

Company Analysis: AMG Packaging & Paper Company Ltd (AMG) 9M 2021

VMWM Research | August 30, 2021



876-960-5000



wealthinfo@myvmgroup.com



vmwealth.com



53 Knutsford Boulevard, Kingston 5



- Recommendation: **MARKETWEIGHT**
- Price Target: **\$1.70**
- Current Price: \$ 1.60¹

- Shares Outstanding: 511,984,285 units
- Market Value of Shares Outstanding: \$819,030,856¹
- Financial Year End: August 31

ABOUT THE COMPANY

AMG Packaging and Paper Company Limited was established in September 2005. It generates its revenues from the manufacturing and sale of cardboard packaging items and paper. The company's registered office is located at 9 Retirement Crescent, Kingston 5, with another manufacturing operation located at 186 Orange Street, Kingston, which is concentrated on toilet paper manufacturing. However, since 2017 management decided to strategically focus on the company's core business, i.e., the manufacturing and sale of cardboard items as well as paper production. The company currently provides packaging services for major companies across a range of sectors.

Amid the pandemic, the company has been pumping cash into a second factory located at Retirement Crescent in Kingston scheduled for commissioning in August 2021. The plant is being financed from a \$100-million bond, which matures in 2026.

FINANCIAL PERFORMANCE

\$'000	FY 2018	FY 2019	FY 2020	9M 2020	9M 2021
Revenue	718,914	762,295	720,453	533,507	508,894
Net Income	38,210	59,137	56,213	37,800	42,113
Total Assets	747,006	712,321	821,279	811,899	831,828
Gross Margin	21%	20%	26%	25%	29%
COGS Margin	79%	80%	74%	75%	71%
ROE	8.40%	11.76%	10.24%	9.01%	9.50%

Outlook

Amidst the pandemic, AMG has been injecting capital into its new facility which is anticipated to double its production capacity. We anticipate the demand for packaging and paper products to increase gradually over time and in line with the pace of recovery in the overarching economy. The increasing demand for eco-friendly solutions owing to growing environmental concerns is also a factor that is likely to increase the growth of the Paper Packaging Market. The growing awareness among consumers regarding sustainable packaging and tighter governmental policies regarding environmental protection is also anticipated to increase the market growth.

Projections and Valuations

The Discounted Cash Flow Model (DCF) and P/E Multiple Approach were used to establish an intrinsic value and relative value for AMG. For the DCF approach, a cost of equity of 14.02% was used to discount the future levered free cash flows while a 2022 forward EPS of \$0.10 and an Industry P/E of around 21.48x were deemed as appropriate and used to determine a relative value. Using these two approaches, we obtained an average target price of **\$1.70**

Risks to Price Target

We anticipate that our target price may not be realized if the company has higher-than-expected increases in the cost of paper and or freight costs. Also, if the overarching health of economy subsides or deteriorates due to the impact of the pandemic along with the tightening of restrictive measures due to the recent spike in COVID-19 cases, this may negatively impact the operation of the business.



NINE (9) MONTHS ENDING MAY 31, 2021:

For the nine (9) months ending May 31, 2021, AMG witnessed a decline in revenues from \$533.50 million to \$508.89 million or by 4.61% which was largely influenced by a global shortage in the supply of paper due to the disruption caused by the pandemic. Notwithstanding, its Gross Margin improved from 25.19% to 29.47% as the Cost of Sales saw a reduction from \$399.13 to \$358.91 million or by 10.08% despite the general increase in the cost of paper along with rising freight costs. Despite a downtick in revenue, Profit before tax increased from J\$40.9 million to \$40.7 million or by 5% mainly due to reductions in the cost of inventories and direct costs, partially offset by an increase in expenses related to the disposal of Fixed Assets. Net earnings increased from \$37.79 million to \$42.11 million or by 11.41% and was mainly attributed to a reduction in the total manufacturing costs coupled with an increase in Income Tax expense from \$2.4 million to \$6 million. It is also important to note that the company has reached its ten (10) year mark for remission of taxes which will expire during the FY21, after which the company will be required to pay its taxes in full.

Total Assets showed a slight downtick as it moved from \$831.82 million to \$811.89 million or by 2.40%. This decline was largely attributed to reductions in Cash & Cash Equivalents as the company has been pumping cash into the construction of its second factory at Retirement Crescent.

Total Liabilities declined from \$272.55 million to \$221.06 million or by 18.89% largely on the back of a reduction in its Accounts Payables & Accruals.

Total Equity increased from \$559.27 million to \$590.83 million or by 5.64% which was solely driven by an increase in Retained Earnings against the backdrop of an improvement in the earnings. Return on Equity (ROE) increased from 9.01% to 9.50% largely driven by the increase in earnings for the period.

Total Debt to Equity saw a decline from 0.49x to 0.37x as Accounts Payables & Accruals decreased while Equity simultaneously increased on the back of improved earnings. Current Ratio had improved figures from 3.62x to 4.55x due mainly to a reduction in Accounts Payables and accruals. This implies that AMG has enough liquid assets to meet all its short-term obligations.



CONCLUSION

Despite challenges with increasing freight costs and a global shortage in the supply of paper attributed to the negative impacts of the pandemic, we anticipate that AMG will stand to benefit as the demand for packaging is likely to be more robust over the medium to long-term due to the gradual shift to eco-friendly packaging and paper solutions. Based on our assessment of the current state of the company and what is anticipated, we have determined a price target of **\$1.70** which is currently above the stock's current market value. We therefore recommend investors with an appetite for exposure to the packaging and paper industry to **MARKETWEIGHT** the stock at this time, as it is undervalued, and associated risks are skewed to the upside.

SOURCES

The Jamaica Stock Exchange, AMG Packaging & Paper Co. Ltd. Annual Reports (2016-2020) and Quarterly Financials (Q3), Jamaica Observer, Jamaica Gleaner.

DISCLAIMER

This Research Paper is for information purposes only. The information stated herein may reflect the opinion and views of VM Wealth Management in relation to market conditions and does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. Before making any investment decision, please consult a VM Wealth Management Advisor.

DEFINITIONS

- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** - Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** - Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** - This security is substantially distressed or at risk of a shock which may significantly impair its value.