VICTORIA MUTUAL Wealth MANAGEMENT

Company Analysis: Wisynco Group Limited (WISYNCO)

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- Recommendation: **UNDERWEIGHT**
- Price Target: $13.51
- Current Price: $17.50[1]

- Shares Outstanding: 3,750,000,000 units
- Market Value of Shares Outstanding: $ 65.5 billion[1]
- Financial Year End: December 31

ABOUT THE COMPANY

Wisynco Group Limited is a company incorporated and domiciled in Jamaica with its registered office located in White Marl, St. Catherine. Its parent company is Wisynco Group (Caribbean) Limited, an International Business Company registered in Barbados. The company's principal activities include the bottling and distribution of water and beverages, the distribution and retailing of food items and the provision of insurance services.

The company has one wholly owned subsidiary, Indies Insurance Company Limited which is incorporated in St. Lucia and provides insurance services. Wisynco has also acquired a 30% interest in JP Snacks Caribbean Limited.

CORPORATE STRATEGY

As part of its strategic goals the company aims to increase profitability and bring about greater efficiency. This will be enacted through the following strategies:

- Organic growth of existing brands and creation and growth of new owned brands
- Increased focus on the export markets
- The acquisition of additional distribution agreements and strategic partnerships
- Additional investments in alternative energy sources and utilization to bring about greater efficiency
- Continued packaging innovation to reduce unit costs

FINANCIAL PERFORMANCE

	2015	2016	2017	2018	2019
Revenues ($ Bn)	17.2	19.4	21.2	24.5	28.4
Net Profit ($ Bn)	1.5	2.3	2.4	2.3	2.9
Net Profit Margin (%)	8.6	11.8	11.4	9.3	10.3
Current Ratio (x)	1.88	1.83	1.83	1.89	2.32

Outlook

While the current economic downturn is likely to subdue Wisynco's original growth trajectory, we expect a strong performance relative to companies in other industries as the impact on demand for the company's products is likely to be fairly muted. When the country begins to recover from this health crisis, the company will be able to execute other projects in its pipeline, including its cogeneration plant and expansion of its western distribution centre, which will help to increase shareholder value.

Projections and Valuations

We used a combination of a Discounted Cash Flow Model with a cost of equity of 14.9% and a Comparable Company Approach, to arrive at an average target price of **$13.51** for Wisynco's stock.

Risks to Price Target

On the downside, if the country remains on lockdown for an extended period due to a spike in cases, demand growth for Wisynco's products may remain on the lower end leading to some degree of stagnation in profitability. On the upside, if the company is able to recover from this crisis at a faster rate and execute on its projects faster than expected then this will provide a significant upside for investors.

[1] As at June 16, 2020

FINANCIAL PERFORMANCE

	2015	2016	2017	2018	2019	2019 Q3	2020 Q3
Revenues ($ Bn)	17.2	19.4	21.2	24.5	28.4	19.8	25.2
Gross Profit ($ Bn)	6.2	7.7	7.9	9.1	10.5	7.7	8.8
Net Profit ($ Bn)	1.5	2.3	2.4	2.3	2.9	2.2	2.3
Gross Profit Margin (%)	36.2	39.9	37.3	37.3	37.1	39.1	34.8
Net Profit Margin (%)	8.6	11.8	11.4	9.3	10.3	11.3	9.3
Current Ratio (x)	1.88	1.83	1.83	1.89	2.32	1.30	1.31
Long-Term Debt to Equity (%)	18.8	14.2	24.6	25.0	20.0	16.9	14.1

FOR THE LAST FIVE (5) YEARS:

Between FY 2014 and FY 2019, Revenue for Wisynco Group Limited increased by a Compounded Annual Growth Rate (CAGR) of 13.5% from $17.2 billion to $28.4 billion. This growth came not only from its existing product line, but through the introduction of new products and the initiation of new distribution contracts. The company obtained a 30% stake in JP Snacks Caribbean Limited in FY 2019 which included the exclusive rights to distribute St. Mary's tropical snacks. Wisynco also entered into a strategic distribution arrangement with Worthy Park Estate Limited under which Wisynco became distributors of Worthy Park Estate's sugar and spirits products for Jamaica. The Gross Profit Margin increased from 36.2% in 2015 to 37.1% in 2019 as Gross Profits increased from $6.2 billion to $10.5 billion over the review period.

Excluding 2016 when the company experienced a fire at one of its manufacturing plants, expense management strategies have proven fruitful as margins have remained relatively consistent. The Selling and Distribution Expense Margin averaged 22.0% during the period, while the Administrative Expense Margin averaged 4.1%. Finance Income earned increased by a CAGR of 14.9% from $68.3 million to $119.2 million mainly due to the increase in the company's liquid assets. Finance Costs also increased from $176.7 million to $230.2 million as the company's debt grew. The factors above culminated in an increase in Wisynco's Net Income from $1.5 billion to $2.9 billion or by a CAGR of 18.7% over the review period.

Over the review period, the company's balance sheet has grown by 95.8% from $6.1 billion to $13.5 billion. The company increased the Property, Plant and Equipment by 134.6% and Inventory on hand by 125.9%. This coincided with increases in Available for Sale Investments, Receivables and Prepayments and its Cash Balance. Overall, there was a 126.1% increase in Non-Current Assets and a 77.0% increase in Current Assets. The increase in Assets was funded largely by a 135% increase in Equity following the company's Initial Public Offering in 2017 which raised $1.1 billion, net of transaction fees. The increase in the Equity balance was also driven by a 114.1% increase in Retained Earnings. In addition to the increase in Equity, both Current and Long-Term Liabilities increased by 43.5% and 74.8%, respectively. The primary contributors to the increase in Current Liabilities over the review period were Trade and Other Payables and Taxation Payable. Long-Term Liabilities increased as a result of increased Borrowings.

The company's profitability improved over the period as demonstrated by the Return on Assets and Net Profit Margin. The Return on Assets increased from 16.3% to 16.5%, while the Net Profit Margin increased from 8.6% to 10.3%. Additionally, the Current Ratio which compares the company's Current Assets to its Current Liabilities, increased from 1.88x to 2.32x implying an improvement in liquidity and its ability to meet its short-term obligations. On the other hand, the Long-Term Debt to Equity increased from 18.8% to 20.0%, which despite increasing, remains quite low and implies a low risk of the emergence of solvency challenges.

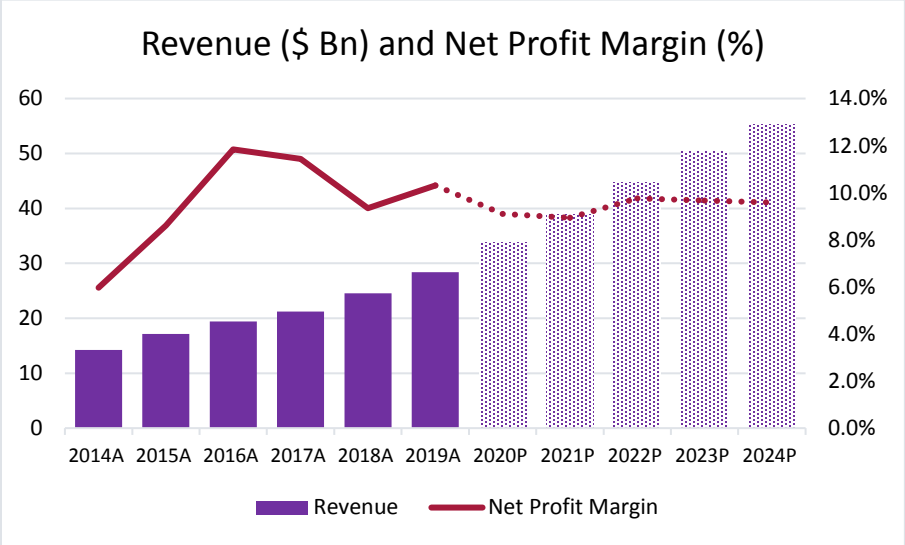
FOR THE FIRST 3 QUARTERS OF FY 2020

Wisynco achieved a 27.5% increase in Revenue from $19.8 billion in the first 3 quarters of FY 2019 to $25.2 billion in the first 3 quarters of FY 2020. Revenue increased despite the economic downturn that negatively impacted the company's March quarter. However, the increase in Revenue growth came amidst declining margins, resulting in a decrease in the Gross Profit Margin from 39.1% to 34.8%. Selling, Distribution and Admin Expenses increased by 21.2% from $5.2 billion to $6.3 billion and contributed to a 1.3% decrease in Operating Profit. A 34.6% increase in the company's Cash and Short-Term Deposits contributed to an increase in Finance Income from $63.4 million to $212.2 million while lower negotiated interest rates on Long-Term Debt allowed for a 60.6% decrease in Interest Expense. Ultimately, Net Profit from Continuing Operations totaled $2.2 billion up 12.1% from the $1.9 billion earned in the same period last year. After accounting for Net Profit from the company's discontinued Styrofoam business, Net Profit was up only 4.4% for the 9 months year-to-date.

In comparison to March 31, 2019, the company's Total Assets increased 19.2% from $16.3 million to $19.4 million in March 2020. This came on the back of an increase in Cash and Short-Term Deposits which primarily contributed to the 19.7% growth in Current Assets. This is despite the acquisition of JP Tropical Snacks, and additions to Property, Plant and Equipment being funded entirely by internal resources, with no additional debt incurred.

While profitability decreased, exhibited by a decline in the Net Profit Margin from 11.3% to 9.3%, the company maintained healthy levels of liquidity and maintained its solvency position. The company's Current Ratio improved marginally to 1.31x from 1.30x and the ratio of Long-Term Debt to Equity came in at 14.1%, down from 16.9% recorded in the same period that year.

OUTLOOK:



The Company's Performance is Expected to be Sustained During the Economic Downturn

Wisynco manufactures and distributes consumer staples, thus, regardless of the economic environment, the demand for the company's products is likely to be resilient. While the closure of the tourism and entertainment sectors will significantly impact revenue, individual demand should help to offset these losses. Consequently, while revenue is likely to be subdued during the local lockdown, once the economy reopens, we expect a steady return to more robust growth. The company's effective expense management strategies implemented before and during the health crisis should assist in protecting profitability and thus minimizing the effect of the health crisis on the company's financial strength.

The Company Continues to Expand its Product and Distribution Lines

Since listing in 2017, the company has executed many of the plans detailed in the prospectus for its Initial Public Offering, IPO. These include the establishment of a western distribution centre and new distribution partnerships. We anticipate that the company will further execute previously mentioned plans which including the creation of new brands, the acquisition of additional distribution agreements and the expansion of the company's distribution fleet. These strategies will help to deepen the company's current market share as well as provide increased capacity, allowing the company to not only adequately supply the local market but also increase its ability to export its products.

Rapid Export Growth to Drive Revenue Growth

One of Wisynco's goals is to have exports constitution 10% of revenue by 2021. Currently, it contributes less than 2% of revenue (1.53% in 2019). To achieve this, the company has set an ambitious target for export growth of between 25% and 35% per annum. The company has noted that it intends to offer its new sparkling cranberry flavored water to the export market. While this will contribute positively to overall profitability, there will likely be some downward pressure on the profit margin as export margins tend to be lower than domestic margins.

Investment in Alternate Energy Sources for Greater Efficiency

Wisynco planned to begin using its cogeneration plan in February 2020. This investment would allow the company to operate more efficiently from the utilization of internal power generated. This investment is expected to reduce the company's energy bill by approximately $135 million per annum. However, this plan was halted due to COVID-19, and is now expected to be executed during FY 2021 as the Jamaica economy returns to normal.

INDUSTRY COMPARISON

Wisynco is a dominant player the local manufacturing and distribution industry. The company has attributed its performance to growth in its trademark WATA brand. Under this brand Wisynco manufactures and distributes purified water, cranberry-flavoured water (CranWATA) and its most recently launched, sparkling cranberry water. In addition, growth from its distribution partnerships with foreign-owned companies has also positively impacted the company's performance. In 2017, Wisynco controlled 42% of the carbonated soft drink market, 40% of the non-carbonated beverage market, 60% of the bottled water market, 50% of the juices market and 85% of the local energy drink market. Its market share is likely to have changed since then due to increased competition especially from new entrants in these markets. However, Wisynco maintains strong brand recognition and loyalty, allowing it to maintain its customer base.

The company's main competitors are Seprod, GraceKennedy, Lasco and Pepsi.

	Year End	Revenue Growth Rate	Gross Profit Margin	Net Profit Margin	EPS	P/E	Dividend Yield	Total Shareholder return	Return on Equity	YTD Stock Price Return
Wisynco	30-Jun-19	15.8%	37.1%	10.3%	0.78	24.16	0.8%	104.7%	29.6%	-23.70%
Lasco Distributors	30-Mar-20	7.5%	19.4%	3.7%	0.21	14.40	1.4%	-18.7%	14.8%	-9.61%
Lasco Manufacturing	31-Mar-19	13.6%	36.4%	14.2%	0.26	13.62	1.1%	-15.6%	20.0%	-17.07%
GraceKennedy	31-Dec-19	5.7%	45.7%	4.9%	5.13	13.72	2.2%	11.8%	10.5%	-16.47%
Seprod	31-Dec-19	45.3%	26.9%	3.0%	1.33	37.98	2.0%	71.8%	6.6%	7.07%
Average		**17.6%**	**33.1%**	**7.2%**		**20.78**	**1.5%**	**30.8%**	**16.3%**	

Values in table are as at the company's most recent year end. YTD return as of June 8, 2020

In most all areas of its performance, Wisynco is either on par or exceeds the performance of its peers. For its most recent financial year, revenue grew by 15.8% slightly below the industry average of 17.6%. However, the average was skewed by exceptional performance of Seprod. Disregarding Seprod's impact, the peer group average growth falls to 10.6%. With regards to profitability, Wisynco performed better on average than its peer group with its gross profit margins, net profit margins and return on equity all greater than the average. During its last financial year, Wisynco's shareholders would have earned a 104.7% return on their investment mainly due to the appreciation of the stock on the market. On the other hand, the company's dividend yield was far below that of its competitors. Year-to-date, the stock price has fallen 23.7%, but still traded at a price to earnings ratio of 24.16x, the second highest in the peer group.

INVESTMENTS POSITIVES:

- The company operates in a cyclically defensive industry
- Strong brand recognition and consumer loyalty
- High level of liquidity and a strong cash position
- The company is always identifying new products to launch, markets which it can expand into or other partnerships that can unlock value for shareholders
- Wisynco is more profitable than its main competitors

INVESTMENT NEGATIVES

- The company gets its raw materials from international suppliers exposing it to foreign exchange rate volatility and potential supply challenges
- Operates in a highly competitive industry where products manufactured are similar
- Wisynco is more expensive than its peers on a price-to-earnings basis.
- The stock has a lower dividend yield than its peers.

CONCLUSION

Although the Jamaican economy took a downturn when the first COVID-19 case was announced in Jamaica, Wisynco has been able to maintain its dominance in the drink manufacturing and distribution industry. While the industry is competitive, it is also less sensitive to the broader business cycle, which is expected to allow Wisynco to maintain its current level of performance. In addition, the company's robust management strategies should help to enhance its efficiency.

After taking into consideration the factors above, we used a Discounted Cash Flow model with a cost of equity of 14.9% along with a comparable company approach to establish a price target for Wisynco of **$13.51** per share. This target price represents is a 22.8% downside from current levels and represents a 14.58x forward P/E. While we remain positive on our outlook for Wysinco, due to its pricing in the market relative to our assessment of the value of the company, we recommend investors **UNDERWEIGHT** this stock.

SOURCES

The Jamaica Stock Exchange, Wisynco Annual Reports and Quarterly Financials.

DISCLAIMER

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