

Market Guide

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"Time in the market beats timing
the market." Ken Fisher

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Rising Real Estate Revenue is Being Tempered by Higher Costs

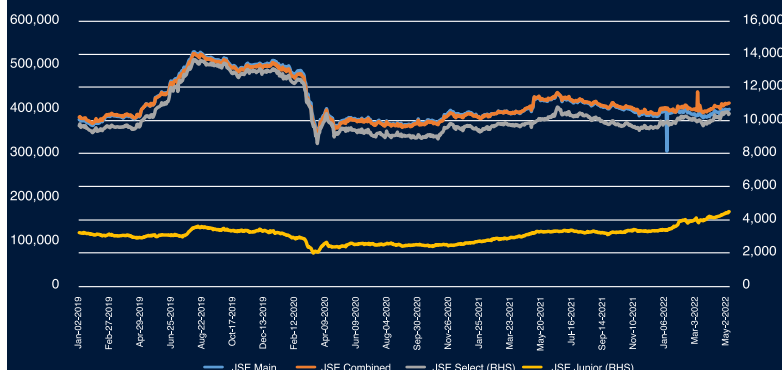
Listed real estate companies have so far reported divergent results this earnings season; while most have seen topline growth, earnings have been tempered by higher operating and finance costs. Year to date, Stanley Motta Ltd. (-15.5%), 138 Student Living (-7.0%) and Sygnus Real Estate Finance Ltd. (-112.5%) all reported a falloff in net profit, in contrast to the bottom line growth reported by Kingston Properties Ltd. (14.9%), and Sagikor Real Estate X Fund's net profit of \$181.61Mn from a loss of \$202.11Mn. These earnings result for SML, KPFEIT and XFUND are for the three months ended March 2022, while 138SL and SRF are for the six months ended March 2022 and February 2022, respectively. There is a similar divergence in the sector's multiples as while the earnings and P/E ratios of some companies have risen relative to their 2019 levels, some are still lagging behind their pre-pandemic performance. There are however a few factors that should benefit the sector in the near term. Such factors include higher occupancy rates; and demand for industrial real estate and commercial spaces for companies in the BPO sector, stemming from a recovery in consumer demand, travel, and higher rental prices due to inflation. These will support higher rental income, revaluation gains, overall

profitability and investor sentiments. However, higher costs may continue to weigh on earnings. Notably, the inflationary hedge characteristic of real estate assets makes them a preferred investment choice in this inflationary environment, which should drive up demand for such stocks and hence their prices.

Of the listed real estate companies, KPFEIT and XFUND reported higher net profit YTD for the three months ended March 2022 on the back of higher revenues from rental income and hotel fees, which outweighed expenses. Fostered by a rebound in tourism along with higher rental prices due to higher inflation, KPFEIT reported a 12.4% year over year (YoY) increase in rental income. The rebound in economic and tourism activity influenced higher occupancy levels at both its properties in Jamaica and the Cayman Islands. This, along with a US\$44,540 gain on disposal of investment properties and a 77.3% increase in fair value of investments supported the 14.9% net profit growth. Similarly, a 138.0% growth in hotel revenues aided by high occupancy levels and increased bookings for corporate and individual events during its first-quarter fueled a 68.3% expansion in XFUND's total revenues. Further, net investment income increased more

1. SML and SRF
2. The Group disposed of a unit at W Fort Lauderdale.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	416,375.44	-6.78	+3.8%
Main Market Index	402,589.3	+873.91	+1.6%
Select Index	10,597.66	+130.65	+7.2%
Junior Market Index	4,444.25	-92.90	+29.6%

WINNERS & LOSERS (FOR THE WEEK ENDED MAY 13, 2022)

	\$ Change	% Change
MIL	+\$2.44	+27.7%
JFP	+\$0.34	+26.4%
JMMB 7.25%	-\$0.99	-25.8%
JETCON	-\$0.38	-21.1%

MARKET OVERVIEW

Last week, 118 stocks were traded across the JSE indices of which 45 advanced, 65 declined and 8 traded firm. The Junior Market index, Combined index, Cross Listed Index, and Manufacturing and Distribution index declined, while all other major indices advanced. The Financial Market index outperformed the other indices, appreciating by 2.2% week over week relative to the 1.43% decline in the previous week. This was driven by the appreciation in prices for several financial companies, including NCB Financial Group (+5.3%), which carries majority weighting in the index, along with Sagikor Group (+3.2%), among others. The price appreciation for these companies can be ascribed to the positive financial results that were posted last week. Sagikor's net profit attributable to shareholders expanded by 31.3% to J\$3.82Bn, while for NCBFG, profits attributable to shareholders increased by 77.2% to J\$10.43Bn. The main advancer for the week ending May 13, 2022, was Mayberry Investment Limited, which gained 27.7% to close at \$11.25, thus contributing to the improvement in the financial market index. Last week, the company also released its audited financials for the year ended December 2021, which depicted a turnaround from the previous year's losses, recording profits of J\$2.06Mn attributable to shareholders and as such, investors could have reacted to the positive results. Other advancers for the week included JFP Limited (+26.4%), iCreate Limited (17.9%), Mayberry Jamaican Equities Limited (+16.1%), and others.

than six folds (632.8%) and interest costs fell (44.1%) as the Fund deleveraged its balance sheet, which bolstered earnings. However, expenses increased with the recovery in company operations, moderating both firms' overall performance.

Contrastingly, while SML, 138SL and SRF also witnessed revenue growth, this was outweighed by higher expenditure which influenced a decline in their net earnings. For the three months ended March 31, 2022, SML's revenue grew 5.3% YoY, owing to the 5.25%³ depreciation of the Jamaican dollar relative to the US dollar. However, this was eroded by the 20.5% and 88.5% growth in SML's admin and finance costs, respectively, due to a significant foreign exchange loss of J\$19.0Mn and new fees incurred by the company. Like most real estate companies, 138SL's revenue grew due to higher occupancy, however, in keeping with the company's model, this was higher occupancy at its student living facilities. Total revenues rose 4.6% YoY for the 6 months ended March 31, 2022, aided by a 5.0% increase in average occupancy to 56.0%. While efforts were also made to contain operating costs, with admin expenses falling 7.1%, there was a significant rise in finance costs which outweighed this. Finance costs grew by 58.0% due to recent renegotiations in its long-term liabilities. Finally, SRF's net interest income grew 145.5% YoY for the 6 months ended February 28, 2022, as the deployment of capital into income-generating real estate investment notes continued to grow. Despite SRF's YoY increase in net interest income, higher interest expense, a net foreign exchange loss of \$18.92Mn, and total operating expenses (+62.8%) primarily driven by growth in management, corporate services and performance fees⁴, reduced its bottom line.

As some companies benefit from the rebound, expansion in their property investments and higher rental rates in some instances, some real estate firms have already surpassed their pre-pandemic earnings and multiples, while others remain below. Supported by higher revenues, KPREIT and 138SL have reported net earnings above their March 2019 levels (+778.9% for KPREIT and positive earnings for 138SL relative to a loss in the same period in 2019). This has likely influenced investor sentiments and KPREIT and 138SL's current P/E multiples of 11.6x and 9.6x respectively, which are higher than the pre-pandemic ratios of 8.4x and 7.0x. On the other hand, the earnings of SML and XFund are trailing behind their pre-pandemic results by 33.5% and 82.4% respectively. However, while SML's P/E of 5.2x is below its 2019 ratio of 16.1x, XFund's has improved to 24.5x from a negative ratio.

Going forward, there are several industry, economic and company-specific opportunities which should support more positive results in the near to medium-term. SRF and KPREIT remain constructively bullish on the industrial real estate segment, as the pandemic has revealed a strong preference for assets in the industrial and logistics segment, as firms aim to improve their supply chain resiliency and redundancy. To capitalise on this, real estate companies are looking to raise rental income and valuation gains through new property purchases. This includes KPREIT which on April 19, 2022, opened its additional public offering (APO) to raise funds to repay a 13-month bridge loan of J\$700.0Mn and to develop two properties in Jamaica, which should bolster revenues and support bottom-line growth. There is also rising demand for industrial real estate and commercial spaces for companies in the BPO sector as the economic benefits provided by the sector entice new investments. Companies that

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Notably, the inflationary hedge characteristic of real estate assets makes them a preferred investment choice in this inflationary environment, which should drive up demand for such stocks and hence their prices.

3. The Jamaican dollar moved from an average of \$147.86:US\$1 as at 31st March 2021 to J\$156.06:US\$1 as at March 31, 2022.

4. No performance fees were recognized in the corresponding period

are providers of such spaces, such as SML, could experience improved performances as they capitalise on this demand. SML is expected to start construction on a new building in 2022 to be completed in 2024, which should significantly boost revenue and profits on completion. However, in the near term, in the context of the Bank of Jamaica’s intervention in the foreign exchange market and the tightening of liquidity, the exchange rate has also reflected greater stability relative to the recent past. If sustained, this may limit SML’s revenue gain which has been fueled by the depreciation of the JMD relative to the USD. Further, companies should benefit from economic developments and relaxed containment measures. The reopening of the entertainment sector and schools along with the rise in travel demand bode well for improved occupancy rates for real estate companies like 138SL and XFund. The Mona Campus will resume face-to-face classes starting with Summer School in June 2022 and all classes in Semester One of the new Academic Year in September 2022. This will increase demand for 138SL’s housing facilities and boost revenue and its bottom line if costs are contained. XFund is expecting continued growth in its hotel revenues as travel normalizes. Upcoming quarters are likely to present more growth opportunities, particularly with business travel expected to gain momentum. The sector should also benefit from the elevated inflation environment as property values tend to increase with the overall price environment due to the rise in costs of labour, interest rates, land and materials. These are all factored into property appraisals, which result in the price appreciation of existing real estate assets. Further, while property owners delayed increases in rental rates in 2020-2021 due to the effects of the pandemic on household and corporate income, the re-opened economy will support an improvement in employment and consumer demand for goods and services. This is expected to make property owners more willing to raise rental rates, in market segments where there is strong demand. Therefore, real estate and its inflation hedging characteristic help the sector to keep pace with the rise in inflation, making it a suitable investment in this rising inflation rate environment. That being said, if inflation remains elevated for a protracted period and interest rates climb higher, investors may be drawn to fixed income securities, particularly if rental yields do not keep pace and market interest rates exceed rental yields for a prolonged period.

Global Bond Prices

The risk-off approach by investors continued last week, as fears of a possible recession heightened following the aggressive tightening of monetary policy by the Fed. The inflation numbers released last week confirmed still elevated price pressures in the US, despite a slight improvement on a month-over-month basis. While the CPI rose 0.3% in April, a tenth of a percentage point more than expected, it was down from the 1.2% increase in March. The Producer Price Index (PPI) also rose by 0.5% in April, in line with expectations, following a 1.6% increase in March. Of note, the Fed maintains a continued 50 basis point increase; however, investors are speculating the possibility of a 75 basis point rate hike. Overall, the market declined week over week with the 10-yr yield closing at 2.929% from 3.136% in the previous week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	BB-/ Stable	102.250	7.16%	BUY
PETRO-RIO 2026 (6.13%)	BB-/ Stable	97.250	6.91%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	91.000	7.83%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	99.500	5.40%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	90.500	7.29%	BUY

5. A recent survey conducted by the USA Travel Association indicated that 77% of business travelers and 64% of employed Americans agreed that it is important to return to business trips.

GOJ Globals

The Jamaican bond prices declined along the curve, as volatility persisted throughout the week. The Jaman 28s, 39s, and 45s closed with bids of 106.25, 122.00 and 120.5, respectively

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	106.25	5.65%
	2039	119.00	6.08%
	2045	117.5	6.34%

*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
GHL	2026	6.75%	105.00	5.50%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Foreign Exchange Market

The Jamaican dollar appreciated by 0.17% relative to the USD, week over week, with the USD selling rate moving from J\$155.83 on May 6, 2022, to J\$155.57 on May 13, 2022. To quell aggressive USD sales, the Bank of Jamaica (BOJ) intervened in the market with the sale of US\$60Mn during the week, which supported the appreciation of the JMD against the greenback.

Selling	Close: 06/05/22	Close: 13/05/22	Change
J\$/US\$1	\$155.83	\$155.57	-\$0.06
J\$/CDN\$1	\$122.47	\$120.34	-\$2.13
J\$/GBP£1	\$191.44	\$189.61	-\$1.83

Money Market

Tight JMD liquidity continues to be driven by BOJ's efforts to bring inflation back to its 4-6% target range and high competition amongst DTIs for available liquidity. On May 16th, STATIN published the inflation rate for April, which showed that consumer prices remain elevated at 11.8% due to the continued transmission of high energy and other international commodity prices to domestic processed food, food-related services, and energy price inflation, as well as a recovery in domestic demand. Considering this, the BOJ is widely expected to increase the policy rate again by an estimated 50 – 100bps given that inflation is trending further away from its target range. This will lead to a further tightening of JMD liquidity. As at 12th May, a total of J\$42.7B is in the market as represented by the BOJ's aggregate current balances. There was very limited overnight lending with rates as high as 5.75% – 6.50% as market participants were mostly square last week. The average yield from the Bank of Jamaica's (BOJ) 30-day CD competitive auction though it remains high fell to 7.84% last week relative to 8.10% in the previous week. The highest bid for full allocation was 7.999%.

On the other hand, the USD money market should remain stable despite changes in market activity affecting liquidity. So far in 2022, BOJ has sold approximately US\$435.675M to the market through its B-FXITT auctions. The BOJ will likely continue to push USD liquidity to the market in an effort to bring inflation back in line with its target.

Dates to watch this week

May 2022

MON	TUE	WED	THUR	FRI
16	17	18	19	20
Consumer Price Index (April)	UK's Unemployment Rate (Mar)	UK's CPI (YoY) (April)	UK's Consumer Confidence (May)	Supreme Ventures Limited Dividend Payment (\$0.3401)
CAC 2000 Limited Dividend Payment (\$0.035)	EU's GDP (YoY) (Q1)	EU's CPI (YoY) (April)	BOJ's Monetary Policy Rate Decision (April)	
	EU Unemployment Change (YoY)	Canada's CPI (YoY) (April)		
	US's Retail Sales (YoY) (April)			

■ International ■ Local

Stock Recommendations

Ticker	Closing Price (May 16)	P/E	Avg. Sector P/E	Current Recommendation
MAILPAC	\$2.67	19.1x	24.8x	BUY
WISYNCO	\$22.22	21.8x	19.0x	BUY
JBG	\$27.96	22.7x	19.0x	HOLD
JMMBGL	\$46.10	7.6x	12.7x	HOLD
MASSY	\$94.95	13.4x	13.4x	BUY
JAMT	\$3.31	18.4x	20.3x	BUY
PROVEN (JMD)	\$37.99	11.6x	12.7x	BUY
LAB	\$3.15	24.2x	20.1x	HOLD
SJ	\$55.70	11.9x	12.7x	HOLD
SEP	\$69.15	24.3x	19.0x	HOLD
QWI	\$0.90	4.1x	12.7x	HOLD
GK	\$107.64	12.9x	13.4x	BUY
CCC	\$62.49	12.4x	18.3x	BUY
PanJam	\$66.51	9.7x	12.7x	BUY

Regional News

Bahamian Economy Rebounds With 8% Growth (The Tribune)

The International Monetary Fund says the country's recovery is "strong" with real GDP growth pegged at 8% this year. The fund, in its Article IV Consultation Report for The Bahamas, said: "The Bahamas is experiencing a tourism-led rebound. The economy expanded by almost 14% in 2021, as net tourism receipts tripled relative to 2020. The strong recovery is expected to continue in 2022, with real GDP growth projected at 8%. The war in Ukraine, which adds considerable uncertainty to the outlook, is expected to affect The Bahamas primarily through higher commodity prices." The fund also said that, despite the phenomenal growth, it would take until 2024 before the country would be able to return to the pre-pandemic levels of GDP of 2019. "The economy contracted by almost 24% in 2020, as tourism receipts fell by more than 75%. Starting in the second half of 2021, air arrivals saw a steep rebound, recovering to half of 2019 levels 2021, while cruise arrivals, which were initially more subdued, have recently picked up." Coupled with a rebound in construction activity, output expanded by around 14% in 2021. Labour market conditions are improving, but remain challenging, with unemployment estimated at around 18% at the end of 2021 compared to over 25%

in 2020. However, risks are skewed downwards given a difficult near-term financing situation, rising inflationary — and potentially BOP (balance of payments) — pressures because of the war in Ukraine, an ongoing threat from the evolving pandemic, and the country's high vulnerability to natural disasters. Additionally, the pandemic will likely exacerbate The Bahamas' long-standing record of low growth. Staff projects medium-term potential growth at just 1.5%, owing to the slow structural reform implementation, including in the energy sector.

Barbadian Government & IMF Team Discuss 7th EFF Review (Barbados Government Information Service)

A visiting International Monetary Fund (IMF) team for the Seventh Extended Fund Facility (EFF) Review, has been assured that Government, despite battling the economic fallout from COVID-19, had achieved several macro-economic benchmarks. Acknowledging that adjustments had to be made to the EFF, due to the COVID-19 pandemic, Minister of Finance and Economic Affairs, Ryan Straughn, insisted that the Government was still "very committed to seeing the reform efforts through". Based on the agreed targets on both sides, Mr. Straughn said he is confident that as the pandemic and the crisis in Ukraine rage on, the execution of the government's capital works programme and private sector investments coming on stream will provide a much needed boost to the economy. The government is also seeking to find a solution to place the debt that has accumulated specifically for COVID-19 on a different trajectory. It is of the view that in order for the country to be able to respond to climate adaptations and other issues, it will need to ensure that the appropriate fiscal space is available so as not to inhibit the normal development trajectory of the country. Mr. van Selm, the IMF's Mission Chief for Barbados, noted that with the global increases, especially in fuel prices, during the visit there would be discussions on the macro framework and what other policies would be put in place to shield the populace.

International News

BoE faces historic test but not to blame for inflation, Bailey says (Reuters)

Bank of England Governor Andrew Bailey said on Monday the current surge in inflation was the central bank's biggest challenge since it gained independence in 1997, but that the BoE could not have done anything to stop it. "I should emphasise that I do not feel at all - obviously - happy about this," Bailey told the Treasury Committee in the lower house of parliament. "This is a bad situation to be in." Bailey has been criticised by some lawmakers from the ruling Conservative Party, which is feeling the heat over a cost-of-living crisis. Britain's consumer price inflation rate hit 7.0% in March and economists polled by Reuters expect it will leap to 9.1%, its highest since 1982, when April's data is published last Wednesday. Asked if the BoE could have done something different, he said: "I don't think we could. I don't think we could foresee a war in Ukraine. Another factor that we're dealing with at the moment is a further leg of COVID, which is affecting China."

Other central banks are also scrambling to cope with a surge in inflation, which they initially described as "transitory" when it began with the post-pandemic reopening of the global economy, before Russia's invasion of Ukraine pushed energy prices even higher. Inflation in the United States is running at an annual 8.3%, according to data for April published last week, down a touch from March's 8.5% which was the biggest rise since 1981. In the euro zone, inflation hit a record high of 7.5% in April, up from 7.4% in March. The BoE earlier this month warned that Britain risks a double-whammy of inflation above 10% later this year and possibly a recession. It raised interest rates to their highest since 2009, hiking by quarter of a percentage point to 1%. "It is a very, very difficult place for us to be in," Bailey said on Monday. I have to say that this is the biggest test of the monetary policy framework that we've had in 25 years, no question about that."

He said rising food prices, which have been pushed up by the conflict in Ukraine, were a major worry, not just for Britain but for developing economies too. "Sorry for being apocalyptic for a moment, but that is a major concern," he said. Monetary Policy Committee member Michael Saunders said British inflation expectations might have been a bit lower if interest rates had gone up sooner than they did. Saunders, whose term ends in August, was one of three members of the nine-strong MPC who voted for a bigger half-point rise this month. The BoE said in its May announcement that most policymakers believed "some degree of further tightening in monetary policy

may still be appropriate in the coming months". But two members said the guidance was too strong given the risks to growth.

Yields slip, stocks struggle as economic fears grow (Reuters)

American and European equity markets wobbled and U.S. Treasury yields fell on Monday after unexpectedly weak economic data from China and a big slide in New York state's factory activity painted a bleak picture for economic growth across the world. Chinese retail and factory activity fell sharply in April as COVID-19 lockdowns severely disrupted supply chains while New York factory output slumped in May for the third time this year amid a collapse in new orders and shipments. read more

The Chinese data cast a long shadow over the outlook for the world's second-largest economy while the steep drop in New York factory output could be an early signal of the impact on manufacturing of the Federal Reserve's aggressive monetary policy posture. MSCI's gauge of stocks across the globe (.MIWD00000PUS) shed 0.37% and Treasury yields fell, with the benchmark 10-year Treasury note down 7.1 basis points at 2.862%.

China continues to be an issue, as does Europe, especially eastern Europe and Putin's threats toward Finland and Sweden's plans to join NATO, said Tim Ghriskey, senior portfolio strategist at Ingalls & Snyder. "When you see big up days, I'm not surprised to see some profit-taking on the subsequent day," Ghriskey said, referring to Friday's rally on Wall Street. "We're simply seeing a reaction to recent strength. There are various factors driving the market, but in general, none of them are very positive."

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