

Company Update: Jamaica Producers Group (JP) 6M 2021

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- Recommendation: **OVERWEIGHT**
- Price Target: \$27.78
- Current Price: \$22.03

- Shares Outstanding: 1,122,144,036 units
- Financial Year End: December 31

ABOUT THE COMPANY

Jamaica Producers Group (JP), which is domiciled in Jamaica, is structured into two major segments: JP Logistics & Infrastructure (JLI) and JP Food & Drink (JFD). JLI is engaged in logistics, transportation, port operations and property. JP's subsidiary, Kingston Wharves (KW), operates in this segment. JFD is responsible for agriculture, processing and distribution of specialty food and drinks. A.L. Hoogesteger Fresh Specialist B.V. is a subsidiary of JP that operates in this segment. Although JLI is the largest division by assets, JFD is a larger contributor to revenue. JP operates in the Caribbean, North America and Europe and earns most of its revenue in foreign currency.

During the second quarter of the 2021, JP completed the acquisition of a 50% interest in Geest Line Limited ("Geest"). The Geest business is part of JP's strategy of acquiring, building and integrating a network of logistics enterprises serving the Caribbean. Geest, which is accounted for as an associated company within our Logistics & Infrastructure Division, made a positive contribution to the performance of the Group during the quarter.

FINANCIAL PERFORMANCE

(JMD '000)	FY 2019	FY 2020	6M 2020	6M 2021
Revenue	21,464,068	20,998,982	9,516,705	11,401,862
Gross Profit	7,241,762	5,510,702	2,717,033	3,290,821
Net Income to Parent	1,204,338	2,167,593	346,972	609,579
Total Assets	38,606,888	40,958,000	38,983,231	42,181,824
Total Liabilities	11,006,789	10,026,141	11,856,561	9,936,520
Equity Attr. To Parent	13,836,454	16,132,100	14,480,509	16,871,603

Dividend Policy

JP has not indicated an explicit dividend policy but pays on average \$0.16 annually over the last three years.

Outlook

Our outlook for JP is positive primarily due to their strategic positioning in logistics, strong cash flow and the resilience shown thus far in navigating through the COVID-19 pandemic. Though JP is expected to continue to expand its reach, slowing global growth and changes in trade rules could lead to lower than expected results. Notwithstanding, JP is pressing forward with initiatives geared at increasing efficiency, particularly in the logistics segment. Additionally, the company is well positioned to execute on potential acquisitions and other growth initiatives due to the conservative capital structure and strong liquidity position.

Projections And Valuations

We arrived at our target price using an average of the discounted Cash Flow model and price multiple approach with a discount rate of 11.92% and a P/E of 22.5x and P/B of 1.8x.

Risks to Price Target

The main risk to our price target is a protracted downturn in local and global markets that may result if a meaningful solution to the COVID-19 pandemic is not established in the near-term. Additionally, the company faces risks from unforeseen adverse changes in trade regulation whether locally or with a major trading partner.

Half Year ended June 30, 2021

For the half year ended June 30, 2021, Jamaica Producers Group Limited (JP) revenue was up by 19.8% to \$11.4 billion from the \$9.5 billion recorded a year prior as both business segments –Food & Drink (“F&D”) and Logistics & Infrastructure (“L&I”) generated year-to-date revenue increases when compared to 2020. The F&D Division, which comprises a portfolio of subsidiaries that are engaged in farming, food processing, distribution and retail of food and drink, is the largest contributor to the revenue of the Group with 59.8%. Revenue for the L&I division was up by 22% to \$4.6 billion over the prior year. The Division continues to benefit from a series of initiatives to develop Kingston Wharves as a leading regional multipurpose and multi-user terminal, and Newport West as a warehousing and logistics hub. Cost of operating revenue grew by 19.3% to \$8.1 billion which resulted in a Gross Profit of 3.3 billion.

Selling, administrative and other operating expenses grew by 9.0% to \$1.9 billion at the end of the reporting period. Operating Profit for the period was \$1.8 billion compared to the \$1.3 billion registered in the comparable period prior. Operating Profit Margin thus grew from 200 basis points to 15.69% year-over-year (YoY). Despite a 44.1% growth in Financing costs to \$1.7 billion and an applicable tax charge of \$319.3 million, consolidated net profit stood at \$1.3 billion, up from the previous year’s June 2021 figure of \$938.2 million. Profit attributable to shareholders grew by 75% to \$609.6 million (EPS: \$0.543) YoY.

The balance sheet shows an 8.2% increase in total assets to \$42.2 billion over the corresponding period last year (June 30, 2020: \$39.0 billion). The major items contributing to the increase include securities purchased under resale agreements, investments and property plant and equipment. Total liabilities went in the opposite direction to assets, declining by 3.3% to \$9.9 billion. The decline was driven primarily by a reduction in the total loans and borrowings from \$3.3 billion to \$2.7 billion due to debt repayment. JP’s equity base grew by 16.5% to \$16.9 billion, a 16.6% increase arising from higher retained earnings of \$16.8 billion.



CONCLUSION

Despite the challenges faced, demand for the company’s food and drink products should remain resilient, as such, we expect a manageable impact on revenue generation in the current environment. On the other hand, we do expect that margins will be impacted by higher shipping costs in the near-term as the COVID-19 pandemic have contributed to huge imbalances in prices and increased freight charges. The diverse range of business lines and, importantly, diverse range of markets should help to stabilize the company’s earnings during the outbreak.

The company maintains a strong liquidity position and has a low debt balance, positioning the company to withstand unforeseen shocks and execute on any potential acquisition and expansion opportunities, driving further growth despite the challenging environment. Based on our assessment of the valuation of the company at \$27.78 relative to the closing price of \$22.03, we recommend that investors **OVERWEIGHT** JP in their equity portfolio.

SOURCES

The Jamaica Observer, The Jamaica Gleaner, Loop News, Jamaica Producers Group Audited Financials, Jamaica Stock Exchange

DISCLAIMER

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DEFINITIONS

- **OVERWEIGHT** – More than 10% price appreciation anticipated (Higher weight in your portfolio relative to the market)
- **MARKET WEIGHT** – Price expected to fluctuate between 10% on the upside or downside (Similar weight in your portfolio relative to the market)
- **UNDER WEIGHT** – Price expected to decline by more than 10% (Lower weight in your portfolio relative to the market)
- **ZERO WEIGHT** – Do not hold this stock