CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

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"All intelligent investing is value investing. Acquiring more that you are paying for. You must value the business in order to value the stock."

- Charlie Munger

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Easing Supply Chain Pressures Bode Well for The Manufacturing And Distribution Sectors

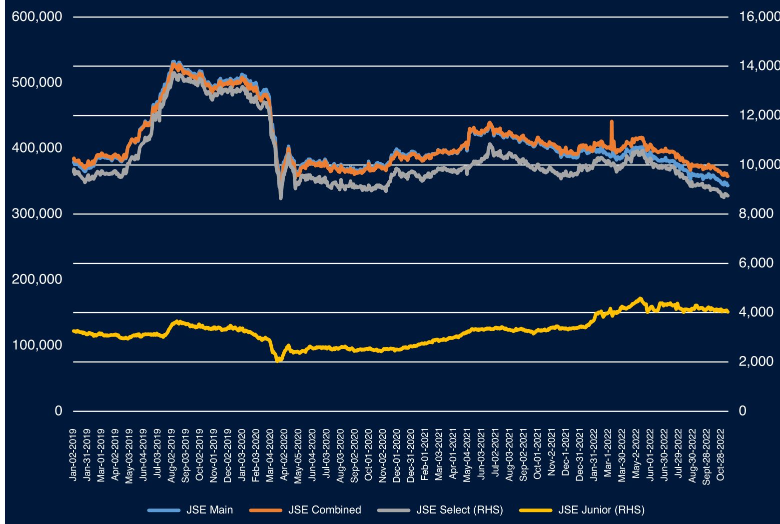
Persistent supply chain bottlenecks have impacted corporate earnings over the past two years in the form of higher expenses and lower revenues from delayed product and/or raw material delivery. For some companies, this meant missed revenue opportunities or a slowdown in production. However, after nearly two years of disruptions brought on by the pandemic, and extended by geopolitical tensions, supply chains are beginning to see notable improvements. The Global Supply Chain Pressure Index[1] (GSCPI) reveals that though supply challenges are still much higher than historical norms, they have been easing since April 2022. The index has declined from 3.42 in April 2022 and 3.24 in September 2021, to 1.00 in October 2022. Supply chain easing is also evidenced by declines in shipping rates and reductions in delivery times, port congestion, and backlogs[2]. This has been supported by a return to normalcy as pandemic fears fade, improvements in the supply of goods and investments in infrastructure, which have improved capacity. Additionally, aggressive monetary policy tightening in key economies in response to record high inflation has been tempering demand for goods and has helped to reduce supply chain bottlenecks, which were caused by economic and border closures in the face of surging infection rates. Importantly, this is also being reflected in the results of Manufacturing and Distribution companies with some companies indicating improvements in supply chain challenges and better margins. Also supporting better profitability in the sector is strong demand stemming from the economic rebound, increased employment, as well as higher sales prices. However, actions will have to be taken to limit the impact of future disruptions and to ensure further enhancement in the rebound and efficiency of supply chains to sustain long-term profitability across the sector. This includes effective private-public partnerships (PPP) to improve local supply chain capacity and capability, as well as investments in systems and processes and the removal of red tape and inefficient bureaucratic processes.

Despite the challenges experienced in the last

1 The Global Supply Chain Pressure Index (GSCPI) is a new measurement of supply chain conditions, created by the Federal Reserve Bank of New York. The index combines variables from several indices in transportation and manufacturing, such as those related to delivery times, prices, and inventory.

2 The cost of shipping freight has declined by as much as 70% on some routes since September 2021 while transporting cargo now takes around 90 days instead of 122 days in April 2022. Congestion at US ports has dropped significantly, falling by close to 80% since last November. The latest manufacturing PMI index also showed that order backlogs are being cleared more quickly and supplier delivery times are falling fast. I Fitch Ratings 2022

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	357,993.78	-1.40%	-10.8%
Main Market Index	344,073.17	-1.45%	-13.1%
Select Index	8,747.41	-0.48%	-11.5%
Junior Market Index	4,034.83	-0.95%	17.7%

WINNERS & LOSERS (FOR THE WEEK ENDED NOV 11, 2022)

	$ Change	% Change
PBS	+$0.62	+44.9%
EPLY7.5	+$2.24	+41.9%
EFRESH	-$0.31	-19.4%
JMMBGL7.5	-$0.13	-13.1%

MARKET OVERVIEW

Last week, all major indices declined, except the JSE USD Equities Index (+15.68%), with the JSE Cross Listed and the JSE Financial Index posting the largest declines of 1.64% and 1.48%, respectively. The decline continues to reflect lower investor sentiment on the back of high global inflation and fears of economic downturn. Overall market performance resulted from trading in 122 stocks of which 36 advanced, 67 declined and 19 traded firm. The main decliners on the stock level were EFresh (-19.4%) and JMMBGL7.5 (-13.1%). The main advancer for the week ending November 11, 2022, was PBS which gained $0.62 or 44.9% to close at $2.00. Behind was Eppley 7.5% Preference Shares Due 2024, which gained $2.24 or 41.9% to close at $7.59. The changes in the stock prices are reflective of thin queues where small changes in volume lead to a more substantial change in prices.

2 years, several Main Market Manufacturing & Distribution, and Junior Market Distribution companies have performed well and continue to do so, as evidenced in the most recent quarterly financial releases. This is likely being driven by both demand and cost factors, given the global developments. As global supply chain costs have eased so too have input prices as seen in lower shipping costs for example[3]. This has likely influenced the performances of local companies across the sector through the decline in the cost of sales (COS) margins witnessed in the September quarter. Notably, the decline follows previous quarters of increased cost as geopolitical tensions bolstered supply chain issues. Overall the average margin[4] fell from 63.0% for the September quarter in 2021 to 61.9% in 2022. Caribbean Producers Jamaica (CPJ), whose margin increased by 1.6 percentage points to 69.0%, was the only outlier, as the company continued to increase inventories (35.6%) to guarantee uninterrupted service, while supply chain issues remain elevated. The greater impact of easing supply chain pressures is possibly not visible as yet due to the high inventory that companies have acquired in the past at higher costs to reduce disruptions. However, as the higher cost inventories get used and replaced at lower supply costs, the sector should realise further improvements in the average COS margin.

Additionally, strong demand and higher product prices continued to play a large part in fueling profitability across the sector. Among the companies that have already released results for the quarter ended September 2022, sustained demand for consumer staples, office and household items, increased employment, rising consumer disposable income, increased company activity, and higher sale prices as producers pass on high costs to customers, contributed to the increase in profitability of all but one company (Mailpac) in the sector. On the main market, Wisynco reported quarterly revenues of $11.9Bn (+29.8% y-o-y), the largest in the company's history supported by the increased demand for its products in all channels including exports which were up 10% over the same quarter of the prior year. This helped to generate a first-quarter net profit growth of 34.1%. Meanwhile, CPJ despite the rise in input costs, reported a more marginal growth in net profit (+2.3% y-o-y) owing to incremental growth in volumes as its products maintained a strong and resilient position in the rebounding hospitality and retail sectors. Currently, both Wisynco and CPJ are trading at P/E multiples of 15.2x and 12.0x, respectively, which are below the Main Market Manufacturing & Distribution Average of 15.3x[5].

Similarly, on the Junior Market, with the exception of MailPac, which reported negative growth (-10.7%), Stationary and Office Supplies – SOS - (299.9%), Fosrich (39.0%), and Lasco Distribution – LASD - (33.0%) all reported increased net profits supported by higher revenues for their respective quarters ending in September 2022[6]. New product listings in its furniture category and higher demand from its SEEK brand owing to back-to-school

....after nearly two years of disruptions brought on by the pandemic, and extended by geopolitical tensions, supply chains are beginning to see notable improvements.

3 The estimated cost of shipping a 40 foot container from China to the U.S. West Coast has dropped by 84% since the start of April to $2,470|November 2022

4 The average margin calculations included the following companies: FosRich, CPJ, MailPac, LASD, Wisynco and SOS

5 P/E multiples as at November 14, 2022

6 FosRich, and MailPac for the third quarter ending September 2022, while SOS and LASD is for the second quarter ending September 2022.

sales boosted SOS's profitability. Similarly, FosRich saw strong demand for its products as sales increased, while LASD achieved increased profitability supported by strong domestic and international demand. However, MailPac's performance was tempered by global eCommerce headwinds, such as a significant rebound in travel, supply chain issues, and record levels of inflation. At current P/E multiples, SOS, LASD, and Mailpac trade at 13.5x, 9.1x, and 14.9x, below the Junior Market Distribution Sector Average of 16.8x, while Fosrich trades at 60.4x, which is above the average[7] .

It is our expectation that the sector will sustain the largely positive growth performance over the near term as supply chain challenges continue to ease and local economic growth continues, supported by rising employment, economic re-opening, and spillover effects from the recovery in the tourism and entertainment sectors. Following the deal between Russia and Ukraine, and slowing demand from high interest rates and recession fears, the primary factors of the elevated input costs - commodities and shipping prices[8], should continue to decline, bolstering better margins. Additionally, profitability should be buttressed by some companies' recent and planned adoption of digital strategies[9] to enhance operational efficiency, and the provision of additional products demanded by the market[10] , especially consumer staples. Companies are also expanding their capacity to generate greater revenues, which is reflective of the strong demand that still exists locally due to the economic prospects. This is being seen for example, with Fosrich, which on November 4th, entered into an agreement with GraceKennedy Pension Fund for the construction of a new superstore, estimated to cost $1.8Bn. Sustained profitability and improved margins will also require investments in infrastructure to tackle future supply chain challenges and strengthen resilience. However, the main downside risks to the sector's positive outlook are a potential recession in major developed markets, another surge in commodity prices caused by an escalation of the Russia-Ukraine war, and higher-than-expected increases in interest rates. This has greater implications for some subsectors more than others, such as eCommerce, which for the first time is forecasted to see a year over year shrink in 2022. As a result of the increased challenges affecting its operations, there is a lower growth projection for Mailpac. With that said, there are still opportunities for investors to invest in both value and growth stocks within the sector that are trading at attractive multiples and have strong prospects for future growth.

Foreign Exchange Market

The Jamaican dollar appreciated marginally (0.02%) relative to the USD, week over week, with the USD selling rate inching down to J$154.57 on November 11, 2022 from J$154.60 on November 4, 2022. While market demand remains strong, the slight appreciation was due to price resistance as USD sellers are currently selling at a level higher than the point at which the market is willing to purchase USD.

Selling	Close: 4/11/22	Close: 11/11/22	Change
J$/US$1	$154.60	$154.57	-$0.03
J$/CDN$1	$113.44	$116.74	+$3.31
J$/GBP£1	$173.16	$176.87	+$3.71

Global Bond Prices

Investors closed last week on a happier note as October inflation data, which was released on November 10, 2022, showed signs of continued easing in consumer prices. In addition, long-awaited softer narratives were heard from analysts expecting an ealrier than anticipated pause in US Fed rate hikes. Consumer prices rose 0.4% month-over-month in October, significantly below the consensus forecast of 0.7%, while core-CPI, which excludes food and energy, increased 0.3% month-over-month (consensus forecast 0.5%). With Octobers outturn, consumer prices had risen 7.7% year-over-year, versus 8.2% in September, and core CPI was up 6.3% year-over-year, versus 6.6% in September. The key takeaway was that firstly, the report helps validate the view that inflation has peaked, which is expected to compel the Fed to take a less aggressive rate-hike approach at the December Federal Open Market Committee (FOMC) meeting. Market sentiment improved with this inflation report, given expectations that the Fed is likely to pursue less aggressive monetary tightening and its tightening cycle could end sooner. This would aid in bringing down yields and prompt a rally in global bond prices. That being said, the Fed funds rate is expected to rise further, before it begins to decline given that a 7.7% inflation rate is still far too high and has "a ways to go" to get to the Fed's 2.0% inflation target. Nevertheless, the direction in the trend at this point appears to be more important to the market than the level itself.

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7 P/E multiples as at November 14, 2022

8 As of November 11, 2022, the Drewry World Container Index (WCI) composite index which stood at $2,773 per 40-foot container is now 73% below the peak of $10,377 reached in September 2021. It is 26% lower than the 5-year average of $3,759, indicating a return to more normal prices, but remains 115% higher than average 2019 (pre-pandemic) rates of $1,420.

9 SOS has plans to buildout e-commerce channel

10 SOS launched "EVOLVE" a new furniture line and Wisynco is also planning to add two new beverages which is expected to boost production by 35%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	94.00	6.62%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	107.75	7.51%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	101.25	6.59%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	97.50	4.38%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.00	5.88%
	2039	109.00	7.06%
	2045	105.00	7.41%

*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%	103.55	5.70%

Money Market

As at the 10th of November, a total of J$11.2Bn was in the market as represented by the BOJ's aggregated current balances, with a few DTIs accounting for the majority of this liquidity. This marks a J$2.67Bn decline from the J$13.88Bn held on November 4th. Against this background, JMD liquidity remains tight and continues to cause heightened levels of competition for cash by market players. Consequently, rates are expected to remain elevated. Market players were mainly square last week, with very limited overnight lending. Money market rates also inched higher for longer tenors, likely impacted by the average yield from BOJ's competitive price auction. The average yield from the competitive auction of BOJ CD's rose to 8.80% from 8.15% in the prior week. The auction was oversubscribed, with bids totaling J$19.98B relative to offer size of J$18B. The highest bid rate for full allocation was 10.199%.

The USD money market remains stable and moderately liquid. Broker demand for USD remains at 30-days and longer-tenured funds.

Dates to watch this week

International Local

November 2022

	MON 14	TUE 15	WED 16	THUR 17	FRI 18
International		GB Unemployment Rate (Sep) US PPI (YoY) (Oct)	GB CPI (YoY) (Oct) CA CPI (YoY) (Oct)		BIL Dividend Payment ($2.48)
Local		KPREIT Dividend Payment (US$0.001) October Consumer Price Index (Statin)			BOJ Monetary Policy Discussion and Decision

Recommendations

Ticker	Closing Price (Nov. 14)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.79	15.2x	15.3x	**BUY**
LAB	$2.52	15.8x	28.4x	**BUY**
GK	$86.39	11.1x	10.3x	**BUY**
TROPICAL	$2.55	19.9x	16.8x	**HOLD**
ELITE	$3.42	21.2x	28.4x	**BUY**

Regional News

Real Estate Project In Barahona Will Have An Investment Of RD$1.7Bn (Dominican Today)

The building of real estate complexes is becoming more important for the Dominican Republic's tourism sector as it draws investments that strengthen its value chain and draws in new customers who prefer short-term rental accommodations over hotels. The Barahona project, which has a RD$1.7Bn budget and will create 400 direct and 3,000 indirect jobs, is being developed under this modality. The project will be completed by the end of 2023 and will cost US$1,500 per square meter to construct. José Luis Ravelo, who is in charge of the real estate project's communication, made this announcement at the fair titled "Discover Barahona 2022: Toward a Sustainable Destination.

Real estate tourism became more prevalent in the Dominican Republic's tourism industry following the coronavirus pandemic. According to statistics from the Central Bank, short-rent projects have a visitor occupancy rate of over 44%. This project will continue to drive the demand for short-term rental accommodations.

Strong Growth In Q3 2022, But Mexico Still Headed For Major Slowdown Next Year (Fitch Solutions)

Fitch revised its 2022 real GDP growth forecast for Mexico up from 2.0% to 2.7%, following a surprisingly robust Q3 2022 growth print. Growth in Q3 came in at 4.2% y-o-y (1.0% q-o-q in seasonally-adjusted terms), compared to a Bloomberg consensus of 3.3%. With this print, the Mexican economy has now expanded 2.7% through the first three quarters compared to the same period in 2021. The outperformance was driven by resilient private consumption, despite high inflation, as well as strong exports. Goods exports hit an all-time high of USD52.3Bn in September, reflecting the strength of the manufacturing sector and demand from the US, which historically receives roughly 80% of Mexican exports.

However, growth is expected to slow in Q4 2022 but remain robust at 2.9% as US demand remains solid. Inflation is anticipated to cool while private demand will be boosted by remittances, modest unemployment, and year-end sales. Growth will slow more sharply in 2023, to 1.0%, due to weaker demand from the US and elevated interest rates. The Agency forecasted growth in the US to slow from 1.6% in 2022 to 0.3% in 2023 as the US Federal Reserve tightens monetary policy, with the economy entering a minor recession in H2 2022. This will weigh heavily on Mexico's manufacturing sector, which is highly reliant on US demand, and weaken remittance flows, undercutting private demand.

International News

U.S. Consumer Prices Increase Less Than Expected in October (Reuters & CNBC)

U.S consumer prices increased less than expected in October and underlying inflation appeared to have peaked, which would allow the Federal Reserve to dial back its hefty interest rate hikes. The consumer price index rose 0.4% in October after climbing by the same margin in September. Economists polled by Reuters had forecast the CPI would advance 0.6%. In the 12 months through October, the CPI increased 7.7% after rising 8.2% on the same basis in September. Even with the slowdown in the inflation rate, it still remains well above the Fed's 2% target.

Nevertheless, it was the first time since February that the annual increase in the CPI was below 8%. The annual CPI peaked at 9.1% in June, which was the biggest advance since November 1981. Though gasoline prices increased after three straight monthly declines, goods inflation is slowing as demand rotates back to labour-intensive services and fractured global supply chains recover. Retailers are also sitting on excess merchandise, forcing them to offer discounts to clear shelves. However, the cost of living remains high.

Shelter costs, which make up about one-third of the CPI, rose 0.8% for the month, the largest monthly gain since 1990, and up 6.9% from a year ago, their highest annual level since 1982. Also, fuel oil prices exploded 19.8% higher for the month and are up 68.5% on a 12-month basis. The food index rose 0.6% for the month and 10.9% annually, while energy was up 1.8% and 17.6%, respectively.

EU Says It Has Serious Concerns About Biden's Inflation Reduction Act (CNBC)

The European Union has "serious concerns" about the U.S. Inflation Reduction Act, saying it breaches international trade rules. The sweeping tax, health, and climate bill was approved by US lawmakers in August and includes a record $369Bn in spending on climate and energy policies. The landmark package comprises tax credits for electric cars made in North America and supports U.S. battery supply chains.

European officials have acknowledged the green ambitions associated with the package, but they are worried about "the way that the financial incentives under the Act are designed," which will be presented to U.S. officials. In essence, the EU is worried about potential new trade barriers on European electric vehicle producers. And they are not the only ones, South Korea, for instance, has also brought up the same concern. Ngozi Okonjo-Iweala, director general of the World Trade Organization, said Monday that countries need to be "very careful that whatever policies [they] are taking should not be discriminatory, and should not favour domestic goods."

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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