NCB Capital Markets Limited

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Market Guide

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"Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold."– Warren Buffett

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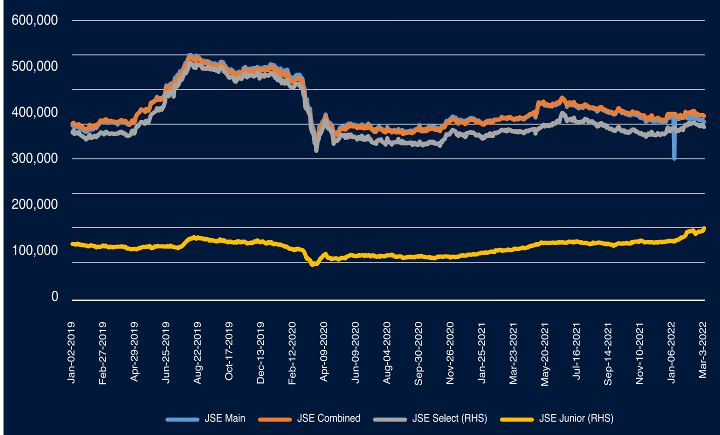
Main Market Companies Recover to Pre-pandemic levels of Profit, but Financial Companies Lagging

As earnings season continues, several main market companies released audited financials for the year ended December 2021 over the last week. Sagicor Group Jamaica (SJ), PanJam Investment Limited (PJAM), Victoria Mutual Investments Limited (VMIL), Jamaica Stock Exchange Limited (JSE), GraceKennedy Limited (GK), Jamaica Producers Group Limited (JP), Kingston Wharves Limited (KWL), and Caribbean Cement Company Limited (CCCL) were all among those reporting year-end results. Conglomerates and companies classified in the industrial and materials sector fully recovered their pre-pandemic profit levels of earnings in 2021; however, many financial companies still have some making up to do. The conglomerates benefitted from the COVID-19 outbreak and recorded strong growth throughout the pandemic due to the high demand for consumer staples. Moreover, the construction boom, fueled, in part, by the pandemic, and the need for more storage space for nearshoring benefitted CCCL and KWL respectively. The COVID-19 outbreak also accelerated the digitalization efforts across businesses as firms sought new opportunities to drive value, reduce costs and drive efficiencies. Financial sector companies, which led the digitalisation efforts to support business continuity during the pandemic, while still below pre-pandemic earning levels should fare better in 2022.

Companies in the main market industrials and materials sector, namely, KWL and CCCL reported improvements over their pre-pandemic performances. KWL reported robust growth (+34.2%) in its topline, together with a decrease in expenses of (5.0%), which aided its profit performance relative to 2019. The logistics operations drove the 2021 performance, with revenue and profit before tax growth of 25.3% and 83.1% respectively. On the other hand, terminal operations reported modest improvements of 6.2% and 11.5%, respectively for revenues and PBT growth relative to 2019. KWL has been making improvements to its infrastructure and business model. In 2021 the company indicated that it was expanding into nearshoring opportunities as it seeks to capitalize on its advantageous geographic positioning. Additionally, the company recently achieved full Special Economic Zone (SEZ) status, which gives it an advantage as a port-centred zone offering port-centric logistics services (centrally located services) to clients at lower costs, which bodes well for its ability to compete with similar ports around the Caribbean. CCCL continues to benefit from

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	399,669.71	-1,767.79	-0.4%
Main Market Index	387,382.91	-3,810.35	-2.2%
Select Index	10,024.23	-43.13	+1.4%
Junior Market Index	4,168.16	+ 204.73	+21.6%

WINNERS & LOSERS (FOR THE WEEK ENDED FEB 7, 2022)

	$ Change	% Change
FESCO	+$2.90	+57.8%
MEEG	+$2.21	+41.8%
CABROKERS	-$0.93	-28.9%
PTL	-$0.31	-15.7%

MARKET OVERVIEW

All major indices declined this week except for the Junior Market Index, which advanced by 204.73 points (5.17 %) to close at 4,168.16. Gains in the Junior Market were influenced by stocks such as FESCO, which recorded a 57.8% ($2.29) price appreciation on the 55.9Mn unit that were traded, making it the main advancer last week. Much of the demand for FESCO was driven by the company's recent financial results as well the expectations of future earnings growth. There were also other companies on the Junior Market such as MEEG, SSLVC and Spur Tree, which saw double-digit week-over-week gains. Main Event Entertainment Group Limited, which gained $2.21 (41.8%) to close at $2.21, was also among the main advancers. On the Main market most stocks closed lower. The largest fall off was from CPJ, which can be attributed to the market correcting itself.

EduFocal, a Jamaican education technology company offering e-courses for the Primary Exit Profile exam (PEP), came to the market with an Initial Public Offering (IPO) last week. The company offered 129,689,219 ordinary shares in an IPO, which opened on March 3, 2022, and closed the same day. The offer was oversubscribed. Edufocal is the second Junior Market IPO since the beginning of the year. There was also the cross-listing of Massy Holdings Limited in January. As the local economic recovery gathers momentum and investor sentiment improves, we expect more companies will engage in utilizing IPOs for growth as this method for funding is cheaper than a company acquiring debt, especially in light of the rising interest rate environment.

the construction boom currently taking place on the island as evidenced by its performance in the 2021 financial year. Net income grew 130.5% aided by increased revenues (+34.2%), flat operating expenses, a decline in finance expenses (23.9%) as well as a smaller loss on foreign exchange (-19.3%). The pandemic, complicated by the Russia-Ukraine tensions have changed the dynamics of global shipping and has fueled the need for more warehousing spaces for companies seeking to preserve business continuity. Moreover, demand from BPO companies seeking to come to the island, and the growing need for housing are also factors that will keep construction booming in the medium term. That being said, CCCL began paying royalties of approximately 2% of net sales to parent company CEMEX in January 2022, which is anticipated to temper the performance of the company going forward.

The earnings of main market conglomerates, JP and GK continued to benefit from the pandemic, evidenced by earnings that continued to grow despite the disruption to business operations that caused net profit falloff for many other companies. GK's topline showed a 21.0% improvement, which was outpaced by the increase in expenses (+22.8%). However, the growth recorded in other income and interest income coupled with a decline in net impairment on financial assets aided the performance of net profit (+82.5%). JP's 2021 performance showed strong growth in the bottom line relative to 2019. Net profit increased by 53.1% on the back of a 15.6% expansion in revenue growth. In 2021, JP made several acquisitions in keeping with its strategy of building on core business capabilities in food and drink, logistics and infrastructure through selective capital investment projects and acquisitions. Two of the projects undertaken by JP include the acquisition of a 50% interest in Geest Line Limited, a shipping company operating between the UK and the Eastern Caribbean, and expansion into the European Juice market, both of which are expected to buttress JP's earnings going forward. The conglomerates, especially consumer staples businesses, benefitted greatly from the pandemic as persons substituted eating out with home-cooked meals. However, as the economy gradually reopens, there may be a cooling of the demand generated by the pandemic.

In contrast, financial sector companies - PJAM, VMIL, and JSE - are yet to recover pre-pandemic profit levels; however, Sagicor Group Jamaica was the outlier amongst the financial companies registering net profit in 2021 that was 13.4% higher than earnings for the year ended December 2019. Sagicor's performance was supported by a 10.7% growth in total revenues, which outpaced an 8.8% growth in expenses. PJAM reported a 13.3% reduction in profits, while net profits at VMIL and JSE were 5.7% and 4.2% lower, respectively relative to 2019. PJAM's performance can be attributed to a 7.1% decline in total revenues, a 5.0% increase in expenses and a 37.5% increase in finance costs. While VMIL and JSE reported growth in their top lines (50.0% and 2.8% respectively), there were accompanying increases in expenses, which eroded the gains to the bottom line. Although there has been a partial recovery in assets prices, there are still challenges including weak demand for credit, lower asset valuations, which has been further compounded by rising inflation and the associated aggressive rise in interest rates.

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However, many of the companies in the sector started to make large investments in technology in 2020 to aid cost reduction. We expect that as these efficiency gains continue to accrue to these companies, along with recovering demand for financial services on the back of the economic recovery, we should continue to see improvements in earnings for 2022.

For many companies, the 2021 financial year has meant a significant rebound in earnings, with some surpassing their 2019 earnings levels. Despite many challenges in 2021, several companies adapted and adjusted to the new normal, which along with improving demand and cost management have benefited their bottom lines. Moreover, the improvements in the labour market bode well for credit quality and consumer demand. By extension, this should also be advantageous to the stock market as companies benefit through increased earnings and create value for shareholders thereby boosting stock prices. That being said, increased geopolitical risks, rising commodity prices, threats from inflation and rising interest rates are the main downside risks to earnings in 2022. The ongoing supply chain issue was anticipated to ease in H2 2022, as global ports engaged various measures to reduce congestion; however, the Russia-Ukraine conflict is threatening to upend that progress. Furthermore, as the central bank tries to bring inflation back within its target range, interest rates could trend higher. This is not only increasing the cost of financing but could temper equity valuations. Nevertheless, given the progressive easing of measures locally including the reopening of schools and the end of the mandatory work from home order, 2022 is shaping up to be an even better year for earnings than 2021. We anticipate that companies will continue to prioritize cost mitigating strategies as they seek to improve the efficiency of their operations and combat input price increases. Consequently, more companies could recover or surpass pre-pandemic earnings in 2022.

Global Bond Prices

Yields for U.S. government debt fell across the board on Friday, giving the 2- and 10-year maturities their biggest weekly yield declines since March 2020, as Russia's war in Ukraine worsened and more investors piled into safe haven assets. The drop in yields on Friday came even after the February U.S. employment report signaled the economy is picking up. The 10-year Treasury note yield fell 12.1 basis points to 1.722% from 1.843% at 3 p.m. Eastern Time on Thursday. It dropped 26.2 basis points this week, the biggest one-week decline since the period that ended on March 6, 2020.

Last week, Russian forces attacked civilian areas and seized Europe's largest nuclear power plant in Ukraine. Russia was undeterred by an expansion of sanctions, which blocked select Russian banks from the SWIFT financial transactions system and prevented its central bank from accessing its foreign currency reserves. The threat of nuclear conflict heightened as President Putin also put his nuclear forces on high alert, causing a further deterioration in market sentiment.

Concurrently, the Fed Chair said the central bank would "proceed carefully" because of the geopolitical uncertainty and that he would support hiking rates by 25 basis points later this month. He acknowledged, though, that a 50-bps hike is still possible in the future if inflation is higher than expected. Due to the worsening developments around the Invasion, bond prices were down across the board.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	**BB-/ Stable**	**104.850**	**6.55%**	**BUY**
PETRO-RIO 2025 (6.50%)	**BB-/ Stable**	**100.000**	**6.12%**	**BUY**
GEOPAR 2027 (5.5%)	**B+/ Stable**	**97.000**	**6.22%**	**BUY**
NRG 2032 (3.88%)	**BB+/ Stable**	**99.000**	**4.00%**	**BUY**

GOJ Globals

Jaman bond prices followed suit, and decreased week over week. The Jaman 28s, 39s, and 45s closed with lows of 108.80, 135.25 and 130.15, respectively

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	109.25	4.76%
	2039	134.00	4.91%
	2045	129.00	5.50%

*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	Coupn	Price	Yield	Tax Adjusted Yield
GHL	2026	7.00%	105.00	5.54%	6.47%
JBG	2028	6.75%	104.20	5.89%	6.79%
Seprod	2024	7.25%	103.55	5.78%	-

Foreign Exchange Market

The Jamaican dollar appreciated by 0.6% relative to the USD, week over week, with the USD selling rate moving from J$155.87 per USD on February 25, 2022, to J$154.97 on March 4, 2022. This appreciation came on the back of companies selling USD in the market to purchase JMD to fulfill tax obligations that are due at the end of this month. Additionally, there was some excess USD in the market owing to BOJ's US$116Mn intervention in the FX market two weeks ago.

Selling	Close: 25/02/22	Close: 04/03/22	Change
J$/US$1	$155.87	$154.97	-$0.92
J$/CDN$1	$122.88	$123.14	+$0.23
J$/GBP£1	$210.71	$206.19	-$4.52

Money Market

Since the start of the year liquidity in the market has been on a downward trajectory largely due to the actions taken by the central bank to curb consumer spending, to contain inflation. As at March 3rd, a total of J$41.99B was in the market down from J$60.5Bn in the first week of January, with much of it held by DTIs. The central bank recently raised its policy rate to 4.00%, which will continue to pressure JMD liquidity, additionally, the current tax season will also increase the headwinds to JMD liquidity in the near term as companies drawn down on cash and near cash to fund tax obligations. It is expected that this will put additional strain on JMD Liquidity.

This week, the average yield from the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD increased to 6.11% relative to 5.29% in the prior week. The highest bid for full allocation was 6.999%. A total of J$17.0B was offered in the auction, while the total bids received were J$18.15B. The CD offer of J$17B represented an outflow of liquidity from the market supporting the BOJ strategy. Market players were mostly lending overnight, with some brokers offering as high as 4.75% – 5.50%.

The USD money market will remain stable despite changes in the market activity affecting liquidity. We anticipate USD liquidity to be fairly stable in upcoming months. Whilst tourism inflows are unlikely to offset demand, strong remittance growth continues to support USD liquidity. Additionally, the BOJ's attempts to sterilize JMD liquidity through its B-FXITT auctions have led to selling approximately US$325.675M to the market so far this year. The central bank will likely continue to inject USD liquidity to the market in an effort to bring inflation back in line through greater currency stability. Broker market demand for USD remains at 30-days and longer tenured funds, with some brokers offering as high as 4.75% to clients.

Dates to watch this week

March 2022

MON	TUE	WED	THUR	FRI
7	8	9	10	11
	EURO GDP (YoY) (Q4)	Honey Bun AMG Annual General Meeting	USD Consumer Price Index (Feb)	CAD Unemployment Rate (Feb)
				SGJ AMG Annual General Meeting

International Local

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	$2.78	BUY
WISYNCO	$18.78	HOLD
FTNA	$11.29	HOLD
JBG	$29.38	HOLD
JMMBGL	$43.33	BUY
LASF	$3.31	SELL
AFS	$20.03	SELL
JAMT	$3.51	BUY
JSE	$16.70	HOLD
PROVEN (JMD)	$36.44	BUY
PROVEN (USD)	$0.24	BUY
SCIJMD	$15.38	BUY
LAB	$3.65	HOLD
SJ	$55.83	HOLD
SEP	$56.07	HOLD
SGJ	$34.16	HOLD
QWI	$1.03	HOLD
GK	$101.25	BUY
CCC	$71.39	HOLD
KEX	$7.93	HOLD

Regional News

Barbados Bracing For Impact From Ukraine Unrest (Dominican Today & NCBCM Research

The Barbados government is already seeking to put measures in place to cushion any likely fallout from the war that has broken out in Ukraine with Russia, which could have implications for the cost of fuel and food, the supply of food and result in disruptions in the supply chain globally.

Prime Minister Mottley noted that hat Barbados' reserves stood at over $3 billion, representing about 37 weeks of import cover, giving the country adequate buffers to deal with increased prices at least for a period. Currently, the country has embarked on efforts undertaken by the Ministry of Agriculture, Food and Nutritional Security to boost food production in the country to ensure Barbados is in a better position to feed its citizens amidst the crisis which had led to increases in food prices.

The Russia-Ukraine conflict is expected to have adverse effects on the local economy through higher inflation and surges in oil and prices of other commodities such as wheat and corn. This will inadvertently, lead to higher electricity and gas prices for both consumers and producers alike.

Belize Economy On the Rebound, Says IMF (Amandala

After the severe impact that the COVID-19 pandemic has had on Belize, as reflected in the 16.7% contraction in GDP and increase in public debt in 2020, the Government of Belize has made significant progress towards reducing public debt. As such the IMF expects that Belize's economy will recover. The country's GDP is projected to grow by 6.5% in 2022. The IMF attributes this growth in GDP to a rebound of activity in the construction, retail and wholesale trade, transport and communication, and tourism sectors.

The downside risk to the outlook of Belize's economy is the potential for escalation of the pandemic through the emergence of new variants which could derail the recovery of tourism. On a positive note, however, the uptake of the vaccines may help curb this risk.

The country has also seen a decline in public debt, which stood at 133% of GDP in 2020 but had declined to 108% by the end of 2021. It is predicted to fall to 84% of GDP by 2032. The IMF recommends that the Government attempt to reduce its debt even further, to an ambitious 60% of GDP by 2031.

International News

Ukraine Conflict May Knock $1 Trillion Off Global GDP (Bloomberg)

The conflict in Ukraine could knock $1 trillion off the value of the world economy and add 3% to global inflation this year by triggering another supply chain crisis, according to the U.K.'s National Institute for Economic and Social Research (NIESR). Supply problems will slow growth and drive up prices, reducing the level of global gross domestic product about 1 percentage point by 2023, the London-based researcher said.

Europe's ties to Russia and Ukraine, which are major sources of commodities and energy, leave it more exposed than any other region.

The war will also force European governments to borrow more to pay for an influx of migrants and strengthen their armies, NIESR added. It urged central banks to raise interest rates “only slowly while they assess the impact on confidence and activity of the war and its squeeze, through energy, on real incomes.”

“The conflict in Ukraine imposes further economic stress on a system stretched by Covid,” said Jagjit Chadha, director of NIESR. “Supply chains will be further fractured, and monetary and fiscal policies put under a severe examination.”

Russia will avoid a recession because the economic hit from sanctions will be “partly offset by higher prices for gas and oil exports.” However, GDP will be 2.6% lower than previously forecast by the end of 2023, with the collapse in the ruble driving inflation up to 20%.

The hit to Russian GDP is only marginally worse that the eurozone and the U.K., both of which will end 2023 with levels of GDP about 1.5% below previous predictions, according to the researcher. As growth slows the cost of living crisis will intensify, NIESR warned. U.K. inflation will average 7% this year and may slide to 4.4 % in 2023. Should sanctions be escalated to cut off Russian natural gas and oil shipments, the hit to Russia would be “severe” but also increase the “the chances of recession accompanying significantly stronger inflation” in the EU. The bloc gets 40% of its gas from Russia.

Global supply pressures eased in February, New York Fed says (Reuters)

Global supply chain pressures eased in February as backlogs and delivery times improved in several key markets according to new data from the New York Federal Reserve released on Thursday. Improvements in outbound shipments from Asia, and delivery times in South Korea and the United Kingdom contributed among the most to the decline in the index, while some components in the United States, including order backlogs, got slightly worse. Still, the overall index for the United States also declined to 2.63, after hitting a peak of 2.99 in January.

The New York Fed’s supply chain pressure index, first published in January to measure the coronavirus pandemic’s impact on global production troubles and prices, remains at a historic high. But from a peak of 4.5 in December, it has fallen over consecutive months and hit 3.3 in February, with 0 representing the index’s long-term average.

The index combines measures of shipping costs, delay times, and order backlogs in the United States, the euro zone, the United Kingdom, Japan, China, Taiwan, and South Korea. The improvement, NY Fed analysts noted, was broad across areas of the world and categories. If the decline continues, it could represent an important turning point for the Federal Reserve and other central banks in their efforts to control inflation.

The U.S. slaps sanctions on Russia’s central bank, threatens more action (Reuters)

Last week the United States imposed sanctions on Russia’s central bank and other sources of wealth, dealing a crushing blow to the country’s economy and further punishing Moscow over its invasion of Ukraine. The measures, blocking Americans from engaging in any transactions involving Russia’s central bank, finance ministry or national wealth fund, are likely to push Russian inflation higher, cripple its purchasing power and drive down investments.

The actions included a carve-out for energy payments. Washington imposed several rounds of sanctions, including against Russian President Vladimir Putin and major banks, after Russia’s forces invaded Ukraine in the biggest assault on a European state since World War Two. A senior U.S. administration official has said that their objective is to make sure that the Russian economy goes backwards if President Putin decides to continue to go forward with an invasion in Ukraine and that they have the tools to continue to do that.

Washington and its allies said they would take action against the central bank and bar some of Russia’s banks from the SWIFT international payments system, a list officials said was still being finalized with EU partners. Russia’s central bank more than doubled its key policy rate last week and introduced some capital controls, but its governor said sanctions had stopped it from selling foreign currency to prop up the rouble.

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokerage. The company became a part of the National Commercial Bank (NCB) Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Co. was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J$ and US$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle was renamed NCB Capital Markets Ltd. in October 2003.

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