NCB Capital Markets Limited

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Market Guide

THIS ISSUE

"An important key to investing is to remember that stocks are not lottery tickets."
~ Peter Lynch

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Stock Buybacks: Why Do Companies Buy Back Shares?

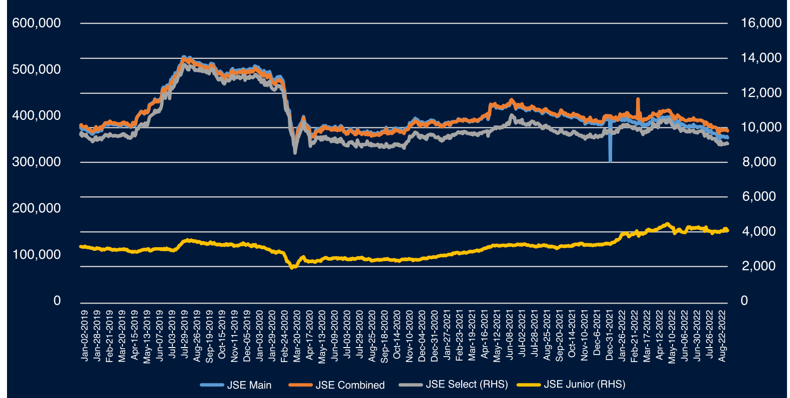
Publicly traded companies seek to create value for their shareholders and provide returns on their investments. Most shareholders are familiar with returns in the form of dividends or capital gains as the stock prices appreciate. However, share buybacks are also another, less common way that companies seek to return value to shareholders. A share buyback occurs when a listed company re-purchases its own stock on the open market. It pays those shareholders that are willing to sell their stock at the market price and re-absorbs the portion of its shares that were previously held by these investors. The buyback does not target any specific group of shareholders and is usually funded using cash on a company's balance sheet. Three local companies have recently engaged in share buybacks - First Rock, Eppley Caribbean Property Fund and the JMMB Group. The main reason for the share buyback, as indicated by all three companies, was to unlock shareholder value over time. Though we don't have enough data to assess the long-term impacts as most of the share buy initiatives are fairly recent, we will take a look at the market's immediate reaction and the potential implications for investors.

It may seem counter-intuitive that listed companies that generally focus on raising capital might choose to redistribute money back to shareholders by repurchasing their shares. However, there are several reasons why it may be beneficial for a company to repurchase its shares. These include: An Undervalued Stock Price, Boosting its Key Financial ratios, and Employee Stock Options.

1.**Undervalued Stock Price** - Companies sometimes try to unlock shareholder value through share buybacks as they feel at times their stock is undervalued. Undervaluation occurs for several reasons, often due to investors' inability to see past a business' short-term performance or a general bearish market sentiment. Share buybacks help to drive price appreciation through increased demand for a stock that increases its price.

2.**Boosting Key Financial Ratios**- Buying back stocks can also be an easy way to make a business look more attractive to investors. By reducing the number of outstanding shares, a company's earnings per share (EPS) ratio is automatically increased as its earnings are now divided by a lower number of outstanding shares. The return on equity (ROE) ratio is another important financial metric that receives an automatic boost. The share buyback will shrink shareholder's equity, which increases the overall ROE figure.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	373,027.27	0.19%	-7.0%
Main Market Index	358,501.27	0.23%	-9.5%
Select Index	9,204.89	0.21%	-6.9%
Junior Market Index	4,205.91	0.55%	22.7%

WINNERS & LOSERS (FOR THE WEEK ENDED SEPT 9, 2022)

	$ Change	% Change
FIRSTROCKUSD	+$0.01	+22.5%
MEEG	+$1.46	+22.5%
138SL	-$1.29	-18.8%
SCIJMD	-$0.02	-14.7%

MARKET OVERVIEW

Last week 123 stocks traded of which 52 advanced, 59 declined and 12 traded firm. Market volume amounted to 134,205,895 units valued at over $915,882,112.91. The volume leaders for the week were the recently listed One On One Educational Services Limited (18,229,398 units or 13.34%), Express Catering Limited (11,425,601 units or 8.36%), and Jamaican Teas Limited (9,275,952 units or 6.79%). While there was no news to support Jamaican Teas' volumes, the year-end financial results of Express Catering were released last week, which showed that the company saw a rebound in its earnings from a loss of US$1.73Mn in the previous financial year to a net profit of US$1.10Mn aided by the recovery in the tourism and travel industry. The activity on the stock is possibly a reaction to its improved financial performance.

Activity on the JSE last week saw seven of the major indices advancing and the remaining two declining. The top advancing index was the JSE USD Equities Index (+2.66%). PROVEN which gained 7.32% and TransJamaican Highway, which gained 6.02% were the main contributors to the improved performance in that index. The largest decliner was the JSE Financial Index which registered a 0.14% falloff, driven by declines in the prices of NCB Financial Group (-0.22%) and Massy (-2.56%).

3.**Employee Stock Options (ESO)**– ESOs are a part of some companies' compensation packages. Consequently, to distribute shares to employees companies can source shares through share buybacks from the general investor public, and then distribute them to their employees.

It was the desire to unlock shareholder value that led First Rock, Eppley Caribbean Property Fund and JMMB Group to repurchase their shares earlier this year. Now the mechanics of a share buyback from a supply and demand perspective ultimately means an increase in demand, which will put upward pressure on a company's share price. Hence, unlocking shareholder value can be interpreted as delivering an increase in capital gains to shareholders through share price appreciation. As such, below we explore the market's immediate reaction to the recent share buyback initiatives from the companies above and the potential implication for investors.

Of the three companies, First Rock Real Estate Investment Limited has had the most recent share buyback program. First Rock purchased a total of 100,000 shares at USD $0.04 on September 7, 2022, under the Company's share buy-back program, which represents less than 1% of its total shares outstanding. In the immediate days after the repurchase, its stock price was unchanged at USD $0.04; however, over a week later the price increased by 25% reaching USD $0.05. Notably, during the same period there was an announcement about the company setting up banking operations in Guyana. Therefore, this price appreciation may also be attributed to investors reacting positively to the news. Meanwhile, Eppley Caribbean Property Limited's share buyback program has been more extensive with numerous repurchases yearly.

The company has engaged in repurchasing shares through the first half of 2022, totalling 229,666 shares. This represents 0.2% of its total shares outstanding. Its most recent share buyback period, which was between June 29 to July 1, appears to be positively correlated with a share price appreciation of 7.4%; however, just a few days later the stock declined by 15.9%. Lastly, JMMBGL has committed J$300 Million to fund its share repurchase program, over a one-year period that began on April 1, 2022. After April 1, 2022, its share price increased immediately over the next couple of days and resulted in a share price appreciation of 17.9% by April 6, 2022. Over the following week, the stock traded above the pre-share buyback price level. However, it fell slightly below its pre-share buyback price level during the next week, possibly due to investors taking gains.

While the market's immediate reaction to the share buybacks was positive as in all cases, with an immediate price appreciation, this was relatively short-lived. The subsequent decline could be due to demand and supply dynamics and perhaps economic factors such as rising interest rates. Overall, there has been a common theme, in the examples listed above. All three stock prices have seen some price appreciation after the companies executed their respective share buyback programs. However, there was a general price reversal in the short term. In fact, this price reversal is one of the major disadvantages of a share buyback program. In the initial stages of a share buyback, a price appreciation may occur, but the positive effect is usually temporary, as the price declines when the market realizes that the company has done nothing to increase its actual value. However, there seems to be an opportunity for short-term investors. Immediately after a share buyback,

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Foreign Exchange Market

The Jamaican dollar appreciated week over week by 0.03%, moving from a selling rate of $152.79 on September 9, 2022, to $152.74 on September 16, 2022. This marginal appreciation was influenced by the Bank of Jamaica's intervention into the market with a total of US$60.0Mn, which increased the supply of USD.

Selling	Close: 09/09/22	Close: 16/09/22	Change
J$/US$1	$152.79	$152.74	-$0.05
J$/CDN$1	$117.71	$117.71	+$1.02
J$/GBP£1	$176.56	$176.56	+$2.21

Global Bond Prices

The market closed modestly lower over the previous shortened week (Labour Day, Monday September 5, 2022). The World Bank warned of the risk of a global recession in 2023 as a result of the rate hikes, and this did not escape the market's notice. The Atlanta Fed's GDPNow model estimate for Q3 real GDP growth was lowered to 0.5% from 1.3%, which also appeared to influence investor actions. Last week also saw the release of CPI and PPI data. US CPI increased 0.1% month-over-month in August (forecast -0.1%) and core CPI, which excludes food and energy, rose 0.6% month-over-month (forecast 0.3%). This resulted in the year-over-year increases at 8.3% for CPI, versus 8.5% in July, and 6.3% for core CPI, versus 5.9% in July. The key takeaway from the report was the acceleration in the year-over-year rate for core CPI, which was pushed in part by increases in the indices for shelter, medical care, and new vehicles. That is an off-putting data point for market participants, and the Fed, which suggests the rate hike at the September 20-21 FOMC meeting this week will be 75 basis points, with the possibility of another aggressive rate hike after that. The PPI index for final demand decreased 0.1% month-over-month, as expected. The index for final demand, less food and energy, increased 0.4% month-over-month (forecast 0.3%). Year-over-year, the index for final demand is up 8.7% versus 9.8% in July, whereas the index for final demand, less food and energy, is up 7.3% versus 7.7% in July. This outturn shows that producers experienced a moderation in price pressures, yet the report also shows that inflation is still far too high and broad-based.

Dominican Republic and Jamaica bonds responded in tandem to the likelihood of another aggressive rate hike from the Fed, trading several points lower, accompanied by relatively low trading activity. The 10-Year Treasury yield continued to trend higher to close at 3.45% indicating a further sell-down.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	BB-/Stable	94.75	7.78%	BUY
Sagicor Fin 2028 (5.30%)	BB-/Stable	96.50	6.04%	BUY
DOM REP 2033 (6.00%)	BB-/Stable	88.75	7.58%	BUY
GEOPAR 2027 (5.5%)	B+/Stable	87.00	9.21%	BUY
TPHLTT 2029 (9.00%)	BB	108.25	7.44%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	102.25	6.30%	BUY
BERMUD 2027 (3.72%)	A+/Stable	99.25	3.91%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	109.75	4.74%
	2039	118.00	6.24%
	2045	116.00	6.52%

*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	6.47%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	104.00	5.75%

Money Market

The most recent inflation figures released on Thursday by STATIN showed that the point-to-point inflation rate for August 2021 to August 2022 was 10.2%. While it remained flat relative to July's outturn, it was still firmly outside of the BOJ's 4% to 6% target range. Considering this and BOJ's expectations, tight liquidity conditions are expected to continue in the market as the BOJ continues to focus efforts on guiding inflation back within its target range through GOJ's auctions and/or B-FXITT auctions.

JMD liquidity remains tight, accompanied by continued high levels of competition for cash by market players, such as DTIs, as they seek to maintain liquid asset ratios and stay sufficiently liquid. Therefore, JMD money market rates are expected to remain elevated. As of the 15th of September, a total of J$18.58Bn was in the market, as represented by the BOJ's aggregated current balances for DTI. This was a J$4.51Bn (19.53%) decline relative to the prior week.

Market players were mainly square last week, with very limited overnight lending. The average yield from the BOJ's competitive price auction continued its downward trend to 7.74% relative to 7.97% in the prior week. Bids received totalled J$32.48Bn relative to the offer size of J$15Bn. The highest bid rate for full allocation stood at 7.7999%. It is believed that the downward trend in the average yield is a result of conservative bids by institutional investors with a demand for this type of security as the end of a quarter approaches. Institutional investors usually try to bid conservatively near the end of the quarter to ensure an allocation in order to meet their regulatory ratios.

The USD money market remains stable and moderately liquid. Broker market demand for USD remains at 30-days and longer-tenured funds. The BOJ intervened in the FX market last week, for the first time since July 2022. The central bank intervened on Thursday and Friday offering a total of US$60Mn. This is expected to remove approximately J$9.1Bn from the market. BOJ has advised that its strong international reserves reinforce its ability to support the foreign exchange market as needed. It is therefore expected that the BOJ will continue to intervene as necessary to maintain stability in the foreign exchange market and absorb JMD liquidity to stem inflation.

Recommendations

Ticker	Closing Price (September 16)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.26	16.0x	15.3x	BUY
JMMBGL	$41.02	6.9x	10.9x	HOLD
MASSY	$87.19	11.6x	11.3x	BUY
JAMT	$2.53	19.5x	18.9x	BUY
LAB	$2.87	17.9x	20.5x	BUY
QWI	$0.78	3.5x	10.9x	HOLD
GK	$93.61	11.2x	11.0x	BUY
CCC	$59.30	11.8x	17.0x	BUY
PJAM	$59.00	10.4x	10.9x	BUY
KW	$37.18	16.9x	17.0x	BUY
LUMBER	$2.90	12.6x	18.9x	BUY
TROPICAL	$2.51	19.6x	18.9x	BUY
ELITE	$3.52	25.1x	20.5x	BUY

Dates to watch this week

September 2022

MON	TUE	WED	THUR	FRI
19	20	21	22	23
Seprod Limited Annual / Extra-Ordinary General Meeting	UK Inflation Expectations Canada CPI (MoM, YoY)	US Fed Interest Rate Decision	Bank of England Interest Rate Decision	PBS Annual / Extra-Ordinary General Meeting
	Sterling Investments Limited Dividend Payment (US$0.000643)		Supreme Ventures Limited Dividend Payment ($0.1840) JMMB Group Limited Annual / Extra-Ordinary General Meeting	Cargo Handlers Limited Dividend Payment ($0.13)
			PROVEN Annual / Extra-Ordinary General Meeting CAC 2000 Limited Annual / Extra-Ordinary General Meeting	GraceKennedy Limited Dividend Payment ($0.48)

Regional News

S&P says it could downgrade El Salvador in 6-18 months (Reuters)

S&P Global Ratings said on Friday it could cut El Salvador's credit rating within six to 18 months, if it does not make "adequate progress" on debt reduction, days after the government announced plans to buy back sovereign bonds. S&P maintained El Salvador's "CCC+" rating, seven notches into non-investment speculative grade territory, four days after its government said it would buy back up to $360 million of two sovereign bonds, at what S&P valued just marginally above market prices. El Salvador launched the offer on Monday, September 12, for bonds maturing in 2023 and 2025. "We consider the debt repurchase opportunistic and akin to a liability management operation, given we believe the government could have fulfilled its financial commitments in the near term absent this transaction," S&P said in a statement. The rating agency said there was at least a "one-in-three" chance of a downgrade if the government does not make significant progress on its debt or if any issues arise on its willingness to pay. Fitch downgraded El Salvador's sovereign debt to "CC" from "CCC" on Thursday, describing a debt default as probable. S&P said it believed the government could meet its debt service payments over the next year, but added that delays in obtaining funding and corrective fiscal measures could hit investor confidence. It said the ratings reflected long-standing difficulties in predicting policy responses, low economic output, persistently low investment and little flexibility due to the dollarization of the economy, which has persisted since El Salvador introduced bitcoin as legal tender alongside the U.S. dollar.

Peru central bank lowers growth forecasts despite government stimulus (Reuters)

Peru's central bank on Friday lowered its economic growth estimates for 2022 and 2023, amid worsening expectations despite a package of government stimulus measures aimed at boosting local production. The central bank now expects 2022 growth of 3.0%, compared with 3.1% previously, and 2023 growth of 3.0%, compared with 3.2% previously. It also predicted that annual inflation would rise to 7.8% this

this year and 3.0% in 2023. This comes after Finance Minister Kurt Burneo last week launched an economic package aimed at lifting the economy at times of a global slowdown and falling copper prices, which are key to the country's economy. Burneo had earlier in September said Peru could achieve economic growth of 3.9% in 2022, rising to 4.3% in 2023, thanks to the stimulus package, although many of its measures are still awaiting approval from Congress. Velarde said the bank was maintaining its 2022 fiscal deficit projection at 1.9% of gross domestic product (GDP) and 1.8% of GDP next year. Regarding Peru's key mining sector, Velarde said investment should decline by 3.7% in 2022 and in 2023 this decline should deepen to 16.2%, following the completion of Anglo American's Quellaveco copper project in the south of the country. Peru is the world's second-largest copper producer and its mining exports total around 60% of the South American country's overall exports.

International News

ECB to inflict pain as it hikes rates into next year, Lane says (Reuters)

The European Central Bank could raise interest rates into next year, causing pain for consumers as it tries to depress demand that is now increasingly adding to sky-high inflation, chief economist Philip Lane said on Saturday. With inflation approaching double-digit territory, the ECB delivered two oversized rate hikes in July and September and promised even more action as even long-term price growth expectations are now moving above its 2% target. "We do think that this is going to dampen demand, we're not going to pretend this is pain-free," Lane told a conference. "Demand is now a source of inflation pressure, it was not six or nine months ago in the same way it now is." At 0.75%, the ECB's deposit rate is still too low as it continues to stimulate the economy, so the ECB's job is not yet done, Lane added. Most economists estimate that the neutral rate, where the ECB is neither stimulating nor holding back growth, is between 1.5% and 2%. Markets however see the top of the rate cycle higher and investors now price in rates just above 2.5% next spring. Lane had argued for months that the current inflation is primarily due to the shock caused by expensive energy prices.

Monetary policy is largely powerless against such supply shocks so the ECB was among the last major central banks to hike rates. But price growth has now broadened out and started to seep into all aspects of life while robust consumer demand is also driving prices. Although Lane said rates could continue to go up at each remaining meeting this year and may rise early next year, too, the ECB is keeping an open mind about where to stop and will decide meeting by meeting. Lane added that the eurozone economy is likely to flatline over the winter months and a recession could not be ruled out given high energy prices and a shortage of natural gas. "If we think our base case is to barely grow, a technical recession - falling into a mild recession - cannot be ruled out," he said separately in an interview with Irish broadcaster RTE.

History Shows No Example of Hiking US Rates Too Fast, Summers Says (Bloomberg)

Former Treasury Secretary Lawrence Summers argued against the Federal Reserve holding back from aggressive monetary tightening, saying that greater economic damage would result from any hesitation. "History records many, many instances when policy adjustments to inflation were excessively delayed and there were very substantial costs to that," Summers told Bloomberg Television's "Wall Street Week" with David Westin. "I am aware of no major example in which the central bank reacted with excessive speed to inflation and a large cost was paid." Summers highlighted that even Paul Volcker, who famously vanquished elevated inflation as Fed chair, "had a kind of false start," as recounted in a recent opinion piece by former Fed Governor Frederic Mishkin. In response to weakening economic data, Volcker relaxed the Fed's stance in the spring of 1980, "which then had to be reversed" later, generating higher interest rates than would otherwise have been needed, he said. Chair Jerome Powell and his colleagues are forecast by economists to boost their benchmark rate by 75 basis points next week, taking the top of the target range to 3.25%. Interest-rate futures suggest that policymakers will take it toward 4.5% by spring 2023. "We're more likely to end up above 4 1/2 than we are to end up below 4 1/2, and it certainly wouldn't surprise me if that rate has to get above 5," Summers said. "Whether the Fed is going to stay the course and do what's necessary to contain inflation, we're going to have to see how that plays down the road."

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.