

# MONTHLY EQUITY BULLETIN

## Outlook

As we enter the third year of the Covid-19 crisis, developments in economies across the globe have been both encouraging and troubling, clouded by many risks and considerable uncertainty. Output levels in many countries rebounded in 2021 following a sharp decline in 2020. The recovery was largely due to the increasing number of vaccine-producing nations and the improving international trade. High commodity prices have helped developing nations, while domestic financial crises and foreign debt restructurings have been less frequent than expected. Global growth in 2021 rebounded to an estimated 5.5% according to the World Bank, however anticipated rebound expected in 2022 may decelerate to 4.1% due to COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks.

The pandemic persisted to have a negative impact on our economy in Q3 2021. Despite the optimism regarding the development of the vaccines, the pandemic is still considered the biggest risk to the global economy. The Jamaican economy is still experiencing uncertainties and vulnerability due to the impact of the coronavirus pandemic. Despite this, the country's financial system is still resilient. The economy increased 5.8% during the third quarter of 2021, as both the Services and Good Producing industries recorded growths of 7.1% and 2.4% respectively. Despite the lingering uncertainties, we believe there are some opportunities to capitalize on as global and local recovery continues. Jamaica has retained its stable outlook with a corresponding rating of B2 from Moody's, largely reflecting the balanced risks to the country's financial strength. Looking forward, the recovery will be dependent on the tourism industry's recovery and the weather-related shocks.

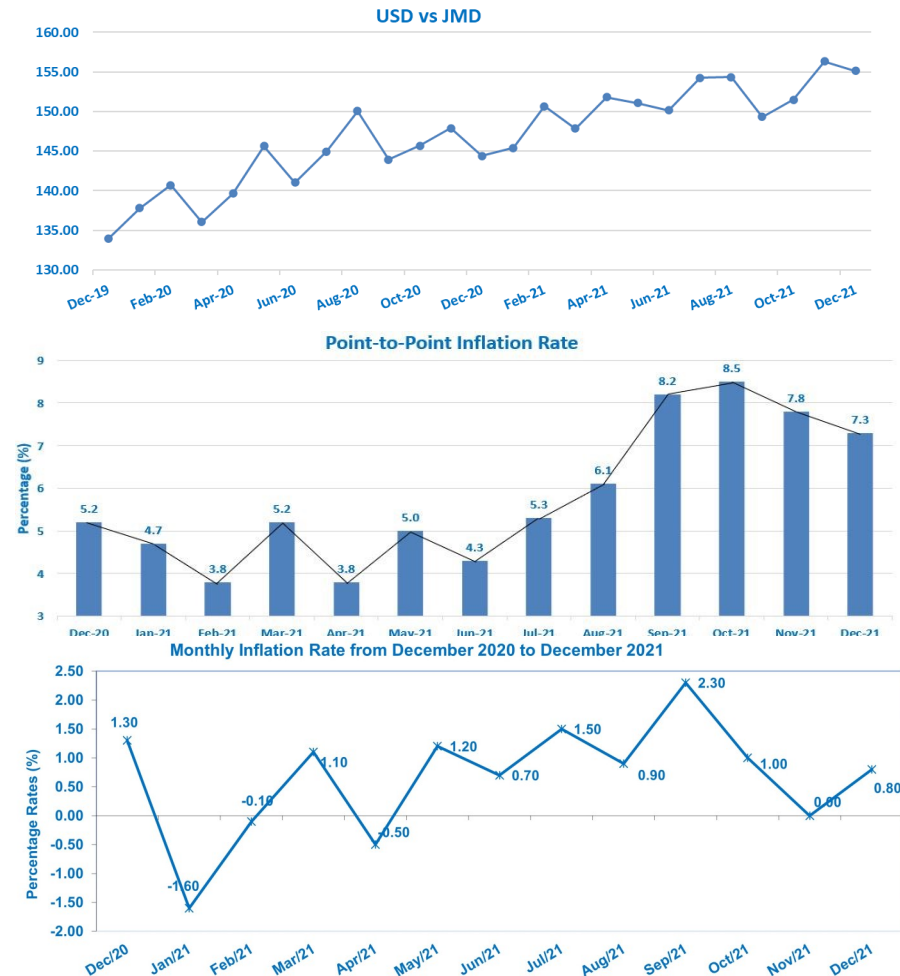
## Foreign Exchange

The Jamaica dollar depreciated against the USD for the month of December 2021. The JMD depreciated by \$1.16 in December, to close the month at an average of \$155.15 relative to the \$156.31 recorded in November 2021. Year over year, the JMD has depreciated by approximately \$10.74 or 7.44% relative to the \$144.41 reported as at December 2020.

## Inflation


The Consumer Price Index for December 2021 rose ten basis points to 117.0, up from 116.0 in November. December's movement was largely influenced by a 4.7% increase in the index for the division 'Housing, Water, Electricity, Gas and Other Fuels'. Increased electricity, water and sewage rates were the main factors that contributed to the increase in the division's index. Conversely, the inflation rate for the review period, was tempered by the 0.5% decrease in the index for the heaviest weighted division 'Food and Non-Alcoholic Beverages'. The continued improvement in the supplies of some agricultural produce, especially tomato, lettuce, cabbage, sweet pepper and yam, led to the class 'Vegetables, tubers, plantains, cooking bananas and pulses' falling by 5.6%. This resulted in a 0.6% decline in the index for the group 'Food'.

point-to-point inflation rate was 7.3%, the fiscal year-to date inflation rate was 8.6% and the calendar year inflation rate was 9.1% as at December 2021. Additionally, for December 2021, 'The Greater Kingston Metropolitan Area' experienced inflation growth of 1.1%, 'Other Urban Centres' experienced inflation growth 0.5% and 'Rural Areas' experienced inflation growth 0.8%.



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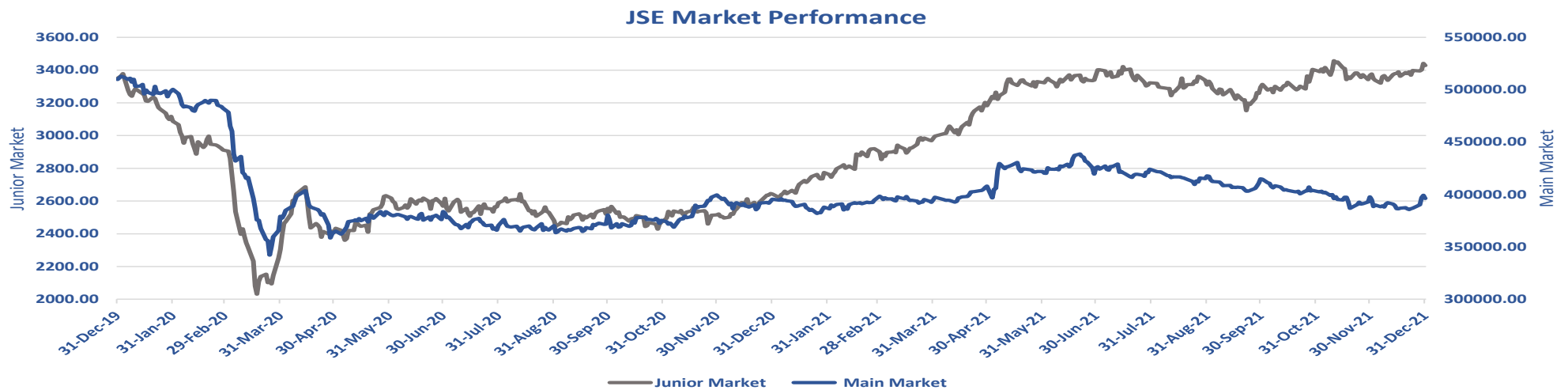
Main Market Index: 403,965.03  -0.42%

Junior Market Index: 3,428.30  1.79%

## Market Performance

As at the end of December 2021, the JSE's Main Market index fell 0.42% from its value at the end of November 2021, whilst the Junior Market rose 1.79% over the same period. The JSE Main Market Index contracted by 1,675.06 points from 397,830.67 points to 396,155.61 points at the end of December 2021. The Junior Market index at the end of December 2021 was 3,428.30 points compared to 3,368.12 points recorded at the end of November 2021. Notably, the Junior Market Index has continued its upward trend (29.69%) returning to levels experience in 2019, while the Main Market Index performance reflects a marginal improvement (0.14%) for 2021.

As it relates to stock performances on the Main Market, 138 Student Living Jamaica Ltd was the big winner during the month with a 38.91% appreciation in its share price, while 1834 Investments Ltd was the biggest loser on the Main Market for the month of December. For the Junior Market, Main Event Entertainment Group was the biggest winner for the month with a reported 21.29% increase in its share price. On the global scene the markets have been increasingly alarmed by the persistence of inflation, supply shortages, high energy prices and new Covid-19 variant which brought about new restrictions. At the end of the month all major US equity indices closed lower: Russell 2000 -0.2%, DJIA -0.2%, S&P 500 -0.3%, and the Nasdaq -0.6%.



| Main Market (2021)    |                     |                  |                        |                     |
|-----------------------|---------------------|------------------|------------------------|---------------------|
| Month                 | No. of Transactions | Volume 2021      | Value 2021             | Month End JSE Index |
| January               | 11,602              | \$275,015.85     | \$1,267,464.21         | \$387,937.82        |
| February              | 15,109              | \$365,800.18     | \$2,190,933.51         | \$394,528.80        |
| March                 | 16,130              | \$376,979.92     | \$2,705,998.66         | \$394,659.55        |
| April                 | 13,442              | \$226,471.74     | \$1,714,066.90         | \$408,023.02        |
| May                   | 16,659              | \$435,098.07     | \$4,647,271.99         | \$422,098.56        |
| June                  | 16,880              | \$273,822.08     | \$4,253,733.34         | \$425,564.15        |
| July                  | 14,529              | \$353,921.15     | \$16,605,196.28        | \$424,135.01        |
| August                | 13,661              | \$477,208.96     | \$8,514,822.90         | \$417,864.90        |
| September             | 14,701              | \$374,270.92     | \$8,370,596.25         | \$414,889.96        |
| October               | 15,498              | \$255,874.51     | \$2,823,125.58         | \$403,965.03        |
| November              | 18,297              | \$265,298.26     | \$3,056,555.34         | \$397,830.67        |
| December              | 14,303              | \$529,932.75     | \$7,395,447.52         | \$396,155.61        |
| <b>Total</b>          | <b>180,811</b>      | <b>4,209,694</b> | <b>\$63,545,212.47</b> |                     |
| Month to Month Change | -21.83%             | 99.75%           | 141.95%                | -0.42%              |
| YTD Change            | 5.09%               | -37.06%          | 27.30%                 | 0.14%               |
| YoY MoM Change        | 9.22%               | 17.95%           | -3.63%                 | 0.14%               |

| Junior Market (2021)  |                     |                  |                    |               |
|-----------------------|---------------------|------------------|--------------------|---------------|
| Month                 | No. of Transactions | Volume 2021      | Value 2021         | Month End JSE |
| January               | 7,470               | 163,088          | 399,489            | 2,774         |
| February              | 8,710               | 259,044          | 624,713            | 2,920         |
| March                 | 8,370               | 204,633          | 593,889            | 2,983         |
| April                 | 7,910               | 237,053          | 615,395            | 3,182         |
| May                   | 9,548               | 241,748          | 577,853            | 3,325         |
| June                  | 8,283               | 186,668          | 532,980            | 3,371         |
| July                  | 7,195               | 125,593          | 366,870            | 3,323         |
| August                | 8,259               | 335,988          | 958,091            | 3,309         |
| September             | 8,488               | 164,200          | 529,970            | 3,296         |
| October               | 7,441               | 117,954          | 408,024            | 3,404         |
| November              | 9,398               | 128,447          | 465,965            | 3,368         |
| December              | 7,653               | 322,099          | 1,038,026          | 3,428         |
| <b>Total</b>          | <b>98,725</b>       | <b>2,486,515</b> | <b>\$7,111,266</b> |               |
| Month to Month Change | 26.30%              | 8.90%            | 14.20%             | -1.07%        |
| YTD Change            | 44.91%              | 40.48%           | 51.89%             | 29.69%        |
| YoY MoM Change        | 19.00%              | 56.56%           | 108.10%            | 29.69%        |

# Stock Recommendations



**WIG:** The energy generation and transmission industries are often regarded as a defensive industry, which are likely to exhibit resilience to changes in the business cycle. Furthermore, Wigton remains ready to respond to any RFP by the Government Procurement Entity for the implementation of new generation capacity. It is also looking to diversify itself in the Caribbean region for other projects. **(Long-term buy)**



**CPJ:** The easing of restrictions and the reopening of the economy in 2021 had a favorable impact as the Company's performance to date showed encouraging signs. During the early stages of the pandemic, CPJ repositioned itself to take advantage of opportunities within the tourism industry as the recovery got underway. The Tourism industry remains a vital component of Jamaica's economy, as CPJ remains the largest supplier of food and beverages to the sector. The Hotel & Restaurants for Q3 2021 recorded an increase of 114.6% due mainly to growth in the hotels & other short-stay accommodation and restaurants, bars & canteens groups. Prospects for 2022 point to improved activity within the industry, which should bode well for the Company. **(Hold)**



**JMMBGL:** The Company reported net interest income of \$2.86 billion for the six months ended September 30, 2021, a 17% increase over the prior year. Additionally, it posted a 120% increase in Net profit totaling \$5.13 billion (\$2.34 billion). Our positive outlook on the company is supported by our expectation for an improvement in JMMB's noninterest income and share of profits from Sagicor Financial Company. The share price also trades at a discount relative to its fair value which makes JMMBGL an attractive option. **(Buy)**

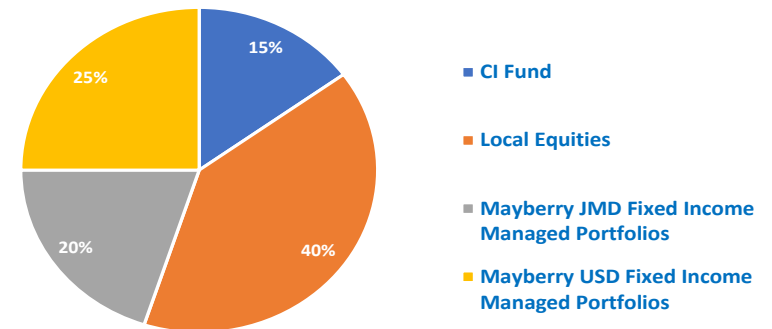


**GWEST:** Following several quarters of losses, for the six months ended September 30, 2021 reported revenue of \$72.96 million, an increase of 33%, when compared with the \$54.83 million booked last year. However net loss for the period amounted to \$18.10 million (2020: \$36.97 million). GWEST expanded its business with its Ambulatory Surgery Centre and Overnight in-patient Recovery Unit and anticipated that this will serve to significantly improve the company's revenues, profits and cash flows. **Recommendation: (Sell)**

## Portfolio Strategy

### Tips

The recovery from the Covid-19 pandemic is still underway, with the stages of recovery more advanced in some industries than others. Looking ahead, our we'd highlight the importance of Non-Correlating Assets. Firstly, The opposite of unsystematic risk is systematic risk, which is the risk associated with investing in the markets generally. Unfortunately, systematic risk is always present. However, there's a way to reduce it, by adding non-correlating asset classes such as bonds, commodities, currencies, and real estate to the equities in your portfolio. Non-correlating assets react differently to changes in the markets compared to stocksoften, they move in inverse ways, in fact. When one asset is down, another is up. So, they smooth out the volatility of your portfolio's worth overall.



## Dividend Paying Stocks

| Company | Dividend Yield (2020) | Dividend Paid (2021) |
|---------|-----------------------|----------------------|
| CAR     | 11.50%                | \$0.83               |
| SVL     | 4.54%                 | \$0.80               |
| SML     | 4.55%                 | \$0.25               |

## Top Advancing & Declining Stocks December 2021

| TOP ADVANCING STOCK (DECEMBER 2021)     |                  |             |            |                |
|---|------------------|-------------|------------|----------------|
| Company                                 | Close Price (\$) | Change (\$) | Change (%) | Volumes Traded |
| 138 Student Living Jamaica Limited      | 4.32             | 1.21        | 38.91      | 64,481         |
| Caribbean Producers Jamaica Limited     | 13.04            | 3.40        | 35.27      | 38,007,834     |
| Main Event Entertainment Group          | 4.50             | 0.79        | 21.29      | 247,577        |
| Dolphin Cove Limited                    | 15.33            | 2.13        | 16.14      | 2,909,752      |
| Eppley Caribbean Property Fund Limited  | 44.08            | 6.07        | 15.97      | 5,064,874      |
| TOP DECLINING STOCK (DECEMBER 2021)     |                  |             |            |                |
| Company                                 | Close Price (\$) | Change (\$) | Change (%) | Volumes Traded |
| K.L.E. Group Limited                    | 1.79             | -0.53       | -22.84     | 161,722        |
| 1834 Investments Limited                | 0.71             | -0.19       | -21.11     | 1,075,237      |
| Consolidated Bakeries (Jamaica) Limited | 1.20             | -0.32       | -21.05     | 3,221,683      |
| Caribbean Cement Company Ltd.           | 69.86            | -12.51      | -15.19     | 4,003,918      |
| Jetcon Corporation Limited              | 0.93             | -0.15       | -13.89     | 972,023        |

# Low Risk Industries



**Utilities:** Countries are slowly lifting restrictions on movements and mandatory work from home orders. This industry is arguably returning to normal levels and should see a slight uptick across business lines.



**Retail (Food):** Despite a reduction in consumer income, persons must consume food for sustenance, as such retail food companies will thus witness a boost in profitability.



**Technology:** The effect of COVID-19 has had some impact on the technology sector as its disruption has caused an acceleration digital transformation, remote working and the need for digitization of customer and supply-chain interactions and of their internal operations.



**Telecommunication Sector:** The sector has experienced a significant impact due to the increase in data consumption for work and leisure. Companies within this industry will experience increase in share/bond price.



**Real Estate:** Real Estate sectors are generally the first to recover after a recession. There are currently record low mortgage rates and this should lead to an increase in home purchases given economic recovery takes place.



**Healthcare:** The healthcare sector is considered a defensive sector or one that isn't affected as much by recessions. The healthcare sector is quite broad. Health care sector businesses include hospital conglomerates and institutional services. Other firms in the industry are insurance companies, drug manufacturers, biomedical companies, or medical instrument makers.

# High Risk Industries



**Tourism:** Since our last review, the industry has experienced favourable activity over the last six months of 2021. The industry recorded growth of 114.6% for Q3 2021. The performance was due mainly to the hotels & other short-stay accommodation group which benefitted from a 318.3% increase in foreign national arrivals. A total of 400,184 foreign nationals visited the island in 2021 compared to 95,664 in 2020. Contributing to the higher numbers were increased arrivals from the United States of America (330.9%), Canada (117.9%), Europe (332.7%) and Latin America (817.6%). The industry is shaping up to record favourable numbers for 2022, however the threat of a fourth wave of Covid-19 infections could have some impact on the rebound



**Sovereign:** The COVID crisis will certainly have adverse economic implications for the world and for Jamaica. Governments globally have been implementing several fiscal actions to stimulate their economy and cushion the economic impact of COVID-19. Whilst some countries have a reasonable foreign reserves for sustenance, some countries will be faced to turn to other financing options which will increase the pressure on existing debt payments. This rising Government debt should lead to significant problems in the future.



**Automobile Sector:** Automobiles are one of the discretionary items and vehicle sales will largely depend on consumer sentiments. During 2020, the sector witnessed a steep decline in sales except. Now, amidst the uncertain situation, consumer sentiments remain weak and the demand for non-essential items is likely to fall further.

**KEEP CALM AND INVEST ON**

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# Top Picks 2022

| TOP ADVANCING                             | P/E   |
|---|-------|
| JMMB Group Limited (JMMBGL)               | 7.49  |
| Carreras Limited (CAR)                    | 9.57  |
| Supreme Ventures Limited (SVL)            | 19.47 |
| Lumber Depot Limited (LUMBER)             | 11.46 |
| Fontana Limited (FTNA)                    | 17.67 |
| Wigton Windfarm Limited (WIG)             | 9.49  |
| Jamaica Producers Group Limited. (JP)     | 8.69  |
| Caribbean Producers Jamaica Limited (CPJ) | 82.03 |
| Gracekennedy Limited (GK)                 | 13.32 |

## Top Picks 2021 Performance

| Company | Dec-19  | Dec-20  | Gain/Loss (2020) | Mar-21  | Jun-21  | Sep-21   | Dec-21   | Gain/Loss (2021) |
|---------|---------|---------|------------------|---------|---------|----------|----------|------------------|
| MDS     | \$6.87  | \$4.22  | -39%             | \$4.15  | \$4.28  | \$5.00   | \$6.49   | 54%              |
| MAILPAC | \$2.09  | \$2.78  | 33%              | \$3.48  | \$3.89  | \$3.84   | \$3.66   | 32%              |
| CCC     | \$83.41 | \$62.81 | -25%             | \$69.14 | \$94.39 | \$109.15 | \$69.86  | 11%              |
| LASD    | \$3.22  | \$3.20  | -1%              | \$4.10  | \$4.00  | \$3.92   | \$3.39   | 6%               |
| JMMBGL  | \$46.55 | \$34.69 | -25%             | \$32.87 | \$37.08 | \$37.72  | \$39.44  | 14%              |
| LUMBER  | \$1.64  | \$1.54  | -6%              | \$2.31  | \$3.34  | \$2.84   | \$3.02   | 96%              |
| RJR     | \$1.83  | \$1.71  | -7%              | \$1.45  | \$1.65  | \$3.78   | \$3.07   | 80%              |
| FOSRICH | \$4.18  | \$4.11  | -2%              | \$5.12  | \$8.30  | \$8.11   | \$9.05   | 120%             |
| GK      | \$69.43 | \$62.68 | -10%             | \$87.64 | \$96.53 | \$97.57  | \$100.02 | 60%              |
| JBG     | \$40.91 | \$29.46 | -28%             | \$29.14 | \$35.05 | \$31.86  | \$29.03  | -1%              |

**LUMBER:** Our view for Lumber Depot centers around the company benefiting from the increasing construction industry due to the rising commodity prices. This may have a positive impact on revenues which reflect year to date as LUMBER demand for construction materials persist.

**CAR:** With an improved distribution the company has a steady growth path which will help achieve sustainable profitability. Its high dividend ratio will help them create value for shareholders.

**CPJ:** Since the outbreak of the pandemic, the company was able to recover and reposition itself to take advantage of the opportunities that the tourism industry presented. Even with the uncertainty caused by new variant, the tourism industry is still a vital component of Jamaica's economy as the company remains the largest supplier of food and beverage to the hospitality sector.

**FTNA:** Notwithstanding the headwinds caused by the COVID-19 pandemic and the competitive threats in the industry, Fontana performed well in 2021. The company's management team was able to control its expenses, which helped boost its bottom line. This was also beneficial for the company as it allowed it to improve its margins. We believe that the company's top line will continue to grow in the next fiscal year due to its robust growth in its core health care goods segment. This will allow the company to capitalize on the potential savings of consumers.

**SVL:** With higher payouts in the gaming industry, SVL has managed to fend off the competition from other players. In 2022, we believe SVL will expand its reach and client base even further by launching a fintech operations that will be integrated with some of its locations, allowing the Group to capitalize on offering more services.

**GK:** The Group in 2021 expanded its reach domestically through its Food Trading segment. The Groups performance has been outstanding throughout the pandemic. Additionally, GK has been acquiring numerous businesses outside of Jamaica as it builds out its international reach. The acquisition of Scotia Insurance Eastern Caribbean Limited, brings the number of GK-owned insurances businesses to six. The Group has a healthy pipeline of M&A deals in food and financial services and is in advance discussions with another acquisition."

**JMMBGL:** Our positive outlook on the stock is supported by our expectation for an improvement in JMMB's noninterest income, share of profits from Sagicor Financial Company. The stock price also trade at a discount relative to its fair value.

**WIG:** The energy generation and transmission industries are often regarded as a defensive industries which are likely to exhibit resilience to changes in the business cycle (i.e. the transition from economic peaks to through (high to lows) and vice versa). Furthermore, Wigton remains ready to respond to any RFP by the Government Procurement Entity for the implementation of new generation capacity. It is also looking to diversify itself in the Caribbean region for other projects.



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