

Company Analysis: Jamaica Producers Group (JP)

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- Recommendation: OVERWEIGHT
- Price Target: \$22.44
- Current Price: \$20.30

- 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.

In April 2019, JP sold 30% of the snack food operations (including the JP St. Mary's Brand) to Wisynco Group Limited (WGL). The transaction was beneficial to both parties as WGL will now be the exclusive distributor of JP St. Mary's snack in Jamaica. The product's brand is internationally recognized, and Wisynco's well developed distribution network should allow for an increase in JP's sales due to broader reach, complementing existing and new product development in topical snacks.

FINANCIAL PERFORMANCE

(JMD '000)	2018	2019	2019 (6M)	2020(6M)
Revenue	19,611,169	21,464,068	10,155,181	9,516,705
Gross Profit	5,988,385	7,241,762	3,503,255	2,809,522
Net Income to Parent	816,621	1,204,338	629,288	346,972
Total Assets	35,058,947	38,606,888	37,884,424	38,983,231
Total Liabilities	10,273,875	11,006,789	11,187,086	10,277,931
Equity Attr. To Parent	12,110,072	13,836,454	13,489,912	14,480,509

Dividend Policy

JP has not indicated an explicit dividend policy.

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 the COVID-19 pandemic. Though JP is expected to continue to expand its reach, slowing global growth and changes in trade rules may dampen this growth producing lower than expected results. Notwithstanding, JP is pressing forward with initiatives geared towards increasing efficiency, particularly in the logistics business. 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 with a discount rate of 11.92% and a price multiple approach using 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.

HISTORICAL ANNUAL FINANCIAL PERFORMANCE (2015-2019)

(JMD '000)	2015	2016	2017	2018	2019	2020 (P)	2021(P)
Revenues	8,705,924	12,075,623	16,156,712	19,611,169	21,464,068	22,751,912	25,027,103
Cost of Revenue	6,691,496	8,833,215	11,013,714	13,622,784	14,222,306	15,926,338	16,768,159
Gross Profit	2,014,428	3,242,408	5,142,998	5,988,385	7,241,762	6,825,574	8,258,944
Net Income (Attributable to Parent)	792,256	3,940,446	661,884	815,621	1,204,338	995,959	1,256,400
Shareholder's Equity (Attributable to Parent)	6,399,006	10,418,488	11,260,833	12,110,072	13,836,454	14,832,413	16,088,813
Earnings Per Share	\$0.71	\$3.51	\$0.59	\$0.73	\$1.07	\$0.89	\$1.12
Book Value Per Share	\$5.70	\$9.28	\$10.04	\$10.79	\$12.33	\$13.22	\$14.34
Return on Average Equity	12.92%	46.86%	6.11%	6.98%	9.28%	6.99%	8.13%
Net Income Margin	9.10%	32.63%	4.10%	4.16%	5.61%	4.38%	5.02%

Jamaica Producers has achieved a compound annual growth rate of 25.3% for revenue between 2015 and 2019, with the JFP consistently contributing the larger share of revenue and boosted by the KW acquisition in 2016. Additionally, more than 90% of revenues are based on currencies other than the Jamaican dollar and over 70% of revenues are invoiced to customers outside of Jamaica. Gross profit has grown at a CAGR of 37.7% as expenses have increased at a slower rate (17.8%) than revenue, leading to an expansion in the gross profit margin from 23.1% in 2015 to 33.7% in 2019. Overall, JP's net profit attributable to shareholders has increased by a CAGR of 11.0% over the review period, moving from \$792.26 million in 2015 to \$1.20 billion in 2019.

The group has been able to maintain a healthy level of liquidity throughout the last 5 years. The current ratio has increased from 1.19x in 2015 to 2.12x in 2019 implying that the company can more comfortably meet its short-term obligations. This liquidity has been supported by a \$5.03 billion increase in marketable securities over the period. Current liabilities have increased mainly due to increases in trade payables which moved from \$1.50 billion in 2015 to \$3.90 billion in 2019. The company has also maintained a low debt to equity ratio, moving from 0.34x in 2014 to 0.16x in 2019. This implies that liabilities have been increasing at a slower rate than assets, therefore the company funds most of its growth through equity and cash on hand.

FINANCIAL PERFORMANCE: SIX MONTHS ENDED JUNE 30, 2020

The Group recorded revenue of \$9.52 billion, a 6.3% decrease compared to the corresponding period in 2019. Group operations, both locally and internationally were affected by the lock downs associated with the pandemic during the reporting period. Cost of sales increased by 0.8% to \$6.71 billion, leading to a decline in gross profit by 19.8% to \$2.8 billion, yielding a lower gross margin of 29.5% when compared to the 34.5% recorded the comparable period prior.

Operating expenses grew by 1.7% to 1.86 billion due to higher staff costs while other income more than doubled ending the six month period at \$360,412 million. The net effect of both resulted in operating profits decreasing to \$1.31 billion, a 28.7% decline when compared to the prior year. This decrease in operating profit yielded an operating margin of 13.7% which was 440 basis points lower when compared to the corresponding period last year.

Finance costs decreased by 4.7% to \$148.94 million due to the refinancing of loans at lower rates. The net effect resulted in a profit before tax of \$1.15 billion, a 31.5% reduction year-over-year. After taxes, the company registered net profit decline of 30.1% to \$938.19 million (EPS: \$0.84). However, profit attributable to parent company stockholders declined by 444.9% to \$346.97 million (EPS: \$0.31).

JP's financial position has strengthened amidst further capital expenditure on the Kingston Wharves compound. Total assets grew by 2.9% to \$38.98 billion driven primarily by a \$564.664 million increase in investment property. Total liabilities decreased by 8.1% to \$10.28 billion due to the decline in long term lease liabilities from \$1.35 billion to 515.43 million. Shareholders equity attributable to equity holders of the parent increased 7.3% to \$14.48 billion due to an increase in reserves by 8.8% to \$14.37 billion.

JP's liquidity ratios showed great improvements, with the current ratio improving to 2.33x from 2.27x, the quick ratio moving to 0.84x from 0.80x and cash ratio improving to 1.49x from 1.34x despite the cash balance decreased by almost half year-over-year. The metrics showcases JP's ability to meet their short-term obligations with the liquid assets they have on hand. From a solvency perspective, JP's metrics strengthened slightly as debt to equity ratio moved from 33.5% to 28.8% over the reporting period.

OUTLOOK

Strong capital base can facilitate acquisition opportunities

The company is expected to continue its current trajectory increasing both revenues and profits through execution on acquisition opportunities. We expect JLI's growth to be driven largely by their logistics services as the company continues to implement initiatives to develop itself as a leading regional multi-purpose and multiuser terminal. The company remains resolute that Jamaica has the capacity to deepen its position as a regional centre for supply chain management and global services. However, the trade barriers could affect growth in this area. If Jamaica can quickly and adequately develop special economic zones and reduce trade barriers, the group will be better positioned to maintain its competitive access terms and direct shipping and travel connections with the world's largest markets.

COVID-19 and the way forward

As a result of the adverse impact of the COVID-19 pandemic on the global economy, the performance of the Group going forward will be mixed until a consistent and reliable treatment is established. Whilst we expect the company to be somewhat impacted by the virus in the short term, the company has adjusted such as staff reductions and layoffs to contain cost and improve their bottom-line. Increased sales in the JP St. Mary's product line through the partnership with Wisynco, the investment in Kingston Wharves as well as adjustments in company operations could keep the company profitable throughout the current economic conditions.

INVESTMENT POSITIVES

- The group has a highly reputable portfolio of brands.
- The company has a strong distribution network.
- The company is lowly levered which puts them in a better position to acquire additional debt to finance acquisitive and expansion initiatives.
- The company has exposure to the logistic sector via the investment in Kingston Wharves
- JP has a strong liquidity reserve

INVESTMENT NEGATIVES

- The company may exhibit concentration risk as most of the operations are based in Jamaica.
- Business activity is directly linked to global economic activity which could negatively impact profitability in periods of downturn
- The company's food business is exposed to the threat of hurricanes and other natural disasters
- The company faces cost efficiencies struggles due to high production and operation costs.



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 costs in the near-term. The diverse range of business lines and, importantly, diverse range of markets should help to stabilize company earnings during the outbreak.

On the other hand, 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 \$22.44 relative to the closed price of \$20.30, we recommend investors **OVERWEIGHT** JP in their equity portfolio.

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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