

2017

# ANALYSIS OF SAGICOR GROUP JAMAICA LIMITED



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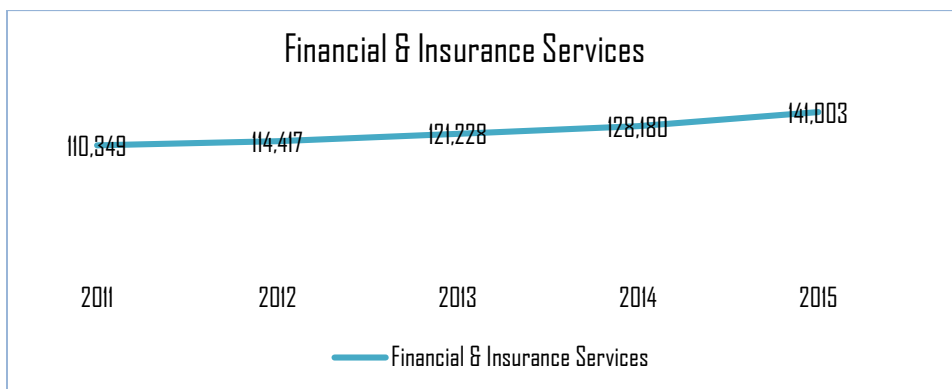
## MACROECONOMIC OUTLOOK

A major macroeconomic factor that directly affects the financial services sector is the relationship between inflation and interest rates. In general, as interest rates are reduced, consumers are able to borrow more credit and spend more money. As a result, the economy may grow robustly causing an increase in the rate of inflation; the opposite is also true when interest rates are increased. Banks and other financial institutions invest a majority of their revenue, and as such investing activities are extremely sensitive to the fluctuations of interest rates. According to the BOJ's (Bank of Jamaica) latest quarterly report, the monetary outlook for the economy suggests that the level of inflation is expected to be low and stable, and is expected to fall from 4.1% to 4.0%. ("Quarterly monetary policy report"-boj.org.jm, 2017)

## INDUSTRY ANALYSIS

### MARKET TREND

Based on data obtained from the statistical institute of Jamaica (statin), the financial & insurance service industry has grown by 27.7% since FY/11, with an annual average growth rate (AAGR) of 6.34% per annum.



## PORTER'S FIVE FORCES

### *Threat of New Entrants*

The average person cannot start a large insurance company as this industry has heavy regulations and requires large amounts of capital just to get the business off the ground. The main threat is from insurance companies already competing within the industry for market share as they try to find niches to underwrite insurance.

### *Power of Suppliers*

The human capital is a cause for concern within the insurance industry as companies face the risk of losing talented staff to other major players in the industry. Insurance companies must therefore be aggressive in maintaining their talent pool.

### *Power of Buyers*

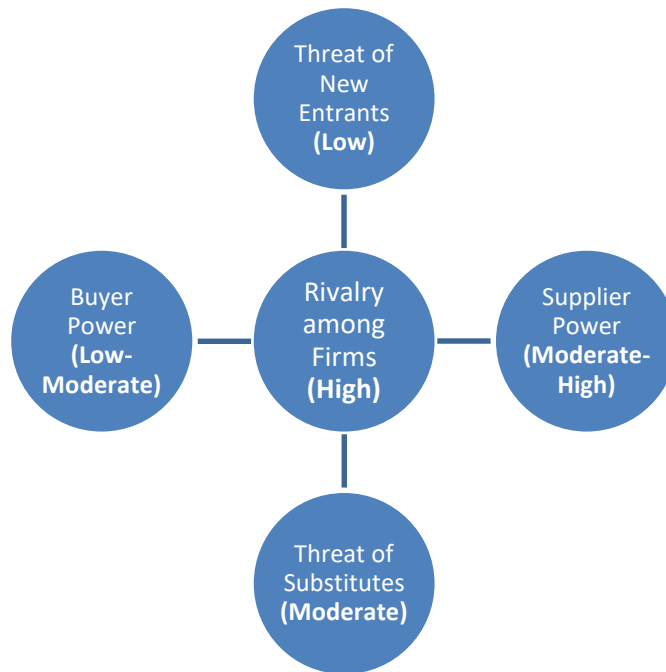
There are a handful of major insurance companies within the industry and as such the average individual client does not pose much of a threat to insurance companies. However, insurance companies must be mindful of their relationships with big corporate clients that pay large premiums on a monthly basis and contribute a significant amount to their revenue.

### *Threat of Substitutes*

There are many substitutes in the insurance industry as most companies offer similar products and services. However, insurance companies that focus on niche markets may offer different products and services to gain a competitive advantage.

### *Competitive Rivalry*

The insurance industry is very competitive as major companies have offerings with little or no differences. Insurance companies therefore have to focus more on keeping costs in check, be more efficient with their assets and make better investments to obtain higher returns (industry handbook-investopedia.com, 2017).



### *Conclusion*

With a low threat of new entrants, low-moderate level of buyer power, moderate-high level of supplier power, moderate level of threat of substitutes and a high level of rivalry among firms, the insurance industry can be seen as a moderately attractive industry.

## COMPANY ANALYSIS

### COMPANY OVERVIEW

Sagicor Group Jamaica (SGJ) is a majority owned subsidiary of the Sagicor Financial Corporation (SFC). Sagicor currently operates in 22 countries within the Caribbean, UK, USA and Latin America. SGJ is a full service financial institution that offers a wide array of products and services. These products and services are tailored to meet the real estate, banking, insurance, annuities, pension and investment needs of their clients (“corporate profile-sagicorjamaica.com”, 2017).

Sagicor Group Jamaica is composed of the following thirteen (13) subsidiaries:

<b>Subsidiaries</b>	<b>Primary Activities</b>	<b>Domiciled In</b>	<b>Holdings</b>
<b>Sagicor Life Jamaica Limited</b>	Health Insurance, annuities, retirement products, pension administration and investment securities	Jamaica	100%
<b>Sagicor Investments Jamaica Limited</b>	Investment Banking	Jamaica	100%
<b>Sagicor Bank Jamaica</b>	Retail Banking	Jamaica	100%
<b>Sagicor Securities Jamaica Limited</b>	Securities trading	Jamaica	100%
<b>Sagicor Costa Rica SCR, S.A</b>	Creditor Life		100%
<b>SGJ International Holdings (St. Lucia) Limited</b>	Financial Services	Jamaica	100%
<b>Sagicor St. Lucia Ltd</b>	Financial Services	Jamaica	100%
<b>Employee Benefits Administrator Limited</b>	Pension administration services,	Jamaica	100%
<b>Sagicor Property Services Limited</b>	Property management, real estate sales and rentals	Jamaica	100%
<b>Sagicor Pooled Investment Funds Limited</b>	Pension fund management	Jamaica	100%
<b>Sagicor Insurance Brokers Limited</b>	Insurance Brokerage	Jamaica	100%
<b>Sagicor International Administrators Limited</b>	Group insurance administration	Jamaica	100%
<b>Sagicor Real Estate X Fund Limited</b>	Invest in real estate activities	St. Lucia	29.3%

## TOP TEN SHAREHOLDERS

Shareholders	Number of Shares	Percentage
Sagicor Life Inc	1,918,137,454	49.11%
Pan-Jamaican Investment	1,232,749,252	31.56%
SJIML 3119	49,654,821	1.27%
National Insurance Fund	47,611,210	1.22%
Ideal Portfolio Services Ltd	43,826,806	1%
ATL Group Pension Fund Trustee	31,050,088	0.80%
GraceKennedy Ltd Pension Scheme	27,632,689	0.71%
Donwis Ltd	22,882,560	0.59%
Jps Superannuation Fund (PAM)	21,347,940	0.55%
Richard Byles	20,975,503	0.54%

## QUANTITATIVE ANALYSIS

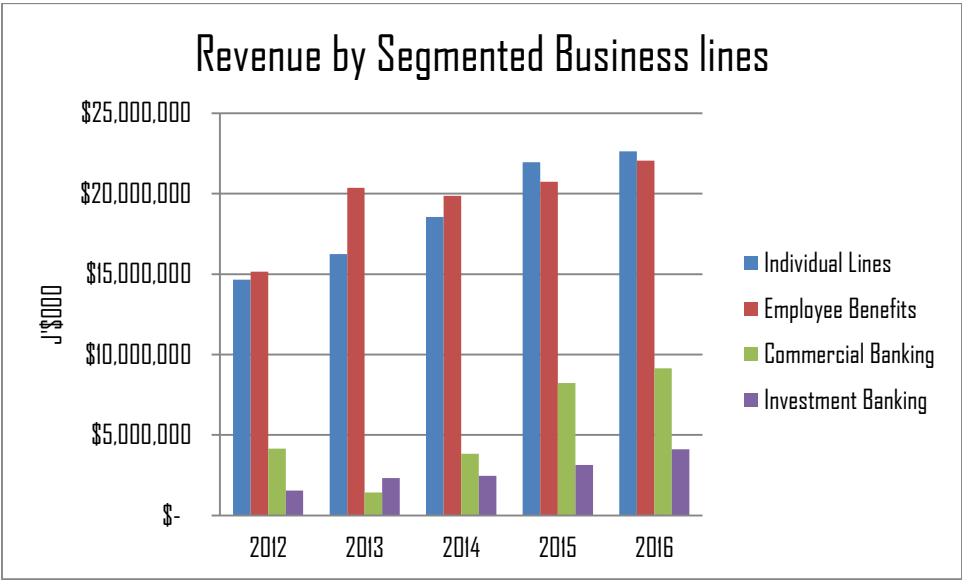
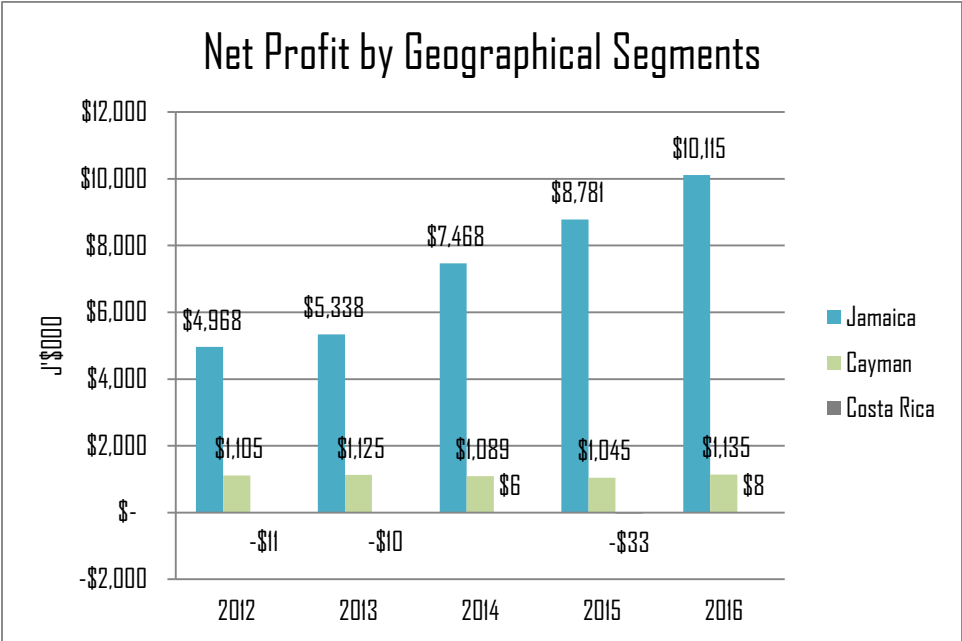
### RECENT COMPANY PERFORMANCE

For the Second Quarter (Q2) ending June 2017:

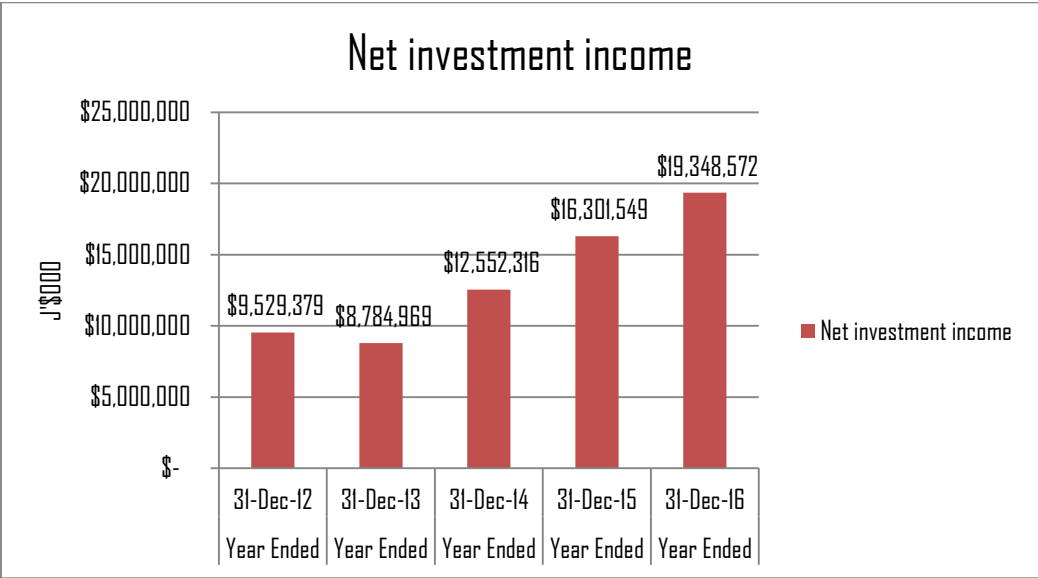
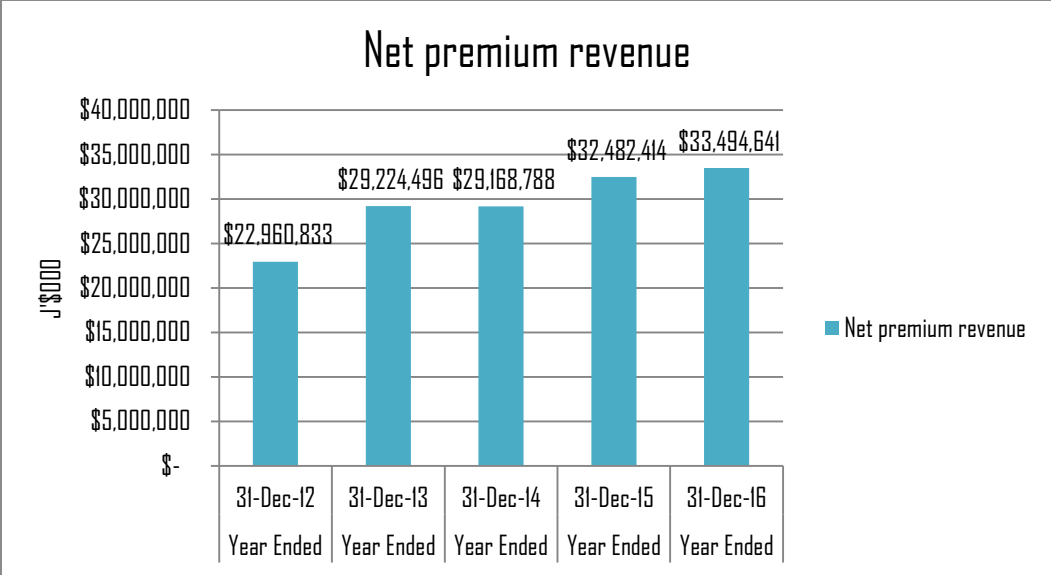
- Sagicor Group Jamaica Limited posted a **Net profit** of J\$3.05 billion, reflecting a 27% increase.
- **Total revenue** was J\$15.09 billion, reflecting a 1% decrease. This was mainly attributed to Net Investment Income which decreased by 24%.
- **Total benefits and expenses** was J\$11.10 billion, reflecting a 10% decrease.
- **Total Asset** base was J\$340 billion, reflecting a 5.5% increase. This was mainly driven by an increase in loans & leases (16.4%)
- **Total Equity** was J\$59.8 billion, reflecting a 15.7% increase. This was mainly driven by an increase in equity reserves (65%) and a 16.2% increase in retained earnings.

(\*Above results are in comparison with Q2 June 2016)

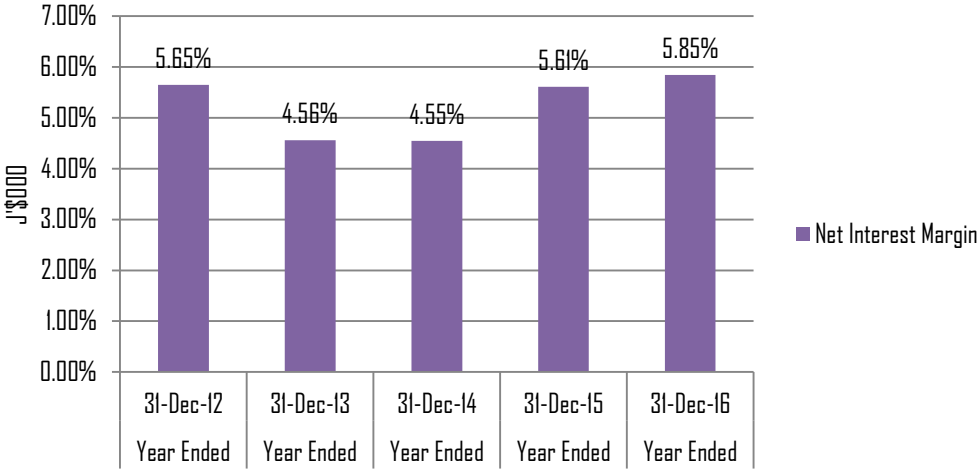
Graphical representation of performance over 5 year period



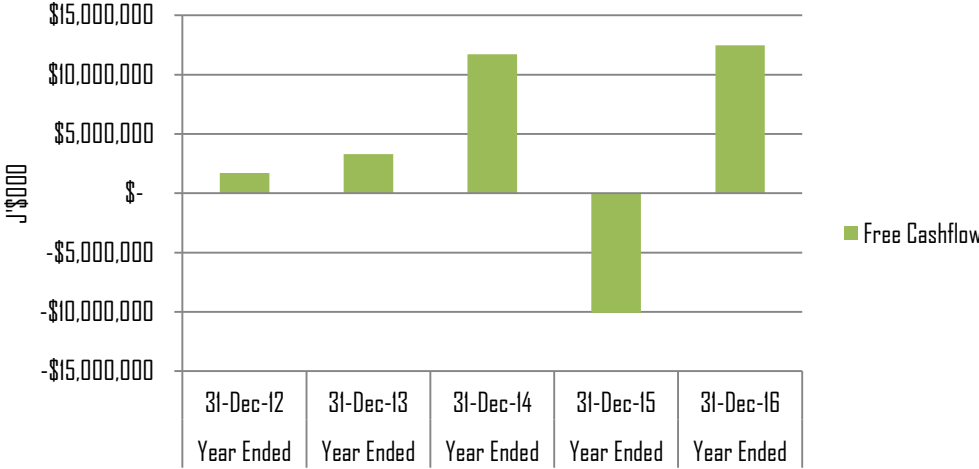


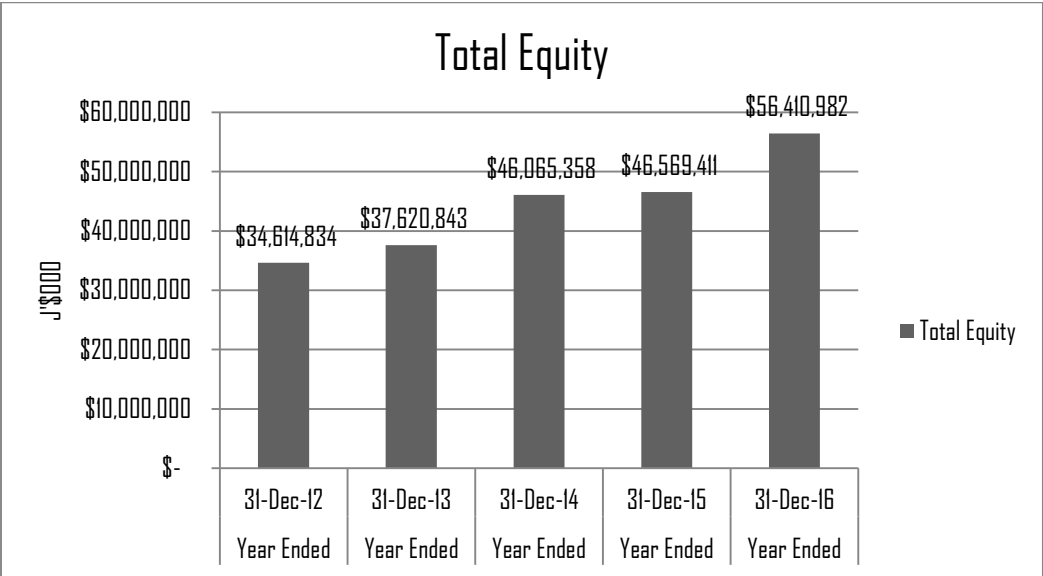
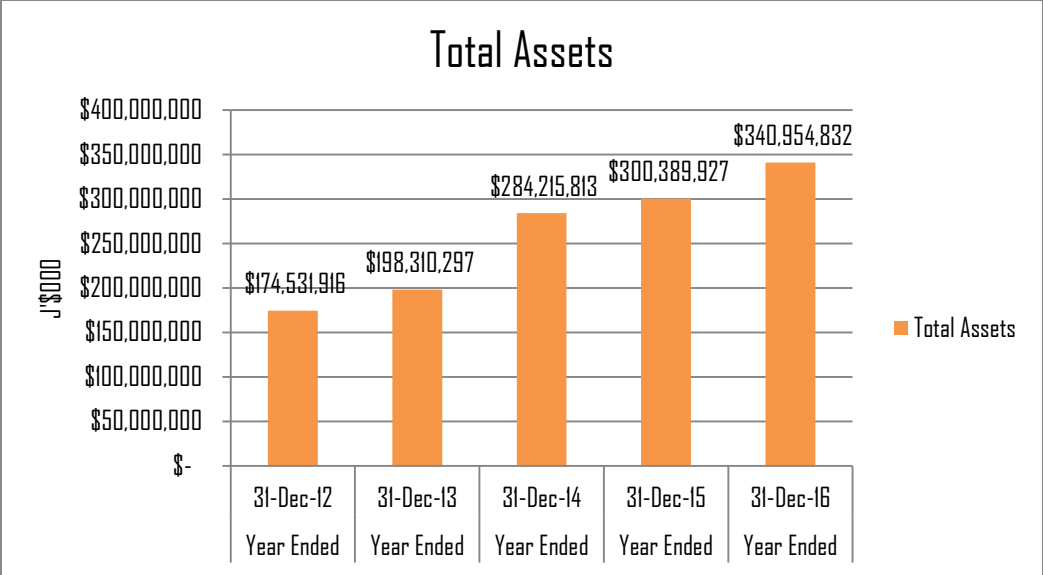


### Net Interest Margin



### Free Cashflow





## FINANCIAL RATIOS

	2012	2013	2014	2015	2016	Current (TTM)
<b>Net Interest Margin</b>	5.65%	4.56%	4.55%	5.61%	5.85%	5.53%
<b>Earnings per share</b>	1.56	1.67	2.21	2.51	2.90	3.23
<b>ROE</b>	17.51%	17.15%	18.59%	21.03%	19.96%	21.07%
<b>ROA</b>	3.47%	3.25%	3.01%	3.26%	3.30%	3.71%
<b>Book Value per Share</b>	8.86	9.63	11.79	11.92	14.44	15.32
<b>Price/Book Value</b>	1.14	1.10	0.87	1.68	2.07	2.03
<b>P/E Ratio</b>	6.47	6.35	4.64	7.97	10.31	9.62
<b>Earnings Yield</b>	15.45%	15.75%	21.56%	12.55%	9.70%	10.39%
<b>Dividend</b>	\$0.56	\$0.40	\$0.63	\$0.73	\$1.11	1.15
<b>Dividend Yield</b>	5.54%	3.77%	6.15%	3.65%	3.71%	3.70%
<b>EPS Growth Rate</b>	6.12%	7.05%	32.34%	13.57%	15.54%	21.88%
<b>PEG Ratio</b>	1.06	0.90	0.14	0.59	0.66	0.43

(\*Current TTM using a price of \$31.05 as at 24, August 2017)

## VALUATION

COMPARATIVE COMPANY ANALYSIS *(using similar companies)*

	ROE	ROA	Book Value	P/B ratio	P/E ratio
<b>JMMB</b>	12.93%	1.33%	15.89	1.33	10.29
<b>NCBFG</b>	17.22%	2.89%	45.28	1.95	11.31
<b>SGJ</b>	12.47%	2.51%	31.71	1.48	11.86
<b>SJ</b>	21.07%	3.71%	15.32	2.03	9.62
	<b>15.92</b>	<b>2.61</b>	<b>27.05</b>	<b>1.69</b>	<b>10.77</b>

When comparing Sagicor to similar companies in within the industry, it can be noted that SJ has a ROE 32.3% above the industry average, a ROA 42.1% above average, a Book value 76.5% below average, a P/B ratio 20.1% above average and a P/E ratio 11.9% below average. A high ROE and ROA suggests that SJ is very efficient in using its assets to generate earnings. However a weak book value and P/B suggests that their asset base has room for improvement.

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#### FORWARD P/E RATIO VALUATION

Taking into account the current macroeconomic conditions and expectations of low levels of inflation and interest rates, a forward P/E of 10.08 times seem appropriate. Applying this estimate to a 12 month forward EPS of \$3.08 deduced from projected future earnings suggests that the stock price of SJ is estimated to be **\$31.04** (for end of December 2017).

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#### DISCOUNTED DIVIDEND MODEL (DDM)

Due to the erratic nature of SJ's free cashflow over the five (5) year period, a decision was made to use the DDM valuation approach. With a calculated cost of equity of 19.24% and estimating a constant growth rate of 16%, the intrinsic value of the stock is estimated to be **\$39.74**. This suggests that the stock is undervalued.

(\*risk free rate 2.26%, adjusted beta 0.689)

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#### TECHNICAL ANALYSIS

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##### SUPPORT & RESISTANCE

Over the past two months (Jun-Aug) SJ's price has shown a strong price support at \$30 and a strong price resistance at \$34

## TECHNICAL INDICATORS

### MACD



Picture showing the (12,26) day moving averages crossing below the 9 day signal line. This typically indicates a “sell” signal for the stock.

### RSI



Picture showing RSI line currently at 47.46, between the overbought signal line (70) and the oversold signal line (30). This indicates that the stock is neither overbought nor oversold, however it is slightly closer to the oversold signal line.

(\*diagrams obtained from Bloomberg)

## MANAGEMENT'S OUTLOOK

Management seems to have an optimistic outlook on the economy and the company. They denoted that macroeconomic stability and strong fiscal discipline are attributed to a stable exchange rate, strong international reserves and lower current account deficits. Management mentions that all the key components of the business have shown signs of growth and improvement. There were also increases in the level of brand recognition, as well as team member and client satisfaction. Management also expressed its gratitude for the loyalty of its team members (“SJ2016-AnnualReport-jamstockex”, 2017).

## RECOMMENDATIONS

In the current position of the economic cycle where interest rates are low and projected to go even lower, banks and other financial institutions are experiencing tight net interest margins. As a result interest income is not as robust when compared to periods of higher interest rates. That being said, this should be the perfect time to invest into banks and other financial institutions and hold for the long term. Therefore, a practical approach would be to buy (SJ) anywhere between \$30-\$31.50 and hold for the next 1-3 yrs. Investors should expect returns ranging between 26%- 32%.

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