

Mailpac Group Limited (MGL)

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INFRINGEMENT IN THE APPENDIX**

Executive Summary

Mailpac is a leading provider of logistic services in the Caribbean, offering: e-commerce fulfilment services from the United States to Jamaica; cross-border online shopping with local landed prices; local online shopping and delivery from local retailers; online shopping financing; a branded MasterCard for shopping online; sea freight shipping; and brokerage services.

The Company has been able to improve on this performance, attributing its gains to improved brand awareness and an increase in e-commerce trends. However, the company noted its expectation of a potential reduction in consumer dependency on online shopping as COVID-19 movement restrictions shift in the coming months. We recommend the ordinary shares of Mailpac Group Limited at **MARKETPERFORM/HOLD/MARKETWEIGHT** as we believe the stock is trading in line with our estimation of its fair value.

Company Background

Mailpac is a leading provider of logistics services in the Caribbean, offering: e-commerce fulfilment services from the United States to Jamaica (Mailpac Services); cross-border online shopping with local landed prices (Mailpac Marketplace); local online shopping and delivery from local retailers (Mailpac Local); online shopping financing (Mailpac Financial Services); a branded MasterCard for shopping online (the Mailpac Card); sea freight shipping (Mailpac Ocean Freight); and brokerage services.

Mailpac Group Limited was incorporated in September 2019 to acquire the businesses of Mailpac Services Limited and Mailpac Local Limited, to amalgamate both logistics platforms under one umbrella. The businesses were acquired as going concerns and Mailpac acquired all employee contracts, processes, solutions, services, customers, vendors, partners, technologies and assets of Mailpac Services Limited and Mailpac Local Limited. In December 2019, Mailpac listed on the Junior Market of the Jamaica Stock Exchange.

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Financial Analysis – Six Months ended June 2021

MGL reported revenues of \$896.06M for the six months ended June 2021, up 22.6% or \$165.21M year-over-year. Gross profits rose by 27.1% to \$437.12M, as cost of sales rose 18.6% to \$458.95M. Mailpac attributed this improved top-line performance to investments in brand awareness and throughput capacity combined with increased demand due to pandemic limitations. The gross profit margin stood at 48.8% for the period, up from 47.1% in the comparable period of 2020.

Total operating expenses amounted to \$212.08M, up 46.5% year-over-year. Administrative & general expenses totalled \$177.61M, up 41.8% year-over-year, while selling & promotional expenses surged by 76.7% to \$34.47M. The increase in operating costs were attributed: to an increase in staff costs to support current and future package volume; increased advertising spend to capitalize on greater awareness around e-commerce generated by the pandemic; and store operating expenses which were incurred when Mailpac increased its processing capacity.

Despite the significant increase in the operating expenses, operating profit rose 13.0% to \$225.04M. However, the operating profit margin fell from 27.2% in the first six months of 2020 to 25.1% in the first six months of 2021. Depreciation & amortisation amounted to \$8.72M, up 77.9%. EBITDA stood at \$233.76M, up 14.6% year-over-year. The EBITDA margin stood at 26.1%, down from 27.9% from the comparable period of 2020.

After accounting for finance costs of \$27.91M, up 42.2% year-over-year, MGL's pre-tax profits rose 4.5% to \$198.37M. The company reported zero taxation expense for the period. The net profit margin was 22.1%, relative to 26.0% a year prior.

Liquidity & Solvency

MGL's total assets amounted to \$591.76M as at June 30, 2021, down 4.0% or \$24.46M year-over-year. Driving this movement was a 30.9% or \$85.39M decline in cash resources to \$191.26M. Partially offsetting the fall in cash resources were a 135.6% or \$44.69M increase in property, plant & equipment to \$77.66M while right-of-use assets rose 280.7% or \$26.02M to \$35.29M. MGL also reported of accounts receivable of \$46.2M, down 12.4% year-over-year. Current assets fell 28.2% or \$93.33M to \$237.46M while non-current assets rose 24.1% or \$68.87M to \$354.31M.

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Total liabilities amounted to \$96.67M, up 32.7% or \$23.83M year-over-year. Current liabilities rose 30.0% to \$85.7% while non-current liabilities rose 58.3% to \$10.97M. Lease liabilities surged from \$9.21M to \$36.28M while trade and other payables rose 26.4% to \$59.82M.

The cash ratio stood at 2.23x, down from 4.20x a year prior while the current ratio also fell significantly to 2.77x, from 5.02x, as at June 30, 2020. The fall in cash and current ratios reflected the declines in cash resources during the period, driven largely by the dividends paid during the period. Net cash provided by operating activities stood at \$218.75M while net cash used in financing activities stood at \$289.61M. Net cash used in investing activities amounted to \$21.88M, and represented by cash used to acquire property, plant & equipment.

Shareholders' equity amounted to \$495.09M, down 8.9% year-over-year, as MGL's accumulated surplus amounted to \$227.73M, a 17.5% decline from a year prior. The decline in shareholders' equity was driven reflected \$274M in dividends paid during the period, a sum greater than the \$198.37M generated in net earnings. Mailpac's leverage remained relatively low as the debt to equity ratio stood at 0.07x, up from 0.04x a year prior.

Outlook & Valuation

The Mailpac Group Limited completed its first full year in 2020, producing revenues of \$1.73B and net profit attributable to shareholders of \$443.08M. The Company has been able to improve on this performance, attributing its gains to improved brand awareness and an increase in e-commerce trends due to the global pandemic that has affected traditional in-store commerce. The Company initiated a number of its strategic initiatives during 2021, which include:

- the launch of the Mailpac MasterCard to increase access to e-commerce for the unbanked in April 2021
- the opening of new locations for Mailpac Services to serve a wider customer base
- the introduction of new brands to Mailpac Local to offer a wider selection of products delivered directly to customers' doors
- Online payments with both Mailpac and Mailpac Local
- Greater promotion of its Mailpac's exclusive free returns and tax-free address

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However, the company noted its expectation of a potential reduction in consumer dependency on online shopping as COVID-19 movement restrictions shift in the coming months. While acknowledging the new clients gained during the pandemic, recognizes the possibility that customers will go back to their regular shopping habits.

Additionally, while the company has seen strong top-line performance, bottom-line growth has been moderate due to adverse impacts to its operations during the pandemic. The Company noted in its 1Q21 report that there remains uncertainty around the long-term implications on its and key providers' businesses. However, in the subsequent quarterly report Mailpac stated that it had begun to see efficiencies borne from the capital investment of 2020 as it is now servicing more clients and processing more packages without an increase in fixed costs. If this trend holds, the Company should begin to see an improvement in financial margins. This improvement can be seen in the evolution of the gross profit margin, which stood at 47.9% for the first three months of 2021 and 48.8% for the first six months of 2021.

We are also mindful that the company operates in a highly fragmented industry with numerous competitors offering similar services. Mailpac differentiates itself from these competitors by its focus on technology as well as diversification of its service suite.

We project revenues of \$2.12B for the year ended December 2021, a 23% increase year-over-year, and net profits of \$494.12M, an increase of 11.5% year-over-year and an EPS of \$0.20. We forecasted shareholders' equity of \$737.21M, a BVPS of \$0.29 and an increase of 28.9% year-over-year.

We utilized a price multiples approach to determine MGL's fair price. MGL's 1-year historical average P/E ratio is 17.50x, which when applied to the forward EPS of \$0.20 yields a price of \$3.46. Applying the 1-year historical average P/B ratio of 12.75x to the forward BVPS of \$0.29 yields a price of \$3.76. The average of these two values is \$3.61, which 1.7% greater than the close price of \$3.55 as at August 23, 2021.

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MAILPAC 1-yr Trading History



Shares of Mailpac have appreciated 23.7% year-to-date and are up 78.4% from a year prior.

Recommendation

We recommend the ordinary shares of Mailpac Group Limited at MARKETPERFORM/HOLD/MARKETWEIGHT, as we believe the stock is trading in line with our estimation of its fair value. The stock is suitable for investors with a medium to high-risk appetite seeking capital appreciation and modest income as the company has declared dividends since listing but as a relatively new company, has not presented a history of dividend payments.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, IPO Prospectus, Bloomberg

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Abridged Financials

J\$000	Three Months Ended Dec. 31	Year Ended Dec. 31	% change	6M ended June 30		% change
	2019	2020		2020	2021	
Revenues	362,267,318	1,726,239,428	376.5%	730,851,333	896,062,039	22.6%
Cost of sales	(165,264,708)	(906,719,764)	448.6%	(386,969,329)	(458,945,134)	18.6%
Gross Profit	197,002,610	819,519,664	316.0%	343,882,004	437,116,905	27.1%
Operating Expenses	(87,401,097)	(340,111,355)	289.1%	(144,770,119)	(212,079,690)	46.5%
Operating Profit	109,601,513	479,408,309	337.4%	199,111,885	225,037,215	13.0%
Profit Before Taxation	96,776,720	443,049,137	357.8%	189,739,369	198,371,045	4.5%
Profit for the year	86,284,771	443,077,350	413.5%	189,739,369	198,371,045	4.5%
Total Assets	444,844,119	654,386,661	47.1%	616,223,344	591,763,874	-4.0%
Total Liabilities	91,203,236	82,668,428	-9.4%	72,843,092	96,674,596	32.7%
Shareholder's Equity	353,640,883	571,718,233	61.7%	543,380,252	495,089,278	-8.9%
EPS (\$)	0.03	0.18		0.08	0.08	
Book Value per Share (\$)	0.14	0.23		0.22	0.20	
Key Ratios						
Gross profit margin	54.4%	47.5%		47.1%	48.8%	
Operating profit margin	30.3%	27.8%		27.2%	25.1%	
Net Margin	23.8%	25.7%		26.0%	22.1%	
Debt/Equity (x)	0.08	0.02		0.04	0.07	

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—as a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT—ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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