2020 Review & Outlook

JMMB Investments

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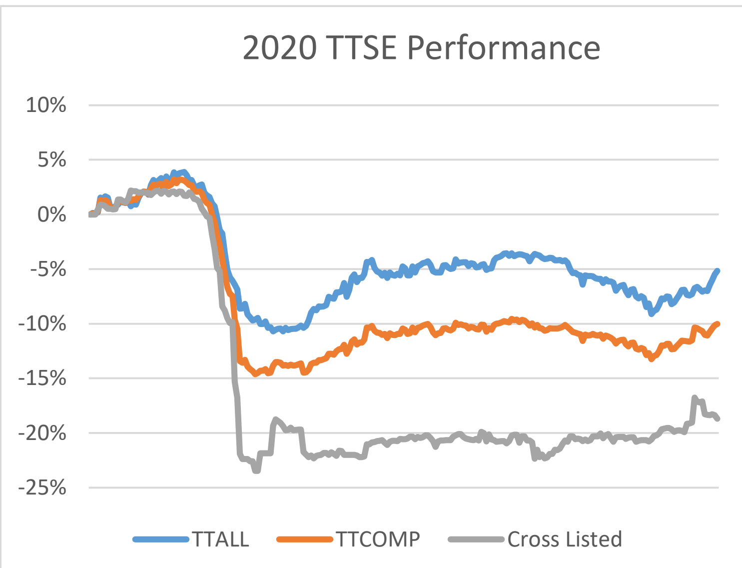
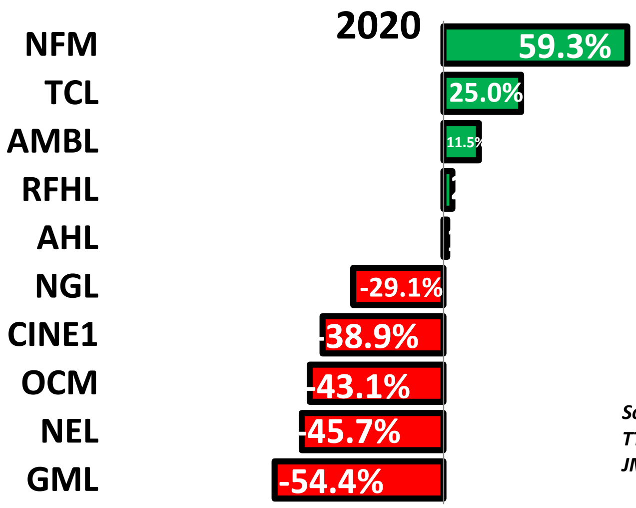
Charles Piralli
Investment Analyst
charles_piralli@jmmb.com

Investor Review and Outlook

Local Equity Market Review



Top Advances and Declines of 2020



Source: TTSE, JMMBITT

Most stocks listed on the local exchanges retreated in 2020. The Trinidad & Tobago Composite Index (TTCI) posted negative returns of -9.9% for the period. This was driven by declines across the board as the market was rattled by the COVID-19 prevention measures which was implemented by the government. The All Trinidad & Tobago Index (TTALL) declined by -5.2% for HY2020. This was driven by declines across the board, as only 4 stocks have posted positive price returns for the period. National Flour Mills Limited (NFM) was the best performing stock for the period, advancing by 59.3%. Guardian Media Limited (GML) was the worst performing stock over the period, retreating by -54.4%. The Cross Listed Index (Cross) declined by -18.4%, as all the cross listed stocks declined during 2020. NCB Financial Group Limited (NCBFG) and JMMB Group limited (JMMBGL) declined in excess of -25% for the year. GraceKennedy Limited (GKC) performed much better, rebounding in the second half of the year to close down -2.5%.

Following the unexpected occurrence of the COVID-19 pandemic and the accompanying restrictions that went into effect, we revised our initial projections for 2020. JMMB Investments projected the overall direction of the TTCI to be negative in 2020, declining by -17.2% (-9.9% actual). We also revise our forecast for the TTALL to -5.8% (-5.16% actual).

JMMB Investments

Banking

In 2020, the banking sector declined by -10.15%. The decline in the sector was as a result of declines in NCBFG (-22%), SBTT (-11%), FIRST (-5%) and FCI (-11%). These declines were partially offset by a modest advance in RFHL (2%). Due to the impact of COVID-19 lockdown measures on employment in the various economies that these banks operate within, they were forced to record increased impairment losses on their income statements, thus decreasing profits significantly. In 2020, Profits in the banking sector declined by 66% versus increases in impairment losses of 180%. Only SBTT saw its Expected Credit Losses increase by less than 100% which was expected given the bank has the lowest percentage of NPL's in the sector. FCI saw its Expected Credit Losses skyrocket over 4300% as its exposure to heavily tourism dependent economies such as Barbados and the Bahamas necessitated a large credit loss provision. During the early onset of the pandemic, banks were giving customers concessions on fees and deferrals on loan payments. These concessions have since largely subsided and banks have resumed their usual operations. JMMB Investments forecasts that the banking sector will decline -16.8% by the end of 2021. Companies in the sector appear slightly overvalued given the deterioration in economic conditions in the region and the associated risks they now face.

Conglomerates

In 2020, the conglomerate sectors fell by -2.03%. Revenue climbed approximately 9% year on year and Operating Margins climbed from 7% to 8%, largely due to GraceKennedy Limited (GKC) and the performance of its local and international food businesses. This strength in GKC's food businesses outweighed the selloff in financial markets which saw fair value losses in investment portfolios. All 3 conglomerates registered modest price declines, With ANSA McAL Limited falling the most (-3.1%) and MASSY falling <0.1%. It should be noted that MASSY's cyclical business lines were remarkably resilient despite the pandemic and revenue across all its continuing business lines were marginally up. MASSY also exited its Information Technology and Communication business for $272MM and currently sit on a cash pile of approximately $2.5 billion. Going forward we expect the sector to decline -17.2% as business lines that are more economically sensitive continue to face headwinds in the new year.

Manufacturing I

In 2020, the manufacturing 1 sector declined by -12.66%. With the exception of National Flour Mills Limited (NFM) and Angostura Holdings Limited (AHL), all other stocks in this industry decline. The increase in NFM (64%) was as a result of increased demand for flour during the lockdown period coupled with its improved margins year on year. AHL results were not as bad as expected as EPS was flat year on year with consumers both local and abroad having adjusted their consumption patterns from bars and restaurants to at-home consumption. West Indian Tobacco Company Limited (WCO) declined 14.5% despite EPS only falling 5%. The company's products enjoy sticky demand and hence have not experienced a significant reduction this year. Unilever Caribbean Limited (UCL) declined 27.6% following a rough 2019 and early 2020. The company has however seen a return to profitability following the restructuring of its operations.

We note that Guardian Media Limited (GML) and One Caribbean Media Limited (OCM) declined by 54.4% and 43.1% respectively. Both companies are continuing multi-year downtrends as the media sector struggles to remain a financially viable. Going forward we expect the Manufacturing I sector to slip -1.2%, despite our positive outlook on both AHL and UCL. This is because the sector's largest component at 66%, WCO, appears fairly valued at current levels and is expected to temper the overall sector performance.

Manufacturing II

The Manufacturing sector climbed 25.1% on the back of positive performance from its sole constituent, Trinidad Cement Limited (TCL). TCL's Operating Profit climbed 14% despite sales earlier in the year being lost due to COVID restrictions imposed by regional governments. The company was able to achieve this largely through stringent management of expenses. The stock has been on the rise in recent weeks following a quota being imposed on imported cement beginning January 1st, 2021. The move is seen as a measure to curb forex expenditure while utilizing TCL's excess capacity to satisfy local demand for cement. JMMB Investments forecasts that the Manufacturing II sector will climb 7%* in 2021 as government spending to spur economic activity begins picking up and the import quota takes effect.

Trading

The trading sector has declined by -6.9% for 2020 as all the constituents in the sector fell. The sector was significantly impacted by the lockdown measures as most of these establishments were shut down during Q2 2020. Prestige Holdings Limited (PHL) fell by -15.6% as it saw its EPS fall -97%, though this was compounded by the implementation of IFRS 16. Agostini's Limited (AGL) slipped only -4% as its EPS and Revenue also saw modest increases in FY 2020. Most of the company's subsidiaries were deemed essential during the lockdown and hence faced minimal disruption. L.J. Williams Limited (LJWB) fell by -11.2% as its EPS fell -37%. The company was highly impacted by the lockdown measures earlier in the year as well as the challenging forex environment. Going forward we expect the sector to rally 57.8%* as we return to some semblance of economic normality later in the year.

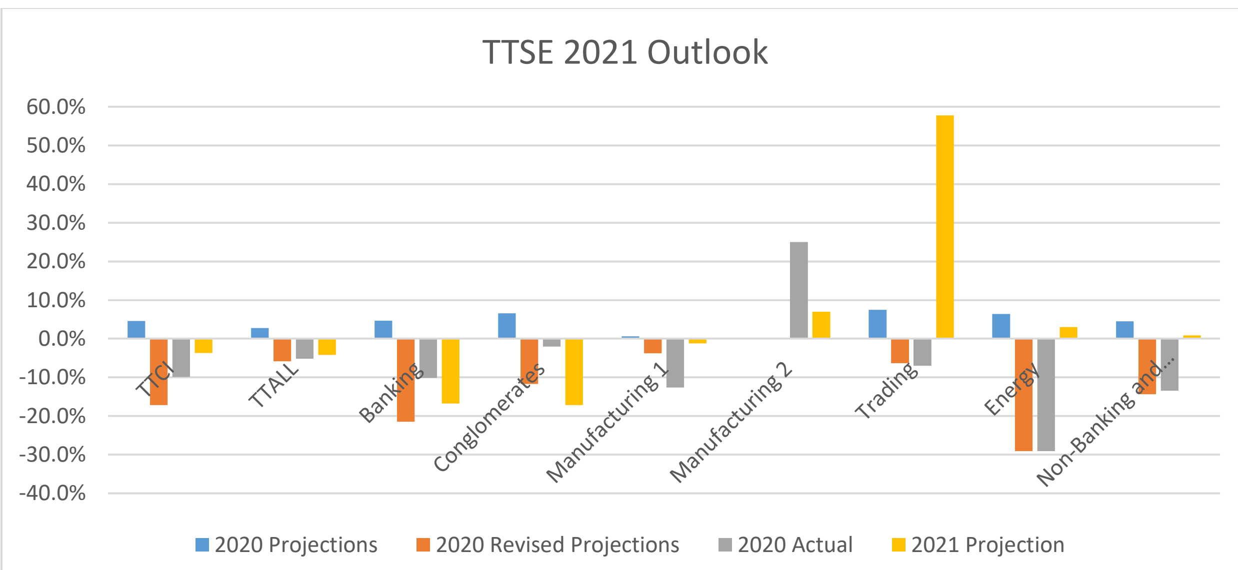
Energy

Trinidad and Tobago Natural Gas Limited (NGL), the only stock in the Energy sector, declined -29.1% in 2020. Revenue for NGL declined by -62% year on year, largely driven by persistently depressed product prices for PPGPL, lower NGL production, and high gas processing feedstock costs. Energy prices have rebounded from their lows following a brief price war between Saudi Arabia and Russia and the initial fear surrounding the COVID induced lockdown. Both Propane and Butane prices finished the year higher, with only Natural Gasoline down in 2020. This sector is expected to climb 3% in 2021, as demand in the sector is expected to return quicker than previously expected following great news on the vaccine front from Pfizer and Moderna. Both vaccines were developed in record time and show efficacy levels above 90%.

Non- Banking Finance

The Non-Banking Finance sector fell -13.4% in 2020. This sector was hit especially hard earlier in the year, as investment portfolios saw steep losses at the end of Q1. This coincided with the bottom in financial markets. National Enterprises Limited saw a significant reduction in its share price (-45.7%) on the back of repeated bad news on companies operating in Point Lisas. Guardian Holdings Limited saw a more modest decline (-3.5%), as its earnings rebounded in the second half of the year through strength in its insurance business and thankfully no major natural disasters in the region. ANSA Merchant Bank Limited (AMBL) recorded an increase of 11.5% for the year, though the stock is relatively illiquid. We note that AMBL confirmed they received approval from the Central Bank to acquire 100% of Bank of Baroda in November 2020, with the company stating that further updates were to follow. JMMBGL's decline was the most severe, falling just over 25.3% as the Jamaican stock market was especially hard hit by the COVID induced selloff. We expect a further contraction of -0.9% in the sector in 2021. Members of the sector with large regional banking exposure are expected to remain challenged as the region has been among the slowest to recover from the economic effects of the pandemic.

Outlook



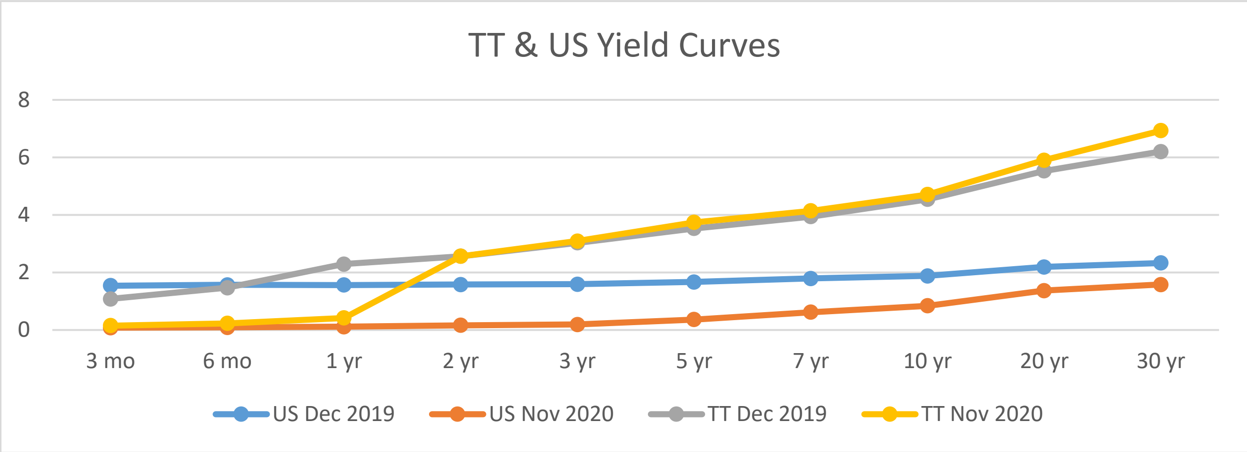
Going into the new year we see the Trinidad and Tobago Composite Index (TTCI) falling -3.7% while the All Trinidad and Tobago Index (TTALL) is expected to decline -4.2%. Despite our bearishness on the broader indices, we believe the environment is encouraging to active management and stock picking. Based on our in-depth coverage reports, we believe a number of companies provide a favorable risk to reward at current levels. In addition, the introduction of online trading on the local market could bring a number of newer, younger participants into the market. Apart from the additional funds these new participants are expected to inject into the market, this demographic has historically been willing to pay higher multiples which could drive multiple expansion on the exchange. The table below provides a summary of our current recommendations and can serve as a starting point for investors looking to put money to work and start building their investment portfolios.

Summary of JMMB Equity Recommendations

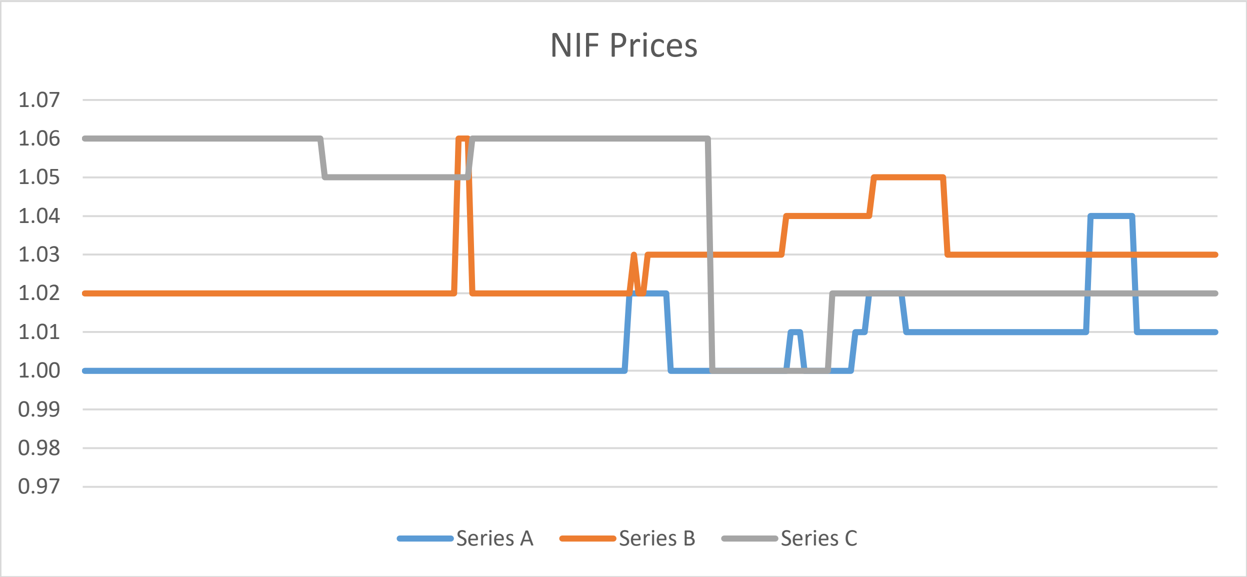
Ticker	Current Price	JMMB Target Price	Implied Price Return	Recommendation
CALYP	14.01	21.20	51%	Outperform
UCL	16.65	21.70	30%	Outperform
GHL	20.90	24.10	15%	Outperform
CIF	25.25	29.01	15%	Outperform
AHL	16.40	18.20	11%	Outperform
PHL	7.60	7.84	3%	Marketperform
NGL	17.00	17.48	3%	Marketperform
WCO	35.40	34.11	-4%	Marketperform
RFHL	136.82	131.30	-4%	Marketperform
FIRST	43.03	40.29	-6%	Underperform
SBTT	58.00	51.72	-11%	Underperform
MASSY	60.99	53.68	-12%	Underperform
NFM	2.15	1.72	-20%	Underperform
FCI	7.04	5.30	-25%	Underperform

Local Fixed Income Review

As at the end of November 2020 (December data not yet available), Trinidad and Tobago observed a kinked steepening of the yield curve. The US market saw a much more traditional steepening, however there was a reduction in yields all along the curve by an average of 126 basis points. This as the US Federal Reserve took unprecedented action to mitigate the effects of the COVID induced selloff in March.



The steepening of the TT yield curve was characterized by a steep fall in short term rates [0.25-1 year] and a rise in longer term rates [3-30 years]. The fall in short term rates largely occurred in the final quarter of the year, as a reduction on open market operations (OMO's) by the Central Bank resulted in investors bidding up the prices of the remaining short term securities. With respect to falling yields in the US, the differential has widened for all tenors. In isolation, this would have resulted in a strengthening of the TT dollar, as investors demand TT denominated securities over US denominated securities given their relative value versus earlier this year. However, given the substantial demand for US dollars for trade and consumer purposes, in addition to reduced earnings from the energy sector and tourism, the existing pressure on the exchange rate is likely to persist. We note that displeasure over the forex environment has been increasing in recent weeks. PriceSmart has publicly stated that challenges obtaining forex has led to changes in its imported goods, while a number of shipping companies have stated that they will no longer be collecting freight charges in TTD.



On the corporate bond side, the Series A and B National Investment Fund [NIF] bonds traded slightly higher in 2020, while the Series C bonds fell in the middle of 2020 before mounting a modest recovery in the second half of the year. Throughout the year there has been strong demand for these bonds while investors seeking to sell their bonds have been scarce.

The bond market was relatively muted during the year. The most notable of the issuances year to date was the long awaited VAT bonds, which carried a rate of 3.3% for a tenor of 3 years. We also saw a US$500MM GORTT Bond issued on the international market which was much lauded by the Minister of Finance. The bond, which pays a coupon of 4.5%, served to refinance existing debt as well as provide additional funds for budgetary support as COVID has brought about additional expenditure from the government as well as a reduction in revenue. Late 2020 also saw a $1.02 billion 5% GHL bond coming to market. This bond, due in 2025, was heavily oversubscribed as the bond was priced well above the yield curve, especially for a high quality corporate like GHL.

Going into 2021 investors are anxiously awaiting a number of new issuances, with the widely expected $300MM THA Bonds awaiting an opinion from the Attorney General as required by the Central Bank. The Housing Bonds and National Investment Fund 2 which were expected in the first half of 2020 have likely been pushed into 2021 as the covid-19 response took priority for most of the year. Participation in these offerings is likely to be strong, given that excess liquidity for Q4 2020 averaged under $13.6 billion. This is well above the average for the Q4 2019 of $5.2 billion and highlights the amount of “dry powder” available to investors to capitalize on promising opportunities if and when they arise. The especially high amount of excess liquidity in the system is likely a function of investors liquidating assets and moving to cash due to uncertainty surrounding the effects of COVID on the local economy.

APPENDIX

IMPORTANT DISCLOSURES

These sector projections were based on relative valuation metrics of stocks in the sector where valuation reports were not yet available. Valuations done in absence of an analysis of the company's fundamentals and value drivers leads to estimates with a high degree of uncertainty.

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