

Market Guide

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THIS ISSUE

Annual CAPEX for JSE Companies Breach \$40Bn in FY24 - M&D and EMI Stocks Lead the Pack

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

“The most important quality for an investor is temperament, not intellect.” – Warren Buffett

Annya Walker, CFA
VP Strategy Research
Innovation & Projects
(876) 935-2716
Walkerad@jncb.com

Raju Gunnings, FMVA
Senior Research Analyst
Gunningsrr@jncb.com

Thea Christian, CBCA, FMVA, CMSA
Senior Research Analyst
Howardta@jncb.com

Sarayis Campbell, FMVA
Research Analyst
Campbellsm@jncb.com

Shereese Bailey, CMSA, FMVA
Research Analyst
Baileysd@jncb.com

Jamie Muir, FMVA
Research Analyst
Muirja@jncb.com

Sean-Isaac Watson, CMSA
Research Analyst
Watsonsn@jncb.com

Annual CAPEX for JSE Companies Breach \$40Bn in FY24 - M&D and EMI Stocks Lead the Pack

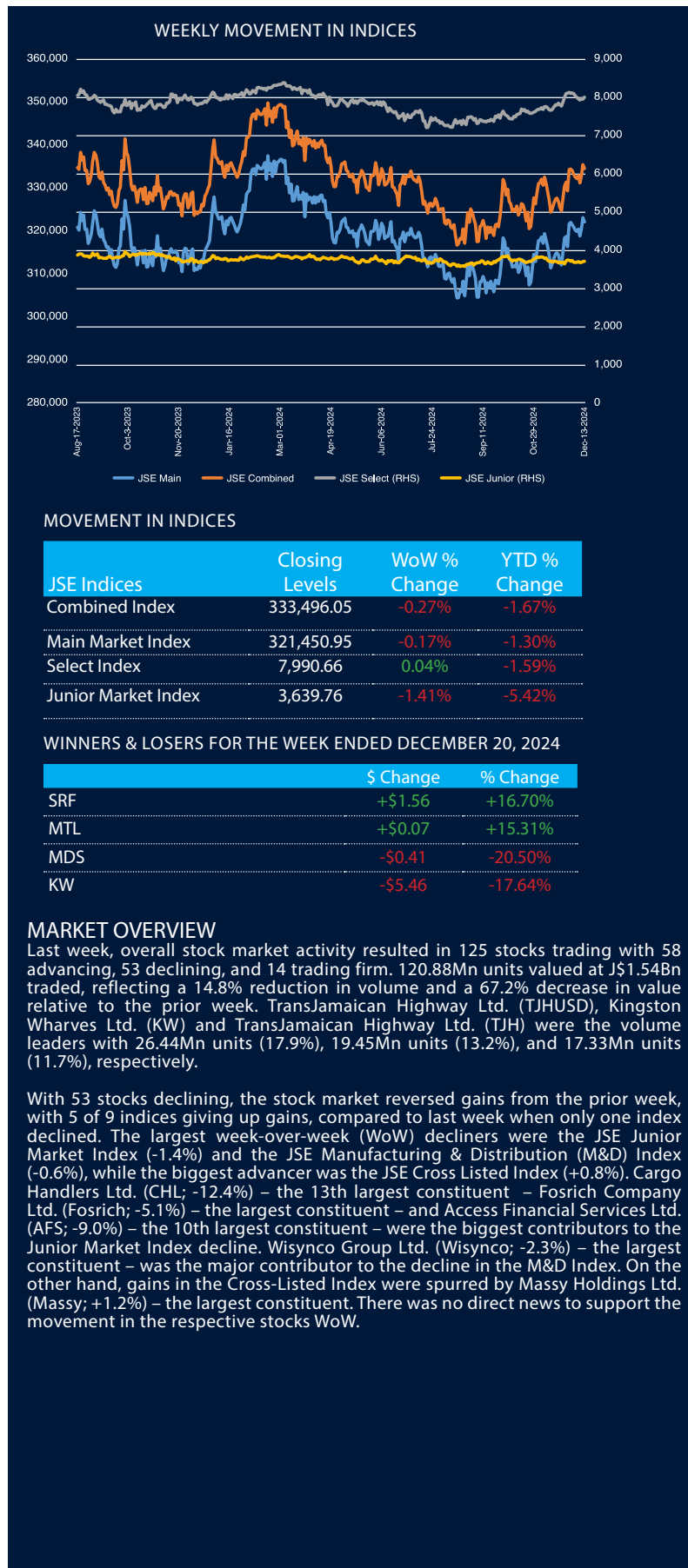
Berkshire Hathaway, the world-renowned conglomerate run by legendary investor Warren Buffett, is famous for generating significant value for investors. Yet, it has never paid a dividend! Instead, it prioritises new projects, investments, and acquisitions to provide value to shareholders through growth over the long term. As counterintuitive as the Berkshire example is, it highlights a simple truth: While dividends are undoubtedly an essential source of immediate returns, it's not the only way companies can generate value for investors. Companies, including those listed on the Jamaica Stock Exchange (JSE), must carefully balance distributing profits immediately with reinvesting to ensure sustained growth and operational efficiency which drives long-term value for shareholders and can even allow them to make higher dividend payouts in the future. In our last story, Dividend Payouts 'Coming in Clutch', we highlighted how dividends provided crucial returns to investors. This week, we explore how companies, particularly asset-intensive Manufacturing and Distribution (M&D) and Energy, Industrials, and Materials (EIM) companies have ramped up Capital Expenditures (CAPEX) to fuel expansion and improve operational efficiency, which ultimately positions them to increase shareholder value.

Over the last 5 Years¹, CAPEX by JSE-listed companies has been rising and breached the \$40.00Bn mark for the first time (See Chart 1). Unsurprisingly, the rising CAPEX is largely due to large-scale investment by the asset-intensive companies of the M&D and EIM² sectors as they invest to boost their capacity and efficiency to meet strong demand and maximise

profitability.

On a cumulative basis, the M&D sector accounted for half (44.3%) of the CAPEX over the last 5 years, totalling \$67.86Bn. Main Market heavy hitters like JBG, Wisynco and SEPROD were among the biggest CAPEX investors in the M&D Sector over the period. JBG spent over \$18.46Bn over the last 5 years, with its CAPEX peaking at \$6.63Bn in FY23, when it invested US\$200Mn (approx. \$3.00Bn) to boost the capacity of its hatchery from 25,000sqft to 35,000sqft and enhanced its technology to ensure a reliable supply of baby chicks to small farmers – particularly during peak demand. Drinks Manufacturer and distributor Wisynco spent \$14.54Bn over the same period. This includes \$11.86Bn between FY23 and FY24, including investments related to its \$7.00Bn expansion plan to add 200,000 sqft of factory space and 5 new production lines to double its capacity to meet increased demand and enhance operational efficiencies. Seprod also invested \$10.37Bn over the period with \$6.62Bn of that done between FY23 and FY24³ largely reflecting construction costs for its US\$25-million logistics and distribution warehouse in Trinidad. Seprod's new warehouse forms a part of the group's strategy to consolidate operations from 12 locations into a single facility to enhance efficiency and streamline logistics.

The CAPEX uptrend wasn't limited to Main Market M&Ds, as several Jr Market M&D companies also invested big over the last 5 years. Derrimon Trading Limited (DTL) invested \$3.35Bn over the 5 years, including \$0.61Bn to construct a new Select Grocers supermarket



1 For this analysis, years refer to Financial Years ending September 30th. Therefore, annual CAPEX is measured under this convention and not by each company's financial year. | Data sourced from Capital IQ

2 While Financial Sector Stocks contributed more CAPEX on a 5-year cumulative basis than EMI stocks, the FS overall CAPEX trend has been downward and thus not a CAPEX growth driver over the period.

3 Excludes 5.89Bn spent on acquisitions of subsidiaries.

and a manufacturing plant. Petroleum distributor Fesco invested \$3.26Bn, including \$1.63Bn in FY22 alone, as it expanded its operations with new service stations in Kingston & St. Andrew, St. Elizabeth, and St. Ann. Another Jr Market Company, Caribbean Producers Jamaica (CPJ) invested \$2.53Bn over the period, including \$1.41Bn in FY24 as it expands its meat and juice plants to boost production capacity, diversify markets and innovate products. It also invested US\$1Mn (approx. \$150Bn) on a solar project to cut energy costs by 25%.

EIM sector companies also invested a pretty penny in CAPEX; however, the bulk was concentrated on 2 of the 8 constituents. While the EIM companies invested \$23.6Bn over the 5 years, Kingston Wharves (KW) and Caribbean Cement (CCC) were responsible for \$21.54Bn or 91.1% of the total investment. KW invested \$13.55Bn over the period, with its biggest investment being \$6.18Bn in FY23. Between FY21 and FY23, KW strategically invested over US\$60Mn in plant optimisation, berth redevelopment, construction, land acquisition, and digitalisation. Most Notably, its US\$30Mn Berth 7 redevelopment project, is expected to expand the port's capacity by 25%, bringing it to one million TEUs⁴ in container operations. CCC on the other hand spent \$8.99Bn, which peaked at \$3.73Bn in FY24. CCC's FY24 CAPEX includes investing in its ongoing Kiln expansion aimed at driving efficiency and boosting cement production by 30% to meet local demand and enable its export strategy. The cement producer has made significant progress having successfully installed a 160-tonne-capacity surge bin and solid fuel equipment. Further investments are expected as the company aims to complete the project by mid-2025.

With CAPEX rising over the last 5 years, some M&D and EIM companies have already seen the direct impact of these investments on revenue growth and efficiency gains, which support profitability and long-term shareholder value. Wisynco for example, benefitted from the installation of a new high-speed filler machine, which helped to boost drinks production by 20 per cent,

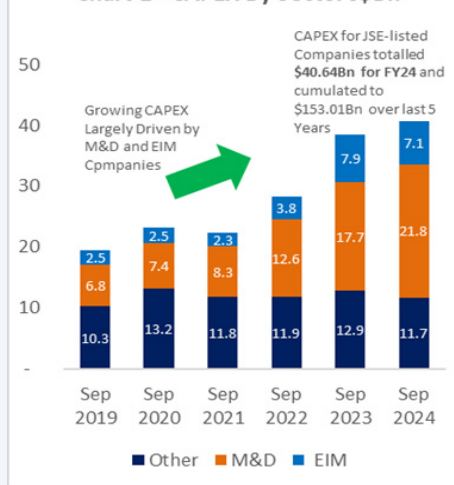
Over the last 5 Years, CAPEX by JSE-listed companies has been rising and breached the \$40.00Bn mark for the first time. Unsurprisingly, the rising CAPEX is largely due to large-scale investment by the asset-intensive companies of the M&D and EIM sectors.

while its energy co-generation⁵ investments resulted in a 35-40% reduction in energy costs. These investments have supported revenues by allowing it to meet rising product demand, offset rising fuel costs and improve profitability. Similarly, JBG confirmed its co-generation and LNG plants helped control energy costs, contributing to more stable financial performance. Fesco's strategic investments to place stations in central and high traffic-volume areas that had limited competition, coupled with its competitive pricing strategy allowed it to grow its market share⁶ and the volume of fuel it distributes (including LPG) by 17.7% Year over Year (YoY). For Q1 2024, KW saw a 33% revenue increase in its logistics division supported by its Berth 7 renovation, enabling it to handle larger vessels and improve its yard space, gate operations, capacity, and efficiency for future growth. Meanwhile, CCC attributed its 2020 historic 940,005 metric tonnes of cement production, its \$20Bn revenues and its efficiency gains to its years of strategic investment to improve its main equipment and operational processes. Lastly, Knutsford Express (KEX) benefited from strategic investments in fleet expansion and the opening of multiple depots across Jamaica, which increased passenger carry and strengthened its courier business, the company's fastest-growing segment. Ultimately KEX's investments contributed to a 19% increase in annual revenue YoY. These positive outcomes highlight the benefits that prudent CAPEX investments can have on a company's revenue and efficiency, which can translate into greater profitability and cashflows for dividends or reinvestment. Rising cash flow generation supports

stock price appreciation, meaning shareholder value increases via capital appreciation even if dividend payments are delayed to prioritise additional CAPEX investments.

While dividends are undoubtedly an important way to return value to investors, companies must also prioritise reinvestments in capacity and efficiency gains to boost profitability and ultimately returns to shareholders. Over the last 5-years, M&D and EIM sector stocks led the pack, increasing CAPEX investments and positioning to meet customer demand and improve efficiency. Several of these companies have begun to reap the benefits of their CAPEX investments. Their market share, revenues and earnings have improved, which supports greater cashflows for dividends or reinvestment that augur well for stock price appreciation. By investing in JSE-Listed companies that prudently utilise CAPEX to generate shareholder value, the patient investor can pass up short-term returns from dividends for larger value payouts in the Future.

Chart 1 - CAPEX By Sector J\$Bn



4 TEU- Twenty-foot Equivalent Unit is a general unit of cargo capacity, often used for container ships and container ports

5 Use of LNG and solar plants.

6 Fesco entered the LPG market in April 2023 via its FESGAS, brand following investment in the Bernard Lodge facility. By December 2023, FESGAS captured roughly 5.5% of the market.

Foreign Exchange Market

The Jamaican dollar depreciated slightly in trading last week. On December 20th it took \$0.07 more JMD to purchase 1US\$ up from the JM\$156.76 at the close of trading on December 13th. With low demand for USD at this time of year, the depreciation was muted. In the coming weeks, the supply of hard currency from tourism and remittances is expected to improve as the winter tourism and holiday season begins, which should support a strengthening of the JMD .

Selling	Close: 13/12/24	Close: 20/12/24	Change
J\$/US\$1	\$156.76	\$156.83	\$0.07
J\$/CDN\$1	\$111.77	\$110.60	(\$1.17)
J\$/GBP£1	\$199.54	197.49	(\$2.05)

Global Bond Prices

Last week, treasury and emerging market (EM) bond yields rose as investors' sentiment turned negative in the face of persistently high inflation and the prospect of slower-than-expected rate cuts by the US Federal Reserve. Fed policymakers increased their inflation forecast and indicated that there were only two potential rate cuts in 2025, which is half the four potential cuts signalled in September. At last Wednesday's press conference, Fed chair Jerome Powell flagged expectations for U.S. inflation to stay above the Fed's 2% target, with estimates of 2.5% for headline inflation and 2.8% for core inflation over the next 12 months. Notwithstanding the hawkish inflation guidance from the Fed, inflation data released early Friday was a silver lining. November's core PCE Index – the Fed's preferred measure of underlying inflation – came in slightly below consensus forecasts at 0.1% from October and 2.8% from a year earlier. Investors' inflation pessimism was also stoked by a University of Michigan survey showing that US consumer sentiment rose for a fifth month in December. Strong consumer sentiment indicates a healthy economy and reduces the need for rate cuts to stimulate growth. Moreover, concerns remain that President-elect Donald Trump's policies could introduce tariffs, increase spending, expand deficits and reignite inflation, making investors more cautious about investing in long-term U.S. securities with maturities of a decade or more.

Amid the Fed Guidance, data releases and Trump 2.0 anxiety, Swaps traders are pricing in about 39 basis points of total Fed cuts next year, which implies less than two full quarter-point reductions. But many on Wall Street expect the central bank to cut by more than that, with some economists still expecting four quarter-point Fed cuts for 2025.

Against this background, bond yields rose. The 10-year US treasury yield rose from 4.399% on December 13th to 4.522% on December 20th, 2024, after peaking at 4.570% on December 19th. Likewise, yields on emerging market sovereigns also increased WoW, with bonds from Bahamas, Barbados, Bermuda, DomRep, Jamaica, Panama, and Trinidad seeing higher yields as their bond prices depreciated WoW.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.5	5.30%	BUY
BACR (5.75%) 2026	A/Stable	104.25	3.14%	BUY
BERMUD (3.72%) 2027	A2/Stable	101.75	4.28%	BUY
BERMUD (4.75%) 2027	A2/Stable	100.50	3.46%	BUY
CHTR (4.2%) 2028	Ba2/Stable	100.50	4.03%	BUY
CWCLN (6.88%) 2028	BB-/Stable	102.50	5.86%	BUY
DOMREP (5.50%) 2029	BB/STABLE	101.25	5.16%	BUY
DOMREP (5.95%) 2027	BB/STABLE	103.25	4.29%	BUY
DOMREP (6%) 2028	BB/STABLE	103.50	4.91%	BUY
DOMREP (6%) 2033	BB/STABLE	104.50	2.62%	BUY
DOMREP (8.63%) 2027	BB/STABLE	106.75	5.46%	BUY
GEOPAR (5.5%) 2027	B+/Stable	99.25	5.89%	BUY
GM (5.4%) 2029	Baa2/Stable	105.50	4.12%	BUY
GS (3.85%) 2027	BBB/Stable	101.25	3.22%	BUY
GS (5.8%) 2026	BBB/Stable	103.75	3.38%	BUY
LTMCI (7.88%) 2030 (NEW!)*	BB-/Positive	105.50	6.73%	BUY
M (5.88%) 2030	BBB-/Stable	100.00	5.87%	BUY
NFLX (5.88%) 2028	Baa1/Positive	107.25	3.84%	BUY
NFLX (4.38%) 2030	Baa1/Positive	103.75	4.10%	BUY
NRG (3.88%) 2032	BB+/Stable	92.00	5.23%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	103.75	3.43%	BUY
PRMRPA (10.75%) 2028	B+/Stable	110.00	7.54%	BUY
PYPL (2.85%) 2029	A-/Stable	95.00	4.02%	BUY
SFC (5.3%) 2028	BB-/Positive	102.00	4.65%	BUY
TPHLTT (9%) 2029	Ba3/Stable	108.50	6.82%	BUY

* Issuer- LATAM Airlines Group S.A., Industry- Airline, Type-Senior Secured, Callable-Yes, Coupon Rate- 7.875%, Coupon Payment- Semi-annually, Maturity- April 15, 2030, Risk Profile - Moderate

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
TRAJAM (5.75%) 2036	BB/Positive	97.00	6.11%	BUY
TRITOB (4.5%) 2026	BBB-/Stable	101.50	3.52%	BUY
BEEFBZ (4.88%) 2030	BB/Stable	85.65	7.22%	BUY
KINGAIR (6.88%) 2036 (NEW) ⁸	BB/Stable	105.25	6.12%	BUY
MINSUR (4.50%) 2031 (NEW) ⁹	BBB-/Stable	93.75	5.61%	BUY
NRG (6.00%) 2033 (NEW ISSUE) ¹⁰	BB+/Stable	99.75	6.04%	BUY
NRG (6.25%) 2034 (NEW ISSUE) ¹¹	BB+/Stable	100.25	6.21%	BUY
BANORT (5.75%) 2031	Baa2/Positive	97.75	1.55%	SELL
CSOLNO (6%) 2027	B+/Stable	14.25	321.92%	SELL
NFE (6.5%) 2026	B+/Stable	100.25	6.34%	SELL
NFE (6.75%) 2025	B+/Stable	100.25	6.34%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.30	5.23%
	2039	116.15	6.19%
	2045	115.85	6.47%

*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.

8 Issuer- Kingston Airport Revenue Finance Limited., Industry- Airline, Type- Senior Secured Corporate Bond, Callable-Yes, Coupon Rate- 6.75%, Coupon Payment- Semi-annually, Maturity- December 15, 2036, Risk Profile - Moderate

9 Issuer- Minsur S.A., Industry- Metals and Mining, Type- Senior Unsecured, Redeemable-Yes, Coupon Rate- 4.50%, Coupon Payment- Semi-annually, Maturity- October 28, 2031, Risk Profile - Moderate

10 Issuer- NRG Energy Inc., Industry- Energy, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.00%, Coupon Payment- Semi-annually, Maturity- February 01, 2033, Risk Profile - Moderate

11 Issuer- NRG Energy Inc., Industry- Energy, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.25%, Coupon Payment- Semi-annually, Maturity- November 01, 2034, Risk Profile - Moderate

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
PBS	2025	6.50%	100.85	6.03%
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.75	8.18%

Money Market

Demand for money market instruments remained high, as evidenced by the oversubscription in the BOJ's latest 30-day Certificates of Deposit (CD) Auction. Total bids amounted to J\$47.64Bn relative to the \$37.00Bn issue size, implying a bid-to-offer ratio of 1.29x. The oversubscription occurred despite the average yield from the BOJ 30-day competitive price auction inching down 5 basis points (bps) week-over-week to 6.67% on December 20, 2024. The next auction date for the Bank of Jamaica 30-day CD is December 24th.

On Friday, December 20, 2024, the Bank of Jamaica's (BOJ's) Monetary Policy Committee (MPC) decided to continue easing its monetary policy stance and unanimously agreed to reduce the policy rate by 25 bps to 6.00% per annum – effective December 23, 2024. This marks the fourth consecutive rate cut for 2024. The reduction is supported by the fact that local inflation is being anchored within the 4.00% to 6.00% target range, despite the impact of recent adverse weather on the supply of agricultural produce and prices. Additionally, the MPC decided to narrow the interest rate corridor to 200bps from 300bps on the Bank's Standing Liquidity Facility (SLF)¹². The SLF rate was reduced to 8.00% per annum. Narrowing the corridor and decreasing the SLF rate reduces the cost of borrowing for banks, which encourages lending and market liquidity.

¹²The SLF is the rate at which banks can borrow from the Bank of Jamaica.

Dates to watch this week

■ International ■ Local

December 2024				
MON	TUE	WED	THUR	FRI
23	24	25	26	27
	DOLLA Dividend Payment (J\$0.008)			Producer Price Index (Nov) (STATIN) HONBUN Dividend Payment (J\$0.09)
UK GDP (YoY) (Q3) UK GDP (QoQ) (Q3) CAD GDP (MoM) (Nov)				

Recommendations

Ticker	Closing Price (December 23 2024)	P/E	Avg. Sector P/E	Current Recommendation
CCC	\$78.00	10.9x	11.8x	BUY
GK	\$76.42	9.0x	17.8x	BUY
HONBUN	\$7.89	16.1x	20.2x	BUY
INDIES	\$3.13	18.9x	24.8x	BUY
LASD	\$4.01	10.3x	13.3x	BUY
OMNI	\$1.08	16.1x	21.8x	BUY
SALF	\$3.74	20.8x	13.3x	SELL

Regional News

Bank Of Mexico Lowers Key Interest Rate, Opens Door to Larger Cuts

Mexico's central bank lowered its benchmark interest rate by 25 basis points to 10.00% on Thursday, December 19, 2024, and signaled larger rate cuts could be considered in future meetings given progress on inflation in Latin America's second-largest economy. The unanimous decision by the Bank of Mexico's five-member governing board is the fifth rate cut this year since it started lowering borrowing costs from a record high of 11.25% in March. "In view of the progress on disinflation, larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance," Banxico, as the bank is known, said in a post-meeting statement.

Mexico's closely watched core consumer price index, seen as a more reliable measure of price trends as it excludes volatile energy and food prices, fell to 3.58% in the 12 months through November, from 3.80% in October. Banxico targets inflation at 3%, plus or minus a percentage point. While both headline and core inflation are still forecast to follow a downward trend, the board raised its year-end inflation forecasts for 2024 and 2025. The board now sees headline inflation reaching the 3% target in the third quarter of 2026, later than the board's previous guidance of the fourth quarter of 2025.

After the board's unanimous cut in mid-November, Mexican markets were rattled by U.S. President-elect Donald Trump's threat of a 25% across-the-board tariff on imports from Mexico. Thursday's statement referenced the Mexican peso's volatility amid "the possibility of measures that could weaken integration with our main trading partner."

Source ~ Reuters

Colombia's central bank delivers smaller rate cut than expected

Colombia's central bank on Friday cut its benchmark interest rate by 25 basis points to 9.50%, a smaller move than expected by markets, as it slowed the pace of its easing due to domestic fiscal uncertainty and decisions by its peers around the world. All 25 analysts in a recent Reuters poll said they expected the central bank's board to deliver a 50-basis-point cut in borrowing costs. Five of the board's seven policymakers voted for a 25-basis-point cut, one for 50 points and another for 75 points, Leonardo Villar, the board's director, said in a press conference. "There is room to continue to lower the interest rate," Villar told journalists, adding that

the central bank is confident Colombia's inflation will converge toward its 3% target next year.

The Andean nation's 12-month inflation rate through the end of November was 5.20%. However, the bank's technical team expects movement towards the inflation target will be slower than it previously expected due to exchange rate pressures and how they affect prices, Villar said while presenting the board's statement. "This reduces the room for maneuver to maintain the pace of interest rate cuts," the statement said. The economy has grown 1.6% through September, the board added, compared to the same period in 2023, and the labor market has remained relatively stable. "Uncertainty about the situation of public finances in Colombia has generated volatility in the exchange-rate and public debt markets," the board added. President Gustavo Petro's leftist government has faced fiscal troubles that threaten its compliance with the country's so-called fiscal rule, which is designed to impose limits on spending to prevent deterioration of public finances.

Colombia's Congress earlier this month rejected a \$2.7 billion fiscal reform proposed by the government to finance 2025 spending. On Thursday, Colombia's Autonomous Fiscal Rule Committee said the Andean country would need to cut spending this year by 40 trillion pesos (\$9.1 billion), followed by a subsequent cut of 52 trillion pesos next year. Colombia and other emerging market nations also are keeping a wary eye on the U.S. dollar, which could be bolstered next year by potentially inflationary policies of the incoming Trump administration and a shallower Federal Reserve rate-cut path. Colombia's central bank has cut its benchmark rate by 350 basis points since December of 2023.

Sources ~ Reuters

International News

US avoids government shutdown after days of political turmoil

The US government has enacted a budget to avert shutting itself down, but the bitterly disputed deal doesn't include a call from President-elect Donald Trump to increase the federal borrowing limit. Without a funding deal, millions of federal employees would have ended up either on temporary unpaid leave or working without pay. US government debt stands at about \$36 trillion (£29tn), with more money now being spent just on interest payments than on US national security. A shutdown would have closed or severely reduced operations for public services like parks, food assistance

programmes, and federally-funded preschools while limiting assistance to aid-reliant farmers and people recovering from natural disasters.

Lawmakers earlier this week successfully negotiated a deal to fund government agencies, but it fell apart after Trump and tech billionaire Elon Musk called on Republicans to reject it. The last government shutdown was during Trump's first presidential term in 2019, which lasted 35 days - the longest in US history. Notably, Trump's call to lift the debt ceiling - which was a sticking point for Democrats and some Republican budget hawks - was not included in the final bill, but Republican leaders said that measure would be debated in the new year. The dramatic budget fight is a preview of the legislative fights that may lie in store when Trump takes office next month.

Source ~ Reuters

[Kremlin says any new G7 oil sanctions would backfire and it will adapt](#)

The Kremlin said on Friday that any new G7 sanctions on Russia's oil industry would backfire and that it would act to minimise the consequences of any such move and adapt. Bloomberg News reported on Thursday that G7 countries are exploring options to toughen the price cap on Russian oil, including essentially replacing the mechanism with a full ban on handling Russian crude to lowering the price threshold from the current \$60 to about \$40.

Kremlin spokesman Dmitry Peskov, asked about Russia's concerns if these scenarios materialise, said there would "certainly" be risks to the stability of international energy markets. "This will inevitably happen and will hit simultaneously those countries that make such decisions," Peskov told reporters. "We will do everything necessary to minimise the consequences of such decisions and ensure our economic interests".

Source ~ Reuters

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