cream manufacturer, KREMI saw its earnings fall 57.4% year over year due to higher costs and plant disruption. Revenues rose 15.2% driven by the opening of its new Ocho Rios depot. However, topline growth was eroded by the increase in direct costs (+19.3%) as the company faced production challenges, which adversely impacted the plant's efficiency and capacity. Logistic costs, the price of raw material, imported novelties, and administrative, selling and distribution expenses also increased. Despite the weaker earnings, KREMI's stock price appreciated by 42.48% since the start of the year to \$5.97 on Friday and currently trades at a P/E of 39.8x, which is well above the junior market manufacturing sector average.

Expectations for Earnings This Season

The continued reopening of the economy augurs well for business activity and overall economic growth; however, heightened uncertainties due to the virus and its variants could result in continued market volatility. The reopening of the economy is paving the way for higher employment, improved disposable incomes, private consumption, and improved investor confidence. This revival of business activity should positively impact corporate earnings, especially those in the manufacturing and distribution, and tourism sectors. These factors would in turn support improvements in equity prices and provide a market that is more conducive to new capital issues, whether in the form of IPOs or APOs. That being said, the current fourth wave of COVID and subsequent rise in cases, and the low vaccination rates locally pose a downside risk to these positive effects. Within the context of these uncertainties, we anticipate market

¹ Inventory costs include all the expenses associated with ordering, holding, and managing the inventory or stock levels for the company.

volatility will continue in the quarters ahead. However, as we continue to operate in this environment, we encourage investors to separate the noise from critical information and focus on the fundamentals of the companies and assets when making investment decisions.

Foreign Exchange Market

The Jamaican dollar appreciated 0.09% relative to the US dollar, week-over-week, moving from a selling rate of \$155.85 on Friday, January 7th, to \$155.70 on Friday, January 14th. The slight appreciation was due to the presence of BOJ in the market. The BOJ intervened twice in the market via their B-FXITT tool and sold USD40Mn which added much-needed liquidity to meet

demand.

Selling	Close: 07/01/22	Close: 14/01/22	Change
J\$/US\$1	\$155.70	\$155.85	-\$0.15
J\$/CDN\$1	\$118.83	\$124.87	+\$6.04
J\$/GBP£1	\$209.87	\$212.11	+\$2.24

Dates to watch this week

January 2022				
MON	TUE	WED	THUR	FRI
17	18	19	20	21
EURO CPI (YoY) (Dec)	UK's Unemployment Rate (Nov)	US CPI (YoY) (Dec)	US Jobless Claims	EURO Consumer Confidence (Jan)
STATIN CPI (Dec) STATIN Unemployment Survey (Oct) STATIN Employment Survey (Oct)		Fontana Limited (FTNA) —Annual Virtual General Meeting 2022	Jamaica Producers Group will pay capital distribution of JMD 0.25 per share to all shareholders on record on January 20, 2022	Eppley Caribbean Property Fund will pay dividends on its ordinary shares of BBD 0.016 per share payable on January 21, 2022
Kingston Wharves Limited will pay dividends on its ordinary shares of JMD 0.37 per share payable on January 17, 2022		Pan Jamaica Inv Trust Limited will pay dividends on its ordinary shares of JMD 0.285 per share payable on January 19, 2022		Scotia Group Jamaica will pay dividends on its ordinary shares of JMD 0.35 per share payable on January 21, 2022
Wigton Windfarm dividends on its ordinary shares of JMD 0.0182 per share payable on January 17, 2022				

■ International | ■ Local | ■ Dividend Payments this Week

Money Market

Money market conditions remained tight last week. On Monday January 17, 2022 the Statistical Institute of Jamaica released inflation data for December 2021. Prices increased month over month by 0.8%; however, point to point inflation, which measures the change in prices in December 2021 relative December 2020 was 7.3%, while the annual inflation rate figure was 9.1%.

With the policy rate now at 2.50%, after its most recent increase, we anticipate further rate increases in the coming months as the BOJ attempts to guide the inflation rate back within the target range of 4.00% - 6.00%. Last week we saw the BOJ intervened in the market with a total of US\$40M, which represents another measure aimed at tightening JMD liquidity. Near-term risks to inflation have increased in recent weeks as the Omicron variant continues to impact the global economy. As the virus spreads, disruptions to economic activity could follow exacerbating the supply chain issues. However, it is expected that Omicron cases in the major developed countries will decrease in the coming weeks and such the level of impact may not be as large as anticipated.

Last week, the average yield of the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD was largely flat at 4.14% relative to 4.13% in the prior week. The highest bid for full allocation was 4.198%. A total of J\$10.5.0B was offered in the auction, while the total bids received was J\$22.25B. Market players are opting to lend for O/N to 30 days, with some brokers offering as high as 4.75% – 5.00% to clients. For the upcoming quarter, the USD money market will remain stable despite movement in market activity affecting liquidity. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 4.50% to clients.

GOJ Global Bond Prices

The two-year Treasury yield climbed to its highest level in almost two years on Friday, notching a fourth straight week of gains, as Federal Reserve policymakers continued to set the stage for tighter financial conditions, including a liftoff of the benchmark interest-rate target. The 2-year Treasury note yield rose 6.8 basis points to 0.965%, up from 0.897% on Thursday afternoon, which is the highest since February 2020, while the 10-year Treasury note rate rose 6.3 basis points to 1.771%, to register its largest one-day gain since Jan. 3, 2022. Markets have been unsettled by the prospect of tightening financial conditions. Additionally, analysts expect the benchmark 10-year Treasury yield to eventually breach

2%, a psychologically significant level for the debt security used to price everything from mortgages to auto loans. Those expectations are being supported by comments from policymakers, such as Federal Reserve.

GOJ Globals

Jaman bond prices increased week over week for the Jaman 28s, 36s and 39s; however, all others decreased. The Jaman 28s, 39s, and 45s closed with bids of 115.10, 139.45 and 139.65, respectively.

In the emerging markets, Local-currency denominated debt in developing nations is emerging as the preferred option for investors. Local bonds are proving more resilient to the current risk-off shift because many developing-nation central banks aggressively hiked interest rates last year, seeking to boost their inflation-adjusted rates. The asset class, which has traditionally been among the biggest losers in selloffs, is now among the favourites of money managers including HSBC Global Research, Vontobel Asset Management and BNP Paribas Asset Management.

Ticker	Maturity	Bid	Offer	Offer Yield*
JAMAN	2028	114.250	115.250	3.98%
	2039	139.500	140.500	4.57%
	2045	138.500	140.500	4.94%
NFE	2026		101.40	6.15%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
Colossal Holdings Ltd.	9/3/2022	4.25%	100.41	3.35%
GHL	25/9/2025	6.50%	103.90	5.34%

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	\$3.28	BUY
WISYNCO	\$17.85	HOLD
FTNA	\$7.50	HOLD
JBG	\$28.23	HOLD

Ticker	Last Closing Price	Current Recommendation
JMMBGL	\$38.26	BUY
LASF	\$3.30	SELL
AFS	\$20.05	SELL
JAMT	\$3.86	BUY
JSE	\$16.60	HOLD
PROVEN (JMD)	\$32.97	BUY
PROVEN (USD)	\$0.23	BUY
SCIJMD	\$14.40	BUY
LAB	\$3.43	HOLD
SJ	\$52.25	HOLD
SEP	\$63.20	HOLD
SGJ	\$35.14	HOLD
QWI	\$0.85	HOLD
GK	\$98.36	BUY
CCC	\$71.05	HOLD
KEX	\$7.97	HOLD

Regional News

Growth in The Dominican Republic Will Slow Towards Historic Trend in 2022 (Fitch Solutions)

Fitch Solutions forecast that growth in the Dominican Republic will slow to 4.8% in 2022, from an estimated 10.8% in 2021, as weaker external demand and tighter monetary conditions constrain economic activity. Nevertheless, the market will remain a regional outperformer, averaging 4.6% annual growth from 2023-2026, as tourism rebounds further and falling unemployment supports consumption. However, the global spread of the Omicron variant of COVID-19 presents downside risks to Fitch's growth outlook, particularly if travelers in the US and other developed markets are more reluctant to travel to the Dominican Republic. The DR's economy has rebounded at a faster pace than other Caribbean economies in recent quarters as swift COVID-19 vaccine roll-out, recovering labour market, and robust external demand have bolstered headline growth.

World Bank predicts massive economic growth for Guyana (Guyana Chronicle)

At a time when the global economy is plagued with a myriad of uncertainties, Guyana remains one of the fastest-growing nations in the world, with an economy that is projected to expand by a massive 49.7 percent this year, according to the latest edition of the World Bank's "Global Economic Prospects". The report,

issued on Tuesday, indicates a significant improvement from the one released in June 2021, which estimated Guyana's growth at 23.7 percent. This means that within the last few months, Guyana's economic potential has doubled, as measured by the country's Gross Domestic Product (GDP).

Based on the World Bank report, Guyana is the only country in Latin America and the Caribbean that is expected to record double-digit growth this year. Coming a close second is St. Lucia, which is expected to record economic growth of 9.6 percent. The January 2022 report now estimates a 2023 growth of some 25 percent for Guyana, as opposed to the previously predicted 23 percent. It is possible that this figure could be revised upwards in the coming months as Exxon Mobil made two additional oil discoveries off the coast of Guyana in January 2022.

Meanwhile, economic growth in the wider Caribbean is estimated to reach 7.3 percent this year, and 5.9 percent in 2023. However, this doesn't necessarily spell good news for the region, since, according to the report, those improvements reflect a large contribution from Guyana. This is due largely to the fact that the majority of Caribbean countries are reliant on their respective tourism industries, which have taken significant hits due to the continuous spread of the novel coronavirus (COVID-19) and the global pandemic it has triggered.

International News

World Bank sees sharp world growth slowdown, 'hard landing' risk for poorer nations (Reuters)

The World Bank on Tuesday cut its forecasts for economic growth in the United States, the Euro area and China and warned that high debt levels, rising income inequality and new coronavirus variants threatened the recovery in developing economies. It said global growth is expected to decelerate "markedly" to 4.1% in 2022 from 5.5% last year, and drop further to 3.2% in 2023 as pent-up demand dissipates and governments unwind massive fiscal and monetary support provided early in the pandemic. The forecasts for 2021 and 2022 the first by a major international institution were 0.2 percentage points lower than in the bank's June Global Economic Prospects

report and could be knocked even lower if the Omicron variant persists. The International Monetary Fund is also expected to downgrade its growth forecasts in its update on Jan. 25.

The bank's latest semiannual forecast cited a big rebound in economic activity in advanced and developing economies in 2021 after contractions in 2020, but warned that longer-lasting inflation, ongoing supply chain and labor force issues, and new coronavirus variants were likely to dampen growth worldwide. "Developing countries are facing severe long-term problems related to lower vaccination rates, global macro policies and the debt burden," World Bank President David Malpass told reporters, citing troubling reversals in poverty, nutrition and health data and permanent impacts from school closures.

U.S Inflation rises 7% over the past year, the highest since 1982 (CNBC News)

The consumer price index, a metric that measures costs across dozens of items, increased 7% in 2021, according to the department's Bureau of Labor Statistics. On a monthly basis, CPI rose 0.5%. Economists surveyed by Dow Jones had been expecting the gauge to increase 7% on an annual basis and 0.4% from November. The annual move was the fastest increase since June 1982 and comes amid a shortage of goods and workers and on the heels of unprecedented cash flowing through the U.S. economy from Congress and the Federal Reserve.

Excluding food and energy prices, core CPI increased 5.5% year over year and 0.6% from the previous month. That compared with estimates of 5.4% and 0.5% respectively. The growth in core inflation was the largest annual growth since February 1991. Shelter costs, which make up nearly one-third of the total rose 0.4% for the month and 4.1% for the year. That was the fastest pace since February 2007. Used vehicle prices, which have been a major component of the inflation increase during the COVID pandemic due to supply chain constraints that have limited new vehicle production, rose another 3.5% in December, bringing the increase from a year ago to 37.3%.

Fed officials are watching the inflation data closely and are widely expected to raise interest rates this year to combat increasing prices and as the jobs picture approaches full employment. Though the central bank uses the personal consumption expenditures price index as its primary inflation measure, policymakers take in a wide range of information in making decisions.

UK economy finally bigger than before pandemic in November (Reuters)

Britain's economy grew strongly in November to finally surpass its size just before the country went into its first COVID-19 lockdown, official data showed on Friday. The world's fifth-biggest economy expanded by a much faster than expected 0.9% in November before the latest wave of COVID-19 infections and restrictions for many firms leaving it 0.7% bigger than it was in February 2020. "It's amazing to see the size of the economy back to pre-pandemic levels in November a testament to the grit and determination of the British people," finance minister Rishi Sunak said. Other economies have already recovered their pre-COVID size, chief among them the United States. Britain's economy shrank by more than 9% in 2020, one of the biggest pandemic slumps among the world's rich nations.

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