Company Analysis: Wisynco Group Limited (WISYNCO)

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- Recommendation: **MARKETWEIGHT**
- Price Target: $16.82
- Current Price: $16.55[1]

- Shares Outstanding: 3,750,000,000 units
- Market Value of Shares Outstanding: $ 62.1 billion[1]
- Financial Year End: June 30

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 during its 2019 financial year and through this transaction, Wisynco gained the exclusive rights to distribute St. Mary's tropical snacks.

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 (sparkling CranWATA, Tru-Shake etc)
- 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

As at June 30	2016	2017	2018	2019	2020
Revenues ($ Bn)	19.4	21.2	24.5	28.4	32.2
Net Profit ($ Bn)	2.3	2.4	2.3	2.9	2.8
Net Profit Margin (%)	11.8	11.4	9.3	10.3	10.3
Return on Equity (%)	37.5	32.1	26.4	26.4	21.6

Outlook

The continued depressed economic activity, particularly in the Tourism and Restaurant and Bars sectors, is likely to negatively affect Wisynco's top-line performance within the short term. We expect that it will continue to actively pursue new distribution arrangements to offset some of the revenue declines in its current portfolio and allow for faster recovery. In addition, we expect more enhance expense management to help maintain profitability especially during the current downturn.

Projections and Valuations

We used a combination of a Discounted Cash Flow Model with a cost of equity of 12.9% and a Comparable Company Approach, to arrive at an average target price of **$16.82** for Wisynco's stock.

Risks to Price Target

On the downside, because of a protracted return to normalcy in the tourism and entertainment sectors because of the COVID-19 pandemic Wisynco's performance may fall flat and lead 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 could provide a significant upside for investors.

[1] As at February 22, 2020

FINANCIAL PERFORMANCE

Year End Data is as at June 30	2016	2017	2018	2019	2020	2020 H1	2021 H1
Revenues ($ Bn)	19.4	21.2	24.5	28.4	32.2	17.6	16.0
Gross Profit ($ Bn)	7.7	7.9	9.1	10.5	11.1	6.5	5.6
Net Profit ($ Bn)	2.3	2.4	2.3	2.9	2.8	1.8	1.5
Gross Profit Margin (%)	39.9	37.3	37.3	37.1	34.4	36.7	34.6
Net Profit Margin (%)	11.8	11.4	9.3	10.3	8.7	10.0	9.6
Current Ratio (x)	1.83	1.83	1.89	2.32	2.47	2.33	2.80
Long-Term Debt to Equity (%)	14.2	24.6	25.0	20.0	11.9	15.3	11.8

FOR THE LAST FIVE (5) YEARS:

Between FY 2016 and FY 2020, Revenue for Wisynco Group Limited increased by a Compounded Annual Growth Rate (CAGR) of 13.5%, from $19.4 billion to $32.2 billion. Revenue growth was as a result of growth in the manufacturing and distribution of the company's own products along with the initiation of new distribution contracts. Notably, in FY 2019 Wisynco obtained a 30% stake in JP Snacks Caribbean Limited and through this transaction, Wisynco gained 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 a distributor of Worthy Park Estate's sugar and spirits products for Jamaica. The Gross Profit Margin declined from 39.9% to 34.4%. Wisynco noted that, particularly in 2020, it experienced a shift in its product sales from higher gross profit items to lower gross profit items amid the pandemic. Gross Profits still increased at an average pace of 9.4% from $7.7 billion to $11.1 billion.

Other than a slight increase in Expense Margins in FY 2017, expense management strategies have proven fruitful as they have remained relatively consistent during the period. The Selling and Distribution Expense Margin averaged 22.2% between 2016 and 2020, while the Administrative Expense Margin averaged 4.0%. Finance Income earned increased by a CAGR of 26.7% from $124.3 million to $320.5 million mainly due to the increase in the company's cash balance by 32.4% and investments by 152.2%. Finance Costs also increased from $146.8 million to $155.8 million as the company's Borrowings increased by 77.4%. These factors culminated in an increase in Wisynco's Net Income from $1.5 billion to $2.8 billion or by a CAGR of 5.3% over the review period. Profitability fell as exhibited by a decline in the Net Profit Margin, which decreased form 11.8% to 8.7%, while the Return on Assets decreased from 19.6% to 14.5%.

During the 5 years, Wisynco grew its balance sheet by 44.6% from $7.8 billion to $11.2 billion. The increase was mainly seen in the value of Property, Plant and Equipment which increased by 125.2%, Inventories which experienced a 110.3% increase and the company's Cash Balance. The increase is Assets was funded largely by a 111.9% increase in Equity following the company's Initial Public Offering in 2017 which raised $1.1 billion, net of transaction fees. Retained Earnings also increased by 93.3% due to the company's profitability over the period. Liabilities were up 12.1% mainly due to the increase in Borrowings. The company maintained healthy liquidity during the period with the Current Ratio being maintained above 1.80x. Additionally, Long-term Debt to Equity decreased from 14.2% to 11.9% implying that the company's solvency risks remain low and are declining.

FOR THE FIRST 6 MONTHS OF FY 2021

The Revenue contraction experienced in the last quarter of FY 2020, from the effects of the COVID-19 pandemic, continued into FY 2021. For the first half of the year, Wisynco earned revenues of $16.0 million, 8.7% lower than the $17.6 billion earned in the first half of FY 2020. In addition to lower Revenues, the company experienced a change in its sales mix. As a result of the decline in personal income, the sale of lower gross margin items increased while that of higher margin items declined and consequently, Gross Profit declined by 14.0% year-over-year and the Gross Profit Margin declined from 36.7% in FY 2020 to 34.6%. Expense management strategies implemented pre-pandemic, contributed to cost savings of $502.2 million over the 6-month period with a decline in Operating Expenses from $4.2 billion to $3.7 billion. Profits to Shareholders fell 12.4%, from $1.8 billion to $1.5 billion, and corresponded to a decline in the Net Profit Margin from 10.0% to 9.6%.

During the period, Wisynco signed a deal with Anheuser-Busch InBev, the largest brewing company in the world, to distribute products generally occupying the premium segment of the local beer market like Budweiser and Stella Artois.

In comparison to December 2019, Total Assets were up 8.4% or by $1.6 billion, to $21.0 billion from $19.4 billion. This came on the back of an increase in the company's cash position by $2.4 billion, offset by a decrease in Receivables and Prepayments by $807.1 million. The increase in assets was accomplished by a 16.5% increase in Total Equity as a result of the company's continued profitability, which offset a decrease in Total Liabilities of 6.3% as the company reduced its Payables balance.

OUTLOOK:

Continued Depressed Activity Amid Lockdowns and Travel Restrictions

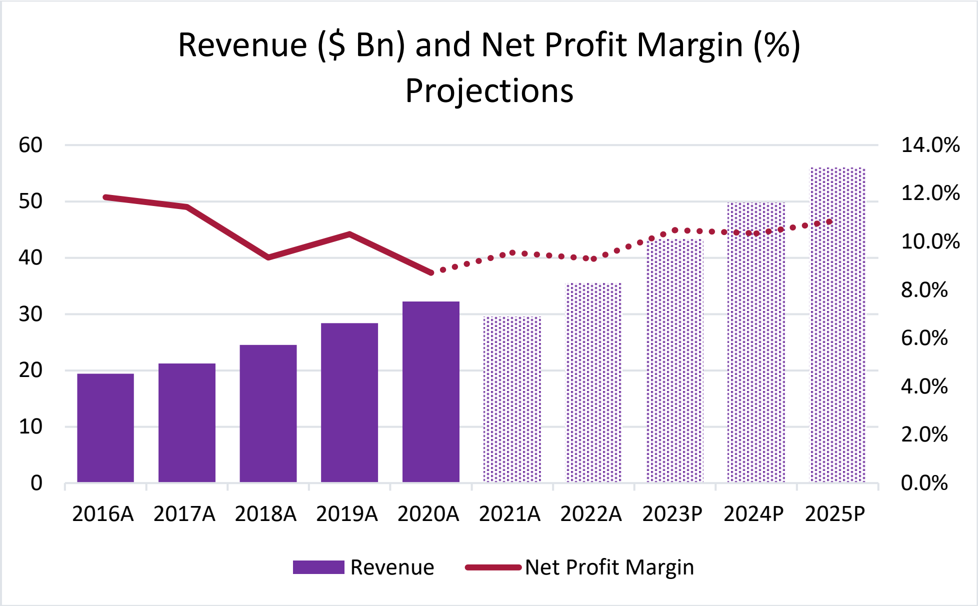
As the local economy continues to grapple with the effects of the pandemic, lockdowns and restrictions on movement and gatherings are expected to continue. In addition, the US, UK, and Canada have imposed travel restrictions to/from Jamaica which can contribute to a protracted return to normalcy in the Tourism sector. Both factors continue to weigh negatively on the Tourism, Restaurant and Bars sectors and are therefore likely to result in Revenues being maintained at lower levels. Also, with a decline in disposable income, Wisynco's sale mix, in which a larger percentage of sales consists of lower margin items than before, is likely to continue and not improve till the economy begins a meaningful recovery. Wisynco is expected to try to offset some of the decline in Gross Profit by reducing other expenses to maintain its profitability.

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 include the creation of new brands, the acquisition of additional distribution agreements and the expansion of the company's distribution fleet. These strategies should help to deepen the company's current market share as well as provide increased capacity, allowing it to not only adequately supply the local market but also increase its ability to export its products. Within the next 9 - 18 months, Wisynco is supposed to set up its western distribution center. This project was set to be completed in 2020 but was delayed. The additional distribution center should help to increase production and storage capacity to meet the demand from export markets.

Share Buy-Back on the Horizon

Wisynco's management announced that it is considering conducting a share buy-back. Purchasing its shares in the open market, suggests it believes the market is currently undervaluing its shares. By decreasing the shares outstanding, it should create a perceived scarcity, thereby pushing the market price upwards. From this operation, the value of the company would not change. If management does decide to follow through with the buy-back, the company has $6.8 billion in cash resources as at December 2020 at its disposal to effect the transaction, of which approximately $3.0 billion could be used without negatively impacting its cash position. This could positively impact the price of the shares by between 5% and 6%, though the effect will be dependent on the average price of the repurchase.



VALUATION METHODOLOGY:

We expect that Revenue will continue to decline for the remainder of FY 2020, before experiencing growth in FY 2021 onwards. This growth would stem from the recovery of the local economy, with the expectations of fewer restrictions and a fairly slow restart in the tourism sector. In addition, growth would come as a result of a push into the export markets once the western distribution center becomes operational. Furthermore, we expect expense margins to decline slightly as the company continues to implement cost reduction strategies. This should result in an improvement in profitability with an improvement in Net Profit Margin from its low of 8.7% in 2020, to around 10% within the medium-term. Using a discounted cash flow method, with a required rate of return of 12.9%, we arrived at an intrinsic value of Wisynco of $15.25 per share, which represents a 2021 P/E of 19.52x. If the company were to continue trading at its historical P/E of on average 25x, it would be priced at $19.18 based on our 2021 estimated EPS. Our ultimate price target is a weighted average of these.

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 constantly 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 (Seprod, GraceKennedy, Lasco and Pepsi)

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 generally more expensive than its peers (GraceKennedy, Jamaica Producers, Seprod, Salada Foods) on a price-to-earnings basis.

CONCLUSION

As the effects of the pandemic continue to weight on the local economy, we expect that Wisynco's performance, although resilient, will remain slightly lower than pre-pandemic levels. We expect that the company will pursue more distribution contracts to further grow that business line, while also increasing its production capacity to enhance its exports. In addition, management has maintained its commitment to improving efficiency, which has resulted in project delays and other cost cutting mechanisms to keep profitability high. This should allow for greater returns to shareholders once the economic recovery is in full swing as more of the revenue growth will flow through to the bottom line.

After taking into consideration the factors above, we used a Discounted Cash Flow model with a cost of equity of 12.9% along with a comparable company approach to establish a weighted average price target for Wisynco of **$16.82** per share, which is a 1.7% upside from current levels. From our estimates, Wisynco could be worth as much as $19.18 per share if it continues to trade at a P/E above its peer group average. We recommend that investors **MARKETWEIGHT** this stock in their portfolio.

SOURCES

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

DISCLAIMER

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.