



PAN JAMAICAN INVESTMENT TRUST LIMITED

Company Analysis as at March 31, 2010

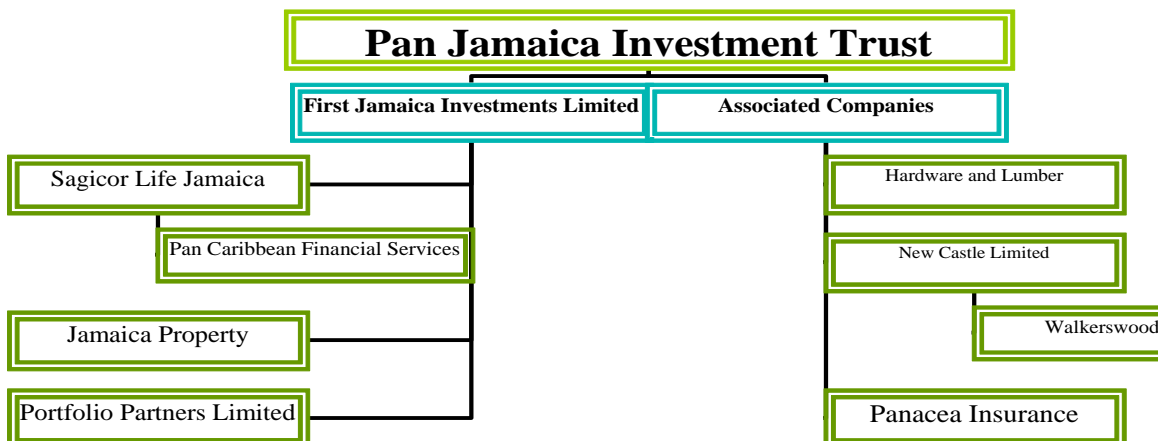
After 46 years in operation, Pan Jamaica Investment Trust Limited (PanJam) still resembles the company the Faceys bought into in the 1960s. Among the first to be listed on the then, Kingston Stock Exchange- it was an island-wide operation unrestricted in its investments. PanJam made investment in many business lines among them property management- following its merger with Jamaica Properties Limited, tourism and wharfage operations. After major restructuring activities earlier in the decade and the subsequent disposal of some of these assets, PanJam had evolved into a full-fledged holding company which currently directs and controls the operations of its subsidiaries and associated companies.

Vital Statistics as at August 4, 2010

Recommendation	BUY
Industry	Conglomerates
Current Stock Price	\$47.50
Shares outstanding	171,299,000
Trailing EPS	\$7.59
Projected EPS	\$7.04
Trailing P/E	6.3X
Historical P/B	1.09X
Book Value	\$55.80
Target Price	\$60.82

Through its primary holding- a 75% stake in First Jamaica Investment (FJI), other subsidiaries and associated companies, PanJam's investments currently span property management and rental, investment, insurance, pension fund management, banking, manufacturing & distribution, retail & trading. As a holding company, PanJam derives income from property and investment income, commission and apportioned earnings from associated companies mainly Sagicor Life Jamaica (SLJ). Its operations however are divided into two main segments- Property management and Investments.

Principal Group Companies





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The Board of Directors

Pan Jam has an eight member board of directors¹ which oversees the management of the assets and businesses held by the holding company. Led by the Honourable Dr. Maurice Facey, the directors have significant experience and knowledge in the relevant technical areas including real estate, banking and insurance, trading and manufacturing and accounting. Current directors own² roughly 51.5% of shares in issue which suggest that their interests are aligned with that of shareholders and they have strong motive for ensuring continued profitability of PanJam. Of note though, there are five independent directors which is a departure from the 75% stipulated by global best practices recommendation for good corporate governance..

Corporate Strategy

PanJam is arguable one of the best managed companies on the stock exchange and a favourite among local investors. As such, although conglomerates usually trade at a valuation discount for lack of focus and cotenancy³, the strength of the company's management and diverse nature of its operations could be the reason the stock trades at less of a discount relative to peers. The group has focused mainly on further diversification of its revenue streams and expanding its operations through acquisitions. In 2009, PanJam took a 25% stake as part of an investment consortium in Walkerswood Partners- a manufacturer of local condiments and spices. After having disposed of its interest in San Souci hotels in the 1990s, plans are now in place for reinvestment in the tourism sector with the proposed development of lands sold to PanJam in the Knutsford Boulevard vicinity. This will complement the group's current holdings of roughly 700,000 square feet of high-priced office space. In addition, its subsidiary is involved in the development of up-scale residential complexes and owns prime-retail store spaces in Manor Park. Given the long term nature of lease agreement it has with tenants such as Scotiabank, Victoria Mutual and Sagicor, the property segment which contributed 68% to total revenues in 2009, provides a stable income stream. Notwithstanding the stability of its main income source, the management has been fairly conservative in its investments assets, particularly since the recent global financial meltdown and is currently overweight in cash.

¹ Roy Collister who died earlier this year will be replaced at the next board meeting later in August

² through personal holdings and connected parties

³ discount for an undivided interest in real estate



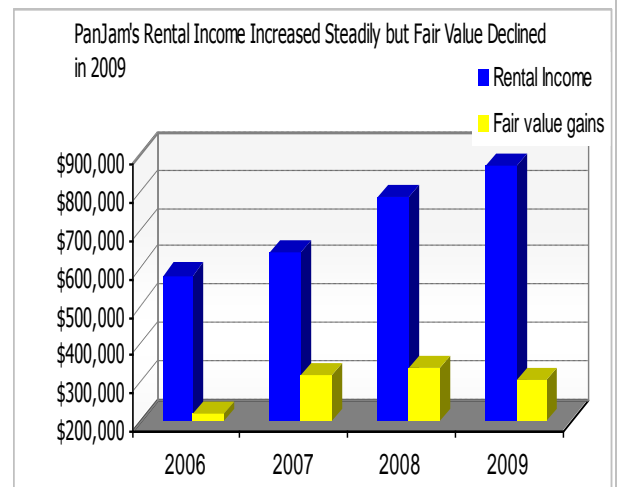
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Property Management

PanJam's interest in prime commercial properties has yielded strong positive returns. This has been driven largely by the group's investment in the maintenance and upkeep of its properties. However, with the global recession resulting in the retrenchment in consumer spending and the forced restructuring exercises by companies which in turn reduces the demand for office spaces, global commercial property prices declined. Globally, commercial buildings have shed nearly 15% of their value on average last year⁴. However, this is in contrast to the local market in which property values have remained fairly stable.

Management noted plans to focus on tenant retention which means that while occupancy rates could remain above the 97% region, rental income could remain fairly stable. This could be more pronounced in the retail property segment as it may be easier for these clients to relocate and the availability of substitutes is greater. Management recorded a 10% reduction in property revaluation gain in 2009 as softening demand for commercial real estate spaces prompted a more conservative approach. Despite this, lower domestic interest rates is likely to result in lower capitalization rate⁵ which could in turn result in higher market values for the properties.



⁴ data from Investment Property Databank showed- <http://www.ipd.com/>

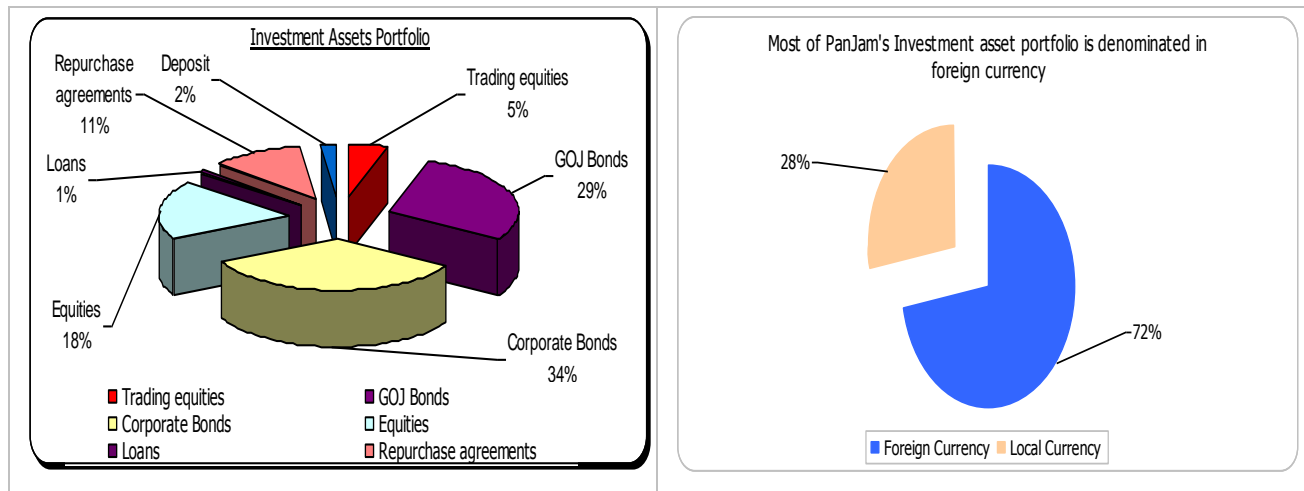
⁵ The Capitalization Rate is a ratio used to estimate the value of income producing properties. It is the net operating income divided by the sales price or value of a property expressed as a percentage



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Investment Management



PanJam's investment assets portfolio comprise a mix of equities, GOJ bonds, Corporate bonds and Repurchase Agreements which had a total value of \$2,887.86Mn as at 2009. As testament to the proactiveness of management, PanJam's portfolio has been positioned to reduce the impact of the downturn. The group reduced its investment in corporate bonds in light of the expected adverse decline in these asset prices and increased its holdings of liquid assets to enhance the ability to capitalize on investment opportunities as they arise. In the current year, the investment portfolio should benefit from higher equity prices.

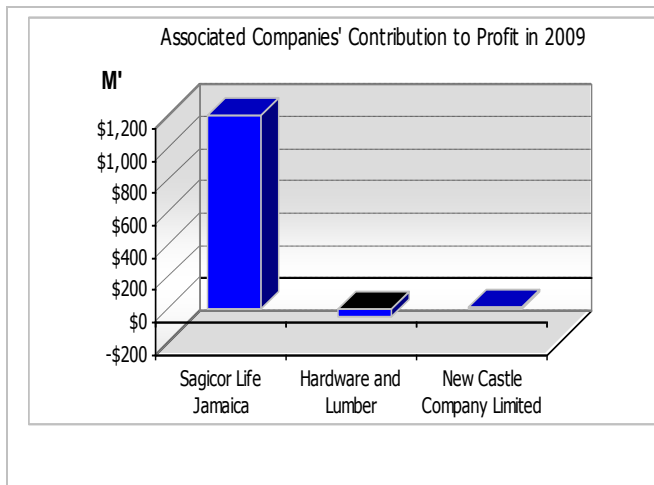
On the other hand, lower domestic interest rates will mean significantly reduced interest income on repurchase agreements. Roughly 72% of the investment asset is denominated in foreign currency (mainly US\$). The 4.0% revaluation in the local currency since Q1 would therefore mean that the company is likely to report foreign exchange losses for the period.



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Associated Companies



Associate companies including SLJ⁶, Hardware and Lumber (H&) and New Castle Company Limited represent PanJam's exposure to the Retail & Trading, Insurance & Pension Fund Management and Consumer manufacturing sectors. The group's stake in SLJ however is one of the main driver's of profit performance as the other companies contribute a relatively small portion to group earnings⁷.

Given the current weakness in the economy and the anticipated impact of the Jamaica Debt Exchange (JDX) however, PanJam could see a significant decline in this income line as SLJ should report lower earnings. This could also mean a reduction in dividend income from the said company.

SLJ enjoys market leader status in the individual life (40% market share) and group health insurance (84% share) business following its acquisition of Blue Cross Jamaica. Despite this dominance, SLJ is expected to see a 16.4% decline in earnings for the current year (based on our projections) as lower interest rates should reduce investment income in addition to increasing insurance and actuarial liabilities. The weak economic environment could also result in increased withdrawals and policy surrenders, further compounding the group's challenges. That said, SLJ increased its holdings in PanCaribbean Financial Services to 86%⁸ and stands to benefit from PCFS' strong foothold in the Unit Trust market following regulatory thrust to have securities dealers migrate their business to collective investment schemes.

⁶ PanJam has through FJI's 24.5% ownership in Sagikor Life Jamaica

⁷ Hardware & Lumber has been making a loss, while New Castle contributed just \$15Mn in eight months.

⁸From 53%



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SWOT Analysis

<u>Strengths</u>	<u>Weaknesses</u>
<p>Strong management team with expertise in the industries in which the group has invested.</p> <p>Diversified revenues streams which helps PanJam to better weather the economic downturn</p> <p>Pan Jam owns substantial Triple A office properties. Long term lease agreements provide a relatively stable income stream</p> <p>Subsidiaries and associated companies such as SLJ hold market leadership positions in their respective industries.</p>	<p>PanJam faces concentration risk as most of its operations are concentrated in Jamaica.</p> <p>PanJam's performance is heavily dependent on the performance of SLJ which is expected to weaken in the current year.</p>
<u>Opportunities</u>	<u>Threats</u>
<p>With the US\$17.5Mn loan from the International Finance Corporation (IFC) and existing liquid resources, PanJam has the ability to expand its operations through acquisitions</p> <p>Further diversification of revenues into the wider Caribbean region.</p>	<p>The recession could lead to a decline in property values, lower rental income and the underperformance of subsidiaries and associate companies.</p> <p>Carrying values of properties remain below the replacement cost which is a deterrent to investment and could restrict growth in the commercial property segment.</p> <p>Lower interest rates in the post JDX environment is expected to result in lower investment income and SLJ's profit.</p>



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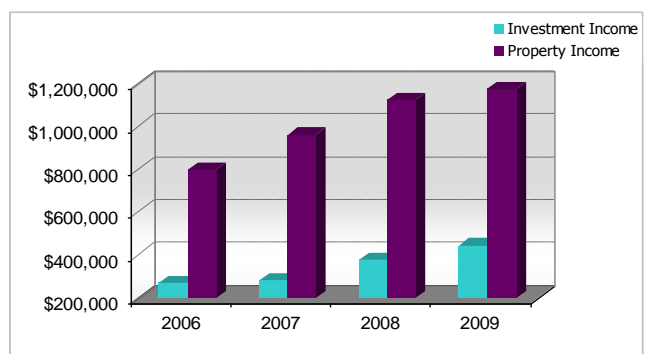
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Historical Financial Performance

PanJam's profit has grown at a 4-year CAGR⁹ of 14.1% to \$1.93Bn in FY2009. Its profitability ratios reflect an upward trend and steady improvements in margins. Return on equity (ROE) and Return on assets (ROA) as at 2009 were 18.8% and 23.7%, respectively. PanJam's performance has been driven by stable growth in its core revenue lines: Property and Investment income which has also been supported by above average growth in share of profit from associated companies; mainly SLJ.

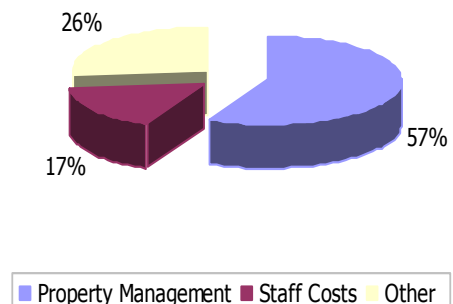
PanJam's core revenues have increased significantly over the last 4 years. Investment income has increased 65.4% since 2006, while the property income grew 46.6%. The property segment is however the group's main income earner, contributing on average 70% to the top-line.

Graph 1



Cost containment has been a key focus and has contributed to the healthy margins maintained over the period. Since 2006, operating expenses grew by just 36%. Operating margin has increased steadily from 54.4% to 59.4% in 2009. That said, the application of the 10% GCT on commercial electricity usage should put upward pressures on costs, negating the benefits of lower oil prices. PanJam's focus on tenant retention could affect its ability to pass on these higher charges to its tenants. As such, margins could decline in the current year.

Property Management Cost (includes electricity costs) accounted for 57% of total cost



⁹ Compound Annual Growth Rate



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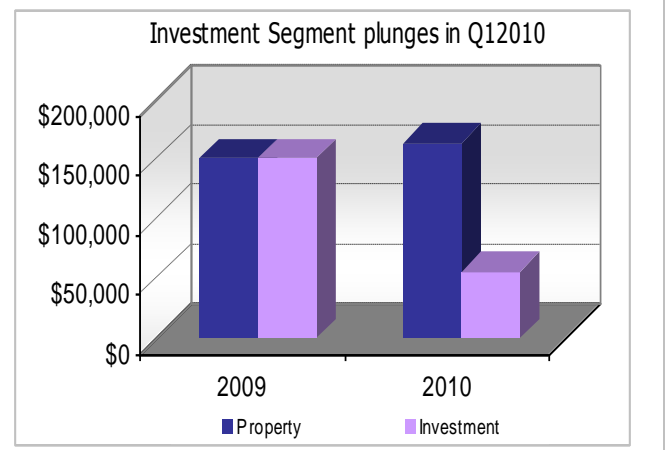
PanJam's share of results from associated companies plays a critical role in the performance of the group contributing roughly 53% to pre-tax profit. This line item however could see a deviation from the average 17% growth over the last four years as SLJ's earnings is expected to be lower.

First Quarter Performance

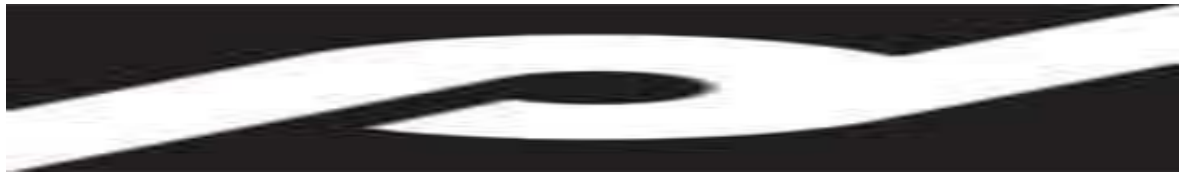
The 23% decline in earnings for the first quarter reflected the adverse impact of the Jamaica Debt exchange (JDX) and the relative stability in the local currency. Net profit amounted to \$430.1Mn (EPS: \$1.83) reflecting a 60% decline in investment income. Share of results from associated companies fell 16% reflecting lower earnings from SLJ. Operating expenses were up 18% due to higher world oil prices, precipitating the 29.5% decline in operating profit to \$227.9Mn.

Segment Overview

Despite a slight decline in occupancy levels to 97%, operating profit from the property segment managed to eke out an 8% increase to \$164Mn. However, due to lower FX gains, results from its investment arm plummeted 64% to \$55Mn. Lower interest income and the revaluation in the local currency should result in the continued underperformance of the investment segment.



Total assets as at March 2010 stood at \$14Bn representing an 8.5% over the \$12.9Bn as at December 2009. Total liabilities increased 39% since December 2009 as the company drew down US\$5Mn of its US\$17.5Mn line of credit with International Finance Corporation (IFC). This has increased its leverage ratio to 7.8% from 6.1% at December 2009. Shareholders equity jumped to \$9.6Bn (BVPS: \$55.80) as at March 2010.



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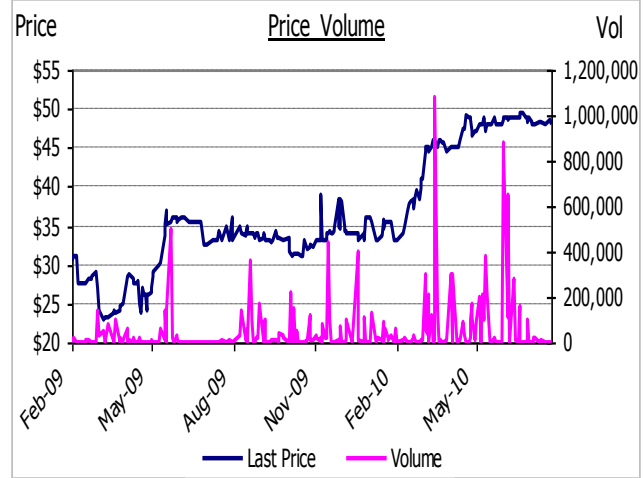
Peer Analysis

Peer Analysis					
	Pan Jam	GKL	JP	LAS	Rank
Net Profit Margin	80.40%	4.49%	3.35%	10.27%	1st
Efficiency Ratio	40.62%	26.10%	20.02%	30.91%	4th
Leverage Ratio	2.70%	72.70%	1.54%	0.10%	3rd
ROE	15.62%	11.80%	4.60%	10.16%	1st
ROA	10.82%	2.64%	3.70%	7.44%	1st
P/E	6.38	7.82	14.94	11.79	1st
P/B	0.88	0.73	0.74	1.08	2nd

Key statistics for PanJam compare favourably with other conglomerates. The company ranks 1st in four of the seven categories. The dominance in most areas reflects the strength of the company's investments.

Technical Analysis

Recent Statistics as at August 4, 2010	
Stock Code	PJAM
Fiscal Year End	31-Dec
Current Price	\$48.10
Shares outstanding	171,299,000
Market Capitalisation	\$8,239,481,900
52-week high/low	\$50.00/\$31.00
DPS 2009	\$1.36
Average daily volume (last 12-months)	64,473
R ²	0.02%
Bid/Ask	\$47.50/\$48.99
Year to date % change	31.94%
Quarter to date % change	-3.06%
Month to date % change	-0.56%
% Price Change over last 12 months	32.30%
Adj.Beta (12 months)	0.687



Over the last 12 months the stock has appreciated 32% to \$47.50. It has also outperformed the main JSE Index which returned 7% over the same period. The stock remains among the 15 most liquid on the market-evidenced by its low bid-ask spread and traded 182 days out of a possible 250 days. Average daily volume was 64K. The strong performance of the stock price has come against the background of strong quarterly results leading up to end of FY2009. Despite the expectation of lower earnings in 2010, an expected rebound in investor interest particularly from institutional players should help to support the upward movement in the stock price.



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Earnings Projections

- Total income is expected to grow by a modest 3% to \$1.78Bn predicated on a 20% decline in investment income (10% increase in the property income).
- Operating expenses should increase 10% to \$747Mn while finance costs should increase by 6% to \$54.1Mn, following the US\$5M draw down from IFC facility in March.
- Share of results from associated companies should region \$843Mn resulting in net profit of \$1.25Bn (EPS: \$7.04).

Valuation

Implied P/E

Market Decomposition		
	Pan Jam	Sagicor Life Ja.
Shares outstanding	171,299,000	3,760,991,000
Price*	48.50	7.00
Market Capitalization	8,308,001,500	26,326,937,000
Implied Value of Pan Jam	1,857,901,935	
P/E	5.95	
Implied P/E	2.29	

The implied P/E excluding its investment in SLJ is 2.3X is extremely low relative to the market P/E of 12.6X. *The holding company discount appears excessive given the company's long history of profitability, low leverage and strong cash flow position over the years. We have opted instead to apply the average P/E over the last four years (7.5X) to the projected EPS of \$7.04 gives a forward price of \$52.80.*

Book Value Approach

While the P/E approach is generally useful, the book value approach gives a better estimation of the value of a holding company given that it does not engage in normal ongoing operations other than the retention and management of assets in anticipation of possible future sale. PanJam's balance sheet comprises mainly of cash, marketable securities, real estate and investments in associated companies. Therefore, the best valuation for these companies would be the asset approach, which estimates the business' value based on the market value of



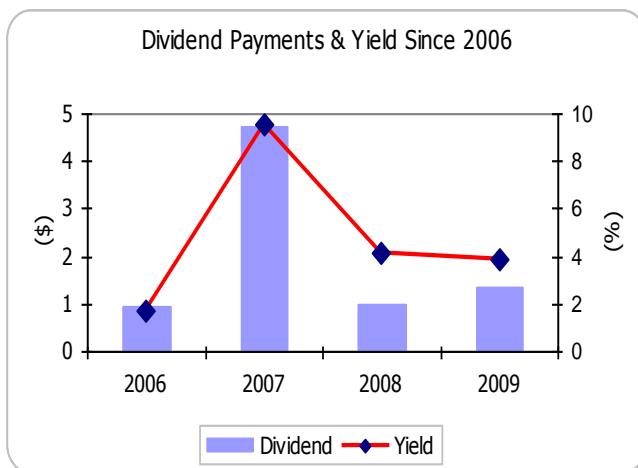
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the underlying assets rather than the income producing capacity of the company or the market values of comparable companies.

PanJam traded at an average P/B of 1.09X between 2004 and 2009. Applying the average P/B to its current book value of \$55.80 gives a forward price of \$60.84.

Dividend Policy



PanJam has a history of making quarterly dividend payments to shareholders but has also made special distributions (\$0.16 in 2009) following the sale of certain assets and or higher than normal profit. Over the last four years, dividend payout ratio averaged 17.3%. In FY2009, \$1.36 was paid to shareholders - a yield of 3.91%. Given the projected decline in earnings however, dividend payment is projected to decline to \$1.22 per share (a projected yield of 2.6%).

Recommendation

Both valuation methods point to a higher price, representing a premium of 10% to 27% above the last traded price. This translates into a total expected return of 30% when the projected dividend yield is considered. As a result, PanJam is a recommended **BUY** for investors with a medium to long term investment horizon.

Conclusion

After 4 years of continued increase in profit, PanJam, like most listed companies is expected to report lower earnings in the current year as a result of the challenges in the local economy. However, as the local economy improves later in 2010 (+0.5% growth expected for the year), the group's profit is likely to return to its upward trend. This is premised on higher property income- the group's main revenue earner, and improved earnings from SLJ. Investment income should be driven by firmer equity prices in the medium term. Given the earnings



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prospect for PanJam, we believe that investors could derive value over the medium to long term with the addition of the stock to their portfolio.



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Appendices

Earnings Projections

	2005	2006	2007	2008	2009	Initial 2010
	Audited	Audited	Audited	Audited	Audited	Projections
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income						
Premiums, net	11,806	15,047				
Investments, net	259,676	268,408	281,204	376,649	444,103	355,282
Property	683,635	800,948	961,288	1,125,567	1,174,446	1,291,891
Commission			20,713	23,317	30,650	35,248
Other	67,933	57,703	111,321	61,578	86,815	99,837
Total Income	1,023,050	1,142,106	1,374,526	1,587,111	1,736,014	1,782,258
Operating Expenses	(465,435)	(520,528)	(582,504)	(688,280)	(705,096)	(775,606)
Operating Profit	557,615	621,578	792,022	898,831	1,030,918	1,006,652
Interest Expense	(32,447)	(35,416)	(30,581)	(44,990)	(51,058)	(54,121)
Share of results of associated company	622,642	647,817	739,304	845,962	1,124,733	843,550
Transfer from investment reserve						
Profit on disposal of subsidiary	-	-				
Gain on dilution of shareholding	38,496	15,452			10,427	
Profit before Taxation	1,186,306	1,249,431	1,500,745	1,699,803	2,115,020	1,796,080
Taxation	(115,255)	(114,057)	(127,838)	(82,532)	(179,887)	(143,686)
Profit after Taxation	1,071,051	1,135,374	1,372,907	1,617,271	1,935,133	1,652,394
Minority interest	(752,801)	(313,324)	(387,347)	(475,024)	(539,456)	(446,146)
NET PROFIT	2,796,373	1,135,374	985,560	1,142,247	1,395,677	1,206,248
Earnings Per Share	\$11.93	\$4.72	\$5.69	\$6.67	\$8.15	\$7.04

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Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

- (a) Pan-Jamaican Investment Trust Limited, ("the company") is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange.
- (b) The main activity of the company is the direction and control of the operations of its subsidiaries and associated companies. The company's income consists mainly of dividends, interest income and management fees earned from its subsidiaries and associated companies. The registered office of the company is located at 60 Knutsford Boulevard, Kingston 5.
- (c) The company's subsidiaries and associated companies, which together with the company are referred to as "the group" are as follows:

Subsidiaries	Principal Activities	Proportion of issued equity capital held by	
		Company	Subsidiaries
First Jamaica Investments Limited	Investments	73.31%	-
Jamaica Property Company Limited	Commercial Property Rental	-	100%
Jamaica Property Development Limited	Property Management	-	100%
Jamaica Property Management Limited	Property Management	-	100%
Imbrook Properties Limited	Property Development	-	100%
Portfolio Partners Limited	Investment Management	-	100%
Jamaican Floral Exports Limited	Horticulture	80%	-
Jamaican Heart Limited	Horticulture	-	100%
Pan-Jamaican Mortgage Society Limited	Financial Services	100%	-
Scotts Preserves Limited	Distribution	100%	-
Busha Browne's Company Limited	Distribution	-	100%
St Andrew Developers Limited	Property Development	-	-
Knutsford Holdings Limited	Office Rental	-	60%
Panacea Holdings Limited (Incorporated in St. Lucia) Islands	Investments	100%	-
Panacea Insurance Limited (Incorporated in St. Lucia)	Captive Insurance	-	100%
Associated Companies			
Hardware & Lumber Limited	Retail and Trading	20.83%	-
Sagicor Life Jamaica Limited	Insurance and Pension Management	-	24.46%
Impan Properties Limited	Office Rental	-	20%
New Castle Company Limited (Incorporated in St. Lucia)	Consumer Products	25%	-