

Michael Lee-Chin on possible bid for 100% NCBJ: No interest in GHL takeover, now



MICHAEL LEE-CHIN

The National Commercial Bank of Jamaica's (NCBJ) desire to become a major player in the regional and global financial services sector was one of the main reasons cited by Michael Lee-Chin, company chairman, for the acquisition a 29.9 per cent stake in Guardian Holdings Ltd (GHL).

In an exclusive interview with the Business Guardian, the Jamaican business magnate noted GHL's solid operating history and presence across 22 regional territories as immediately providing the right platform for NCBJ to recognise its regional expansion ambition.

When news of NCBJ's acquisition of the majority shareholding in GHL broke, natural among the thoughts of regional investors was getting an understanding of the motivation underpinning such a large transaction.

To this enquiry Lee-Chin stated: "NCBJ is predominantly a Jamaican institution making most of its revenues from Jamaica. We have an ambition to become more regional in our operations and GHL is a wonderful asset that leap-frogged to us immediately as being a well-managed company with a great footprint across the region."

Going further, he said: "GHL's main revenue source is Trinidad, and Trinidad today is a wonderful place to be investing in. If we (NCBJ) were scanning the world and asking ourselves where would be the best place to put the next investment dollar, we'd put it in a place with solid governance, a place that we're familiar with and understand, and a place where there are people who we trust and have confidence in. All those considerations taken together make Trinidad a fantastic place to be investing in today."

When asked about what value NCBJ would bring to GHL by way of its majority shareholding, the Jamaican entrepreneur pointed to the relative strengths of both companies.

"GHL has done a wonderful job in the insurance underwriting business. Their underwriting results are world class. What that company would benefit from is our knowledge, expertise and passion for investing. We have a proven track record of successfully investing in quality long-term assets and we see significant value added to GHL by being able to benefit from our domain experience in the area of capital allocation. It is a wonderful platform from which we can make solid long-term investments."

Questioned on the kind and type of long-term investments that could potentially take place, Lee-Chin said: "We're focused primarily on long-term illiquid assets. This could range from infrastructure, a power plant, real estate, a toll road, an airport so assets of that nature." He was, however, quick to note that no single investment has as yet been undertaken.

Acquiring 29.9 per cent of the shares outstanding puts NCBJ on the threshold of triggering a mandatory takeover offer for the remaining shares of GHL.

When asked about the rationale for taking a position just below the mandatory takeover limit, Lee-Chin said: "We loved what we saw in GHL so much that we decided we wanted to bump our position up to the limit before we triggered a takeover bid."

Questioned on NCBJ's intention to acquire the remaining shares outstanding, he said: "We are not prepared to go beyond our stake in the company at this time. This is a big investment for us. The hallmark of our investing philosophy is that we invest in things we understand. We know GHL's business fairly well but we want to be more granularly familiar with all the nuances and key drivers of its operations."

Asked to elaborate further on his investment philosophy as it relates to the GHL acquisition, Lee-Chin said there were certain criteria that had to be met.

"When we make decisions to invest anywhere there are three preconditions that have to be met.

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Firstly, there must be a difference between perception and reality. Only when this difference exists is there the opportunity for creating fantastic

returns and outsized wealth.

Secondly, there must be a lack of equity capital flowing into the industry, sector, region or company that we're interested in. Only when there is a lack of capital flowing in is the incremental dollar well treated.

Thirdly, there must be inefficiencies. Only when inefficiencies exist do you have the opportunity to create a huge wealth lift by taking something inefficient and making it more efficient. Those three preconditions have been met and hence we are really excited about our position in GHL."

For its financial year 2015, GHL declared a final dividend of 0.42 cents per share. Asked about whether NCBJ was satisfied with GHL's dividend stream Lee-Chin stated that though important, NCBJ's focus goes well beyond GHL's current dividend payout.

"We are not necessarily buying GHL for the dividend stream we see today, but we're buying it for future dividends that we see increasing and the capital appreciation that we envisage taking place if we are able to help GHL become better capital allocators. We are long-term investors and our position in GHL signifies publicly that we are here to stay for the long term."

Investment trend

Given the regional spread of GHL, the process of completing the share acquisition requires regulatory approvals (and notifications) across multiple jurisdictions.

Asked how far along the process had gotten Lee-Chin stated: "The regulatory approval process is coming to an end. The primary regulators in this transaction were: the Central Bank of T&T (CBTT) and the Bank of Jamaica (BOJ). We've gotten approvals from both. A lot of the smaller territories were awaiting the approvals from the CBTT and BOJ before they gave theirs so now we're just wrapping up the approvals from the other islands."

Commenting on the regional nature of the transaction, and in particular the flow of funds between Jamaica and Trinidad, Lee-Chin noted the significance of the deal.

He said: "Historically, Trinidad and Trinidadian companies have always invested in Jamaica but Jamaican investors, historically, have never looked south. They've mainly looked north. So,

The GHL-NCBJ transaction

On November 30, 2015, NCBJ, Jamaica's largest bank by assets, consummated the acquisition of a 29.9 per cent stake in Guardian Holdings Ltd, T&T's largest insurance company, for an undisclosed sum. The transaction involved the Lok Jack and Ahamad families selling most of their stake in Guardian Group to NCBJ through a private sale.

Also, selling some of its shares to NCBJ was the International Finance Corporation (IFC), the World Bank affiliate that invested US\$75 million in Guardian Group in 2010. The transaction also involved the Lok Jack and Ahamad families buying back the 12 per cent stake in GHL held by the Royal Bank of Canada (RBC) and IFC's remaining shares, leading to the exit from Guardian Group of its two blue-chip foreign investors. The result would be that NCBJ is GHL's largest single shareholder, the Lok Jack and Ahamad families would jointly be the second largest shareholding block with a 22 per cent stake and both RBC and the IFC have ended their shareholding relationship with the Westmoorings-based insurance company.

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hopefully this is the beginning of a new trend whereby Jamaican investors begin to look southerly rather than northerly for investment opportunities."

NCBJ's significant shareholding in GHL places it in a unique position to influence its operations and activities across its portfolio of companies in the Caribbean region. Naturally, the topic of cultural fit and cross-border management relationships would be something that had to be addressed in the transaction.

To this Lee-Chin said: "We know and respect the management team at GHL. We work very well together and a healthy chemistry exists between both management teams. Both of our values are aligned as far as growing the business is concerned so we don't envisage any shake-ups or anything of that nature. Once a business is growing there is no need for any shake-ups. We are focused on helping GHL continue to grow."

Citing his experience on the acquisition of NCBJ in 2002 as a point of reference, Lee-Chin noted that employees of GHL should be focused on building their business. He said: "When we acquired NCBJ the rumour was that there would be massive job losses. We immediately sought to put those to rest as we made it clear we were here to build a business not send anyone home."

"Similarly, if every employee at GHL were to ask themselves the question: what am I doing to grow this business? we would have to employ way more people. If every employee were, for example, to get four new customers for GHL, business would be bursting at the seams."

Lee-Chin noted that the size of the Caribbean region and its relatively small populations should, in no way, limit regional companies from having global ambitions.

"Being successful in the financial services sector isn't a function of population base. It's a function of having big aspirations, having the requisite skills, taking the requisite risks and building a platform that you can just extrapolate from. We have what it takes right here in the Caribbean to build a financial institution that can be globally eminent."