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At the finale of the 2017 Mayberry Investor Forum Series, held on November 29th at the Jamaica Pegasus Hotel, our audience was treated to a presentation on the Investor's Perspective on Corporate Governance. The guest presenter for the evening was the IFC's Regional Program Manager of Corporate Governance for Latin America and the Caribbean, Oliver Orton.

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CEO CORNER

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JANUARY 2018 CEO CORNER

A Company's Stock Price: what does it mean?

Many companies have faced challenges in becoming undermined with the value of share price. This occurs when management is unable to utilise the funds raised to increase future earnings with the value of the business. There are conditions that the company must undergo to make its share price beneficial for all stakeholders.

- It is imperative that the business must be a reputable entity with steady profit growth where the increase in share price is in alignment with the increase in the value of the business.
- Also, any corporate strategies that aid in increasing the added value of the company will be advantageous in increasing shareholders' value.

Companies enter the stock market either to issue or sell shares after their initial public offering (IPO) to raise more capital for expanding their operations. Studies have proven over time that shares or equities are one of the best long-term investments in the financial market place and therefore, measures the overall strength and well-being of a company's performance.

The stock price of the company is varied to change in its value. This involves taking risks once the investment has been made. Nonetheless, over the long-term stocks can generate good returns. Investors receive two types of return from the purchase of shares being bought: annual income and long-term capital growth. Whereas most shares offer income in the form of dividends, that are usually paid twice a year to shareholders. This is generally paid when a company is making substantial amounts of revenue.

A good management must have a vision for its company in taking the advantage of its share price to expand and grow the business. Once the value of the stock price has increased, it will provide alternative opportunities to develop the future of the corporation and its stakeholders. This will furthermore attract potential investors as well as build partnerships. ■



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COMPANY ANALYSIS

The Supreme Ventures Group (SVL)



Executive Summary

The Supreme Ventures Group (SVL) is Jamaica's leading lottery provider. The Group is among the industry leaders in the provision of entertainment in the form of sports betting and video lottery terminals. SVL offers some 11 lottery games, in addition to the JustBet and Quick Sports products along with the Acropolis Gaming Lounge. The company also includes wholly owned subsidiary, Prime Sports (Jamaica) Limited. In February 2017, SVL successfully became the sole operator of Caymanas Track Limited (CTL) and began operations on March 7, 2017. The company has been a stalwart in giving back to the community and prides itself on nation development.

For the 2016 financial year (FY), the company's profits declined by 0.4 per cent due to a slowdown in revenue growth. Revenue year over year has grown at a compounded average growth rate (CAGR) of 10.9 per cent over the last 5 years relative to the 2016 year over year growth of 2.5 per cent. For the nine months ended September 2017, SVL reported a revenue growth of 25 per cent, while operating expenses grew by 19 per cent. Consequently, profit before taxation amounted \$1.77 billion, up from \$1.19 billion 2016. The company posted improved net profits by 56 per cent for the nine months ended September 2017. This increase coupled with strong performance metrics makes SVL a **HOLD** at its current price.

Economic Overview

The products offered by SVL are impacted by the overall state of the economy and consumers' disposable income. For the 2017 calendar year, the economic indicators of the Jamaican economy have been trending in a positive direction.

Jamaica's economy recorded a 0.8 per cent growth when compared to last year. Based on information released by the Statistical Institute of Jamaica (STATIN), the total value added at constant prices for the Jamaican economy was \$186,004 million. The movement was attributed to improved performances in the services industries (1.0 per cent) and the goods producing industries (0.3 per cent).

According to the STATIN, the rate of inflation year-to-date (January 2017 - November 2017) was 4.60 per cent, while the point-to-point movement (November 2016 - November 2017) was 4.9 per cent and the fiscal year-to-date (April 2017 - November 2017) was 3.6 per cent). This is within the Bank of Jamaica's (BOJ) target rate. The BOJ, at its quarterly press briefing held in November 2017, said, "with this in mind, we can together take note of the significant milestone passed in September 2017 with the approval by the Minister of Finance and Public Service for the first time of a medium-term inflation target for the Bank of Jamaica". The target has been set by the

Minister at 4.0 to 6.0 per cent.

Unemployment data as at the end of July 2017 showed the economy added 29,200 net new jobs over the year. The unemployment rate lowered by 1.6 per cent from 12.9 per cent reported the prior period last year. According to the BOJ's Bryan Wynter, "this represents the lowest unemployment rate since July 2009 and suggests that employment is growing faster than the labour force. While these numbers are heartening, they also suggest that Jamaica is beginning to approach its capacity limits in skilled labour. It is therefore becoming critical that the government looks to increase the pool of skilled workers in order to facilitate sustained economic growth without igniting faster inflation". Wynter continued, "these and other developments point to an improving economy where macroeconomic stability as a foundation for growth appears to be entrenched. This is underpinned by the remarkably strong performance recorded to date under the IMF-supported economic programme. The stable outlook for inflation and continued fiscal consolidation encourages continuation of the Bank's accommodative policy stance in support of further improvements in domestic output and employment".

Company Background

SVL is a lottery and gaming provider formed in 1995. The lottery operations were launched in 2001 with its technology provider, International Game Technology. According the company's website, in 2003 the company purchased its competitor, The Jamaican Lottery Company, consolidating and raising the standard of lottery operations. The company listed on the Main Market of the Jamaica Stock Exchange (JSE) on February 28, 2006. SVL continues to make strides and assumed control of operations at CTL on March 7, 2017. For the 2016 FY, SVL produced historical revenues of \$45 billion.

Below is a list of services and products offered by SVL:

- **Cash Pot:** all prizes are fixed. The prize won for correctly matching the winning number is \$260 for each \$10 wagered.
- **Money Time:** prizes are based on the actual winning combination of numbers for each draw.
- **Pick 2, Pick 3 and Pick 4:** prizes are based on correctly matching the winning number, however, the prize paid depends on which winning number is drawn.
- **Luck 5 and Top Draw:** prizes for this game are based on the predetermined prize structure.
- **Dollaz!** prizes for this game are fixed based on each \$10 per play per spot. The prize paid will depend on how many of the winning numbers are correctly matched.
- **Lotto and Super Lotto:** prizes are accrued as an estimate based on pre-determined prize structure for the game.
- **Sports Betting:** all prizes are fixed. The prize won is based on the amount wagered multiplied by the odds of the

COMPANY ANALYSIS

The Supreme Ventures Group (SVL)



selected event printed on the ticket.

- **PayDay:** prizes for this game were fixed at a monthly annuity of \$150,000 for twenty (20) years.
- **Horse Racing**

SWOT

Strengths

- The company is the largest gambling institution in the English speaking Caribbean.
- Possesses strong brand recognition.
- The acquisition of the CTL operations has diversified the company's revenue.
- The company's games have been entrenched as a part of the country's culture and enjoy a cult following as a result.
- The company possesses a well-established vast agent network which it can effectively and efficiently penetrate the local market.

Weaknesses

- Heavily subjected to government regulations.
- Lack of ideas in the past has led to a slowdown in revenue growth.

Opportunities

- Given the substantial level of local market penetration that the company enjoys, expansion into regional markets would present an opportunity to diversify and grow revenues.
- With the acquisition of CTL, the company has an opportunity to integrate its technology and its popularity to improving the racing company's revenue.

Threats

- Threat of illegal gambling based on SVL drawings.
- Increased customer winnings.
- Weak economic conditions may pose an obstacle to revenue growth for the company.

Operational Analysis

Supreme Ventures Ltd.	Dec.2012 \$'000	Dec.2013 \$'000	Dec.2014 \$'000	Dec.2015 \$'000	Dec.2016 \$'000	Change %	5 Year CAGR
Revenue	25,725,145	34,140,295	41,306,545	43,647,020	44,921,339	2.5%	10.9%
Direct Expenses	(25,668,180)	(30,808,867)	(37,586,856)	(39,429,684)	(43,812,637)	3.5%	12.3%
Gross Profit	4,057,965	3,331,348	3,722,647	4,417,336	4,108,702	-7.0%	0.3%
Operating Expenses	(2,853,452)	(2,768,146)	(2,648,938)	(2,971,802)	(2,706,798)	-8.8%	0.9%
Profit from Operations	1,404,514	563,202	1,073,911	1,445,934	1,398,734	-3.3%	-0.1%
Interest Income	62,008	46,408	76,505	74,508	66,653	-10.7%	6.8%
Finance Costs	(38,791)	(26,488)	(16,344)	(2,978)	(303)	-89.1%	-70.8%
Net Gains	0	59,211	76,503	89,230	194,949	107.3%	N/A
Net foreign exchange gain (loss)	35,945	30,707	6,616	8,101	11,588	88.0%	-21.0%
Profit before taxation from continuing operations	1,453,766	711,092	1,215,741	1,614,830	1,691,892	2.9%	3.4%
Taxation	(378,880)	(228,523)	(205,824)	(431,063)	(483,424)	12.1%	6.4%
Profit/(Loss)	1,075,009	482,569	929,917	1,183,790	1,175,468	-0.4%	2.4%
EPS	6.41	0.18	0.39	0.65	0.45		

The company's revenues have increased over the past five years, moving from \$29.73 million in the 2012 FY to \$44.92 million

in the 2017 FY, growing at a CAGR of 10.9 per cent. Revenues increased 2.5 per cent year over year for the most recent FY from \$43.85 million in 2015 to \$44.92 million in 2016. Cash Pot, the company's most popular game, accounts for more than 50 per cent of the company's revenue. The main cause for the overall 2 per cent increase in total revenue was Pin Codes, which advanced by 26 per cent. Sports betting also increased closing at \$738.63 million relative to the \$575.86 million booked in the prior year.

Products	2015 \$'000	2016 \$'000	Change %
Cash Pot	24,595,977	24,166,763	-2%
Money Time	4,174,911	4,207,902	1%
Pick 2	241,108	212,215	-12%
Pick 3	1,885,407	1,913,643	1%
Pick 4	1,773,811	1,931,488	9%
Lucky 5	222,447	222,830	0%
Top Draw	861,286	714,850	-17%
Dollaz	331,408	261,620	-21%
Lotto	1,455,641	872,886	-40%
Super Lotto	542,864	565,599	4%
Instant Win	2,450		-100%
Pay Day (Jan-Nov 2016)		108,986	N/A
Sports Betting	575,864	738,631	28%
VLT gaming	284,531	339,014	19%
Pin Codes	6,818,310	8,558,815	26%
Other	81,005	106,097	31%
Total Revenue	43,847,020	44,921,339	2%

Direct expenses increased by 3.5 per cent year over year, closing at \$40.81 billion (2015: \$39.43 billion). The company's direct expense has grown at a CAGR of 12.3 per cent for the past 5 years. Operating Expenses declined by 8.8 per cent year over year in FY 2016, from \$2.97 billion relative to the \$2.71 billion booked in 2016. The company continues to showcase great operational efficiency, as operational expenses grew at a CAGR of less than 1 per cent between 2012 and 2016.

Interest income has grown at a rate of 5.8 per cent over the last five years, closing 2016 at \$66.55 million. Finance cost continued to trend downward as SVL reported \$323,000 for the 2016 FY. Additionally, the company remains free of long-term debt obligations. For the 2016 FY, SVL saw an increase in other gains, totalling \$184.94 million relative to \$89.23 million the prior year. This increase was mainly due to a reversal of impairment loss on investment properties held by Jonepar Development Limited.

Profits before taxes have grown at a 5-year CAGR of 3.4 per cent and a year over year change of 2.9 per cent, closing at \$1.66 billion relative to \$1.61 billion in 2015 (2012: 1.45 billion). Taxes incurred by SVL amounted to \$483.42 million for 2016 relative to \$431.08 million in 2015. Consequently, net profit increased at a CAGR of 2.4 per cent, closing at \$1.178 billion in 2016 relative to the \$1.184 billion reported in 2015. Earnings per share (EPS) for 2016 were reported at \$0.45, same as that reported in 2015.

COMPANY ANALYSIS

The Supreme Ventures Group (SVL)



SVL's 5 Year Balance Sheet

BALANCE SHEET	Dec-2012	Dec-2013	Dec-2014	Dec-2015	Dec-2016	Change	CAGR
	\$'000	\$'000	\$'000	\$'000	\$'000	2016/2017	5 YEAR
Non-Current Assets							
Property, plant and equipment	1,847,331	1,837,079	1,731,772	751,005	732,352	-2.6%	-20.6%
Investment Properties				730,238	815,275	7.8%	N/A
Goodwill	571,681	571,681	644,873	642,779	645,705	0.5%	3.1%
Long-term receivables	333,665	448,796	416,442	580,974	522,029	-5.3%	11.8%
Available-for-sale investments	14,759	5,711	5,363	5,363	8,843	64.3%	-12.9%
Deferred tax assets	400,345	251,050	98,000	137,852	117,445	-14.8%	-26.9%
	3,319,871	3,265,761	2,905,822	2,645,141	2,841,356	8.8%	-3.8%
Current Assets							
Inventories	48,418	76,457	101,720	149,413	192,601	28.9%	41.2%
Income tax recoverable	17,520	48,871	-	13,155	15,385	17.0%	-3.2%
Trade and other receivables	610,582	468,872	684,479	752,150	864,100	14.9%	9.1%
Cash and bank balances	1,660,456	1,474,083	2,327,490	1,639,049	1,499,908	-8.5%	-2.5%
	2,336,975	2,068,083	2,993,692	2,553,772	2,571,994	0.7%	2.4%
Total Assets	5,656,846	5,333,844	5,900,514	5,398,913	5,413,350	0.8%	-1.0%
EQUITY & LIABILITIES							
Shareholders' equity							
Stated capital	1,907,183	1,907,183	1,907,183	1,907,183	1,907,183	0.0%	0.0%
Capital reserve	62,486	62,486	62,486	62,486	62,486	0.0%	0.0%
Retained earnings	1,703,023	1,013,200	2,015,716	1,504,368	1,707,052	13.0%	0.0%
	3,793,292	3,042,819	4,045,385	3,594,037	3,806,201	5.7%	0.0%
Current liabilities							
Trade and other payables	968,528	1,128,574	1,137,900	1,251,720	1,341,285	7.2%	8.5%
Provisions	337,642	320,034	309,068	268,536	242,839	-9.5%	-7.9%
Income tax payable	160,244	-	33,160	284,620	22,421	-92.1%	-38.8%
	1,606,123	1,598,614	1,847,178	1,894,876	1,696,545	-11.3%	0.0%
Total liabilities	1,606,123	1,698,025	1,855,129	1,894,876	1,633,148	-9.5%	-3.2%
Total equity and liabilities	5,656,846	5,333,844	5,900,514	5,398,913	5,413,350	0.8%	-1.0%

Balance Sheet Analysis

SVL's non-current assets decreased from \$3.32 billion in 2012, to \$2.86 billion in 2016. Current assets increased from \$2.34 billion in 2012 to \$2.57 billion in 2016, representing a CAGR of 2.4 per cent. Inventories which comprises pin codes and food and beverage, over the past five years increased at a CAGR of 41.2 per cent, while trade and other receivables grew by a CAGR of 9.1 per cent. Total asset growth over the review period was tempered, as cash and bank balances declined from \$1.66 billion in 2012 to \$1.50 billion in 2016.

Additionally, the company has seen a decline in total liabilities over the five year period reporting \$1.86 billion in 2012 relative to \$1.63 billion in 2016. SVL booked current portion of long term liabilities of \$142.71 million in 2012 compared to nil at the end of the 2016 FY.

Shareholders equity made a 5.7 per cent year over year increase to close at \$3.80 billion due to the 13 per cent increase in retained earnings to \$1.77 billion in 2016 compared to \$1.56 billion in 2015. Total equity over the past five years improved marginally.

Ratio Analysis

Profitability Ratios

SVL Profitability Ratios	FY2012	FY2013	FY2014	FY2015	FY2016
Direct Expense margin	-86%	-90%	-91%	-90%	-91%
Gross Profit Margin	14%	10%	9%	10%	9%
Operating Profit Margin	5%	2%	3%	3%	3%
Pre-tax Margin	5%	2%	3%	4%	4%
Net Profit Margin	4%	1%	2%	3%	3%
Effective Tax Rate	-26%	-32%	-24%	-27%	-29%
Return on Assets	19%	9%	17%	21%	22%
Return on Equity	28%	13%	24%	31%	32%

The gross profit margin over the five-year period declined, moving from 13.65 per cent in 2012 to 9.15 per cent in 2016. This decline in the margin is due to a slowdown in revenue growth over the past 5 years. This has however recently recovered due to the addition of CTL. The direct expense margin reflects the company's ability to manage its expenses as the margin remained fairly stable between 2013 and 2016. The pre-tax margin over the five-year period has been trending downwards, from 4.89 per cent in 2012 to 3.70 per cent in 2016. SVL's effective tax rate reflects an increasing trend moving from a rate of 26 per cent in 2012 to 29 per cent in 2016. Notably, the company continues to battle high tax rates which are a major cause to the reduction in the company's net profit margin. The company's net profit margin of 2.62 per cent in 2016 has weakened relative to 3.61 per cent in 2012. The company continues to show increased return on assets and return on equity after having a decline to 9 per cent and 13 per cent respectively in 2013. SVL closed 2016 with a ROA of 22 per cent and a ROE of 32 per cent this underlines management's ability to properly utilise assets.

Liquidity

SVL Liquidity Ratios	FY2012	FY2013	FY2014	FY2015	FY2016
Current Ratio	1.45	1.30	1.62	1.41	1.60
Quick Ratio	1.41	1.22	1.57	1.32	1.47
Cash Ratio	1.03	0.93	1.21	0.91	0.93

SVL's liquidity position at the end of 2016 appears to be strong as the current ratio over the five-year period reflects an upward trajectory. SVL current ratio moved from 1.45 times in 2012 to 1.60 times in 2016, which shows improvement in SVL's ability to meet its short-term obligations. The growth in the quick ratio also corroborates this finding as SVL had \$1.41 of liquid assets available to cover each \$1.00 of current liabilities as at the end of the 2016 FY. The cash ratio however declined from 1.03 times in 2012 to 0.93 times in 2016, an indication that SVL is not able to cover its short term liabilities with its cash. The ratio however improved year over year from 0.91 in 2015 to 0.93 for 2016.

Leverage Ratios

Leverage Ratios	FY2012	FY2013	FY2014	FY2015	FY2016
Total Liabilities to Total Assets	0.33	0.32	0.31	0.33	0.30
Leverage Ratio	0.49	0.46	0.46	0.50	0.43

SVL's total liabilities to total assets slightly declined from 0.33 times in 2012 to 0.30 times in 2016. This as the company's liabilities assets have contracted at a faster pace compared to its assets over the past five years. The company's leverage ratio declined to close at 43 per cent in 2016, relative to 49 per cent in 2012 as the company's retained earnings increased over the 5-year period. Although the company has had little to no debt for the previous FY 2012-2016, SVL reported a \$273.32 million long term loan for the current nine months. This was due to a \$650 million credit facility from Sagcor Bank Jamaica to facilitate the purchase of CTL.

COMPANY ANALYSIS

The Supreme Ventures Group (SVL)



Price History



The company's stock price increased 117 per cent in 2017. It began the year at \$5.31 on January 3, 2017 and closed the year at \$11.53. The major contributor to this was the company's increased profits and news of the acquisition of CTL.

Dividend Yield

Dividend	FY2012	FY2013	FY2014	FY2015	FY2016
Dividend (\$ per share)	0.28	0.17	0.25	0.41	0.36
Dividend Yield (%)	9.82	6.12	12.50	8.84	6.86

The company has managed to continuously pay dividends year over year and is one of the best dividend yielding stocks with a consistent dividend yield above 5 per cent. With the increase in the price of the stock, the CTL acquisition, along with an improved performance, the company managed to make payment of \$0.71 cents per share for the 2017 calendar year relative to \$0.36 cents per share paid in 2016.

Supreme Ventures Limited (SVL) Performance Year to Date

Supreme Ventures Limited (SVL)				
Nine Months 2017	Sept. 2016 \$'000	Sept. 2017 \$'000	Change (%)	Change (\$)
Revenue	33,055,306	41,237,861	25%	8,182,555
Direct Expenses	(29,894,140)	(37,072,539)	24%	-7,178,399
Gross Profit	3,161,166	4,165,322	32%	1,004,156
Operating Expenses	(2,028,393)	(2,419,202)	19%	-390,809
Profit from Operations	1,132,773	1,746,120	54%	613,347
Interest Income	49,246	71,425	45%	22,179
Finance Costs	(354)	(45,486)	12749%	-45,132
Other Gains	3,480	3,742	8%	262
Net foreign exchange gain (loss)	7,992	(3,178)	-140%	-11,170
	60,364	26,503	-56%	-33,861
Profit before taxation from continuing operations	1,193,137	1,772,623	49%	579,486
Taxation	(343,433)	(445,577)	30%	-102,144
Net Profit/Loss	849,704	1,327,046	56%	477,342

SVL reports a 56 per cent increase in nine months net profit

SVL for the nine months ended September 30, 2017 reported a 25 per cent in revenues from \$41.24 billion for the 2017 period, up from \$33.06 billion in 2016. While for the third quarter revenues totalled \$13.87 million relative to \$10.90 million in 2016. Revenues from the company's segments were as follows:

- Lottery - \$29.75 billion (2016: \$25.87 billion), a 15 per

cent increase. SVL noted, "stimulated by the successful deployment of marketing and retail initiatives, the Cash Pot and Pick 4 games, in particular, continue to benefit from increasing popularity amongst players. The Mega Ball feature, introduced in late March 2017, has been enjoying strong player demand and has contributed to the improved performance of the Cash Pot game".

- Sports Betting - \$516.37 million (2016: \$565.39 million) a 9 per cent decline.
- Gaming & Hospitality - \$281.04 million (2016: \$264.61 million) a 6 per cent increase. The company highlighted that, "the VLT business is benefitting from continued renewal of gaming offerings and attractive player rewards, supported by more efficient lounge management. The re-sized Sports Betting business is performing ahead of its turn-around plan through more compelling bet offerings".
- Horseracing - \$3.27 billion (2016: nil).
- Pin codes - \$7.40 billion (2016: \$6.28 billion), an 18 per cent increase.
- Other revenue - \$5.62 million (2016: \$61.37 million) a 91 per cent decline.
- Unallocated - \$13.54 million (2016: 10.88 million).
- Direct expenses recorded an increase to close the period at \$37.07 billion when compared to \$29.89 billion for the same period of 2016. As such, gross profit for the period improved 32 per cent to \$4.17 billion (2016: \$3.16 billion). Gross profit for the third quarter amounted to \$1.43 billion, 63 per cent higher versus \$869.38 million booked for the corresponding quarter of 2016.

Operating expenses grew by 19 per cent for the period to \$2.42 billion (2016: \$2.03 billion). Management noted, "the increase in the Group's operating expenses was mainly impacted by the CTL operations. Operating expenses excluding the CTL operations, reduced by \$168.50 million". Despite the increase, profit from operations rose year over year to total \$1.75 billion in contrast to the \$1.13 billion recorded last year, a 54 per cent increase.

Interest income grew 45 per cent to \$71.43 million (2016: \$49.25 million), while finance costs totalled \$45.49 million (2016: \$354,000).

A net foreign exchange loss of \$3.18 million was recorded for the period compared to a gain of \$7.99 million booked in 2016. SVL reported \$3.74 million for other gains during the period compared to \$3.48 million in 2016. Profit before taxation amounted to \$1.77 billion, up from \$1.19 billion in 2016. Net profit after tax amounted to \$1.33 billion, a 56 per cent increase from the \$849.70 million recorded for the nine months ended September 30, 2017. This despite the increase in tax charges of

COMPANY ANALYSIS

The Supreme Ventures Group (SVL)



\$445.58 million relative to \$343.43 million for the same period last year. Net profit for the quarter totalled \$409.22 million relative to \$200.64 million in 2016.

EPS totalled \$0.50 (2016: \$0.32) for the nine months, while EPS for the quarter amounted to \$0.16 relative to EPS of \$0.08 in 2016. The twelve-month trailing EPS amounted to \$0.63. The number of shares used in our calculations was 2,637,254,926 units.

Projections:

Supreme Ventures Limited (SVL)			
For the period ended:	Dec.2016	Dec.2017	Change (%)
Revenue	44,921,339	56,151,674	25%
Direct Expenses	-40,812,837	-50,536,506	24%
Gross Profit	4,108,502	5,334,409	30%
Operating Expenses	-2,709,768	-3,251,722	20%
Profit from Operations	1,398,734	2,363,446	69%
Interest Income	86,553	93,174	40%
Finance Costs	-323	-60,648	NA
Other Gains	184,940	4,989	-97%
Net foreign exchange gain (loss)	11,968	-4,237	-135%
	263,158	33,278	-87%
Profit before taxation from continuing operations	1,661,892	2,396,724	44%
Taxation	-483,424	-599,181	24%
Profit for the year from continuing operations	1,178,468	1,797,543	53%

SVL's performance year to date has produced 25 per cent increase in revenues with net profit improving 56 per cent. The gross profit and net profit margins for the nine months ended September 2017 was 10.10 per cent and 3.22 per cent respectively, surpassing margin for the 2016 year end. This improvement was due to the agreement for the acquisition of the horse-racing and simulcast horse-racing promotion and pari-mutuel pool operations of CTL effective March 7, 2017.

SVL noted that, "the Group is encouraged by the early results of the strategic initiatives implemented at the CTL operations. These include free entry to the park, increased purse size, earlier purse payments, facility upgrade, improved customer experience and greater attention to security of patrons. This has resulted in new and renewed interest within the industry, with a significant increase in applications for ownership of horses and heightened interest from sponsors". As a result, revenue is projected to increase 25 per cent for the 2017 FY.

Disclaimer

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Operating expenses has grown at a CAGR of 0.5 per cent from 2012 to 2017, while expenses year to date have jumped 19 per cent due to the inclusion of the CTL operations. As a result, we foresee a 20 per cent increase in operation expenses for the year ended December 2017. Despite the increase in operational expenses, SVL's profit before taxation from continuing operations is projected to see an increase. Furthermore, SVL profitability is projected to improve for 2017 with effective cost management, and the inclusion of the CTL operations. As such, an EPS of \$0.68 is projected for the 2017 FY. Additionally, the stock traded around \$12.00 as at January 10, 2017 and is projected at approximately \$13.25 over the short to medium term. As such, the stock is recommended as a HOLD at this time.

Conclusion

SVL continues to be the leading betting and gaming outfit in Jamaica. This dominance is expected to continue as the company expands its product offerings. This is evident through its newly introduced Mega Ball Feature. According to the company "the Megaball feature, introduced in late March 2017, has been enjoying strong player demand and has contributed to the improved performance of the Cash Pot game".

The company has managed to increase nine months revenues by 25 per cent through the addition of its subsidiary CTL. This addition has been plain sailing and the company continues to reap the benefits of integrating CTL into its operations. SVL continues to focus on maintaining and improving margins and for the nine months reported gross profit Margin of 10.10 per cent relative to 9.15 in the 2016 FY. The company also makes healthy dividend payments with a dividend yield above 5 per cent each year. With a growth in profits and an increase in price, investors can expect a continued increase in dividend per share from the company as it continues to give investors a 5 per cent dividend yield.

For the 2016 year end, SVL's EPS was \$0.45 (2015: \$0.45), while year-end projected EPS is \$0.68. The stock currently trades around \$12.00 as at January 10, 2017, and is projected at approximately \$13.25 over the short to medium term, as such, the stock is recommended as a **Hold** at this time. ■



FORUM RECAP

THE VALUE OF CORPORATE GOVERNANCE

Corporate governance refers to the process and structure in which a company is directed and controlled. It is concerned with principles and measures for supporting a company in operating efficiently, by achieving its objectives that adds value of the company, while maximizing the wealth of its shareholders in the long term.

Mayberry hosted its final Investor Forum for the 2018 series in November of last year, which featured guest speaker Oliver Orton, the International Finance Corporation's (IFC) Regional Program Manager for Corporate Governance in Latin America and the Caribbean. Orton's presentation focused on the topic: "An Investor's Perspective on Corporate Governance".

According to Orton, the primary approach to developing an effective corporate governance framework is to focus on investors. After all, investors are shareholders of the company who provide the capital that businesses need to develop, compete, succeed and create job opportunities. Informed investors tend to take notice of well managed companies that have a system of good corporate governance in place, which allows adequate freedom to the board and management to take decisions towards the progression of their companies, while remaining within the basic framework of effective accountability. As a result, Orton advised that full-time management is essential for companies to operate under principles that require the development of an appropriate corporate culture, as well as specific practices that promote the fundamental principles of corporate governance. It is for this reason that shareholders elect a board of directors to represent their welfares. "We have seen significant differences in the levels of improvement in companies who are involved in

improving their governance practices than those who did not, but it's a gamble", said Orton.

Orton also declared that there are fundamental principles that are important in ensuring trustworthy relationships between the corporation and its stakeholders. For this reason, good corporate governance involves much more than compliance: it is a culture and a climate of consistency, responsibility, accountability, fairness, transparency and effectiveness that is positioned throughout the working environment. He stated that success can only be achieved by building a solid foundation what allows for boards act as a role model for implementing the principles of governance in their own businesses and ensuring that the corporation follows these principles in making strategic decisions. Furthermore, boards have the responsibility of ensuring sustainable improvements in increasing the value of the company by providing strategic guidance and oversight regarding management decisions.

Good corporate governance contributes a vital role in adding value through fostering the principles in sustaining the integrity and efficiency of companies. If companies adapt and operate in an environment that promotes good corporate governance, they will usually outperform other companies and will be able to attract investors whose support can help to finance further growth. Shareholders have the right to know how their company is being managed, and to understand the board's rationale in overseeing management and in making decisions. ■

FORUM HIGHLIGHTS

FOR NOVEMBER 2017



At November's edition of our monthly Investor Forum, the Mayberry Team welcomed representatives from the International Finance Corporation (IFC) to share with our audience an international perspective on corporate governance. Here, from the IFC, Judith Green (far right), Head of the English-Speaking Caribbean and Oliver Orton (centre), Regional Program Manager on Corporate Governance for Latin America and the Caribbean are joined in conversation by our CEO, Gary Peart (2nd right), Philbert Perry (2nd left), Senior VP of Sales & Marketing and Anika Jengelley, Assistant VP of Marketing.



Gary Peart engages Greta Bogues, Corporate Governance Consultant, during the evening's cocktail hour.



Host for the evening, Philbert Perry during his welcome remarks.



Wayne Leahong, Mayberry client and head of Leapro Group Limited, poses a question during the evening's Q&A segment.



The audience listens attentively during the presentation.



Gary Peart shares a moment with Oliver Orton after the evening's formalities.



Judith Green from the IFC introduces Oliver Orton to the audience.



Stephanie Harrison, Digital Marketing Manager, presents Oliver with a token of appreciation after his presentation.

ECONOMIC HIGHLIGHTS

ECONOMIC HIGHLIGHTS FOR DECEMBER 2017

	November 2017	December 2017	Change
91 Days Treasury Bills Avg. Yield (%)	4.263	4.176	0.087
182 Days Treasury Bills Avg. Yield (%)	4.886	4.635	-0.251
Exchange Rate (US\$:J\$)	126.67	125.55	-1.12
Net International Reserves (NIR) (US\$M)	3,116.22	3,208.29	92.07

Net International Reserves

Jamaica's Net International Reserves (NIR) totalled US\$3,208.29 million as at December 2017, reflecting an increase of US\$92.07 million relative to the US\$3,116.22 million reported as at the end of November 2017.

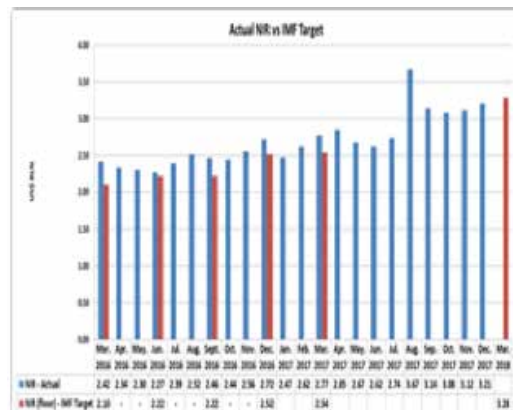
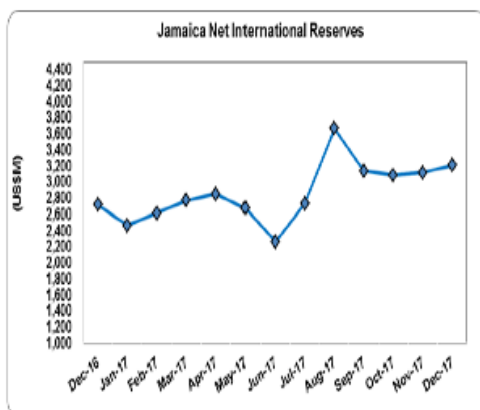
Changes in the NIR resulted from an increase in foreign assets of US\$95.57 million to total US\$3,781.17 million compared to the US\$3,685.59 million reported for November 2017. Currency & deposits contributed the most to the growth in foreign assets. This as currency & deposits as at December 2017 totalled US\$3,201.08 million, reflecting an increase of US\$86.76 million compared to the US\$3,115.05 million booked as at November 2017.

Securities amounted to US\$307.46 million -- US\$7.15 million more than the US\$300.31 million reported in November 2017. Foreign liabilities for December 2017 amounted to US\$572.88 million compared to the US\$569.38 million reported for November 2017. Liabilities to the IMF accounted for 100 per cent of total foreign liabilities, reflecting a US\$3.50 million increase month over month from November 2017.

At its current value, the NIR is US\$488.90 million more than its

total of US\$2,719.37 million as at the end of November 2016. The current reserve can support approximately 40.14 weeks of goods imports or 23.25 weeks of goods and services imports.

The country surpassed the benchmark of US\$2.54 billion outlined by the International Monetary Fund (IMF) in the 14th Review and Adjusted Agreement under the Extended Fund Facility (EFF). Jamaica and the IMF have entered into a New Agreement to support growth and create jobs with the international body citing, "Jamaica has made good progress under the previous IMF – support program". As such, the entity has approved a new US\$1.64 billion loan for the country. According to the IMF, "despite the toll of weather swings on growth, Jamaica's unemployment rate is at 8-year low, with record high employment levels. Inflation is modest, and expectations are anchored in the medium-term target range of 4-6 per cent. Non-borrowed NIR remain above the program target, supported by robust tourism inflows and a moderate current account deficit". Resultedly, the NIR target outlined as per the new agreement for the 2017/18 fiscal year is US\$3.28 billion. ■



JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR DECEMBER 2017

Jamaica Monthly Equity Market Report for December 2017

Main JSE Index: 288,381.97 points
Point Movement: 13,179.92 points
Percentage Change: 4.79%

Advance Decline Ratio: Positive
Advancers: 21 **Decliners:** 8
Traded Firm: 5

Junior JSE Index: 2,732.06 points
Point Movement: 9.31 points
Percentage Change: 0.34%

Advance Decline Ratio: Positive
Advancers: 17 **Decliners:** 15
Traded Firm: 3

Major Winners (Main & Junior)

Stock	Increase	Closing Price
Salada Foods Limited	27.70%	\$11.25
Cable and Wireless Jamaica Limited	22.45%	\$1.20
Portland JSX Limited	17.23%	\$10.00

Major Losers (Main & Junior)

Stock	Decrease	Closing Price
ISP Finance Services Limited	-19.60%	\$12.06
JMMB Group Limited	-16.80%	\$22.39
Ciboney Group Limited	-12.77%	\$0.41

Total Shares Traded (Main): 302.92 million units
Total value (Main): Approx. \$3.82 billion

Volume Leaders (Main)

Stock	Units Traded	Market Volume
Supreme Ventures Limited	229,376,593	75.72%
Jamaica Stock Exchange Limited	15,900,744	5.25%
JMMB Group Limited	8,339,407	2.75%

BUY**HOLD****SELL****Sagicor Group Jamaica Limited (SJ)**

For the nine months ended September 30, 2017

BUY

SJ reported an 18 per cent increase in total revenues to \$53.53 billion from \$45.33 billion in 2016, while for the third quarter total revenues were up 42 per cent to total \$23.18 billion compared to \$16.32 billion in 2016. Total revenue was broken down as follows:

Net premium revenue increased by 27 per cent to a total of \$31.82 billion compared to the \$24.99 billion booked last year.

Net investment income decreased slightly to \$15.48 billion from \$15.56 billion in 2016, a 0.49 per cent decline.

Fees and other revenue increased 30 per cent to \$6.24 billion from \$4.78 billion in 2016.

Investment income before interest expense and capital gains of \$15.44 billion was 5 per cent higher than that of 2016. Benefits and expenses totalled \$43.12 billion for the period, an increase of 18 per cent from \$36.48 billion, while for the third quarter, benefits and expenses were up 52 per cent to close at \$19.52 billion relative to the \$12.80 billion reported in 2016. This growth was mainly driven by increases in commission and related expense, administration expenses and changes in insurance and annuity liabilities. Commission and related expenses grew by 12 per cent to \$3.54 billion from \$3.16 billion while administration expenses increased by 23 per cent to \$13.32 billion (2016: \$10.82 billion).

Share of profit from joint venture amounted to \$24.01 million relative to the \$16.30 million booked a year earlier. Share of profit from associate for the period totalled \$749.12 million compared to \$494 million last year. As such, profit before taxation amounted to \$11.19 billion, a 19 per cent gain when compared to the \$9.36 billion booked in 2016.

Investment and corporation taxes of \$2.10 billion was reported for the period (2016: \$1.97 billion), and as such, net profit for the nine months totalled \$9.08 billion (2016: \$7.39 billion), an increase of 23 per cent. Profit for the quarter amounted to \$3.43 billion relative to the \$3.09 billion reported in 2016.

Earnings per share (EPS) for the quarter amounted to \$0.878 (2016: \$0.791), while EPS for the period totalled \$2.33 relative to \$1.89 in 2016. The twelve-month trailing EPS was \$3.31.

**Caribbean Cement Company Limited (CCC)**

For the nine months ended September 30, 2017

HOLD

Total revenue for the nine months grew by 2 per cent, amounting to \$12.26 billion, up from the \$11.98 billion reported a year ago. For the three months ended September 2017 the company saw a 14 per cent increase in revenues, closing at \$4.18 billion relative to the \$3.70 billion reported in 2016. According to the company, "This was attributable to (an) increase in volumes distributed to the domestic market".

Earnings before interest, tax, depreciation & amortization (EBITDA) amounted to \$2.43 billion, a decline of 2 per cent relative to \$2.47 billion for the prior year's corresponding period. For the quarter, CCC reported EBITDA of \$966.28 million, \$871.40 million more than that reported in 2016 (2016: \$94.88 million). CCC noted, "Improvements in excess of \$300 million compared to the same quarter in 2016. This came from a major maintenance exercise, which took place during quarter three of 2016. The next major maintenance is scheduled to take place during quarter four 2017".

Depreciation and amortization closed at \$400.23 million (2016: \$359.03 million). CCC reported stock holder and inventory restructuring gain of \$30.42 million compared to a cost of \$406.45 million in 2016. CCC also reported zero manpower restructuring cost in 2017 compared to \$407.25 million in 2016.

Interest income amounted to \$1.92 million for the period compared to \$1.60 million for the corresponding period in 2016, a 20 per cent increase.

Furthermore, the company reported a \$4.40 million finance credit compared to a \$37.86 million finance cost reported in 2016.

Profit before taxation totalled \$2.07 billion. This compares to a profit of \$1.26 billion recorded last year. Net profit for the year closed at \$1.81 billion relative to net profit of \$973.36 million during the corresponding period in 2016, an increase of 86 per cent. For the quarter, the company reported a net profit of \$747.88 million relative to a net loss of \$81.12 million.

Consequently, earnings per share (EPS) amounted to \$2.13 (2016: \$1.14), while the EPS for the quarter was \$0.88 (2016: loss per share (LPS) of \$0.10). The twelve-month trailing EPS is \$2.52. The number of shares used in this calculation was 851,136,591 shares.

CCC noted, "The board remains committed to meeting the local cement demand and contributing to economic development. We will continue to reinforce the Group's profitability and competitiveness of the plant while creating a better environment for our plan".

**KEY Insurance Limited (KEY)**

For the nine months ended September 30, 2017

SELL

For the nine months ended September 30, 2017, KEY reported a 39 per cent increase in net premiums written to \$548.18 million from \$394.01 million, while for the quarter, net premium amounted to \$197.26 million (2016: \$135.06 million).

This resulted from a 32 per cent increase in gross premiums written from \$785.05 million to \$1.03 billion. Reinsurance cede for the period increased by 18 per cent to close at \$396.12 million (2016: \$334.40 million).

KEY booked a change in unearned premium reserve of \$88.54 million relative to \$56.64 million last year. As such, net premiums earned increased by 39 per cent, totalling \$548.18 million versus \$394.01 million for the comparable period in 2016. Changes in insurance reserves for the period improved from \$5.37 million in 2016 to \$7.28 million in 2017.

The company reported \$102.36 million for commission on premium written relative to \$74.22 million for the comparable period of 2016, representing a 38 per cent increase year over year. Commission on reinsurance ceded totalled \$71.28 million relative to \$61.68 million in 2016.

Claims expense totalled \$207.35 million, down 64 per cent from the \$575.47 million recorded in 2016. Reinsurance recoveries in 2016 amounted to \$400.45 million in 2016, compared to a loss of \$69.20 million for the nine months ended September 30, 2016.

Administration and other expenses increased for the period by 17 per cent to \$328.89 million (2016: \$280.88 million). There was an underwriting loss of \$71.72 million for the period compared to the \$67.24 million reported in 2016. Underwriting loss for the quarter amounted to \$43.82 million relative to a profit of \$65.91 million in 2016.

Investment income for the period amounted to \$34.86 million compared to \$32.89 million in 2016. Other income for the nine months amounted to \$19.21 million relative to \$26.65 million in 2016. KEY booked \$10 million for gains on revaluation of investment properties in 2016 versus nil for the nine months ended September 30, 2017.

The company reported a loss of \$17.71 million for the period compared to a profit of \$2.28 million for the comparable 2016 period. For the quarter, net loss amounted to \$25.70 million (2016: \$84.38 million). Loss per share (LPS) for the period amounted to \$0.05 relative to earnings per share of \$0.01 in 2016. LPS for the quarter totalled \$0.07 (2016: EPS \$0.23). The trailing LPS totalled \$0.17. The stock was trading at \$3.99 as at November 14, 2017. The number of shares used in the calculation was 368,460,863 units.

Rating System

BUY: We believe the stock is attractively valued. The company has sound or improving fundamentals that should allow it to outperform the broader market. We anticipate that the stock will outperform the market over the next 12 months. The risk factors to achieving price targets are minimal.

HOLD: We believe the stock is fairly valued at the current price. The company may have issues affecting fundamentals that could take some time to resolve. Alternatively, company fundamentals may be sound, but this is fully reflected in the current stock price. The risk factors to achieving price targets are moderate. Some volatility is expected. In addition, technically, it may be difficult to attain additional volume of the stock(s) at current price.

SELL: We believe the stock is overpriced relative to the soundness of the company's fundamentals and long-term prospects.

SPECULATIVE BUY: We believe the prospect for capital appreciation exists, however, there is some level of uncertainty in revenue growth.

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