

Valuation Report

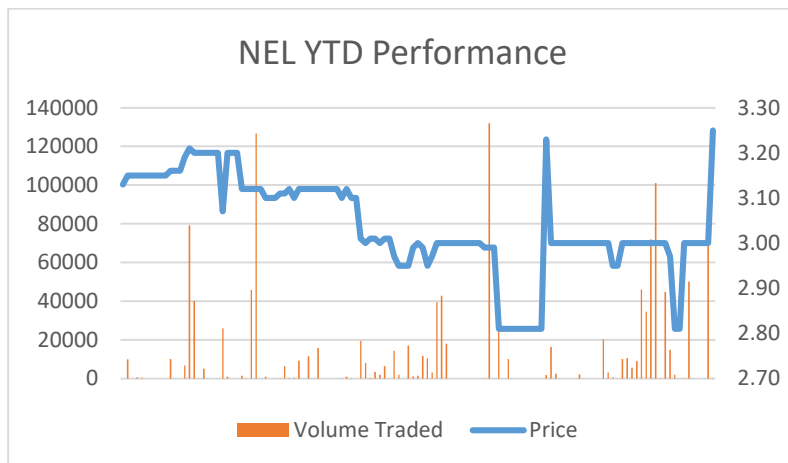


September 2021
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National Enterprises Limited (NEL)

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National Enterprises Limited (NEL) is an investment holding company incorporated on August 27th, 1999 by the Government of the Republic of Trinidad and Tobago (GORTT). NEL was formed to consolidate the Government's shareholding in selected State Enterprises and facilitate public offerings on the Trinidad and Tobago Stock Exchange (TTSE).



Key Financial Ratios					
	2017	2018	2019	2020	2021
Operating Margin	11.39	77.10	13.05	82.6	84.9
Profit Margin	41.89	638.52	9.83	-1047.52	-812.67
Current Ratio	2.89	6.92	7.91	6.75	12.2



Company Facts	
Symbol:	NEL
Target Price:	\$2.85
Sector:	Non-Banking Finance
Market Cap.:	1,950,002,083.25
Issued Capital:	600,000,641
Financial Year End:	September 30 th

Five Year Review					
	2017	2018	2019	2020	2021
Total Assets	3669.2	3089.4	2932.7	2497.5	2228.1
Total Liabilities	425.4	34.6	14.5	2.9	3.9
Total Equity	3243.8	3054.8	2918.5	2494.5	2224.2
Book Value/Share	5.20	5.09	4.86	4.16	3.98
Price/Book Value/Share	2.08	1.92	1.56	1.20	0.82

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Table of Contents

Company Background.....
Business Model.....
Economic Review.....
Financial Analysis.....
Key Value Drivers.....
Recent Developments.....
Valuation Report.....
Discounted Cash Flow.....
Residual Income Model.....
Regression Analysis.....
Risk Factors.....
Recommendation.....
Appendix.....

Company Background

NEL, controlled by the Minister of Finance (Corporation Sole) has invested in industries which drive the economy of Trinidad and Tobago, such as natural gas and energy-based manufacturing, telecommunications, power generation and marketing and manufacturing of basic foods.

NEL's initial portfolio of investments include National Flour Mills Limited (NFM), Telecommunications Services of Trinidad and Tobago (TSTT) and Trinidad Nitrogen Company Limited (TRINGEN) which were transferred at their last audited Net Asset Value (NAV) by the Minister of Finance on behalf of the Government in exchange of 500,000,000 ordinary shares of no par value in the company.

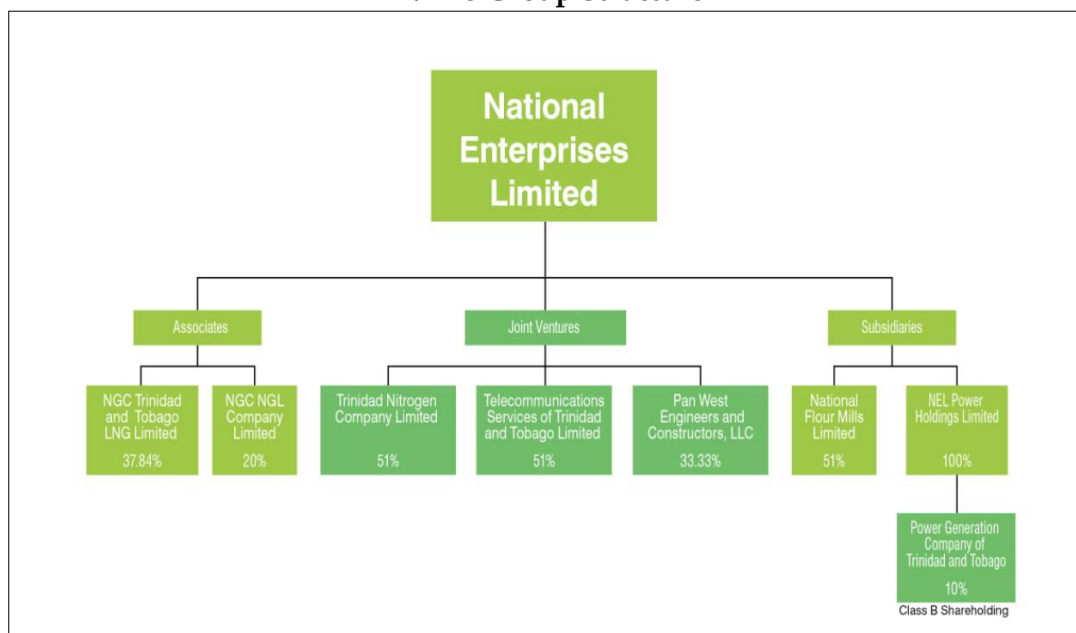
On December 14th, 2001, the company acquired a 20% shareholding in NGC NGL Company Limited (NGCNGL) financed by the issue of an additional 50,511,540 shares.

On December 8, 2003, the company acquired a 37.84% shareholding in NGC Trinidad and Tobago LNG Limited (NGCLNG) financed by the issue of an additional 49,489,101 shares.

In December 2014, the company entered into a joint venture arrangement, acquiring 33.33% of Pan West Engineers and Constructors LLC. Also, the company has a wholly owned subsidiary, NEL Power Holdings Limited (NPHL).

Through NEL, individual and corporate investors can share in the financial stability and sustainability of these enterprises.

Chart 1
NEL's Group Structure



Source: NEL Annual Report

Business Model

The company's principal business activity is to purchase investments, primarily for long-term capital growth and investments.

The following outlines the business activity of each of NEL's investee companies (Chart 2): -

Chart 2
Principal business activities of NEL's subsidiaries and investee companies

Investment	Incorporated	Activity	% Interest
Unconsolidated Subsidiaries			
National Flour Mills Limited	Trinidad and Tobago	Food processing	51.00%
NEL Power Holdings Limited	Trinidad and Tobago	Investment holding company	100.00%
Telecommunications Services of Trinidad and Tobago Limited	Trinidad and Tobago	Telecommunications Provider	51.00%
Joint Ventures			
Trinidad Nitrogen Co. Limited	Trinidad and Tobago	Manufacturer of ammonia	51.00%
PANWEST Engineers and Constructors, LLC	Trinidad and Tobago	Investment holding company	33.33%
Associated Companies			
NGC NGL Company Limited	Trinidad and Tobago	Investment holding company	20.00%
NGC Trinidad and Tobago LNG Limited	Trinidad and Tobago	Investment holding company	37.84%

Source: NEL Annual Report

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National Flour Mills (NFM) Limited

NFM is 51.0% owned by NEL and was established as a public trading company, contributing to the nation's food security. Commencing operations as Trinidad Flour Mills in 1966, NFM has over the years expanded its operations to include a wide range of items and is one of the largest local suppliers of feeds to the agriculture sector. Its product lines include: flour, dry mixes, pet food, livestock feed as well as packaged rice, bottled cooking oil and other products such as coconut milk, instant yeast and ginger tea. Its core business has been wheat-based and this includes all-purpose flour, bakers' flour, whole wheat flour, cake flour, self-rising flour, breading flour, wheat germ, wheat bran, wheat cereal and cracked wheat flour. As at March 31st, 2021, the fair value of the investment in NFM stood at \$134.3 million.

NEL Power Holdings Limited

NPHL is a 100% subsidiary of NEL, NPHL holds 10.0% shareholding of the Power Generation Company of Trinidad and Tobago Limited (PowerGen). NEL purchased Amoco Trinidad Power Resources Corporation from BP which held 10% shareholding in PowerGen as its only asset. PowerGen generates power for supply in bulk form to the Trinidad and Tobago Electricity Commission (T&TEC), which distributes to its industrial, commercial and residential customers. As at March 31st, 2021, the fair value of the investment in NPHL stood at \$107.9 million.

Telecommunications Services of Trinidad and Tobago Limited

TSTT is a limited liability company that is jointly owned by NEL (51%) and Cable and Wireless (West Indies) Limited (49.0%), now Liberty Group Latin America. TSTT's principal activity is the provision of mobile, fixed line, broadband, pay TV, security and other related services either directly or through its wholly-owned subsidiary, Amplia Communications Limited. TSTT's strategy is to transform itself from a traditional telecommunications company into an agile broadband communications company using four pillars: superior technology, a focus on financial performance, customer service improvements, and organizational realignment. As at March 31st, 2021, the fair value of the investment in TSTT stood at \$248.6 million.

Trinidad Nitrogen Company Limited

Tringen is a limited liability company owned by NEL (51%) and by Yara Caribbean (2002) Ltd. (49%). The company manufactures anhydrous ammonia at two (2) independent production plants known as Tringen I and Tringen II. It is managed through a management and operating agreement by Yara Trinidad Limited, a wholly owned subsidiary of Yara Caribbean (2002) Limited. Through its management contract with Yara, the company exports to many countries and is a competitive producer in the international markets. As at March 31st, 2020, the fair value of the investment in Tringen stood at \$361.5 million.

Pan West Engineers and Constructors LLC

Pan West represents the collaboration of three of T&T's leading institutional investors: NEL, the National Insurance Board of Trinidad and Tobago (NIB) and the Trinidad and Tobago Unit Trust Corporation (UTC). Together, these institutions acquired Pan West Engineers and Constructors LLC from a wholly-owned subsidiary of General Electric Capital Corporation. This acquisition allows these local investment institutions to own 10% of Phoenix Park Processors Limited. Each institution has an equal 33.3% stake in the company through which all shareholders in these institutions now benefit. As at March 31st, 2021, the fair value of the investment in Pan West Engineers and Constructors LLC stood at \$203.8 million.

The National Gas Company of Trinidad and Tobago NGL Limited

NGC, established by the Government of Trinidad and Tobago in August 1975 is a key player in the development of the local natural gas industry of Trinidad and Tobago. One of its main subsidiaries is NGC NGL Company of Trinidad and Tobago Limited (NGC NGL). This is a holding company with 51.0% shareholding in Phoenix Park Gas Processors Limited (PPGPL), a gas processing facility. The processing leads to the fractionation of natural gas liquids into propane, butane and natural gasoline which are then marketed in the Caribbean and Central America. The company has successfully increased its operational efficiencies and has a number of new initiatives that are aimed at positively impacting its financial performance. As at March 31st, 2021, the fair value of the investment in NGC NGL stood at \$677.8 million.

The National Gas Company of Trinidad and Tobago LNG Limited

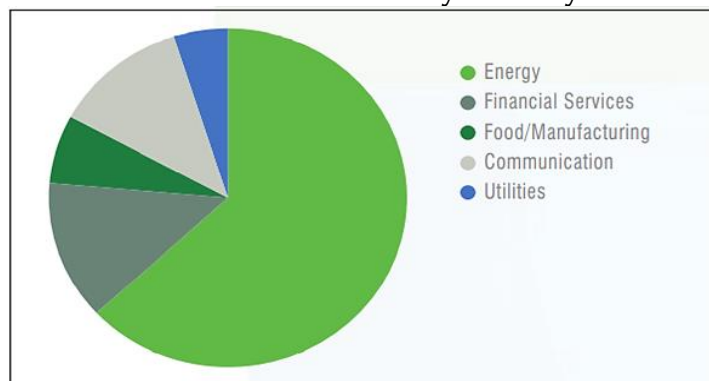
NGC LNG is an associate company of NGC. It is a holding company with 10% shareholding in Train 1 and 11.1% in Train 4 of Atlantic LNG (ALNG), the LNG processing facility in Pt. Fortin, Trinidad. Currently, there are no material operations at Train 1. NEL has 37.84% shareholding in NGC LNG and is another vehicle through which shareholders in NEL are able to participate in the energy sector of Trinidad and Tobago. As at March 31st, 2021, the fair value of the investment in NGC LNG stood at \$43.9 million.

Other Long-term Investments

Investments	31st March 2021 (\$'000)
National Housing Authority TT40M 7% FXB due 2025	\$ 39,768
Home Mortgage Bank TT20M Series B 2% FXRB due 2022	\$ 4,885
First Citizens Loan Note	\$ 54,064
ANSA Merchant Bank Limited USD Loan Note	\$ 33,743
Clico Investment Fund Units	\$ 25,020
First Citizens Bank Limited Shares	\$ 74,444
Trinidad & Tobago Stock Exchange Shares	\$ 224
Trinidad and Tobago National Gas Limited	\$ 28,680
UTC Calypso Index Fund Shares	\$ 28,320
Total	\$ 289,148

NEL's portfolio of investee companies primarily consists of energy companies, the remainder in the financial services, food/manufacturing, communication and utilities (Chart 3). As at March 31, 2021, investment in subsidiaries fell 7.4% to \$490.8 million from \$530.2 million, also, investment in joint ventures and associated companies fell 17.1% to \$1.3 billion from \$1.6 billion. The fall in the value of investments was driven by the macroeconomic conditions associated with global pandemic, COVID-19, and the prevailing conditions in the global energy market.

Chart 3
Investment Portfolio by Industry



Source: NEL Annual Report

Economic Review

According to the Central Bank of Trinidad and Tobago's (CBTT) July 2021 Economic Bulletin global economic activity continued to recover during the first half of 2021, despite the intensification of the COVID-19 pandemic in some countries. The International Monetary Fund (IMF) projects a global expansion of 6.0% for 2021, driven by increases in vaccination across economies. However, the prospects are quite uneven, based on the difficulty to access vaccines faced by many low and middle-income countries, coupled with the growing threats posed by new variants of the virus.

Energy commodity prices recovered, bolstered by favourable demand conditions on account of the re-opening of several economies alongside crude oil production cuts. The benchmark West Texas Intermediate (WTI) crude oil price increased by 69.5% year-on-year over the first seven months of 2021 to an average of US\$63.46 per barrel while natural gas prices rose by 81.5% year-on-year to an average of US\$3.26 per million British Thermal Units (mmbtu).

With respect to non-energy activities, the initial resurgence in construction and manufacturing observed at the start of the year was impeded in the context of stringent national lockdown measures employed in the second quarter to curtail the spread of the virus. In the short run, these measures impact the provision of a wide range of goods and services as well as personal and business incomes.

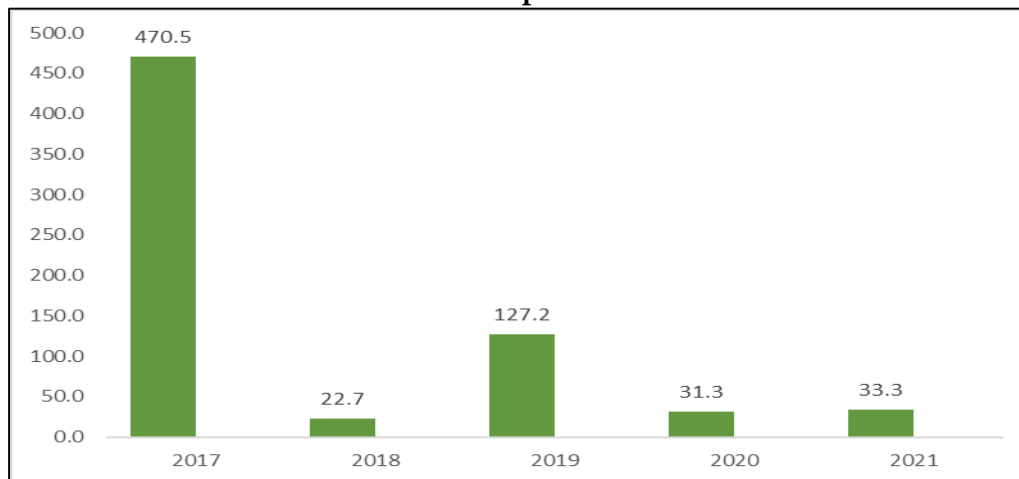
Inflation generally remained subdued during the first six months of 2021, reflective of restrained economic activity. On a year-on-year basis, headline inflation measured 1.8% in June 2021, compared to the January 2021 rate of 0.9%.

The short-term economic outlook for T&T will be directly impacted by the path of the virus and the domestic response. If sustained, the gradual relaxation of restrictions on movement and business activity from August could see, by the end of 2021, a meaningful recovery of non-energy output lost during the first 2.5 quarters of the year.

Financial Analysis

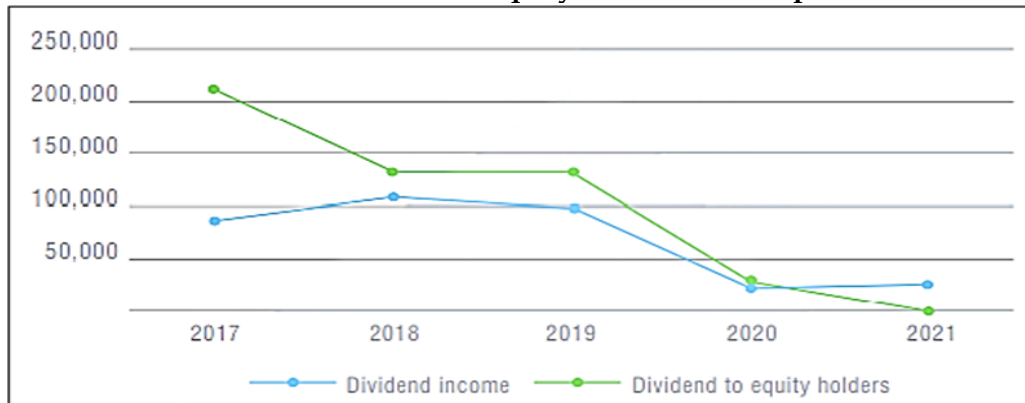
NEL had shown good financial performance with revenue peaking to \$470.5 million in 2017. In FY2021, revenue plummeted 92.9% from its 2017 levels, though, improving by 6.4% to \$33.3 million from \$31.3 million in the prior year, boosted by an 8.9% increase in dividend income to \$25.9 million from \$23.8 million in FY2020. NEL's performance over the last year reflected declining commodity prices and weak market recoveries in the energy sector.

Chart 4
Revenue for the period 2017-2021



Source: NEL Annual Report

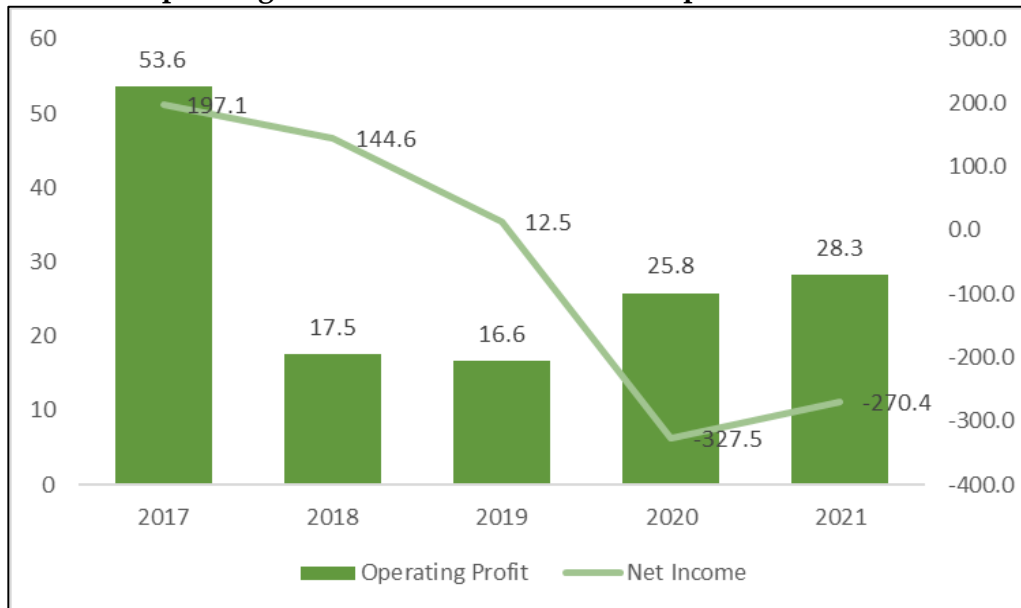
Chart 5
Dividend Income and Dividend to Equity Holders for the period 2017-2021



Source: NEL Annual Report

Apart from its investee companies, NEL also receives dividend income from its equity investments in the Trinidad and Tobago Stock Exchange (TTSE), First Citizens Bank Limited (FCB), Clico Investment Fund, Trinidad and Tobago National Gas Company and UTC Calypso Index Fund.

Chart 6
Operating Profit and Net Income for the period 2017-2021



Source: NEL Annual Report

In FY2017, NEL recorded an operating profit of \$53.6 million and a net profit of \$197.1 million, this performance was driven by Tringen’s investment in plant and equipment contributing to an

improved financial performance despite low market prices and limited natural gas supply. NGC NGL, Pan West and TTNGL also benefitted from marked improvements in the operations of PPGPL, where new strategies and internal operational changes were introduced. Additionally, TSTT also returned to profitability in that year and implemented its strategic plan to become a more robust and competitive telecommunications provider.

In FY2021, NEL recorded a 9.3% increase in operating profit to \$28.3 million from \$25.8 million in the prior year. However, NEL recorded a loss on its fair value revaluation on investments to \$269.9 million (↓15.5%) from \$351.2 million in the prior year. As a result, the Company recorded a net loss of \$270.4 million (↓17.4%) from a \$327.5 million loss in the corresponding prior period, driven by declines in the value of NGC LNG (87.2%), NGC NGL (29%) and Pan West Engineers and Constructors LLC (21%). However, the non-energy portfolio companies showed a strong performance with NFM increasing its value by 99%. NPHL and Tringen also completed the year with an increase in value of 34% and 50% respectively, while, TSTT experienced a 35% reduction in value.

For the period ended March 31st, 2021, NEL's total assets and total equity fell by 10.8% to \$2.2 billion in 2021 from \$2.5 billion in the prior period. However, cash improved to \$29.9 million from \$1.1 million. As a result, the company's liquidity position improved, recording a current ratio of 12.2x from 6.8x. As at March 2021, total liabilities stood at \$3.9 million (↑34.4%) from \$2.9 million in the prior year. As such, gearing, measured by the ratio of Debt to Equity deteriorated marginally to 0.18 in 2021 from 0.12 in 2020.

Key Value Drivers

- Currently, NEL's portfolio of investee companies comprises over 50% in energy and energy related companies. As such, NEL's performance is highly dependent on the energy sector, therefore, fluctuations in energy prices or production can impact the Company's earnings
- NEL plans to restructure its portfolio of investee companies and will continue to take the decisive actions to create a balance for increased income and value for both the short and mid-term
- The company focuses on investments in efficiency and innovation, market positioning for greater participation in the full value chain and developing forward-looking collaborations for competitive clean energy
- TSTT has embarked on another reorganization exercise, when successfully implemented, is expected to yield significant profits going forward.
- Also, the completion of negotiations of the gas supply contract between Tringen and NGC promises a strong rebound.

Recent Developments

In 2019, NEL discontinued the "equity accounting" method of accounting for its investee companies. Since then, in determining the value of the investments, reporting was changed to that of an investment holding company. The value of the investee companies is now carried at their market value.

In 2020, NEL's portfolio of energy companies were negatively impacted by a combination of the reduction in commodity prices and the global pandemic, COVID-19. However, at the end of FY2021, the industry saw a rebound in commodity prices from gradual economic recovery. Furthermore, the full impairment of the Train 1 plant at Atlantic LNG resulted in a write-down in value to the net asset value of the plant of \$43.9 million from \$192.5 million in the prior year. The contract for the supply of gas to Atlantic LNG expired in May 2018 and to date, no long term agreement has been secured. The shareholders of Atlantic Train 1 are in continuous discussions with the GORTT about the future of Train 1.

For the three-month period ended June 30th, 2021, NEL recorded a 15% increase in total comprehensive income to \$18.1 million from \$15.3 million in the prior period. This increase was driven by dividend income of \$1.4 million and an improvement in the fair value of assets.

Additionally, on July 13th, 2021, NEL announced that the Company's financial year end was changed from March 31st to September 30th.

Valuation

Discounted Cash Flow (DCF) Model

A price target of **\$3.44** was derived using the Discounted Cash Flow (DCF) model. This model takes the projected future cash to be earned by the company and adjusts them to present day values. The basis of this forecast are assumptions made about the main value drivers for NEL. Intrinsic valuation on the DCF model shows a share price of \$3.44 vs. a market price of \$3.37.

Residual Income (RI) Model

For a business with unpredictable dividend payments and cash flows, the Residual Income model is a powerful tool to forecast intrinsic value. This approach starts with the current book value per share of NEL's equity today and discounts the expected value of future residual incomes ($RI_t = Earnings_t - (r_{ce} * Book\ Value\ of\ Equity_{t-1})$). Intrinsic valuation on the RI model shows a share price of **\$2.30** vs. a market price of \$3.37.

Regression Analysis

Regression analysis is used in determining the relationship between a dependent variable and one or more independent variables. In building this model, four (4) independent variables were used to forecast the price of NEL (dependent variable); (i) Natural Gas Production; (ii) NFM's EPS; (iii) GDP Growth and (iv) LNG Production. Using the formula below, a price target of **\$2.77** was derived vs. a market price of \$3.37: $NEL's\ Price = \alpha + \beta_1 (\ln (\text{Nat. Gas Price})) + \beta_2 (\text{NFM EPS}) + \beta_3 (\text{GDP Growth}) + \beta_4 (\ln (\text{LNG Production}))$.

Risk Factors

Risk factors to which the company are exposed to include the following:

Highly vulnerable to a changing energy landscape - Since NEL's investee companies are primarily energy companies, a decline in international energy prices can further impact the performance and fair values of its investee companies. Also, with the increasing commercial viability of alternative forms of energy generation such as wind and solar, demand for fossil fuels globally is expected to fall in an increasingly environmentally conscious world.

Uncertainties in the economic environment - NEL is subjected to the economic and financial risks of T&T as it may limit the growth potential of its investee companies and therefore, its revenue generating ability. The macroeconomic conditions in T&T have been severely impacted by the COVID-19 pandemic as lockdown restrictions implemented to contain the spread of virus locally reduced economic activity and business profitability. The heightened economic uncertainties in the T&T economy amid new variants of COVID-19 can further impact business activity in the economy.

The current ceiling constrains on flour pricing - The prices of NFM's flour products are capped by the Government of Trinidad and Tobago, as such, NFM must obtain approval before implementing any price increases, limiting NFM's profitability levels. Furthermore, NFM is affected by supply-chain disruptions resulting in increases in prices of raw materials, continued disruptions can negatively impact the profitability of NFM.

Recommendation

Model	Intrinsic/Fair Price	Overvalued (Undervalued) by	Weighting
Discounted Cash Flow	\$ 3.44	\$0.07	40.0%
Residual Income	\$ 2.30	(\$1.07)	40.0%
Regression Analysis	\$ 2.77	(\$0.60)	20.0%
Weighted average Intrinsic Value	\$2.85		
10% Above Average	\$3.14		
10% Below Average	\$2.57		

The models used in the above analysis generated values ranging from \$2.30 to \$3.44, each with its own margin of error. The model uses a 10% margin of error in an attempt to provide a fair value range of \$2.57-\$3.14. The DCF model and the RI model was given a 40% weight each, while the Regression Analysis model was given a 20% weight. Probabilities were used to weight the various prices generated under each scenario in order to reduce the bias of the analyst which carried out the analysis. JMMB Investments Limited **recommendation on NEL is UNDERPERFORM** with an **intrinsic price of \$2.85**.

This UNDERPERFORM rating is given on the following basis:

- Currently, NEL's portfolio of investee companies comprises over 50% in energy and energy related companies. As such, NEL's performance is highly dependent on the energy sector, therefore, fluctuations in energy prices or production can impact the Company's earnings
- NEL is subjected to the economic and financial risks of T&T as it may limit the growth potential of its investee companies and therefore, its revenue generating ability. The heightened economic uncertainties in the T&T economy amid new variants of COVID-19 can further impact business activity in the economy.
- NFM, one of NEL's investee companies are affected by supply-chain disruptions resulting in increases in prices of raw materials, continued disruptions can negatively 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**.

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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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