

Valuation Report

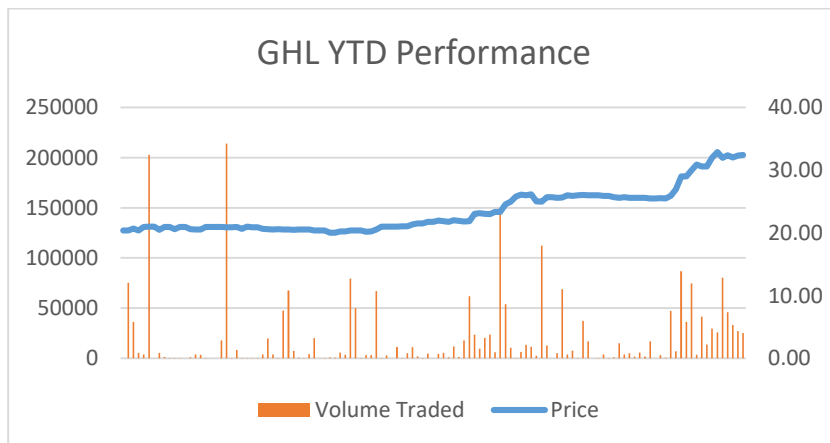
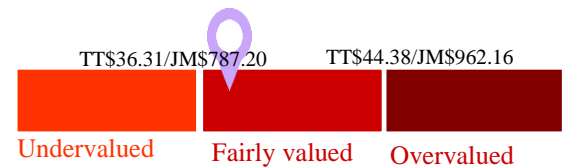


May 2021
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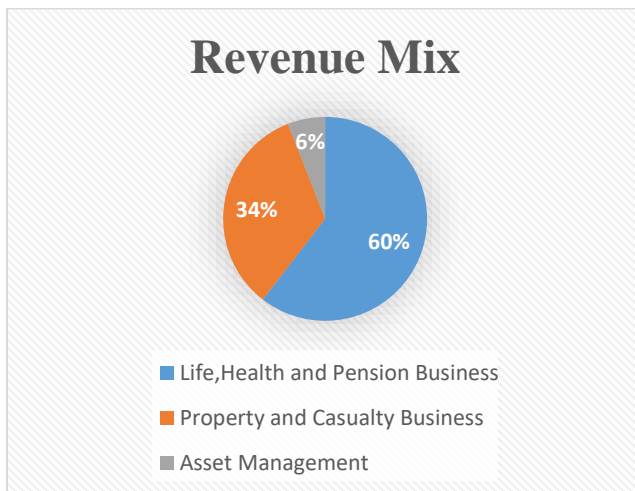
Guardian Holdings Limited (GHL)

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Guardian Holdings Limited (GHL) is the parent company for an integrated financial services group known as Guardian Group, with a focus on life, health, property and casualty insurance, pensions and asset management.



Company Facts	
Symbol:	GHL
Target Price:	TT\$40.34/JM\$874.57
Sector:	Non-Banking Finance
Market Cap.:	\$7.53B
Issued Capital:	232,024,923
Financial Year End:	December 31 st



Key Ratios			
	2018	2019	2020
EPS Growth	31%	30%	12%
Book Value per share	\$14.65	\$16.98	\$20.13
Return on Common Equity	15.94%	18.87%	17.99%
Operating Margin	34.36%	34.10%	41.98%
Dividend Yield	3.76	3.33	2.44

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Company Overview & History

GHL, incorporated in Trinidad and Tobago (T&T) in 1982 is a public limited liability holding company. The Group is one of the largest insurance providers in the Caribbean. GHL provides a diversified range of financial and insurance services with three main business segments: - Life, Health and Pensions (LHP), Property and Casualty Insurance (P&C) and Asset Management Services. GHL's products and services are marketed and distributed throughout the Eastern Caribbean, the Bahamas, the Cayman Islands, the United States Virgin Islands and Belize. The Group serves over 21 territories across the English and Dutch speaking Caribbean, including Trinidad & Tobago, Jamaica, Barbados and Aruba. The Group showed significant growth over the years and continues to expand by investing in technology and digital platforms to become a world-class insurance group.

GHL has earned its reputation among the leading financial institutions in the Caribbean and its subsidiaries Guardian Life of the Caribbean and Guardian General Insurance Company are both rated "A- Excellent" by top rating agency A.M. Best.

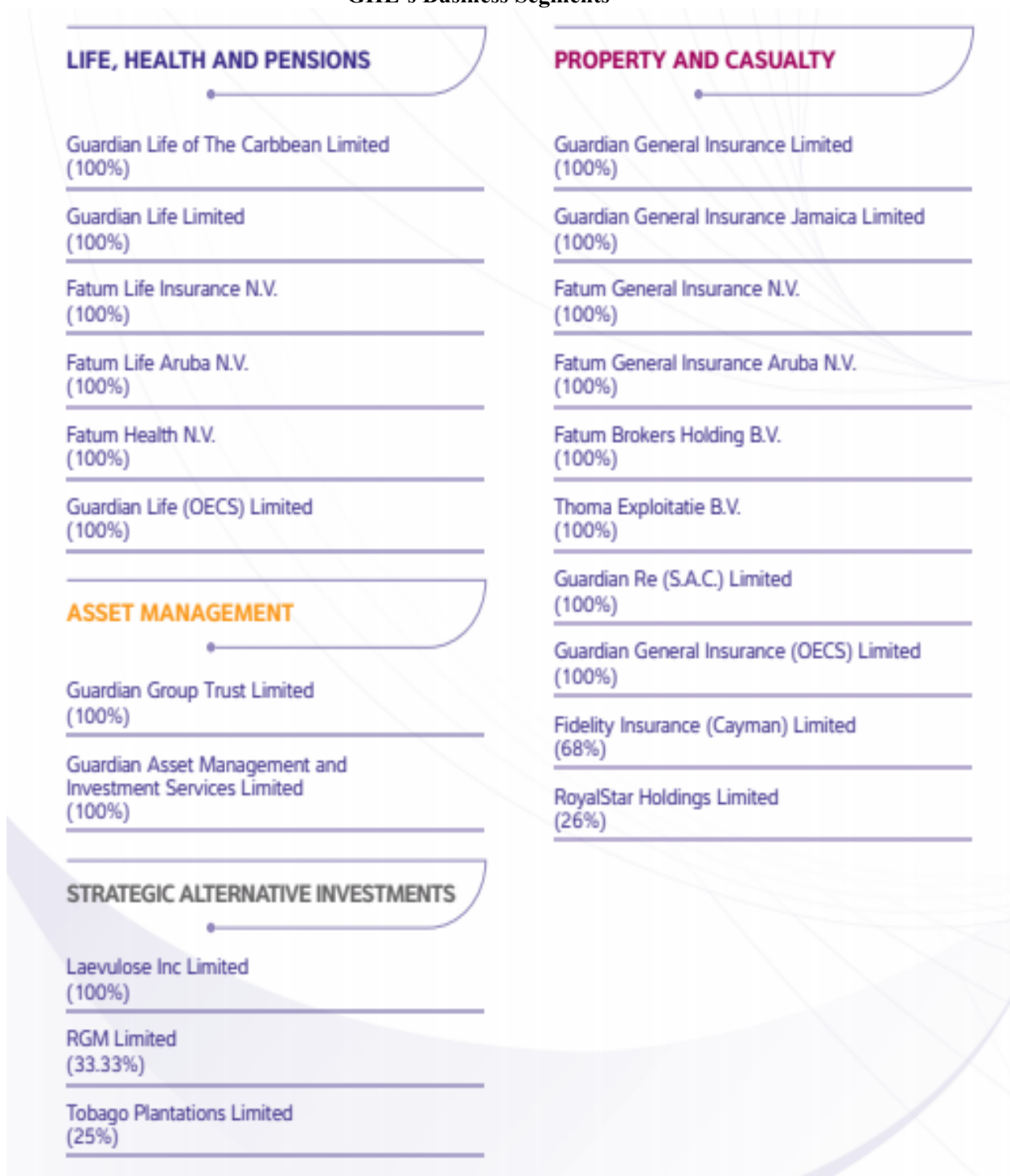
In May 2019, GHL and NCB Financial Group Limited (NCBFG) and its wholly owned subsidiary, NCB Global Holdings Limited (NCBGH), started a new chapter with the successful completion of the acquisition of 74,230,750 shares in GHL. The acquisition, one of the largest of its kind within the region, resulted in NCB holding more than 62% of the shares of GHL. This ground-breaking move was fully aligned to GHL's growth strategy, representing another significant step in expanding the Company's reach regionally and internationally.

In September 2020, GHL acquired the life insurance and annuities portfolio of NCB Insurance Company Limited (NCBIC). The acquisition of the NCBIC's portfolio allowed GHL to benefit from synergies such as eliminating redundant systems. In addition, it provided GHL with Bancassurance expertise, this was a key aspect as it provides a reliable and growing revenue stream. The integration of the portfolio into GHL's operations as well as the development of the new revenue channel continues to progress well for the Group.

Business Model

Guardian Holdings Limited (GHL) is the parent company for an integrated financial services group known as Guardian Group, with a focus on life, health, property and casualty insurance, pensions and asset management. The company has grown steadily and currently serves various markets across the English and Dutch Caribbean, including Trinidad & Tobago, Barbados, Jamaica, Curacao, Aruba, St. Maarten and Bonaire. Guardian Group's products and services are marketed throughout the Eastern Caribbean, the Bahamas, Cayman Islands, the US Virgin Islands and Belize.

Chart 1
GHL's Business Segments



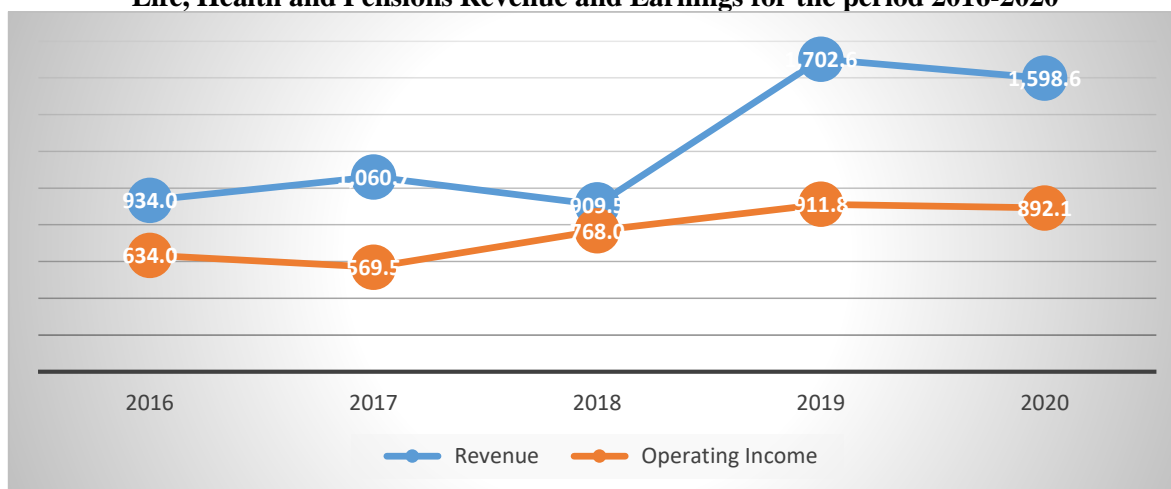
Source: GHL Annual Report 2020

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Life, Health and Pensions (LHP)

GHL's LHP segment comprises of 6 entities as outlined in Chart 1 above, which extends throughout the English and Dutch speaking Caribbean. In FY2020, the LHP segment continues to be the largest revenue generating division, accounting for 60.5% of total revenue and 66.4% of total operating income. Notwithstanding this, revenues and operating income fell 6.1% and 2.2% respectively as a result of global pandemic, COVID-19 and the necessary restrictions implemented to contain its spread.

Chart 2
Life, Health and Pensions Revenue and Earnings for the period 2016-2020



Source: Bloomberg

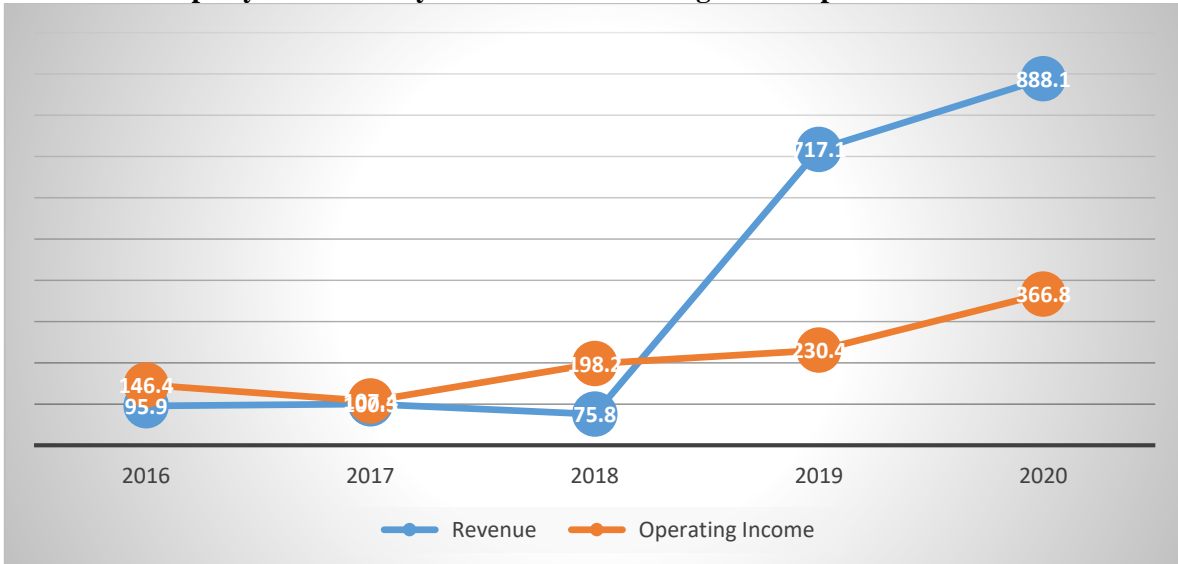
The segment can be broken into 3 product lines:

- (1) Life Insurance - comprises of Unit Linked Life Insurance, Term Life and Endowments.
- (2) Health Insurance – covers both major medical along with customizable vision, dental and medical features for both individuals and groups.
- (3) Pensions – comprises of Unit Linked Annuities, Fixed Annuities and Savings Benefit Pension Plan.

Property and Casualty (P&C)

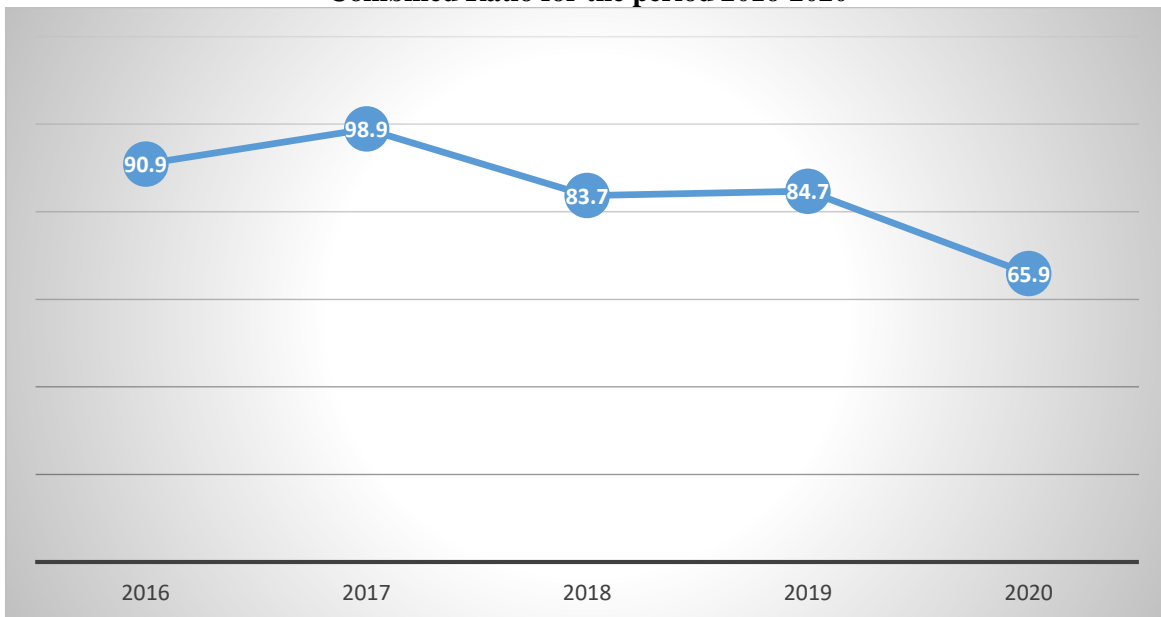
GHL's P&C segment comprises of 10 entities as outlined in Chart 1 above, which operate across twenty-four (24) territories across the English and Dutch speaking Caribbean and the Netherlands. In FY2020, the P&C segment contributed 33.6% of total revenue and 27.3% of total operating income. P&C is considered the second largest revenue generating segment, showing a 23.5% and 59.2% increase in revenue and operating income respectively year-over-year. This surge was driven by rate increases in the Northern Caribbean, growth in GHL's Dutch business, enhancements to sales channels and new product offerings. The products offered under the Group's P&C segments include Property, Motor, Casualty, Marine, Bonding & Crime and Personal Accident.

Chart 3
Property and Casualty Revenue and Earnings for the period 2016-2020



Source: Bloomberg

Chart 4
Combined Ratio for the period 2016-2020



Source: GHL Annual Report 2020

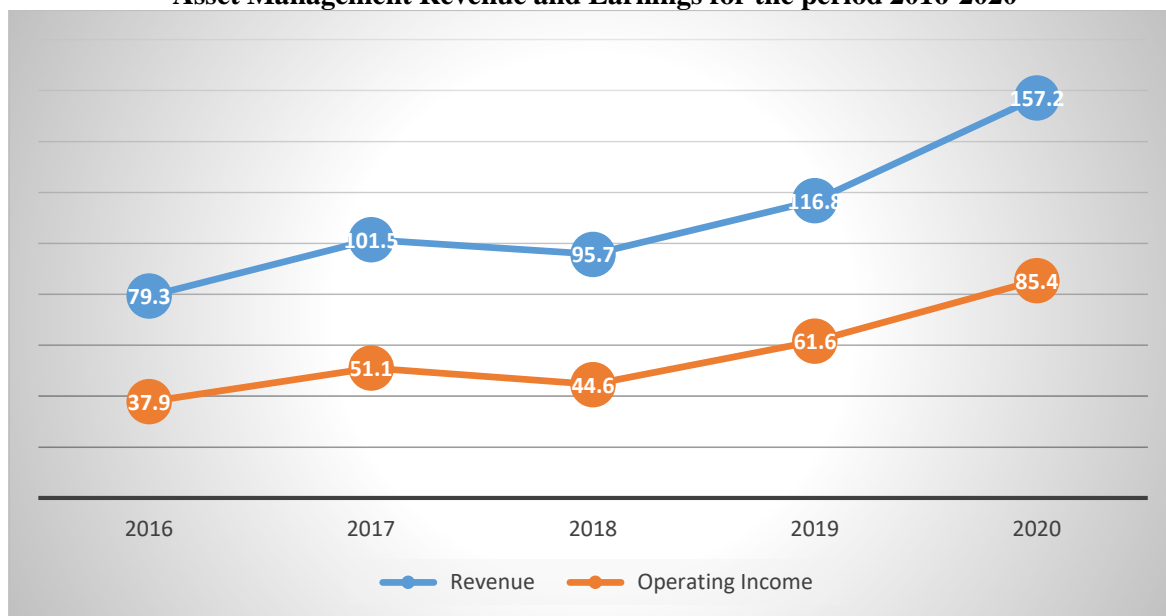
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In FY2020, GHL’s combined ratio improved to 65.9% from 84.7% in the prior year. Over the last five (5) years, GHL consistently maintained a combined ratio below 100%, indicating that the segment was profitable even when excluding investment income and using purely premiums collected and claims paid out.

Asset Management

GHL’s Asset Management segment comprises of Guardian Asset Management & Investment Services Limited and Guardian Group Trust Limited which are collectively referred to as GAM. In FY2020, asset management contributed 5.9% of total revenues and 6.4% of total operating income. The asset management segment is considered the smallest revenue generating division, nevertheless, revenues and operating income improved 34.6% and 38.6% respectively when compared to the prior period.

Chart 5
Asset Management Revenue and Earnings for the period 2016-2020



Source: Bloomberg

Strategic Alternative Investments

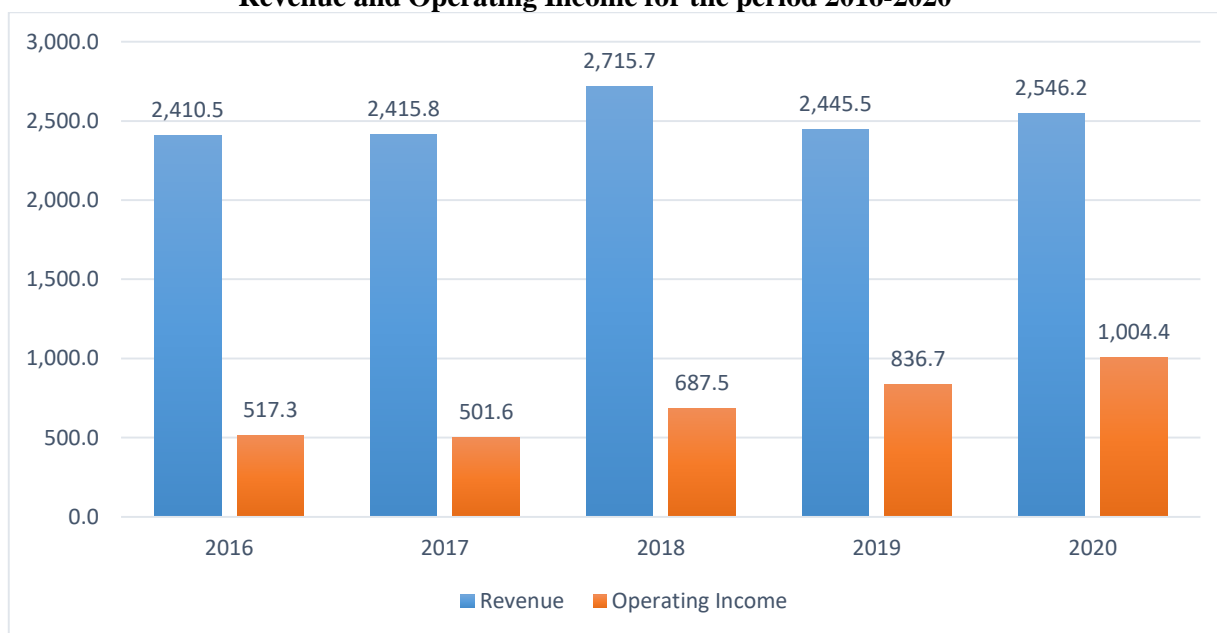
GHL's Strategic Alternative Investments segment includes varying ownership stakes in the following:

- (1) Laevulose Limited - associated with the Pointe Simon Waterfront Hotel Project in Martinique.
- (2) RGM Limited, a property and facilities management company based in Trinidad and Tobago that offers prime office space in the capital.
- (3) Tobago Plantations Limited, a beach and golf resort located in Tobago.

These investments do not currently generate a material amount of earnings to the Group on a consistent basis.

Financial Analysis

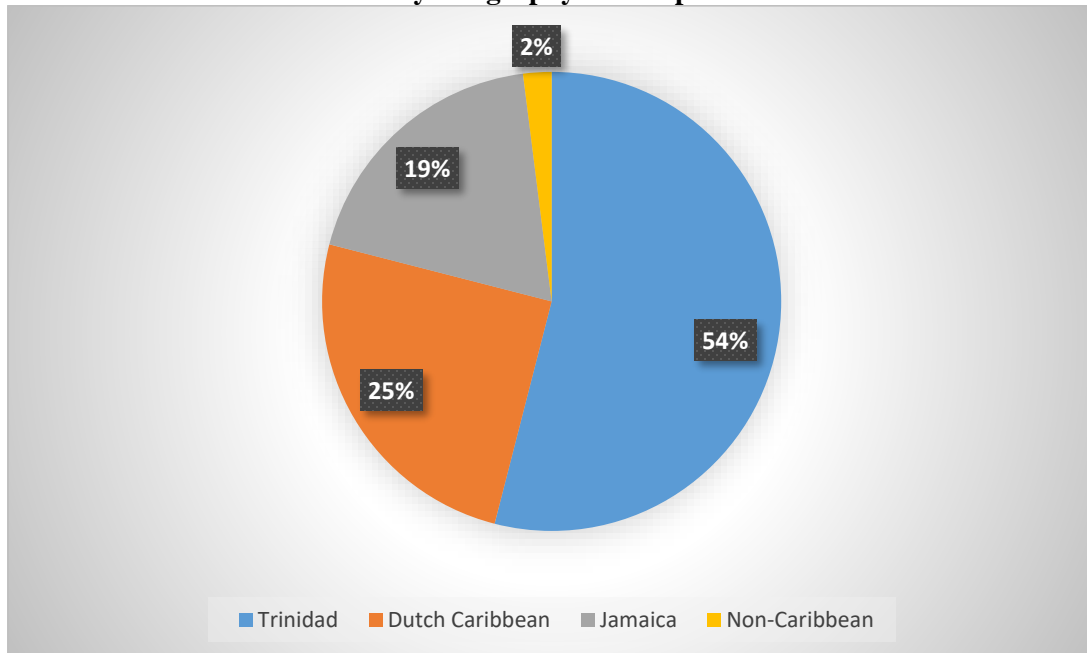
Chart 6
Revenue and Operating Income for the period 2016-2020



Source: Bloomberg

Over the last 5 years (2016-2020), GHL recorded a robust financial performance with revenue improving at a compounded annual growth rate (CAGR) of 3.2%. In FY2020, the Group's total revenue and total operating income increased by 4.1% and 20.0% respectively. Given the advent of COVID-19, GHL was able to sustain stable revenue streams, as the Group were already preparing for technological upgrades such as the launch of online payment portals, wider rollout of mobile payment devices and the acceptance of digital forms and signatures which allowed the Company to conduct business as usual.

Chart 7
Revenue by Geography for the period 2020



Source: *GHL Annual Report 2020*

Although GHL's revenue streams are diverse by product, over 50% of the Group's revenues earned are in the T&T market. In FY2020, the T&T market contributed 54% of revenues, marginally down 1% from 55% a year earlier. However, the Dutch Caribbean contributed 25% of total revenues in FY2020, marginally up 1% when compared to FY2019. The other territories such as Jamaica and the Non-Caribbean territories remained stable year-over-year at 19% and 2% respectively.

Chart 8
Assets vs Liabilities (\$MM) for the period 2016-2020

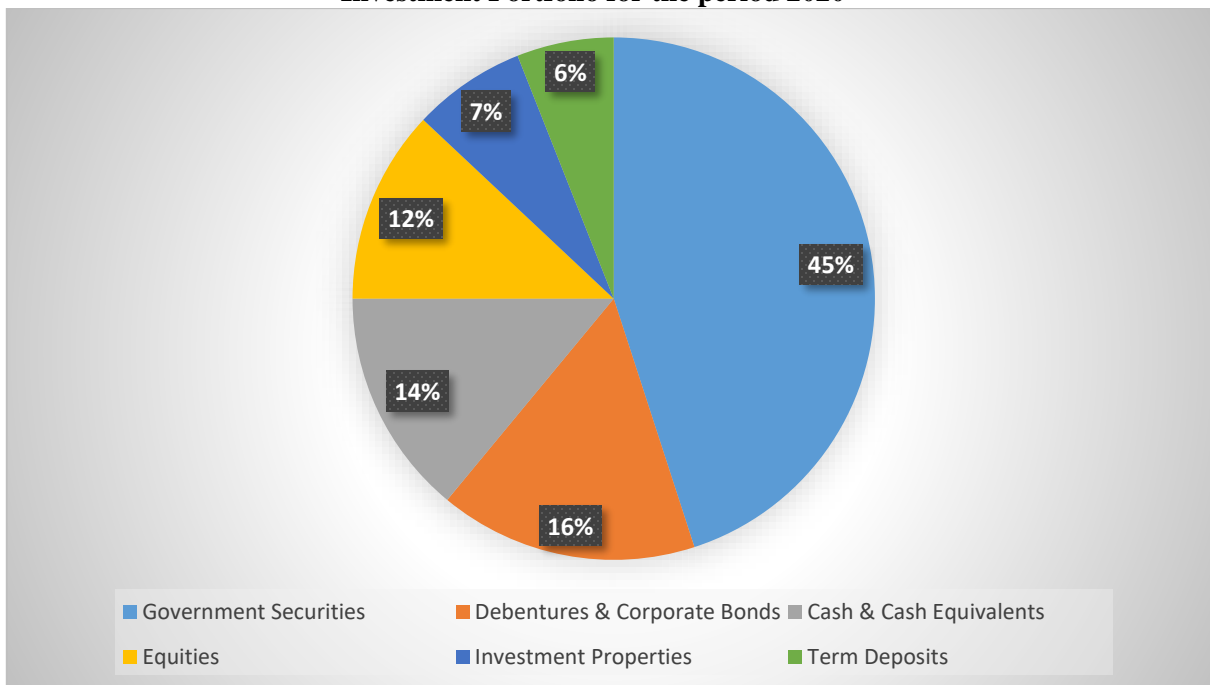


Source: Bloomberg

GHL has seen growth on its balance sheet with assets increasing 36.6% to \$33.0B in 2020 from \$24.2B in 2016, largely through growth in the group’s investment portfolio from new cash flows from the insurance portfolios, which historically comprises of primarily government securities.

The liability side is dominated by GHL’s Insurance Contracts, which grew 34.2% to \$28.3B from \$21.1B over the last 5 years. Overall, the Group increased its insurance contract liabilities as a result of increased activity in that segment, together with the impact of the NCBIC acquisition.

Chart 9
Investment Portfolio for the period 2020



Source: *GHL Annual Report 2020*

The Group's investment portfolio increased \$2.4 billion to \$25.8 billion in FY2020 from \$23.3 billion in the prior year. This increase was largely a result of net inflows of premium income from in-force policies, together with the impact of the NCBC portfolio acquisition, partially offset by fair value losses and impairment provisioning under IFRS 9.

Recent Financial Performance

For the 3-month period ended March 31st, 2021, GHL's profits attributable to equity shareholders improved to \$176 million from a \$36 million loss compared to the prior period. Additionally, the Group recorded a 15% increase in net results from insurance activities to \$208 million from \$181 million in the prior period. Gross written premiums increased 3% or \$63 million year-over-year, with net written premiums increasing by 1% or \$14 million. The LHP segment recorded a 2% increase in gross premiums, primarily in the T&T and Jamaican market. This increase was driven by the integration of the life insurance and annuities portfolio acquired by Guardian Life Limited in September 2020. Furthermore, the P&C segment grew 4%, driven by operations in Netherlands. Also, net income from investing activities increased by \$27 million to \$332 million from \$306 million in the prior period. This increase was driven by net fair value gains of \$354 million from a loss of \$329 million in the prior period, to a gain of \$25 million. Operating expenses remained relatively stable at \$309 million when compared to prior year. Moreover, earnings per share increased to \$0.76 compared to -\$0.16 in the corresponding prior period.

Recent Developments

It is now over one (1) year since the start of global pandemic, COVID-19, imposing death and weakening economic conditions as it continues to spread. As restrictions were imposed to contain the spread of the virus, economic activity locally, regionally and internationally were significantly reduced. These events had major impacts on markets, creating an adverse effect on companies all over. Despite the current macroeconomic conditions, GHL was able to maintain profitability in FY2020, utilizing digital channels to service its customers. GHL's investment in new technological infrastructure and digitization strategies over the past few years has proven to be worthwhile given the "new norm" of remote working and serving client needs digitally.

Currently, the ordinary shares of GHL are listed on the Trinidad and Tobago Stock Exchange (TTSE). Following the announcement made in March 2021, effective May 5th, 2021, GHL has cross-listed its ordinary shares on the Jamaica Stock Exchange (JSE). This will allow the Company to raise additional capital, if necessary, as well as gain access to a wider investor base.

Key Value Drivers

- With the recent cross-listing on the JSE, GHL now has greater access to capital, if required
- GHL's continued investment in technology and digitalization ensuring customer needs are met such as launch of online payment portals, wider rollout of mobile payment devices and the acceptance of digital forms and signatures
- The launch of new products designed to continue to meet various client needs
- The acquisition of the NCBC's portfolio allows GHL to benefit from synergies such as eliminating redundant systems and processes.
- Bancassurance expertise - The integration of the portfolio into GHL's operations as well as the development of a new revenue channel continues to auger well for the Company.

Valuation

Three valuation models were utilized to obtain an estimated intrinsic value range for GHL. Firstly, a dividend discount model (DDM) was utilized. Two relative valuation models were also applied; a simple P/E method and a simple P/B method using the average multiple over the last 5 years.

DDM Model

Our three stage DDM assumes GHL will be able maintain its pay-out ratio at historical levels, following a slight reduction in 2021, and grow its EPS (and hence dividends) at the firm's 5-year average growth rate for the next 4 years. GHL is then expected to gradually transition to the implied pay-out ratio given a stable growth assumption. Intrinsic valuation on the DDM shows a share price of TT\$44.17 (JM\$957.61) vs. a market price of TT\$32.01 (JM\$763.90).

Simple P/E Insights

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. It uses the market implied multiple for GHJ for the past 5 years and forecasts the firm's EPS to arrive at the firm's 'fair value'. The analysis gives GHJ a valuation of TT\$40.88 (JM\$886.28) which is TT\$8.87 above its current market value. GHJ's trailing P/E was also calculated and stands at TT\$32.97 (JM\$714.79).

Simple P/B Insights

Simple P/B multiple, has a similar methodology to the simple P/E. It uses the average P/B multiple for the past 5 years then determines a fair value by projecting book value per share (BVPS). The forecasted BVPS was calculated using a blend of indices meant to track the performance of GHJ's investment portfolio over the recently concluded Q1. The analysis gives the stock a fair value of TT\$23.64 (JM\$512.52) which is TT\$8.37 (JM\$251.38) below its current market value.

Risk Factors

Macro-environmental factors - As with all firms GHJ is exposed to various risk factors from the external environment. GHJ's performance immediately following the last recession was relatively flat. However, given the low market penetration of insurance throughout the region, growth prospects remain strong in the medium term.

Interest Rates – The current low interest rate environment globally has hindered insurance companies, as the majority of their investment portfolios are held in fixed income instruments whose yields are positively correlated with interest rates. These returns also have an impact on product pricing due lower reinvestment yields.

Limited investment universe - Lack of access to long term investment instruments to improve the matching of assets and liabilities. This is as a result of regulatory requirements which constraint companies such as GHJ from investing too large a portion of their portfolio outside of the jurisdiction in which they operate. This results in a mismatch of assets and liabilities as capital markets in the Caribbean are underdeveloped versus the US and European markets.

Climate change – Areas such as the Caribbean experience the effects of climate change as bad as anywhere else in the world. Events such as flooding and hurricanes have been on the rise in both occurrence and intensity. While the region did not suffer from significant hurricane losses in 2020, international property reinsurers significantly increased rates for the Caribbean region following the heavy losses that they incurred as a result of Hurricanes Irma and Maria in 2017 and Hurricane Dorian in 2019. This had a significant adverse impact on GHJ's financial performance as purchasing reinsurance to cover exposure to earthquakes and catastrophic hurricanes is one of GHJ's largest expense.

Recommendation

Model	Intrinsic/Fair Price	Overvalued (Undervalued) by	Weighting
Multistage DDM	TT\$44.17/JM\$957.61	(TT\$12.16)/(JM\$263.63)	60.0%
Simple P/E Forward Valuation	TT\$40.88/JM\$886.28	(TT\$8.87)/(JM\$192.30)	20.0%
Simple P/E Trailing Valuation	TT\$32.97/JM\$714.79	(TT\$0.96)/(JM\$20.81)	10.0%
Simple P/B Trailing Valuation	TT\$23.64/JM\$512.52	TT\$8.37/JM\$181.46	10.0%
Weighted average Intrinsic Value	TT\$40.34/JM\$874.57		
10% Above Average	TT\$44.38/JM\$962.16		
10% Below Average	TT\$36.31/JM\$787.20		

Our models give a range of values from TT\$23.64/JM\$512.52 to TT\$44.17/JM\$957.61, each with its own margin of error. The models have been assigned various weightings as detailed in the table above. A 10% margin of error was applied to the weighted price to give a fair value range of TT\$36.31/JM\$787.20 to TT\$44.38/JM\$962.16. This is compared to the current market price of TT\$32.01/JM\$763.90.

JMMB Investments Limited **recommendation on GHL is OUTPERFORM** with an **intrinsic price of TT\$40.34/JM\$874.57**.

This OUTPERFORM rating is given on the following basis:

- GHL continues to grow its Revenue and EPS at a sustainable pace through strong performance in all business units and lines of business.
- GHL's continued investment in technology appears to be bearing fruit, as the Group has recently been benefiting from increased written premiums as well as improved persistency, expense management and product mix.
- While GHL already has a presence in a large number of islands throughout the Caribbean, the region remains largely underinsured, leaving significant room for organic growth in the coming years.
- The acquisition of the NCBIC's portfolio allows GHL to benefit from synergies such as eliminating redundant systems and processes.
- Bancassurance expertise - The integration of the portfolio into GHL's operations as well as the development of a new revenue channel continues to auger well for the Company.

APPENDIX

IMPORTANT DISCLOSURES

Abstract— as a part of our new portfolio strategy we are recommending strict adherence to the following portfolio allocation **definitions/recommendations**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM - up to 10% of your portfolio

MARKETPERFORM - 5% of your portfolio

UNDERPERFORM - 2.5% to 4.9% of your portfolio

STRONGLY UNDERPERFORM - less than 2.5% of your portfolio

SELL - 0% of your portfolio

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