

# Market Guide

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Institutional investors: These are entities that invest in various financial instruments on behalf of a large capital base. They typically include organizations like mutual funds, pension funds, and insurance companies.

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## Local Companies Using Mergers & Acquisitions to Boost Growth, Accelerate Recovery & Diversify

Evidence shows that more and more local companies are using inorganic measures such as mergers and acquisitions (M&A) to grow their business, improve resilience, and diversify their operations. M&A is a common business strategy that companies employ to either gain more market share in an industry they currently operate in or to gain exposure to other industries or products to diversify their revenue streams. In making an acquisition, the purpose or goal of the company executing an M&A transaction can differ based on the growth stage of that business. For instance, mature domestic companies may use this to temporarily change their growth trajectory in what is called the life cycle extension stage, moving it from a stable state to an accelerating state. Some junior or growth companies, on the other hand, may use it to extend their growth stage to continue accelerating sales and profits before a steady state is reached. In Jamaica, as per data available on listed junior and main market companies for 2019 to 2023, more main market companies turned to inorganic growth through M&A transactions than junior companies, with the total standing at 29 relative to 14. Over this period, 2022 was the biggest year for M&A, which is contrary

to what was witnessed in the general Latin American and Caribbean region. According to ECLAC<sup>1</sup> M&As dropped by one-third in 2022 after a record year in 2021. This was owing to the cooling economies, the inflation pressures, and the high-interest rate environment which adversely impacted liquidity flows. In contrast however, the number of M&As conducted by listed Jamaican companies rose by 143% (year over year) in 2022. The improving economic backdrop last year likely impacted the increase in M&A activity. However, the COVID-19 pandemic likely also provided a healthy pool of potential target companies for acquisition by those companies that were searching for opportunities. Furthermore, companies were likely using M&As to accelerate their recovery and boost resilience to future uncertainties. Thus far this year, local M&A transactions are lower than last year; however, expectations are for this to pick-up as the year progresses with better certainty around the direction of inflation and interest rates and their impact on financing. This piece seeks to expound on this outlook and the impact of M&As on local companies, which are important for investors to take into consideration before investing.

<sup>1</sup> This stands for Economic Commission for Latin America and the Caribbean.

### WEEKLY MOVEMENT IN INDICES



### MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	342,091.21	1.7%	-7.4%
Main Market Index	327,952.63	1.7%	-7.2%
Select Index	7,930.01	-0.5%	-10.9%
Junior Market Index	3,942.47	1.4%	-1.1%

### WINNERS & LOSERS (FOR THE WEEK ENDED JUNE 23, 2023)

	\$ Change	% Change
SOS	+\$9.1	+45.84%
JMMBGL7.25	+\$0.99	+32.25%
ELMIC	-\$0.62	-37.54%
FIRSTROCKUSD	-\$0.01	-19.09%

### MARKET OVERVIEW

The stock market remains volatile. Following three (3) consecutive weeks of downswings, last week's trading activity saw a significant upswing resulting in a majority of the indices (7/9) advancing save for the JSE Select and USD Equities indices. The JSE Cross Listed Index were the standout performers, recording significant advances of 7.78% and 4.69% respectively. The Cross Listed Index's improvement was buoyed by a week-over-week (WoW) increase of 1.34% in the share price of Massy Holdings Ltd. However, there was no direct news to support the movement in stock price. The upward trend in the Manufacturing and Distribution index was driven by a 9.24% WoW surge in the price of Seprod Ltd. Again, there was no news event that could be directly attributed to the price movement. Of the two indices that declined, the JSE USD index (8.46%) saw the most significant falloff. The downturn was driven by a (15.00%) WoW in decline Productive Business Solution Ltd USD Ordinary Shares (PBS).

Overall market activity resulted from trading in 125 stocks, of which 29 advanced, 61 declined, and 15 traded firm. The top performers for the week were Stationery and Office Supplies Ltd. and JMMB Group Ltd. 7.25%, which increased by 45.84% and 32.25% respectively. Whereas Equityline Mortgage Investment Corporation Pref. Shares (-37.54%) and First Rock Real Estate Investment Ltd (USD) (-19.09%) saw the largest declines WoW. Market volume amounted to 140,509,032 units valued at over \$1,369,331,948.43. Wigton Windfarm Ltd. with 36,031,907 units (25.22%), Transjamaican Highway Ltd. with 15,617,014 units (10.93%), NCB Financial Group Limited with 9,904,820 units (6.93%) were the volume leaders.

As can be seen in figure 1, last year the number of M&A transactions completed by listed companies rose beyond its pre-pandemic level, following the drop in 2020. The decline in 2020 was likely influenced by companies' uncertainty about the full impact and duration of the pandemic, the deterioration of their profits and liquidity, and the limited access to financing as investor sentiment plummeted. As such they chose to keep their liquidity and borrowing capacity available for working capital needs. Although the recovery in Jamaica began in 2021, there were still a lot of restrictions in place as well as uncertainty about the pandemic, and as can be seen, transactions remained low in that year. In 2022; however, restrictions were fully lifted and the prospects for a strong economic rebound, in spite of risks from high inflation, influenced more companies to seek equity financing, especially as debt financing was expensive, and to use liquidity to fund their expansion plans. Figure 1 shows that the 17 acquisitions in 2022 surpassed the 8 reported on JSE in 2019. This was because of an increase in the number of acquisitions done by both Junior and main market companies in that year relative to each of the prior 3 years. The increase in M&As above 2019 levels reflects the strategy of some companies to use offensive and defensive M&A to speed up the recovery from the pandemic and enhance resilience. With defensive M&A, companies are looking to safeguard the company's future against downturns and competition. For instance, Massy Holdings has been divesting non-core assets and optimizing capital by reinvesting in its core

business through acquisitions such as that of I.G.L. (St. Lucia) IBC Limited<sup>2</sup>. On the other hand, with offensive M&A companies are aiming to accelerate business model transformation, gain market share and extend influence. For instance, Seprod acquired AS Bryden and Sons Holding<sup>3</sup> making it the leading integrated manufacturing and distribution group in the Caribbean. The pandemic and the stress it brought for many businesses would have also created more potential target companies as the financial and other challenges posed by the pandemic likely impacted some owners' decision to sell or merge with other companies.

The execution of M&As have both short and long-term implications for companies affecting their capital structure, stock price, and future growth prospects. Considering how the purchase of the shares in the target company is financed, and the capital composition of the target company, the capital structure of the acquiring company is normally impacted. For example, in 2022 following the acquisition and consolidation of AS Bryden into Seprod, Seprod's debt to equity ratio rose from 55.4% in Q1 2022 to 109.9% in Q2 2022 after the transaction was completed.<sup>4</sup> The influence on the capital structure is something that investors should pay attention to as it feeds into the company's solvency and affects the returns that will be left on the table for shareholders. The market also tends to react to announcements of M&A with changes in the stock prices of the companies involved, especially the acquiring company's. This response can be favourable

**Global and regional expectations are that deal-making may increase in the latter part of 2023 as the pressure valves limiting activity continue to ease. In recent months, the factors that negatively influenced M&A transactions, such as the response to geopolitical tensions, high inflation, and aggressive monetary actions have begun to ease, although slower global growth poses headwinds.**

or unfavourable depending on whether or not shareholders believe the deal will be accretive in value. Using the Seprod transaction as an example again, following the announcement of the deal on May 4, the price rose by 8.5% in that week. Similarly, following Stationary & Office Supplies' (SOS) announcement of its acquisition of the assets of D&K's Printing and Office Supplies to diversify its product range and increase the manufacturing capacity of its range of SEEK products on June 8, 2022, the price rose steadily for a few weeks to a peak of \$18.70 (+63.3%) on August 1. This would have presented capital gain opportunities for investors.

Finally, M&As can improve the companies' growth prospects

<sup>2</sup> This is a company that has operated in Jamaica for six decades and whose primary business functions are the distribution of Liquefied Petroleum Gas ("LPG"), manufacturing and distribution of Industrial Medical Gases ("IG/IMG") and the provision of a range of related services in both segments.

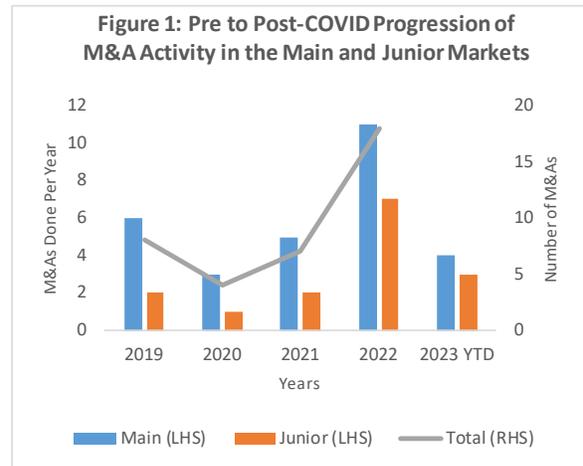
<sup>3</sup> This is one of T&T's largest privately owned distribution firms.

<sup>4</sup> Seprod's Q1 and Q2 2022 reports and NCBCM Research

in the short and long-term. This is what usually influences the market reaction mentioned before, as a favourable M&A deal should improve the value/price of the company. The growth possibilities are achieved through the increase in size and market share that is gained depending on the type of transaction. Companies can also witness growth in the bottom-line as synergies and economies of scale are derived from the deal, improving efficiencies and reducing costs. The impact is usually obvious from the immediate short-term growth. This was evident in the 55.4% and 139.5% respective growth in SOS' revenues and net profit in FY 2022, as well as Seprod's 81.6% and 92.6% expansion in same, owing to the acquisitions executed in 2022. However, what is more valuable to the acquiring companies and their shareholders is if they can extract increased value for a more extended period, thereby prolonging time spent in the growth phase for junior companies, or accelerating growth for mature company. Based on the trend in figure 1, the space is usually dominated by main market companies as these companies are more mature and may look more to inorganic growth strategies to drive shareholder value. As such, they strategically use M&As to purchase smaller competitors, or complementary services to foster vertical integration, or unrelated businesses to further diversify their revenue streams, among others. In doing so, some are able to put their companies on a higher sustained growth path.

Global and regional expectations are that deal-making may increase in the latter part of 2023 as the pressure valves limiting activity continue to ease. In recent months, the factors that negatively influenced M&A transactions, such as the response to geopolitical tensions, high inflation, and aggressive monetary actions have begun to ease, although slower global growth poses headwinds. This US Federal Reserve paused its rate hikes at its June meeting. Locally, the Bank of Jamaica, which has paused hikes for 5 straight months, is expected to maintain this stance as while inflation has slightly risen above target, it is expected to return within the range by the end of the year. These less aggressive actions by central banks signal a possible peak in interest rates and expectations are building for a downward trend, which augurs well for those in search of debt financing to fund transactions. Further, this will bode well for valuations and hence pricing of equity financing transactions, such as initial and additional public offerings. Since the start of the year, the number of M&A deals executed (7) is below the same point last year (11). However, with the opportunities for funding opening up, this could increase in the second half of the year. There are however risks to this outlook in the form of recession concerns, and additional rate hikes if inflation should start to increase once more,

which could push companies to delay their plans. Investors should however be on the lookout for M&A announcements by companies, assess the potential impact of these on the firms' future performance and the value that it will yield for shareholders, and be on the ready to purchase those companies that stand to gain through higher valuation and share prices.



Source: JSE Acquisiton Archives

## Foreign Exchange Market

The Jamaican dollar appreciated by 0.03% relative to the USD, week over week, with the USD selling rate moving from J\$155.12 on June 16th 2023, to J\$155.07 on June 23rd 2023. This slight appreciation is driven by low JMD liquidity in the market. Consequently, there are increased offers in the market selling USD for JMD, to satisfy JMD obligations.

Selling	Close: 6/16/23	Close: 6/23/23	Change
J\$/US\$1	\$155.12	\$155.07	-\$0.05
J\$/CDN\$1	\$117.45	\$119.32	+\$1.87
J\$/GBP£1	\$199.62	\$195.89	-\$3.73

## Global Bond Prices

Global bond prices were relatively flat week-over-week, despite market expectations of further rate hikes; however, this was moderated by signs of softness in the labour market. Federal Reserve Chairman Jerome Powell has indicated that while rate increases were paused in June, most policymakers believe additional rate hikes will be necessary to control

inflation. This pause in rate increases was not an end to policy formation, but rather an opportunity to better evaluate financial market conditions and the state of the economy. Furthermore, the latest Summary of Economic Projections (SEP) reported that the majority of Fed officials now see rates climbing to 5.6%, with three expecting a range of 5.75% to 6.25%. However, according to the Fed funds futures market, investors are less convinced the Fed will stay the course with a peak of 5.3% and the first rate cut potentially coming in December of this year.

On the other hand, initial jobless claims unexpectedly remained unchanged at 264k in the week ending June 17, while continuing claims fell from 1.772Mn to 1.759Mn in the week ending June 10. The report highlights that initial jobless claims have stayed above 260,000 for three consecutive weeks, suggesting a slight loosening in the labour market. However, these initial claims are still significantly below the average levels exceeding 375,000 seen in all recessions since 1980. This could be positive news for investors, as a less tight labour market could help to reduce inflation. This is a favorable development for bond investors, as signs of a softer labour market could potentially lower inflation, thereby discouraging the Fed from implementing further rate hikes in 2023.

The 10-Year Treasury closed the week at 3.73% from 3.77% as prices increased.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/Positive	97.00	6.02%	BUY
TPHLTT 2029 (9.00%)	BB/Stable	106.50	7.70%	BUY
BERMUD 2027 (3.72%)	A2/Stable	98.25	4.25%	BUY
PRIO 2026 (6.13%)	BB-/Stable	98.25	6.74%	BUY
ALSEA 2026 (7.75%)	Ba3/Stable	102.00	7.09%	BUY
DomRep (6.6%) 2024	BB/Stable	102.00	3.03%	BUY
DomRep (5.88%) 2024	BB/Stable	101.00	4.56%	BUY
DomRep (5.50%) 2025	BB/Stable	101.00	4.83%	BUY
DomRep (6.88%) 2026	BB/Stable	103.50	5.40%	BUY
DomRep (8.63%) 2027	BB/Stable	107.25	6.44%	BUY
DomRep (5.95%) 2027	BB/Stable	100.75	5.71%	BUY
DomRep (5.50%) 2029	BB/Stable	96.75	6.19%	BUY
DomRep (6.00%) 2033	BB/Stable	95.25	6.67%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PYPL (2.85% 2029)	A-/Stable	91.25	4.67%	BUY
Jaman (7.63%) 2025N	B+/Positive	104.90	5.22%	BUY
NFE 2025 (6.75%)	BB-/Stable	95.75	8.91%	HOLD
NFE 2026 (6.50%)	BB-/Stable	91.75	9.50%	HOLD
FRICON (7.7%) 2028	B+/Stable	81.20	12.86%	BUY
PROMERICA 2024 (9.70%)	B/Positive	104.00	4.90%	BUY
BARCLAYS 2026 (5.75%)	A1/Stable	99.50	5.92%	BUY
MARFRIG 2026 (7.00%)	BB+/Stable	99.75	7.09%	HOLD
UNICOMER 2026 (7.88%)	B+/Negative	102.00	3.82%	SELL

## GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.75	5.36%
	2039	119.65	5.94%
	2045	115.95	6.50%

\*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 (NCBCLM) 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
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

## Money Market

Following two weeks of tight JMD liquidity, the market saw an improvement in the level of JMD liquidity last week. For the week ending June 23rd 2023, the Bank of Jamaica's (BOJ) aggregated current balances indicated a total of J\$23.4Bn in the market. This represents an increase of J\$16.3Bn from J\$7.1Bn the previous week. Broker demand for JMD remained relatively moderate, particularly for short-term funds. Similarly, rates in the retail market have remained consistent.

The average yield from the BOJ's competitive price auction increased to 9.70% versus 9.40% in the prior

## Dates to watch this week

■ International ■ Local

JUNE 2023				
MON	TUE	WED	THUR	FRI
<b>26</b>	<b>27</b>	<b>28</b>	<b>29</b>	<b>30</b>
International Merchandise Trade (Feb. 2023)	CAD Core CPI (MoM) (YoY) (May 2023) CAD CPI (MoM) (YoY) (May 2023)	KEY Annual/Extra-Ordinary General Meeting	BOJ Policy Interest Rate Decision Producer Price Index (May 2023)	GBP GDP (MoM) (YoY) (Q1 2023) CAD GDP (MoM) (Apr)
	FIRSTROCK Annual/Extra-Ordinary General Meeting		USD GDP (QoQ) (Q1 2023)	GDP (Q1 2023) 7% JPS "B" Pref. Share (JMD 0.035) 5% JPS "C" Pref. Share (JMD 0.025) 5% JPS "D" Pref. Share (JMD 0.025) 6% JPS "E" Pref. Share (JMD 0.030) ROC (JMD 0.0325) BIL Annual/Extra-Ordinary General Meeting THJ Annual/Extra-Ordinary General Meeting

## Recommendations

Ticker	Closing Price (June 27)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$18.05	14.2x	14.5x	BUY
GK	\$76.17	10.2x	10.2x	BUY
IPCL	\$2.05	8.9x	15.9x	BUY
JBG	\$37.01	9.7x	14.5x	HOLD
ECL	\$5.17	20.6x	26.3x	BUY
CAR	\$8.06	10.8x	14.5x	BUY
CPJ	\$10.49	16.9x	14.5x	BUY
KW	\$29.94	15.8x	14.4x	HOLD
FESCO	\$3.97	17.5x	15.3x	BUY
TJHUSD	\$0.01	21.7x	21.0x	BUY
TJH	\$2.28	17.0x	14.4x	BUY
KEX	\$11.08	22.6x	26.3x	BUY
SALF	\$3.00	18.8x	14.5x	SELL

## Regional News

### Banxico Surprises No One And Leaves Rates Unchanged (Fitch Solutions)

As was widely expected, the Banco de México (Banxico) left its policy rate unchanged at 11.25% for a second consecutive meeting on June 22. The Governing Board indicated at its last meeting in May that having hiked rates by a cumulative 725 basis points (bps) since beginning its tightening cycle in June 2021, the policy was now sufficiently restrictive that inflation should ease back to target over its forecast horizon. Cuts are not under consideration in the near term, with Thursday's meeting statement reiterating that policymakers believe that it will be necessary to keep rates unchanged for an "extended period". The bank made only a very modest change to its inflation forecast, reducing its Q4 2023 headline projection from 4.2% y-o-y to 4.1%. Core is still seen ending the year at 4.1%.

Fitch remains of the view that the easing cycle is unlikely to begin before December of this year when it is expected that Banxico will cut its policy rate by a modest 25bps. This is consistent with the central bank's forward guidance. Governing Board member Jonathan Heath indicated in June that an 'extended period' should be taken to mean at least three meetings. Notably, Fitch's forecast is broadly in line with market pricing and consensus expectations, though this may soon begin to change. Inflation has eased notably in Mexico in recent months, with headline and core price growth dropping back to 26- and 14-month lows of 5.2% and 6.9% in the first half of June, respectively (target: 3.0%). Importantly, this has not simply been a function of base effects, as even the stickier core index rose by a relatively modest 4.0% on a M-o-M annualised basis in May per the Agency's seasonal adjustment process. With the disinflationary process set to continue through the summer months, it will not be surprising to see rate cut bets increase, particularly as some of Banxico's peers in LatAm in Brazil, Chile, and Colombia begin their own easing cycles.

While Fitch is reluctant to rule out earlier-than-expected rate cuts entirely, there are three major reasons why it is believed that they won't materialise before at least November. First, cutting well before the Fed, which is not expected to loosen before late Q1 2024, could see the peso come under significant downward pressure. While the currency is trading near an eight-year high, this is largely a function of very favourable rate differentials. Cutting too soon could

see the currency quickly snap back, generating a fresh inflationary impulse. Second, the domestic economy is still performing quite strongly and the labour market is very tight, suggesting that a return to target is not guaranteed. Third, a still tight supply picture may see oil prices begin to drift higher again over H2 2023, while the anticipated impact from El Niño has already resulted in wholesale food prices rising. This further raises the risk that the current bout of disinflation may prove somewhat 'transitory'.

### Cruise passenger tax increases pushed back to January 2024 (Eyewitness News)

The government of Bahamas has decided to delay the implementation of departure tax increases for the cruise industry until January 2024 according to Deputy Prime Minister Chester Cooper. The increases were set to take effect in July. According to the 2023/2024 budget, the government intends to raise the tax on Freeport, Nassau, and Bimini cruise passengers from \$18 to \$23. Passengers who depart from a cruise line's private island without visiting another port in the Bahamas will face a slightly higher tax of \$25.

In addition to the departure tax increases, the government plans to impose a \$5 tourism environmental tax and a \$2 tourism enhancement tax on each cruise passenger. Carnival Cruise Line President, Christine Duffy, expressed her preference for a delay in the implementation of the tax in a recent article in Travel Weekly. She stated, "There's a lot of development happening in the Bahamas, and we're working with the officials in the Bahamas to see if, at least, it can get pushed out."

## International News

### UK Shoppers Boost Spending Again Despite Inflation's Squeeze (Reuters)

British retail sales unexpectedly rose in May, boosted by an extra bank holiday to mark the coronation of King Charles but also suggesting most consumers were coping with high inflation's squeeze on their spending power. A day after the Bank of England escalated its battle against inflation by raising interest rates to their highest since 2008, official data showed retail sales volumes rose by a monthly 0.3%, defying a Reuters poll forecast for a fall of 0.2%. Last month's increase followed a rise of 0.5% in April

The surge in Britain's inflation rate has hit household spending power. The pace of price growth held at 8.7% in May according to data published last week,

contrary to forecasts for a slowdown. But Friday's retail sales figures showed that, at least for now, British consumers were weathering the cost-of-living storm. "The figures were far better than we had expected," Ruth Gregory, deputy chief UK economist at Capital Economics, said. "But our view is still that the growing drag on activity from higher interest rates will eventually tip the economy into recession, generating a 0.5% peak to trough fall in real consumer spending."

### [Analysis: Investors Shelve China Assets Before Bigger Stimulus \(Reuters\)](#)

Investors are waiting for a big burst of stimulus from China before they make more aggressive bets on a recovery, having spent the past few months disappointed by economic data and a lack of meaningful policy response from Beijing. The country's promising recovery early in the year has faltered so quickly that authorities have cut interest rates, but some feel by not nearly enough, and foundering confidence has analysts slashing economic growth predictions. For global money managers still in the market, patience, caution and stimulus are the watchwords for the outlook after the stock rally many hoped heralded the beginning of a long bull run also evaporated with the economic momentum.

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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