



March 20, 2020: INVESTOR INSIGHTS – Coronavirus

What does this mean for Bahamian & Barbadian investors?

The impact on local equity and debt markets will depend on the severity and duration of Covid-19 virus' impact on the tourism sector. With the cancellation of all cruise ship travel for at least the next thirty days and with air travel and hotel occupancies also expected to be severely impacted, it is expected that there will be a sharp decline in tourist revenues for weeks if not months.

Recognising that the Bahamian tourism industry is already struggling to deal with the impact of Hurricane Dorian on Abaco, it will be essential that measures are taken to minimize the impact on Bahamians whose livelihoods are directly dependent on the tourism industry. It is fortunate that the Bahamas has sufficient foreign reserves and access to global debt markets to sure-up foreign reserves if needed.

While the loss of tourism revenues will negatively impact The Bahamian and Barbadian economies and it is expected that the financial performance of the firms listed on the local stock market exchanges will be similarly impacted in the shortterm, we do not expect negative medium to long-term impacts that would likely justify significant declines in share prices.

BAHAMAS

Let's think about the companies listed on BISX. The demand for supplies, some essential some not so essential, has and will continue to benefit food stores like AML Foods and Commonwealth Brewery. Also, as in the US, technology and telecommunication firms like Cable Bahamas/Aliv will benefit. Demand for cable/internet access and data will increase. Also, in the case of Cable Bahamas, they recently generated approximately \$200 million in cash from the sale of their US subsidiary. We have five local banks listed on BISX and if needed they can decide to provide lenders with the option to make interest only payments for several months. This will not impact profitability while reducing new delinquencies. Regarding the three insurance companies listed on BISX, keeping one's health and life insurance policies current will be a priority for most of the insured. During a medical emergency, demand for health care services increases and Doctor's should benefit. Regarding FOCOL, their profitability increases when oil prices decrease, and the price of oil has plummeted. Also, like food, demand for gasoline remains somewhat stable during economic downturns. As such, we are not of the view that the COVID-19 crisis will spell doom for local stocks.

The RF Prime Income Fund's (PIF) top ten investments include: Government of The Bahamas (14.2%); Cable Bahamas (13.8%); NAD (13.0%); Be Aliv (13.0%); RF Holdings (4.3%); CARIBCO Limited (4.3%); RF High Yield Income Fund (4.0%); Fidelity Bank (4.0%); APD Limited (3.3%); Lyford Cay School (2.6%). We are of the view that all these issuers are stable and that the PIF provides risk averse investors with a prudent option over the next few months and beyond. Also, most of the local issuers of corporate debt and preference shares have strong balance sheets we expect that they will be able to meet their obligations.

BARBADOS

Goddard Enterprises Limited is diverse enough to cushion any declines in revenues that would be expected from their ground handling and catering services as a result of the decline in aircraft passengers due to the outbreak. Keeping one's health and life insurance policies current will be a

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priority for most of the insured which should benefit insurance companies like Insurance Corporation of Barbados. The Department store at Cave Shepherd will probably experience decline in revenues during this period, however we will expect the financial services side of their business to be fully utilized by clients as they seek the essentials services. The lone bank listed on BSE which is First Caribbean International Bank, can decide to provide lenders with the option to make interest only payments for several months. This will not impact profitability while reducing new delinquencies. As people continue to bulk shop in anticipation of a national shutdown should there be a major outbreak in Barbados, companies like West Indies Biscuit should continue their strong financial performance and see benefits as a result of their manufacturing of food products.

We believe that our Premium Income Fund provides risk averse investors with a prudent option over the next few months and beyond.

We all need to be cautious regarding our physical health and financial health over the next few months. We realise that these are difficult times and there is a high level of uncertainty as to the future impacts associated with the spread of COVID 19. The team at Royal Fidelity is here to assist you during this trying period and we would welcome the opportunity to discuss your investment concerns.

Together we will weather Covid-19 and emerge stronger for it.

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