



## ***New Security on the Market: A Look at SVL***

### Overview

Supreme Ventures Limited (SVL) is a public limited liability company which has been in operations since 2001 and has been listed on the Jamaica Stock Exchange (JSE) since February 2006. As at Thursday 16<sup>th</sup> October 2008, they are also listed in the Trinidad and Tobago Stock Exchange (TTSE), providing another option for local equity investors.

The vast majority of SVL's business (about 90% of revenues) stems from lottery games operated throughout Jamaica. They have over 900 lottery terminals which are operated through agents island-wide. They are also in the business of gaming lounges (also known as casinos), financial services (cambio and remittance services), as well as the sale of mobile "top-up" pin codes.

Management of the company has adopted a strategy of constantly refreshing the games that are offered to their patrons, habitually topping previous jackpots and introducing modified versions of games, thereby keeping patrons interested in games that could potentially become monotonous. This strategy has clearly benefited their top-line as evidenced by consistent revenue growth over the last few years. Of shareholder interest is the fact that the company's profits have also grown in line with the growth in revenues that suggests cost containment and incremental growth. The table below shows historical performance since the company went public in 2006.

#### **Fiscal Year End: 31 October**

<b>Ja\$Mn</b>	<b>2006</b>	<b>2007</b>	<b>Q3 2007</b>	<b>Q3 2008</b>
<b>Revenue</b>	15,947,789	18,946,913	14,200,731	16,122,515
<b>Profit for the Year</b>	165,348	405,400	233,694	484,683
<b>Earnings per share</b>	\$0.06	\$0.15	\$0.09	\$0.18
<b>Dividends per share*</b>	-	-	-	\$0.15
<b>Assets</b>	2,846,113	3,885,204	3,839,108	4,281,099
<b>Share Price at FYE (Ja\$)</b>	\$1.99	\$2.40	\$3.10	\$3.30

*\*cumulative for the year*

This is the first year in which SVL has paid dividends to their shareholders; management has indicated that going forward they will adopt a policy of regularly paying a generous portion of earnings to shareholders as capital distributions.

### Other points to note:

- The SVL Group has very little debt, and significant levels of cash which has been increasing over the last couple years. In terms of liquidity, their current ratio is currently 1.3 times that indicates that they are in a position to pay of all the liabilities they may have, and then some. Their main liabilities, however, are payouts for winning patrons but this is also covered to a large extent given the nature of the games.
- The Group did attempt to establish a presence in Trinidad, but their attempts proved futile when the Government of Trinidad and Tobago announced their intention to cease gaming operations locally.
- The Group has embarked on a strategic initiative to increase internal efficiencies, reduce costs and promote other synergies. This is reflected in their results, which show an increase in operating margins year-over-year in their core business (Lottery).
- Most recently, Management at SVL announced that the Group has formalized plans to introduce sports betting in Jamaica, thereby adding to their portfolio of games, providing additional options to customers.
- Going forward, SVL intends to establish a multi-jurisdictional lotto game throughout the region; they are in partnership talks regarding this game, and if it successfully gets off the ground, they will be able to derive revenues throughout the region, giving them flexibility to increase the size of the jackpot and build “lotto frenzy” or excitement about the game.
- According to studies conducted in Jamaica, SVL is one of the top three brands in Jamaica in terms of brand recognition.

### Economic Environment

SVL is a company that currently operates solely in Jamaica; it is therefore important to explore the climate of the economy in which it exists. Over the last year, Jamaica has faced tough times, including dealing with physical damages as a result of back to back hurricanes, a high inflationary environment (with inflation running in excess of 20% currently), and major unbudgeted fiscal spending. On top of this, the current international credit crisis will have an impact on Jamaica, a country that is heavily reliant on international capital. Jamaica’s high level of indebtedness, coupled with the historically weak fundamentals of the economy means that the country is very vulnerable to a period of prolonged worldwide economic weakness. Jamaica’s principal foreign exchange earner is tourism, and the expectation is that the number of tourists entering the country will decline given the current state of global economies. In short, it is our belief that Jamaica’s economy will be negatively impacted in the short to medium term.

### Interested in SVL? Already a Shareholder? Here is our Outlook:

The good news is, SVL’s business is driven mostly by the patronage of local Jamaicans and will not be seriously affected by any fall-off in tourism levels. The nature of their core business is such that it is likely to stand up strongly against harsh economic conditions. Though inflation levels are exceptionally high, and the average consumer has less disposable income in Jamaica, history has shown that people are still likely to spend a few dollars and try their hand at hitting the jackpot in a lottery. Our outlook for the Lottery segment, the major component of profits, is positive; it is unlikely to be affected by the global economic slowdown. We expect the casinos to suffer somewhat, considering that this segment caters to a more specific clientele who spend larger sums of money. But ultimately, the future looks bright for SVL.

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Considering the fact that they are operating in a challenging economic climate, SVL delivered very creditable results as at Q3 2008. At the time of writing, the stock is trading on the JSE at Ja\$3.10 and on the TTSE at its listing price of TT\$0.28. We are projecting an EPS of Ja\$0.25 for fiscal 2008 (ending October 2008), and Ja\$0.33 for 2009 (which is very conservative, considering their two-year growth and expansion plans). The stock is therefore trading at a forward P/E multiple of about 9 times, suggesting that it is quite cheap. We also looked at SVL's cash flows and made projections for fiscal 2009, giving us a forward Price/ Free Cash Flow multiple of about 12 times. These two valuation models suggest that SVL should be trading at Ja\$3.93 in a one-year time horizon, representing a return of about 27% for shareholders. In addition to this, the current dividend yield is around 4.7% and we estimate this to grow considerably in the short to medium term.

### ***Current Happenings in Local and International Markets:***

- Supreme Ventures debuts as volume leader
- Guardian Holdings on the rise
- Credit market crunch hurting GOJ bonds
- Barbadian economist urges cutbacks in T&T budget
- Financial crisis sees World Bank place Jamaica on watch list'
- Schlumberger Profit Rises After Oil Climbs to Record
- Warren Buffett Says Now Is the Right Time to Buy U.S. Equities
- Citigroup Posts Fourth Consecutive Loss on Mortgage Writedowns
- Merrill Lynch Reports Fifth Straight Quarterly Loss
- JPMorgan Third-Quarter Profit Drops 85 Percent on Writedowns
- Fed Offers GE, Citigroup Commercial Paper Subsidies
- U.S. Apartment Occupancy Falls as Unemployment Rate Climbs
- Switzerland Gives UBS a Bailout; Credit Suisse Raises Funds
- Money-Market Rates in London Fall as Central Banks Inject Cash
- Home construction falls sharply in September

***Table 1: Regional Market Performance (as at 16 October 2008)***

<b>Index</b>	<b>Closing Value</b>	<b>Weekly Change (%)</b>	<b>Monthly Change (%)</b>	<b>YTD Change (%)</b>	<b>1 Year Change (%)</b>
TTSE Composite	983.90	-1.80	-10.76	0.19	4.21
All Trinidad	1,329.89	-0.42	-10.17	10.76	12.72
JSE Index	95,871.52	-0.96	-8.56	-11.20	-1.36
JSE Select	2,554.30	0.04	-11.65	-12.79	0.06
All Jamaica	94,238.92	0.04	-10.68	-11.75	0.64
BSE Composite	1,025.93	-1.23	-4.28	-0.28	0.97

**Table 2: International Market Performance (as at 16 October 2008)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	946.43	4.01	-22.01	-35.55	-38.48
Nasdaq Composite	1,717.71	4.41	-22.20	-35.24	-37.85
Dow Jones Industrial	8,979.26	4.66	-18.81	-32.31	-35.46
German Dax	4,622.81	-5.41	-22.50	-42.70	-41.94
FTSE 100	3,861.40	-10.49	-23.17	-40.20	-41.62
Nikkei 225	8,458.45	-7.63	-27.14	-44.74	-50.64
Hang Seng	15,230.52	-4.47	-16.78	-45.24	-47.40
DJ Eurostoxx	2,423.80	-7.81	-21.52	-44.91	-45.17

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