

Market Guide

THIS ISSUE

Higher Costs Continue to Soften Earnings for
Some Manufacturing and Distribution Companies

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

"When money realizes that it is
in good hands, it wants to stay
and multiply in those hands." –
Idowu Koyenikan

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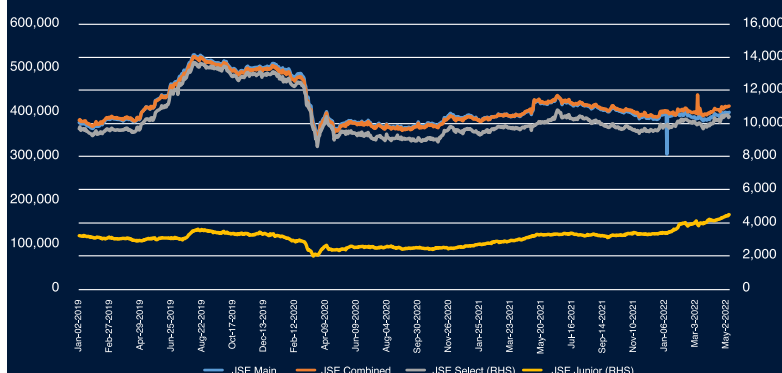
Higher Costs Continue to Soften Earnings for Some Manufacturing and Distribution Companies

While revenue growth has strengthened within the sector, higher costs continue to depress earnings for some companies in the manufacturing and distribution sector. Last week, five companies from the manufacturing and distribution sector released their financial results– FosRich Company Limited, Fontana Limited (FTNA), Seprod Group Limited, Consolidated Bakeries (Purity) Ltd., and Wisynco Group Limited. FosRich (+314.2%), FTNA (+13.0%), and Wisynco (+33.5%) reported year-over-year increases in year to date earnings¹. This outcome was supported by strong revenue growth which outpaced rising costs. Strong growth in revenues has been supported by gradual economic recovery, renewed business activity, and the reduction in unemployment, which increased consumers' disposable income and spending power. Currently, FosRich and FTNA have surpassed their pre-pandemic earnings and are trading at price-to-earnings (P/E) multiples of 78.7x and 23.9x respectively, which are above their pre-pandemic multiples of 20.57x and 18.50x², respectively. While Wisynco has also generated earnings above its 2019 levels, its multiple is below, but trending towards its pre-pandemic level (see table 1 below). Seprod, on the other hand, reported a YoY contraction in profits, while Purity reported an increase in its net loss despite higher

revenues for the year ended December 2021. This was a result of the higher costs that the sector continues to face on the back of elevated shipping costs and a global surge in raw material prices driven by supply chain challenges. Due to this, companies like Seprod saw a 21.0% (or \$5.71Bn) rise in direct costs, while Wisynco reported a 20.5% (or \$3.18Bn) increase. The impact on companies within the sector was widespread as commodity price shocks and high shipping costs contributed to a 22.0% point-to-point increase in the manufacturing industry producer price index for March 2022. These higher input prices have reduced profit margins for companies³ and dampened the overall growth or value-added for the sector. Notwithstanding, the sector should see improvements in the coming quarters on the back of the full reopening of the economy, which should further boost demand. However, the biggest downside risks that remain are the still-evolving COVID-19 pandemic and the implications of rising commodity prices stemming from the Russia-Ukraine war.

Sustained demand for consumer staples, other household items and construction material, continued to drive revenue growth within the manufacturing and distribution sector, but higher costs resulted in a net negative effect on earnings for some companies. For the

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	416,382.22	+625.70	3.8%
Main Market Index	401,715.42	-142.96	1.4%
Select Index	10,467.01	-57.18	+5.9%
Junior Market Index	4,537.15	+85.53	+32.3%

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

	\$ Change	% Change
AFS	+\$ 4.59	+22.4%
SEP	+\$13.36	+22.2%
MTL	-\$4.50	-17.7%
PURITY	-\$0.16	-11.5%

MARKET OVERVIEW

Last week, 118 stocks were traded across the JSE indices of which 56 advanced, 58 declined and 4 traded firm. The JSE Combined Index, Junior Market Index, and the JSE Manufacturing & Distribution Index advanced, while all other indices declined. The Manufacturing & Distribution and Junior Market indices outperformed the other indices, appreciating by 2.2% and 1.9% respectively week over week, relative to the 0.04% decline in the Main Market. There was no news to support the main advancer of the week, Access Financial Services, which gained 22.4%. However, Seprod the week's second-largest advancer, with a 22.2% price appreciation benefited from strong market demand following its announcement on Thursday of its acquisition of A.S. Bryden & Sons Holdings. This acquisition is expected to increase the company's future earnings as it was projected that combined annual revenues would be in the region of US\$500Mn. Consequently, investors tried to secure a position in the stock on Friday, which led to a jump in Seprod's price.

¹For the nine months (FTNA & Wisynco) and the three months (FosRich) ended March 2022

nine months ended March 31, 2022, Wisynco reported a 20.2% increase in revenues which supported a 33.5% rise in net profit for the review period. Similarly, Fontana reported a 13.0% growth in unaudited net profit for the nine months ended March 2022, driven by increased sales as the company maintained its capacity to meet higher consumer demand⁴.

For FosRich, while the company experienced a 47.9% increase in direct cost and a 42.8% increase in operating expenses for the three months ended March 2022, the company recognized a 314.2% leap in net profits fueled by higher revenues (+63.9%). Revenue growth has been supported by increased demand for product lines such as solar, hardware, control devices, and Polyvinyl chloride (PVC), aided by the boom in construction activity across the island. On the other hand, rising costs outweighed the improvement in revenues for some companies. Seprod reported strong revenue growth, which expanded by 16.3% YoY for the year ended December 31, 2021, driven by robust demand, both locally and overseas. Despite this, the company reported a 24.9% decline in net income owing to increased costs, including the losses incurred as a result of the October fire⁵. Likewise, Purity's net losses expanded due to an increase in direct cost (+8.1%), operating expense (11.7%), and finance costs (15.3%), despite an 8.6% growth in revenues owing to strong demand for its products.

Most of the companies, except for Purity, due to continuous losses, have seen a recovery in stock prices since the falloff in 2020, surpassing their pre-pandemic levels. Purity's price is currently trading at \$1.23, below the \$1.80 recorded at the end of 2019, which reflects the impact of its negative earnings on investor sentiment and prices. However, as of May 6, 2022 prices for FTNA, Seprod⁶

, Wisynco, and FosRich⁷ stood well above their 2019 levels⁸, see table 1. The upward trend in the companies' stock prices has been driven by the improvement in earnings and positive outlooks for the companies. This has resulted in these companies, except for Wisynco, trading at price-to-earnings (P/E) multiples above 2019 levels (see table 1).

Furthermore, Seprod and Wisynco currently trade at a P/E of 25.2x, which is above the main market manufacturing sector average of 22.8x, while FTNA trades at 23.9x which is below the junior market distribution sector average of 27.5x. FosRich trades at a P/E of 78.7x, which is well above the junior market distribution sector average which is an indication that the stock could be overvalued. The improvement in the companies' prices has helped to support a 16.9% increase in the manufacturing and distribution index YTD, which has resulted in the index outperforming the combined index which has grown by 3.8% YTD.

Going forward, inflation challenges will persist in the near future, and as such, earnings and multiples will continue to be impacted despite the expectation of revenue growth on the back of gradual economic recovery both locally and overseas. Revenue will continue to grow against the backdrop of greater expected demand for consumer staples such as household foods, both domestically and in some export markets as restrictions are being lifted and business activities grow. The higher demand is expected to come from schools, restaurants, and hotels, as the removal of the COVID-19 restrictions in Jamaica should

Table 1: Stock Performance For Selected Companies

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2 These were the ratios at the end of 2019.

3 Seprod's Gross Profit Margin declined to 24.9% down from the 27.8% reported one year prior. Similarly, its net profit margin shrunk to 4.9% from the 7.5% in the previous year. Fontana saw similar result with gross profit and net profit dipping to 35.5% and 8.86% respectively, down from the 36.9% and 9.45%, respectively in the same period of the last year. FosRich was the only company to experience and improvement in its margins due to its robust revenue growth which outpaced the increased costs.

4. During the year, in order to prevent shortages, especially during the Christmas shopping season, the company stocked up on goods from suppliers, which aided in revenue growth. Additionally, the digitization of its operations also supported earnings.

5. During the final quarter, there was a fire at its subsidiary, Facey Commodity's food distribution facilities at Newport West in Kingston Facey Merchandise's distribution centre on October 9, 2021, that wiped out over 86% of the finished goods inventory, which also included the Christmas stocks. As a result, the company incurred a loss of J\$168.18Mn. This severely impacted the financial performance, as the global supply chain challenges have limited the speed of replacement of the lost inventory. Additionally, as a result of the reduced inventory, the company had to ramp up production in order to meet customers' demand, which contributed to the increased direct (+21.0%) costs

6. For Seprod, the price increase can be ascribed to the recent acquisition of Trinidad & Tobago's leading distribution company, AS Bryden, which is expected to drive profits and shareholders' value, once the benefits begin to materialize.

7. FosRich massive price increase reflects the abnormal growth in profits that the company has been experiencing in light of the construction boom. That being said, the company should continue to see further improvements in the coming quarters owing to the housing boom.

	2019	2020	2021	6-May-22
Price				
FTNA	\$ 7.39	\$ 5.55	\$ 7.47	\$ 10.77
SEP	\$ 49.00	\$ 65.00	\$ 64.76	\$ 73.62
Purity	\$ 1.80	\$ 1.39	\$ 1.20	\$ 1.23
Wisynco	\$ 23.02	\$ 17.50	\$ 16.70	\$ 25.72
FosRich	\$ 4.32	\$ 4.00	\$ 9.05	\$ 31.49
P/E				
FTNA	18.50x	24.18x	17.8x	23.90x
SEP	21.03x	16.47x	22.7x	25.20x
Wisynco	27.91x	26.72x	19.60x	25.20x
FosRich	20.57x	16.00x	19.7x	78.70x

Wisynco should see greater demands for its products, which will bode well for the sector. Additionally, companies could see further improvement in earnings through the different strategies implemented to boost sales (e.g. eCommerce and digital channels) and as the realization of the benefit from the measures implemented to contain costs. However, on the downside, the continued elevated inflation, elevated energy, and other commodity prices, as well as the rising interest rate market may put downward pressure on the growth prospect for the sector. Furthermore, the supply chain challenges, though expected to decline, will remain above pre-pandemic levels and will continue to negatively impact input prices, limiting the overall growth of the sector. Moreover, while the Omicron outbreak in Jamaica has begun to subside, the country will remain vulnerable to future disruptions of economic activity until the vaccination rate increases⁹, which could weigh on expectations for demand. These factors and rising interest rates could lead to negative investor sentiments, which could adversely affect stock prices, resulting in lower price multiples than expected.

Global Bond Prices

The rate hike by the Federal Reserve to control soaring inflation, was the highlight of the week. It was the most aggressive monetary policy tightening action in decades. The Fed announced, after a unanimous vote, that it would raise interest rates by 50 basis points, the steepest increment since 2000. It will also begin shrinking its massive balance sheet next month, by allowing its holdings of Treasuries and mortgage-backed securities to decline at an initial combined monthly pace of \$47.5 billion. This will then be stepped up over three months to \$95 billion.

Immediately following the Fed announcement, Treasury yields fell as demand for treasuries rose driving up prices and depressing yields. However, this was

short-lived as Treasury yields climbed above 3% on Thursday and Friday. However, the emerging market bond underperformed based on the 0.78% drop in the EMBI Global Index as at May 6, 2022. Furthermore the Jamaican and Dominican Republic sovereign bond prices declined along the curve as volatility persisted throughout the week.

Of note, investors are expecting that the Federal Open Market Committee will raise rates by 75 basis points when it meets again in June, which would be the largest single hike since 1994. Fed Chair Jerome Powell sought to reign in this speculation by indicating that it is not something that the committee is considering.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	BB-/ Stable	102.250	7.16%	BUY
PETRO-RIO 2026 (6.13%)	BB-/ Stable	97.250	6.91%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	91.000	7.83%	BUY
NRG 2032 (3.88%)	BB+/ Stable	85.500	5.85%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	99.500	5.40%	BUY
DOM REP 2029 (5.50%)	BB-/ Stable	94.250	6.56%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	90.500	7.29%	BUY
TRANS JAM 2036 (5.75%)	B+/ Stable	97.250	6.04%	BUY

⁸ Retrieved from Bloomberg.

⁹ At least one dose 26.6%, fully vaccinated 23.1% and booster doses given is approximately 1.2%

GOJ Globals

Market appetite for risky assets fell last week following the aggressive interest rate hike by the Fed. In line with this risk-off sentiment prevailing in the market last week, JAMAN bond prices declined along the curve week over week. The Jaman 28s, 39s, and 45s closed with bids of 106.25, 122.00 and 120.5, respectively.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	109.40	4.91%
	2039	123.50	5.80%
	2045	121.30	6.14%

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

Foreign Exchange Market

For the week ending May 6, 2022, the Jamaican dollar depreciated by 0.62% relative to the USD (week-over-week), to close the week at a selling rate of J\$155.83. The depreciation was influenced by aggressive USD sales and a resistance to sell below \$156.

Selling	Close: 29/04/22	Close: 06/05/22	Change
J\$/US\$1	\$154.86	\$ 155.83	-\$0.97
J\$/CDN\$1	\$129.58	\$122.47	+\$7.11
J\$/GBP£1	\$196.86	\$191.44	+\$5.42

Money Market

JMD liquidity decreased week over week with the figure moving from J\$ 42.48Bn as at April 28, 2022 to J\$ 39.7B as at May 5, 2022. A confluence of factors including the BOJ's efforts to bring inflation back to its 4-6% target range and high competition amongst DTIs for available liquidity continues to affect Jamaican dollar liquidity. Consequently, rates are expected to remain elevated. The average yield from the Bank of Jamaica's (BOJ) competitive auction also remains elevated despite the yield on its 30-days CD decreasing last week to 8.10% relative to 8.23% in the prior week. The highest bid for full allocation was 8.21%.

On the other hand, the USD money market will remain stable despite changes in market activity affecting liquidity. So far in 2022, BOJ has sold approximately US\$375.675M to the market through its B-FXITT auctions. They will likely continue to push USD liquidity to the market in an effort to bring inflation back in line with its target.

Dates to watch this week

May 2022

MON	TUE	WED	THUR	FRI
09	10	11	12	13
		US Inflation (Apr)	Great Britain GDP QoQ (Q1)	Export and Import Price Index MoM (Apr)

■ International ■ Local

Stock Recommendations

Ticker	Closing Price (May 6)	P/E	Avg. Sector P/E	Current Recommendation
MAILPAC	\$3.06	19.1x	28.2x	BUY
WISYNCO	\$25.72	25.2x	22.8x	BUY
JBG	\$28.05	23.4x	22.8x	HOLD
JMMBGL	\$46.80	7.7x	12.1x	HOLD
MASSY	\$98.83	14.0x	13.5x	BUY
JAMT	\$3.66	20.3x	20.1x	BUY
PROVEN (JMD)	\$37.88	11.6x	12.1x	BUY
LAB	\$3.22	24.8x	35.7x	HOLD
SJ	\$55.30	12.4x	12.1x	HOLD
SEP	\$73.62	25.3x	22.8x	HOLD
QWI	\$0.92	3.7x	12.1x	HOLD
GK	\$107.39	13.0x	13.5x	BUY
CCC	\$69.18	13.8x	19.1x	BUY
PanJam	\$66.02	9.7x	12.1x	BUY

Regional News

[Government Of Dominica Introduces Measures To Cushion The Impact Of Rising Fuel Prices On Consumers \(Dominica News Online\)](#)

The Government of Dominica is implementing measures to keep fuel prices under control as the global price of oil continues to rise. Taking into account the current global market prices, the Government has decided to subsidize the cost of petroleum to reduce the impact on residents and avert a possible slow-down in economic growth prospects.

Due to the proposed sharp increase in prices, Cabinet has taken a decision to remove the customs service charge on gasoline and diesel with immediate effect. In addition, Cabinet is granting subsidies equivalent to 60 cents per gallon on the importation of gasoline and 21 cents per gallon on the importation of diesel until the retail price of each product returns to below \$15.00 per gallon.

The implementation of the measures will result in revenue loss to the state. However, the Government of Dominica remains committed to actions, which will protect consumers from escalating world fuel prices, despite the adverse effects of the COVID-19 pandemic on the government's revenue.

Consumers are urged to embrace lifestyle changes to better adapt as global oil prices continue to rise. Taxi operators and

bus drivers are encouraged to use established procedures in dealing with the impact of the escalating prices on their businesses, and not levy increases in fares on commuters without the approval of the appropriate authority.

[Guyana, Exxon Discuss Pipeline To Bring Natgas Ashore – Minister \(Reuters\)](#)

Natural Resources Minister Vickram Bharrat stated that Guyana has started discussions with Exxon Mobil Corp (XOM.N) to build a more than 120-mile (190-km) natural gas offshore pipeline.

Guyana is trying to build infrastructure, including a gas-fueled power plant, to develop its economy after U.S. oil major Exxon discovered one of the world's largest oil reserves in the last decade.

Of note, power demand in Guyana is forecast to triple in the next five years along with a fast-growing economy. Additionally, investment in the country is also poised to grow exponentially in the coming years following over 30 discoveries by a consortium led by Exxon, which this month has pushed up the country's recoverable resources to 11bn barrels of oil and gas.

However, while the Exxon-led group currently pumps all of the South American country's output since production started in 2019, Guyana is leaning toward offering oil exploration areas outside of Exxon's blocks in a competitive bid, rather than creating a national oil company with partners.

International News

Fed Raises Rates By Half Point, Starts Balance Sheet Reduction June 1 (CNBC)

The Federal Reserve on Wednesday raised its benchmark overnight interest rate by half a percentage point, the biggest jump in 22 years, and the U.S. central bank's chief made a direct appeal to Americans struggling with high inflation to hang tough while officials take the hard measures to bring it under control.

In a widely expected move, the Fed set its target federal funds rate to a range between 0.75% and 1% in a unanimous decision, with further rises in borrowing costs of perhaps similar magnitude likely to follow. Fed Chair Jerome Powell, however, told reporters that a rate increase of as much as three-quarters of a percentage point is not something officials are "actively considering."

The Fed also said starting next month, it would reduce the roughly \$9 trillion stash of assets accumulated during the coronavirus pandemic in another lever to bring inflation under control. Powell, speaking in a news conference after the end of the Fed's latest two-day policy meeting, said he and his colleagues were determined to restore price stability but that doing so would entail higher borrowing costs, including for things like mortgages and car loans.


Nonetheless, the Fed said the economy is continuing to perform well, and Powell said it is well-positioned to withstand the coming rate hikes, which are likely to be of a magnitude more like the one announced on Wednesday. Despite a drop in GDP over the first three months of this year, "household spending and business fixed investment remain strong. Job gains have been robust," the central bank's Federal Open Market Committee said in its policy statement.

Bank of England Raises Rates To 1% Despite Looming Recession Risk (Reuters)

The Bank of England raised interest rates to their highest since 2009 at 1% on Thursday to counter inflation now heading above 10%, even as it sent a warning that Britain risks falling into recession. The BoE's nine rate-setters voted 6-3 for the quarter-point rise from 0.75%. But Catherine Mann, Jonathan Haskel and Michael Saunders called for a bigger increase to 1.25% to stamp out the risk of the inflation surge getting embedded in the economy.

Central banks around the world are scrambling to cope with the surge in inflation that they once described as transitory when it began with the reopening of the global economy before Russia's invasion of Ukraine sent energy prices spiralling. The BoE said it was also worried about the impact of China's COVID-19 lockdown policies which threaten to hit supply chains again and add to the inflation pressure.

The BoE's move represented its fourth consecutive rate hike since December - the fastest increase in borrowing costs in 25 years - and it hardened its message about further increases, despite its worries about a sharp economic slowdown. The BoE said most policymakers believed "some degree of further tightening in monetary policy may still be appropriate in the coming months".



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