

Sygnus Credit Investments Limited

RATINGS UPDATE:

Sygnus Credit Investments Limited Corporate Credit Ratings reaffirmed at *CariBBB-* (Foreign & Local Currency Ratings) on the regional scale and *jmBBB+* (Foreign & Local Currency Ratings) on the national scale; Stable Outlook assigned.

RATING ACTION:

On June 28, 2024, CariCRIS reaffirmed the assigned Issuer/Corporate Credit Ratings of *CariBBB-* (Foreign and Local Currency Ratings) on the regional rating scale, and *jmBBB+* (Foreign and Local Currency Ratings) on the Jamaica national scale to **Sygnus Credit Investments Limited (SCI or the Company)**. A stable outlook was assigned.

RATING SENSITIVITY FACTORS:

Factors that could, individually or collectively, lead to an improvement in the rating and/or outlook:

- Improving business conditions over the next 12-15 months, thereby leading to an increased client base and sustained earnings growth as evidenced by growth in operating profits by 10% or more for 2 consecutive years.
- Further diversity in asset class through the successful launch of new products
- SCI's ability to attract and retain lower cost funding

Factors that could, individually or collectively, lead to a lowering of the rating and/or outlook:

- Deterioration of asset quality as measured by the non-performing investment ratio to 8% or more, sustained for 2 consecutive years
- Increase of SCI's debt to TNW and/or total debt to total assets ratio to over 1.25 times or above 50% respectively for 2 consecutive financial years
- Cost to Income ratio weakens to 50% and over
- A sustained decrease in the net interest spread earned on investments to less than 1% for 2 consecutive financial years

RATING RATIONALE

Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the assigned Corporate Credit Ratings of *CariBBB-* (Local and Foreign Currency Ratings) on the regional rating scale and *jmBBB+* (Local and Foreign Currency Ratings) on the Jamaica national scale to Sygnus Credit Investments Limited (SCI or the Company). Both ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in Jamaica as well as the wider Caribbean are **adequate**.

CariCRIS has also assigned a **stable** outlook on the ratings. The stable outlook is based on the expectation of SCI's continued profitability over the next 12- 15 months driven by the continued deployment of new investments and increased investment activity by Acrecent Financial Corporation (AFC). Additionally, SCI's declining non-performing investments (NPIs) support the stable outlook. Furthermore, CariCRIS expects that the Company will continue to service its debt obligations in a timely manner.

The ratings are supported by the following:

| RATING DRIVERS | |
|--|---|
| Key Strengths | Key Risks |
| Strong financial performance supported by growing revenue and operating profits. | Exposure to sovereigns with an elevated level of economic uncertainty, though improving, increases risk to SCI. |
| Good asset growth supported by diversified interest-earning assets with healthy asset quality. | |
| Adequate governance structure and risk management practices. | |
| Favourable capitalization and liquidity metrics | |

Business Risk Rating: BBB (Adequate)

During FY2024¹, SCI continued to make significant progress towards the expansion and diversification of its private credit business. This is evidenced by growth in its Total Earning Assets (TEA) portfolio with the inclusion of its equity investment in Acrecent Financial Corporation (AFC)² of which it is the majority shareholder. AFC³ is a Puerto Rican financing and leasing company that offers both conventional⁴ and structured⁵ credit facilities to small and medium sized businesses, similar to SCI, across multiple sectors⁶.

The integration of AFC into SCI was completed in 3 phases. Following the implementation of Phases 1 and 2 in 2022 and in the first quarter of 2023, respectively, Phase 3 (the final phase) of AFC's integration was completed in June 2023 and came into effect on July 1, 2023, the start of FY2024. This involved Sygnus Capital PR LLC (SCPR), formerly named AIF Capital Management (AIF), becoming the external investment manager of AFC, now Sygnus Credit Investments Puerto Rico Fund (SCIPRF). SCPR is majority owned by Sygnus Capital Group Limited⁷ (SCG) and therefore share related advisors with SCI. SCPR is responsible for AFC's investment decisions and by extension the Investment and Risk Management Committee (IRMC). The completed integration is expected to bolster the group's risk management and improve efficiency by sharing a common risk management framework between SCI and AFC. In December 2023, the Company increased its shareholdings in AFC to 95.58%, up from 93.66% previously⁸.

SCI continued to achieve robust asset growth with a total asset base of US \$163.9 million as at June 2023, up by 19.8% from a year earlier, surpassing CariCRIS' projections⁹. The Company's total asset base further increased to US \$198.6 million as at March 2024,

¹ Financial Year runs from July 1 to June 30.

² Due to the non-consolidation of AFC into SCI, AFC is represented in SCI's financial statements as an equity investment under a fund structure and is referred to as the Puerto Rico Credit Fund (PRCF).

³ As at December 2023, AFC continued to maintain its leading market position in the Puerto Rican private credit market where it accounted for approximately 20% of the total market share.

⁴ Conventional loans along with leases and operating leases largely for equipment and working capital financing.

⁵ Structured credit refers to customized and more complex credit facilities such as real estate bridge loans and bankruptcy exit financing.

⁶ AFC's customer base is spread among several industries which consists of Commercial Real Estate, Hospitality, Healthcare, Manufacturing, Services, Retail, Construction, Energy and Financial.

⁷ Sygnus Capital Limited (SCL), owned by SCG, is a registered broker and licensed securities dealer in Jamaica, which is regulated by the FSC. SCL is committed to assisting local and regional clients to access capital from the capital markets as well as through the Alternative Investment management platform which includes SCI.

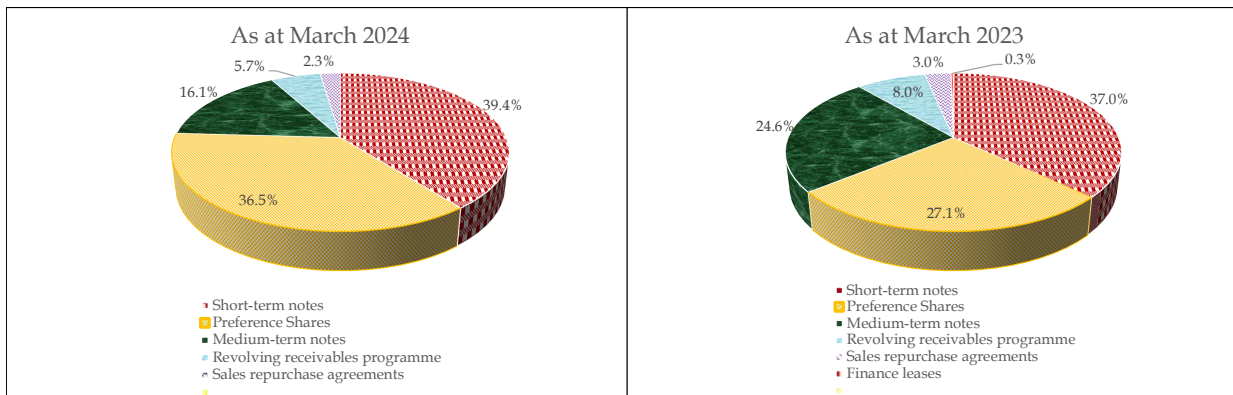
⁸ The increased shareholding represented the purchase of 909,091 shares at a price of US \$3.30, totaling approximately US \$3 million.

⁹ CariCRIS projected total assets of US \$153.5 million as at June 2023.

representing a 31% period-on-period (p-o-p) increase compared to March 2023. The Company’s asset base, though improved, still remains significantly smaller than CariCRIS’ peer sample¹⁰ average of regional financial services companies of US \$1.1 billion. The increase in SCI’s asset base as at March 2024 was mainly due to a 28.3% rise in TEA to US \$180.8 million. This increase was mainly attributable to a 77.2% rise in preference share investments to US \$55.6 million, an 18.8% uptick in notes to US \$84.5 million¹¹ and a 12.4% rise in the value of the Company’s investment in the PRCF to US \$28.5 million. The increase in preference share investments and notes reflected the deployment of cash into earning assets following SCI’s preference share raise of approximately US \$50.3 million in December 2023. Moreover, the uptick in the value of the PRCF investment was attributable to a combination of higher fair value gains due to the improved performance of AFC over the year, as well as SCI’s increased shareholding.

SCI’s earning assets remained moderately diversified by asset class as at March 2024 (Chart 1) and consisted of short-term notes (39.4%), preference shares (36.5%), medium term notes (16.1%), revolving receivables programme (5.7%) and sales repurchase agreements (2.3%). Notably, the PRCF portion of earning assets is representative of earnings assets that are concentrated in structured credit (89.5%¹²), and financial and operating leases (10.5%¹³).

Chart 1
Composition of SCI’s TEA



Source: SCI

¹⁰ We recognize this sample comparison may not be fair, given that the Company operates in a highly specialized niche segment of the financial services industry.

¹¹ Consists of a 40.3% p-o-p increase in short-term notes, the impact of which was tempered by a 13.6% p-o-p- decrease in medium-term notes.

¹² Up from 81.6% previously.

¹³ Down from 18.4% previously.

SCI's earning assets was also moderately diversified by geography and industry, supported by the addition of the PRCF. As at March 2024, the asset portfolio spanned 8 key territories¹⁴, with 28.9% of the Company's TEA being derived from Jamaica, followed by 27.3% in Puerto Rico¹⁵ and 15.8% in St. Lucia¹⁶. By currency, the Company's TEA portfolio consisted primarily of US \$ denominated instruments (99.1%¹⁷) as at March 2024, with the balance held in J\$. Moreover, the portfolio spans 13 industries¹⁸, with its largest exposures being Financial (24%¹⁹), Construction (17%²⁰) and Energy (10.3%²¹)²². CariCRIS notes that SCI remains in compliance with all the limits of its investment policy²³ including sector concentration limits.

SCI's asset quality, as measured by the ratio of non-performing investments (NPI) to TEA, improved to 0.8% as at March 2024 from 1.5% one year earlier; remaining within the 5% internal target and was below its 3-year average of 2.4%. The improved NPI ratio was primarily due to the growing investment portfolio with no additional stage 3 assets²⁴ being recognized over the period²⁵. The PRCF currently includes US \$2.6 million of stage 3 assets; of which US \$2.5 million are legacy investments which have been segregated from the main assets in the fund²⁶. Excluding the non-performing legacy assets, the PRCF's NPI ratio was approximately 0.1% as at March 2024²⁷. SCI's

¹⁴ SCI's portfolio of assets are spread among 10 territories. However, those located in Mexico and Panama are ringfenced legacy investments from the PRCF that are currently in the process of being sold. Apart from these legacy investments, SCI has no other exposure to those 2 territories.

¹⁵ The PRCF's investments continue to be concentrated in Puerto Rico with 95.4% of TEA.

¹⁶ SCI's top 3 territorial exposures as at March 2023 were Puerto Rico (30.8%), Jamaica (25.9%) and the Bahamas (12.6%).

¹⁷ Up from 94.2% previously.

¹⁸ Unchanged from the prior year.

¹⁹ Up from 16.8% previously.

²⁰ Up from 14.8% previously.

²¹ The energy storage industry is a new exposure to SCI.

²² SCI's main industry exposures as at March 2023 were Construction (16.8%), Financial (14.8%) and Hospitality (11%).

²³ SCI's credit policy places restrictions on its portfolio with an industry exposure limit of no more than 35%, maximum exposure to one investment of 35% and a transaction size limit of US \$5 million.

²⁴ Stage 3 assets are financial assets that are considered credit impaired. This arises when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

²⁵ The Company's total NPIs remained unchanged at 2 assets as at March 2024. Of the Company's US \$3 million in its existing stage 3 assets, US \$1.2 million is due from an unsecured investment in a portfolio company that was declared bankrupt in 2022. However, this investment was structured with an external guarantee by a charge over real estate assets that is currently in the process of liquidation.

²⁶ These legacy assets have been ring-fenced from AFC's investment portfolio as part of SCI's share purchase agreement.

²⁷ The PRCF's NPI ratio, including the legacy assets stood at 3.3% as at March 2024.

collateralization level varies by asset class²⁸ and averaged 10.9% as at March 2024, up from 7.1% in the prior period. To mitigate any downside risks from its unsecured credit products, SCI has carefully established adequate protection measures which include negative pledges²⁹, payments in kind linked to equity securities³⁰ and share options³¹. The Company's impairment provisioning increased to US \$0.3 million from US \$0.1 million a year earlier. This represented a net provision cover of 22.4%, a marked improvement from 1.8% a year earlier, though still below the average for CariCRIS' sample of regional financial services companies of 53.3%. SCI's increased provision cover is attributed to its plan to charge off its current stage 3 assets³² in the medium term, although the Company is working towards fully recovering the principal from these assets through legal proceedings.

Notwithstanding the above credit strengths, the Company is subject to a high level of economic risk given that the performance of its portfolio companies is linked to the health of the global and regional economic environments within which they operate. Globally, gross domestic product (GDP) grew by 3.2% in 2023 and is also expected to maintain this growth rate for 2024 and 2025, according to the International Monetary Fund (IMF). Growth is expected to be supported by disinflation and improved supply conditions. This reflects an easing of earlier energy price shocks, alongside a rebound in labour supply in many advanced economies. Global headline inflation is expected to decline to 5.9% in 2024 and further to 4.5% by 2025, from 6.8% in 2023, reflecting the impact of tight monetary policies, a related softening in labour markets, as well as relative declines in energy prices. With expectations of lower interest rates in the near future, the appetite for assets in emerging markets and developing economies has increased and sovereign spreads on risk-free government debt have fallen. Nonetheless, global interest rates remain high, leading to some asset price volatility impacting corporate balance sheets including that of SCI.

²⁸ The level of collateralization varies based on asset class and includes those assets that are collateralized by debentures and guarantees, both personal and by the respective portfolio company. All repurchase agreements are fully collateralized by investment grade bonds. Preference shares have 3 convertible options which include (a) an equity conversion option to convert all or part of the shares into common equity in the event of an Initial Public Offering or sale by the Issuer, (b) the Issuers have a redemption option whereby the preference shares can be redeemed prior to the maturity date by paying a premium to the Company and (c) SCI is entitled to receive a percentage of reported net/gross profits of the Issuers.

²⁹ An agreement between the client and SCI which restricts the client from further borrowing without SCI's approval.

³⁰ Involves payment via additional shares as an alternative to cash.

³¹ This includes the right to purchase the client's shares at a fixed and predetermined price.

³² The stage 3 asset from the Mining and Quarrying industry has been non-performing since 2020 and the Company is proceeding to develop a formal restructuring proposal. The stage 3 asset from the Hospitality industry is currently in receivership with its expected sale price sufficient to cover all creditors.

In Jamaica, where SCI derived 28.9% of its earning assets for the period ended March 2024, the economy expanded by 2.6% in 2023, driven by an increase in real output from the mining and quarrying sector and continuation of tourism's strong post-COVID rebound³³. The improvement in mining and quarrying resulted from increased alumina production due to higher capacity utilisation at the Jamalco and Ewarton refineries³⁴. Additionally, improved performance in tourism and its affiliated services was underpinned by increased airline arrivals and room capacity. The unemployment rate also improved to 4.2% as at October 2023 from 6.6% one year prior. For the 12 months to March 2024, the Bank of Jamaica (BoJ) maintained its policy rate at 7%³⁵ which is likely to add stability to SCI's net interest spreads and fixed income asset prices. Jamaica's indebtedness measured by a ratio of debt to GDP³⁶, was projected by the Government of Jamaica (GOJ) to have improved to 72.2% as at March 2024, down from 77.1% recorded a year prior and is also expected to further improve to 67.3% as at March 2025. The improving economic conditions in Jamaica bode well for the Company's financial performance through better performance of its portfolio companies. In Puerto Rico, where SCI derived 27.3% of its earning assets as at March 2024, real GDP is projected to have fallen by 0.7% in 2023 from an expansion of 3.2% in 2022 and is also projected to fall by 0.2% in 2024³⁷ which can hamper the growth of AFC's earning asset base. Notably, manufacturing which represented 43% of the island's total GDP remained stable during 2023, as the country's bioscience sector performed robustly as the country is the home to almost 50 pharmaceutical manufacturers such as Merck & Co., Pfizer Inc. and Eli Lilly & Co.

In CariCRIS' view, the business risk profile of SCI remained stable over the past year. Notably, the Company reported 2 consecutive years of improved credit quality measured by the level of NPIs and improvements to its TEA. This is expected to bode well for the Company's financial performance going forward, as impairment charges are expected to be kept low. As a result, CariCRIS has upgraded SCI's Asset Risk rating parameter by 1 notch. Going forward, CariCRIS anticipates a continued increase in the Company's TEA, supported by additional funds available through a new US \$60 million credit facility which is expected by the end of FY2024. Additionally, SCI's asset quality is

³³ Statistical Institute of Jamaica (STATIN); Quarterly (Seasonally Unadjusted) GDP (at Basic Prices); accessed April 19th, 2024.

³⁴ In August 2021, the Jamalco plant experienced a fire which halted production until July 2022. In 2023, as a result of a full 12 months of production, average capacity utilization at the plant increased by to 69.7% from 19.8% in the prior year; source: Bank of Jamaica (BOJ) Annual Report 2023.

³⁵ Source: BoJ Monetary Policy Press Release March 2024.

³⁶ Government of Jamaica (GOJ) Fiscal Policy Paper FY2024/25 Report.

³⁷ IMF April 2024 World Economic Outlook (WEO).

expected to remain adequate, supported by improvement in economic activity in SCI's key markets. This, together with CariCRIS' expectations of a favourable performance from the PRCF, should support the stability of SCI's business risk profile. The anticipated favourable performance of the PRCF is expected to be driven by AFC's plan to deploy approximately US \$125 million in new investments during FY2025 which will be funded by SCI Puerto Rico Incorporated (SPRI), a subsidiary of SCI, through a debt issue. Notwithstanding this, SCI's exposure to the lingering uncertainty surrounding global geopolitical conflicts, alongside still high inflationary pressures, albeit declining, can challenge growth in SCI's revenue and profitability in the year ahead.

Financial Risk Rating: A- (Good)

In FY2023, SCI reported a 34.3% increase in profit after tax (PAT) to US \$5.1 million up from US \$3.8 million in the prior year (Table 1). The increase in profitability was driven by a reduction in impairment losses to US \$0.8 million from US \$3.8 million previously, as the Company did not write off any stage 3 assets in FY2023 compared to one in the prior year³⁸. As a result of this improvement, both the return on earning assets (ROEA) and return on equity (ROE) ratios strengthened to 4.4% (3.7% previously) and 7.5% (5.7% previously) respectively, though remaining below the 3-year³⁹ averages of 5.1% and 7.6% respectively.

Total income fell by 12.1% to US \$9.8 million from US \$11.1 million previously mainly due to a 68.3% decline in other income⁴⁰ to US \$1.3 million from US \$4 million previously, which outpaced the 14.5% uptick in net interest income (NII) to US \$8.1 million. The fall in other income reflected lower fair value gains from equity investments, including the PRCF. This was mainly due to fluctuations in equity values during FY2023, alongside increased provisioning for bad debt by AFC due to its higher TEA. Excluding the impact of fair value gains, SCI's PAT would have improved to US \$3.9 million from a Loss after Tax (LAT) of US \$0.2 million previously. The higher NII was due to a 37.9% rise in interest income to US \$14.1 million despite a 91.2% uptick in interest expense to US \$6 million. The higher interest income stemmed from the 23.6% rise in TEA to US \$151.5 million, which was also influenced by the prevailing high interest rate environment. For the year, SCI's yield from interest earning assets improved

³⁸ The amount written off in FY2022 from this stage 3 asset totalled US \$3.4 million.

³⁹ 3-year average calculated using FY2021-2023.

⁴⁰ Consists of income derived from the PRCF and fair value (FV) gains.

to 10.3% from 10% previously. The increase in interest expenses was due to a 39.6% increase in the Company's total interest bearing liabilities to US \$89.9 million, which was also impacted by the high interest rate environment. As a result, funding costs increased by 30 basis points (bps) to 7.7% from 7.4% previously. Resultingly, the Company's net interest spreads improved by 10 bps to 2.6% from 2.5% previously, well above its CariCRIS regional peer sample of financial services average of 0.7%, albeit remaining below its 3-year average of 2.7%.

Operating expenses increased by 8% to US \$3.7 million, thereby tempering the increase in PAT. This was mainly driven by a 22% increase in management fees⁴¹ to US \$2.4 million due to an increase in assets under management. Given the simultaneous fall in operating income and increased operating expenses, the Company's operating profit fell by 21% to US \$6.1 million from US \$7.7 million previously. As a result, SCI's cost to income ratio increased to 37.4% from 30.4% previously, though remaining well below the regional peer average of 102%.

For the 9 months ending March 2024, SCI reported a rise in operating profits by 6.2% to US \$4.8 million; higher than its 3-year interim average⁴² of US \$4.3 million. This was mainly driven by a 15.2% increase in total income to US \$8.3 million, though tempered by a 30.3% rise in total operating expenses to US \$3.5 million (Table 2).

⁴¹ SCI has no direct employees and is managed by its investment manager, Sygnus Capital Ltd (SCL) to which management fees are paid.

⁴² 3-year interim average calculated using March 2022 to March 2024.

Table 1
SCI Summary Financial Performance (June 2021 to June 2023)

| | FY2023 | % chg | FY2022 | % chg | FY2021 | % chg | 3-yr Avg | 3-Year CAGR |
|---|---------------|--------|--------|--------|--------|---------|----------|-------------|
| | US \$millions | | | | | | | |
| Total Interest Income | 14.1 | 37.9 | 10.2 | 24.3 | 8.2 | 52.7 | 10.8 | 37.8 |
| Interest Expense | 5.9 | 91.2 | 3.1 | 73.2 | 1.8 | 101.8 | 3.6 | 88.3 |
| Net Interest Income (NII) | 8.1 | 14.5 | 7.1 | 10.6 | 6.4 | 43.0 | 7.2 | 21.9 |
| Other Income | 1.6 | (59.3) | 4.0 | 167.3 | 1.5 | 1,952.3 | 2.4 | 181.7 |
| Non-Interest Income | 0.38 | 788.1 | 0.04 | (32.0) | 0.1 | 796.9 | 0.2 | 278.4 |
| Total Income | 9.8 | (12.1) | 11.1 | 40.3 | 7.9 | 73.7 | 9.6 | 28.9 |
| Total Operating Expenses | 3.7 | 8.0 | 3.4 | 20.9 | 2.8 | 11.6 | 3.3 | 13.4 |
| Operating Profit | 6.1 | (21.0) | 7.7 | 50.9 | 5.1 | 149.4 | 6.3 | 43.8 |
| Profit After Tax (PAT) | 5.1 | 34.3 | 3.8 | (24.0) | 5.0 | 154.9 | 4.7 | 37.6 |
| Operating Cash Flow | (4.3) | 150.8 | (1.7) | (52.1) | (3.6) | 207.4 | (3.2) | 54.6 |
| Investments [^] | 47.8 | (7.4) | 51.6 | 125.8 | 22.9 | 21.7 | 40.8 | 36.5 |
| Net Notes and Advances | 103.7 | 46.3 | 70.9 | 18.3 | 59.9 | 60.6 | 78.2 | 40.6 |
| Total Earning Assets | 151.5 | 23.6 | 122.5 | 48.0 | 82.8 | 47.6 | 118.9 | 39.3 |
| Total Assets | 163.9 | 19.8 | 136.8 | 55.7 | 87.9 | 44.0 | 129.5 | 39.0 |
| Total Interest-Bearing Liabilities (TIBL) | 89.9 | 39.6 | 64.4 | 236.5 | 19.1 | (10.5) | 57.8 | 61.4 |
| Total Funding | 89.9 | 39.6 | 64.4 | 236.5 | 19.1 | (10.5) | 57.8 | 61.4 |
| Tangible Net Worth (TNW) | 69.8 | 3.5 | 67.5 | 1.1 | 66.7 | 77.1 | 68.0 | 22.8 |
| | % | | | | | | 3-yr Avg | |
| Yield from Earning Assets ^a | 10.3 | | 10.0 | | 11.8 | | 10.7 | |
| Funding Costs ^b | 7.7 | | 7.4 | | 8.9 | | 8.0 | |
| Net Rate Spread | 2.6 | | 2.5 | | 3.0 | | 2.7 | |
| ROEA | 4.4 | | 3.7 | | 7.2 | | 5.1 | |
| ROE | 7.5 | | 5.7 | | 9.6 | | 7.6 | |
| ROCE | 7.2 | | 7.2 | | 14.0 | | 9.5 | |
| Cost to Income | 37.4 | | 30.4 | | 35.3 | | 34.4 | |
| TNW to Total Assets | 42.6 | | 49.3 | | 75.9 | | 56.0 | |
| Debt/ Total Asset | 47.0 | | 44.1 | | 16.7 | | 35.9 | |
| | Times | | | | | | 3-yr Avg | |
| Gearing | 1.1 | | 0.9 | | 0.3 | | 0.8 | |

Source: SCI Financial Statements

*Financial Year runs from July 1 to June 30

**Note: Financial Statements were prepared in accordance to IFRS standards

Auditor: KPMG

^a Calculated as Total Interest Income/Average Total Earning Assets

^b Calculated as Interest Expense/Average Interest-Bearing Liabilities

The growth in total income was driven by a 33.7% uptick in NII to US \$6.7 million, though tempered by a 33.6% decline in other income to US \$1.4 million. The higher NII stemmed from a 49.2% increase in interest income to US \$13.6 million due to the continued growth in the Company's TEA. SCI's interest income was primarily derived from its short- and medium-term notes, which accounted for 55.5% of TEA as at March 2024. Given that the high interest environment persisted during the period, SCI's yields on interest earning assets increased by 160 bps to 8.5% (11.3% annualized). The increase in interest income was however tempered by a 67.8% rise in interest expense to US \$6.9

million, attributable to the Company's increased debt, alongside the issuance of preference shares⁴³ to fund its operations. Also impacted by the interest rate environment, funding costs increased by 100 bps to 6.9% (9.2% annualized), resulting in net interest spread compression by 50 basis points to 1.5% (2% annualized)⁴⁴. Additionally, the fall in other income was due to fluctuations in the equity market during the period which resulted in lower FV gains, including the PRCF which recorded a reduced gain of US \$0.6 million from US \$1.1 million previously. Excluding the impact of FV gains, operating profits would have increased by 40% to US \$3.4 million.

Total operating expenses grew by 30.3% to US \$3.5 million compared to US \$2.7 million in the prior corresponding period. This increase was mainly driven by a continued rise in management fees⁴⁵ by 22.7% to US \$2.1 million; in line with the growth of assets under management. With the 15.2% growth in total income being outstripped by that of total operating expenses, SCI's cost to income ratio increased to 42.2% relative to 37.3% in the prior corresponding period. However, due to an increase in impairment allowance to US \$0.3 million from US \$0.1 million previously, PAT remained relatively unchanged at US \$4.3 million. As a result of the growth rate of total assets and total net worth outstripping the increased PAT, both the ROEA and ROE ratios marginally declined for the period to 2.7% (3.6% annualized) and 6.2% (8.3% annualized) from 3.2% (4.4% for FY2023) and 6.3% (7.5% for FY2023) respectively, previously.

⁴³ CariCRIS classifies preference shares as debt for our analysis. SCI classifies preference shares as equity for the purpose of financial ratio and covenant testing.

⁴⁴ Yield from earning assets calculated as interest income to average earning assets. Though the PRCF is classified as an earning asset, its income is not classified as interest income for SCI, negatively impacting on its interest rate spread.

⁴⁵ SCI has no direct employees and is managed by its investment manager, Sygnus Capital Ltd (SCL) to which management fees are paid.

Table 2
SCI interim Summary Financial Performance (March 2022 to March 2024)

| | Mar-24 | % chg | Mar-23 | % chg | Mar-22 | % chg | 3-yr Avg |
|---|---------------|--------|--------|-------|--------|---------|----------|
| | US \$millions | | | | | | |
| Total Interest Income | 13.6 | 49.2 | 9.1 | 25.8 | 7.2 | 28.8 | 10.0 |
| Interest Expense | 6.9 | 67.8 | 4.1 | 113.1 | 1.9 | 33.4 | 4.3 |
| Net Interest Income (NII) | 6.7 | 33.7 | 5.0 | (6.1) | 5.3 | 27.2 | 5.6 |
| Other Income | 1.4 | (33.6) | 2.1 | 210.6 | 0.7 | 1,412.6 | 1.4 |
| Non-Interest Income | 0.3 | 72.2 | 0.2 | 808.9 | 0.0 | (82.2) | 0.2 |
| Total Income | 8.3 | 15.2 | 7.2 | 20.6 | 6.0 | 38.8 | 7.2 |
| Total Operating Expenses | 3.5 | 30.3 | 2.7 | 8.7 | 2.5 | 44.9 | 2.9 |
| Operating Profit | 4.8 | 6.2 | 4.5 | 28.9 | 3.5 | 34.8 | 4.3 |
| Profit After Tax (PAT) | 4.3 | 1.5 | 4.3 | 51.4 | 2.8 | 19.0 | 3.8 |
| Profit Attributable to Shareholders (PAS) | 4.3 | 1.5 | 4.3 | 51.4 | 2.8 | 19.0 | 3.8 |
| Operating Cash Flow | (3.0) | (35.9) | (4.7) | 62.7 | (2.9) | 48.3 | (3.5) |
| Investments | 96.3 | 37.9 | 69.8 | 29.3 | 54.0 | 333.0 | 73.4 |
| Net Notes and Advances | 84.5 | 18.8 | 71.1 | 0.6 | 70.7 | 15.7 | 75.4 |
| Total Earning Assets | 180.8 | 28.3 | 141.0 | 13.0 | 124.7 | 69.5 | 148.8 |
| Total Assets | 198.6 | 31.0 | 151.6 | 12.3 | 135.1 | 58.5 | 161.8 |
| Total Interest-Bearing Liabilities (TIBL) | 122.3 | 56.4 | 78.2 | 25.5 | 62.3 | 223.8 | 87.6 |
| Total Funding | 122.3 | 56.4 | 78.2 | 25.5 | 62.3 | 223.8 | 87.6 |
| Tangible Net Worth (TNW) | 70.8 | 2.3 | 69.2 | 4.1 | 66.5 | 3.9 | 68.8 |
| | % | | | | | | 3-yr Avg |
| Yield from Earning Assets ^a | 8.5 | | 6.9 | | 7.3 | | 7.5 |
| Funding Costs ^b | 6.9 | | 5.9 | | 4.8 | | 5.9 |
| Net Rate Spread ^c | 1.5 | | 1.0 | | 2.5 | | 1.7 |
| Net Rate Spread | 1.5 | | 1.0 | | 2.5 | | 1.7 |
| ROEA | 2.7 | | 3.2 | | 2.9 | | 2.9 |
| ROE | 6.2 | | 6.3 | | 4.3 | | 5.6 |
| ROCE | 5.3 | | 6.5 | | 5.4 | | 5.7 |
| Cost to Income | 42.2 | | 37.3 | | 41.4 | | 40.3 |
| TNW to Total Assets | 35.7 | | 45.6 | | 49.2 | | 43.5 |
| Debt/ Total Asset | 32.2 | | 45.8 | | 43.9 | | 40.6 |
| | Times | | | | | | 3-yr Avg |
| Gearing | 1.7 | | 1.1 | | 0.9 | | 1.3 |

Source: SCI Financial Statements

*Financial Year runs from July 1 to June 30

**Note: Financial Statements were prepared in accordance to IFRS standards

^a Calculated as Total Interest Income/Average Total Earning Assets

^b Calculated as Interest Expense/Average Interest-Bearing Liabilities

As at March 2024, in line with improved profitability, the Company's tangible net worth (TNW) grew by 2.3% to US \$70.8 million from US \$69.2 million a year earlier, driven by a 24.6% (or US \$2 million) uptick in retained earnings to US \$10.4 million. SCI's good capitalization is underscored by its ratio of TNW to total assets ratio of 35.7% despite the lower outturn compared to March 2023 of 45.6%. The lower ratio reflected the higher

total asset growth rate of 31%, which surpassed the marginal 2.3% increase in TNW. To fund its growing portfolio of earning assets, SCI continues to draw down on short-term bridge notes, preference shares and other available credit facilities which have consequently led to an increase in total debt by 56.4%⁴⁶ to US \$122.3 million as at March 2024 compared to US \$78.2 million a year earlier. As a result, SCI's leverage, measured by the debt to TNW ratio, weakened slightly to 1.7 times as at March 2024 from 1.1 times a year earlier. Additionally, as at March 2024, total debt to total assets declined to 32.2% from 45.8% one year prior. Notably, the Company classifies preference shares as debt for financial reporting but is treated as equity for the purposes of covenant testing and financial ratio calculation. Therefore, the ratio of debt to TNW and debt to total assets, calculated as per SCI's Investment Policy Statement, declined to 0.8 times and 28.7% from 1.0 times and 45.8% respectively. Both the debt to TNW and total debt to total assets ratios remained comfortably within the limit set by the Board of Directors (BOD) of 1.25 times and 50% respectively.

SCI continues to display adequate liquidity despite a slight reduction in its ratio of TEA to total interest-bearing liabilities to 1.5 times as of March 2024, down from 1.8 times as at March 2023. The Company continues to rely heavily on short to medium-term debt to fund its operations and as at March 2024, approximately 63.3% of its debt is maturing within 1 year, down from 74% in the prior corresponding period. However, SCI reported a positive liquidity gap in all its maturity buckets as at March 2024, which augers well for its liquidity risk (Table 3). This positive liquidity gap supports the Company's ability to adequately repay its US \$95.8 million coming due in the next 12 to 15 months.

Table 3
SCI's Liquidity Gap Projections as at March 2024

| | Due on Demand | Due in 1 year | Due in 2-5 years | Due over 5 years | Total |
|--------------------------|---------------|---------------|------------------|------------------|-------------|
| | <i>US\$</i> | | | | |
| Assets | 17,797,249 | 91,375,556 | 60,951,697 | 28,482,493 | 198,606,995 |
| Liabilities | 14,828,680 | 80,932,714 | 32,026,576 | - | 127,787,970 |
| Net Liquidity Gap | 2,968,569 | 10,442,842 | 28,925,121 | 28,482,493 | 70,819,025 |

Source: SCI

In CariCRIS' view, the financial risk profile of SCI remained good in FY2023 and over the 9-month period to March 2024 as evidenced by consistent growth in total income

⁴⁶ This was primarily due to SCI's preference share raise of approximately US \$50.3 million in December 2023.

and earning asset base, which both supported healthy profitability. Going forward, in line with its 9-month performance to March 2024, CariCRIS expects SCI's financial performance to continue to improve supported by the expansion of its asset portfolio. Additionally, following the significant uptick in AFC's TEA by 50.5% as at March 2024, alongside anticipated stability in the equity markets over the next 12-15 months, SCI's other income is likely to be well above the prior year's outturn. Under these assumptions, CariCRIS expects increased total income and PAT of the order of US \$12.4 million and US \$6.4 million respectively in FY2025 due to a 15% uptick in TEA to US \$218.3 million. The higher TEA is expected to be funded in part by a new US \$60 million international credit facility which is currently being negotiated and expected to be attained by the end of FY2024. CariCRIS also expects the Company to continue to comfortably meet its debt obligations as they come due in the next 12- 15 months given its liquid asset portfolio as noted in SCI's positive 1-year liquidity gap, and available credit facilities.

Management Risk Rating: Above Average

SCI's management risk profile remained relatively unchanged over the past financial year. The company remains managed by a competent investment manager, who is heavily supported by a 7-member BOD that plays an important role in SCI's strategic direction. The BOD is guided by sound corporate governance principles which ensures good board independence. The Company's investment operations continue to be administered through its investment manager, SCL which delegates the risk management to its Investment and Risk Management Committee (IRMC)⁴⁷. The risk management of SCL continues to be supported by 3 committees which consist of the Audit and Governance Committee (AGC), the Enterprise Risk Committee (ERC) and the Investment Advisory Committee (IAC).

Following the completion of phase 3 of AFC's integration into SCI, AFC is now managed as an external investment fund with SCPR as its investment manager⁴⁸. Following the integration both SCI and AFC will now be governed by a similar risk management framework. Over the past year, employees were relocated to SCPR to enhance synergies with AFC, with an emphasis on improving the overall risk management of SCI's earning

⁴⁷ IRMC, a sub-committee of the board is responsible for making all investment decisions, including those of AFC.

⁴⁸ SCPR reports to SCL, which is SCI's investment manager.

portfolio. CariCRIS is of the view that the overall approach to risk management at SCI remains above average, supplemented by the existing risk management committees of SCL and underpinned by clear lines of accountability which, in CariCRIS' opinion, will serve well to curtail issues as they arise.

Rating Sensitivity Factors:

Factors that could, individually or collectively, lead to an improvement of the rating and/or outlook:

- Improving business conditions over the next 12-15 months, thereby leading to an increased client base and sustained earnings growth as evidenced by growth in operating profits by 10% or more for 2 consecutive years
- Further diversity in asset class through the successful launch of new products
- SCI's ability to attract and retain lower cost funding

Factors that could, individually or collectively, lead to a lowering of the rating and/or outlook:

- Deterioration of asset quality as measured by the non-performing investment ratio to 8% or more, sustained for 2 consecutive years
- Increase of SCI's debt to TNW and/or total debt to total assets ratio to over 1.25 times or above 50% respectively for 2 consecutive financial years
- Cost to Income ratio weakens to 50% and over
- A sustained decrease in the net interest spread earned on investments to less than 1% for 2 consecutive financial years

June 28, 2024

Type of Rating: Issuer/Corporate Credit Rating

Outlook: Stable

Summary Overall Risk Assessment

| Risk Factors | Previous Assessment | Present Assessment |
|---|----------------------------|---------------------------|
| <i>Business Risk</i> | | |
| Industry Risk | BBB- | BBB- |
| Market Position | BBB- | BBB- |
| Resources | BBB | BBB |
| Asset Risk | BBB | BBB+ |
| Risk Management | A | A |
| Operating Efficiency | A | A |
| Overall Business Risk | BBB | BBB |
| <i>Financial Risk</i> | | |
| Capital Adequacy | A- | A- |
| Earnings | BBB+ | BBB+ |
| Liquidity | A- | A- |
| Overall Financial Risk | A- | A- |
| <i>Management Risk</i> | | |
| Competence | Strong | Strong |
| Integrity | Satisfactory | Satisfactory |
| Risk Management | Satisfactory | Satisfactory |
| Corporate Governance | Satisfactory | Satisfactory |
| Overall Management Risk | Above Average | Above Average |
| Final Rating (National Scale) | <i>jm</i> BBB+ | <i>jm</i> BBB+ |
| Final Rating (Regional Scale) LC | <i>Cari</i> BBB- | <i>Cari</i> BBB- |
| Final Rating (Regional Scale) FC | <i>Cari</i> BBB- | <i>Cari</i> BBB- |

| RATING HISTORY | | | |
|---------------------|----------------------------|----------------------------|---------------------------------|
| Date | Regional Scale | National Scale | Instrument/Remarks |
| | Foreign and Local Currency | Foreign and Local Currency | |
| June 28, 2024 | <i>Cari</i> BBB- | <i>jm</i> BBB+ | Issuer/ Corporate Credit Rating |
| July 26, 2023 | <i>Cari</i> BBB- | <i>jm</i> BBB+ | Issuer/ Corporate Credit Rating |
| August 30, 2022 | <i>Cari</i> BBB- | <i>jm</i> BBB+ | Issuer/ Corporate Credit Rating |
| September 14, 2021* | <i>Cari</i> BB+ | <i>jm</i> BBB | Issuer/ Corporate Credit Rating |

* Initial Rating Assigned

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