

Jamaica.West Indies

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Jamaica Broilers Group

Increased Profitability Due to Performance of Subsidiaries

Latest Performance

The latest data released by the Jamaica Broilers Group (May 1, 2010) indicates that the group continues to perform well because of its diversity and despite the challenges of the global recession. Group profits for the year increased by approximately 58.5% due to a massive increase in the profitability of the group's subsidiaries, which includes JB Ethanol, as well as a 13.8% decline in group expenses due primarily to a J\$3.6 million reduction in the cost of inventories (recognized as an expense).

Net Profit Attributable To:

	May-09	%-age Change
Holding Company	832,165.0	-38.7%
Subsidiaries	-4,102.0	19470.3%
	828,063.0	58.5%

Source: www.jamstockex.com, Company Financials

On the positive side, unrealized losses on available for sale securities declined from J\$9.6 million to J\$570 thousand, however exchange differences on translating foreign operations declined from J\$369 million to J\$13.5 million. This meant that the group's total comprehensive income increased by only 11.5%, compared to the huge increase in net profits.

Financial year 2010 represents the third consecutive year of increased profitability; earnings per share increased by 58.5%, dividends per share also increased from 11 cents in 2009 to 20 cents in 2010 while EBITDA—which eliminates from earnings, the impact of accounting and financing decisions—increased by 39.9%, the fourth consecutive year that the company has recorded an increase.

Challenges

The economic environment going forward will continue to be challenging for the Jamaica Broilers Group as evidenced by the reduced profitability of the holding company (which includes the Best Dressed Brands). Job losses in excess of 60,000 since the crisis began (Sep-08), the threat of a double dip US recession, ongoing concerns about Greece and the Eurozone and its pass through effect on the Jamaican economy are issues that could negatively affect consumer purchasing power going forward.

The relative stability experienced by the Jamaican economy due to the signing of the IMF agreement for Balance of Payments (BOP) support, the easing of fiscal pressures because of the Jamaica Debt Exchange (JDX), the consequent monetary stability (exchange rate appreciation—reducing raw material import costs, historically low interest rates) and the return of approximately one thousand jobs to the bauxite sector are positives. However consumer purchasing power should remain weak given both domestic and global challenges.

Key Ratios

Historical Performance	May -2010	May-2009	May-2008	May-2007	May-2006
Dividends Per Share	0.2	0.11	0.13	0.12	0.12
P/B	1.19	0.66	1.26	1.14	1.10
% Change in EBITDA	39.93%	15.5%	54.89%	0.49%	-19.19%
Common Dividends %-Net Income	18.27%	15.93%	21.06%	26.93%	21.37%

Source: JMMBIR estimates, company financial statements, Bloomberg.

Jamaica Money Market Brokers Limited.

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RECOMMENDATION BUY

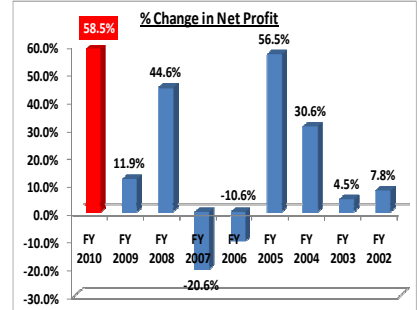
Price at August 23 2010 (J\$) 6.80
 Price target (J\$)/Intrin. Value (J\$) 6.70
 52-week range (J\$) 3.87--7.50

Company Profile

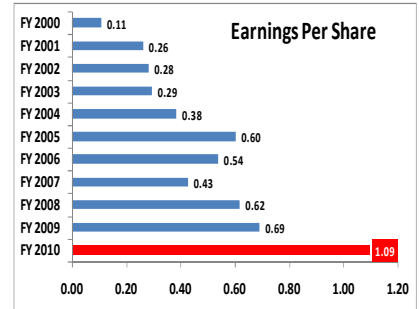
The company began in 1958 as Jamaica's pioneer producer of broiler meat on a commercial basis. Today, it has a fully integrated poultry operation and has diversified into feed milling, cattle rearing, beef production and fish farming, along with the development and marketing of other value-added products for both local consumption and export.

The group has also developed affiliated services that support their varied agricultural operations. These include veterinary & nutritional services, the wholesale and retail of a full range of farm products and the premixing of feed ingredients and concentrate.

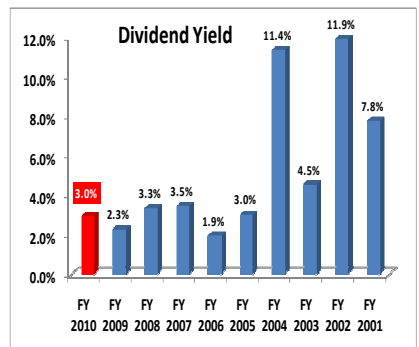
Profitability



Earnings Per Share (EPS)



Dividend Yield



Important Strategic Moves

During the 2009 financial year, Mr. Robert Levy succeeded the Hon. R. Danvers Williams as group chairman. The change in leadership, while not complete (Mr. Williams has been retained as Director Emeritus) seems to have had no ill effects on the company's performance with two years of consecutive growth, with 2010 being the strongest since 2002. It may be argued that the company is benefiting from the decisions made by the previous chairman, but we will continue to track the group's performance going forward.

What Do We Like About The Stock?

The Jamaica Broilers Group has, over the years, significantly improved the technology and processes used to manufacture its products. Management has also made strategic moves via backward, horizontal and vertical integration to; (I) reduce its dependence on suppliers and the volatility/risk of input supply shocks (the Hi-Pro division). (II) To expand product offerings (fish, beef) and (III) to tap into the value-added and more lucrative aspect of the market (roisserie chicken, 'reggae jammin' burgers/chicken).

The company has also diversified its product offerings/income stream by going into ethanol production. JB Ethanol Ltd allows the group to take advantage of ready markets for ethanol which exist in North America, Canada, some parts of Central America and CARICOM. The facility possesses a production capacity of 120 million gallons per year of Fuel Grade Ethanol; has a storage capacity of 25 million gallons and can process locally-produced hydrous ethanol from Jamaican sugar cane – thereby providing an outlet for this product and directly supporting the privatization strategy of Jamaican Sugar assets.

The company also pays dividends consistently; dividends as a %-age of net income is consistently in the region of 20%; the dividend yield is in line with that of other companies in the manufacturing sector, EBITDA has grown for four consecutive years, the group's ROE consistently outperforms inflation (except FY 2008) and the group's debt levels remain manageable (albeit spiking temporarily in 2009).

The above factors make Jamaica Broilers a strong and diversified manufacturing company.

What We Don't Like About the Stock

The company's Free Cash Flow position (the life blood of any business) tends to be inconsistent, with the period FY 2007 to FY 2009 being negative before a return to a positive position in FY2010. That position however may be explained by capital outlays to finance the ethanol project. Important also is the fact that cash flow from operations has only been negative once (FY2009) over the last ten years.

The group's debt ratios (debt/equity) were also a bit of a concern with the debt to equity spiking to 94.9% in FY2009, however in FY2010 the trajectory seems to have been reversed.

Manufacturing Sector							
	YTD % change	His. EPS Last 4 Qtrs	His. P/E Last 4 Qtrs	Book Value	Price to Book	Dividend Yield 2009	Dividend Yield 2010
Berger	51.67%	0.26	7.0	1.91	0.95		15.2%
Carib Cement	1.50%	-0.17	-23.9	4.13	0.98		
D&G	40.60%	0.49	9.6	2.30	2.05	11.9%	2.2%
Ja Broi. Grp.	36.27%	1.09	6.2	5.70	1.19	2.3%	1.8%
MoBay Ice	0.00%	-1.09	-14.7	20.67	0.77		
Salada Foods	-35.48%	1.02	9.8	4.70	2.13	1.9%	
Seprod	25.00%	2.53	8.9	13.51	1.66	3.6%	2.3%
Trinidad Cement	-26.39%	8.15	6.5	79.93	0.66		
Average		1.91	3.5	16.47	1.34		

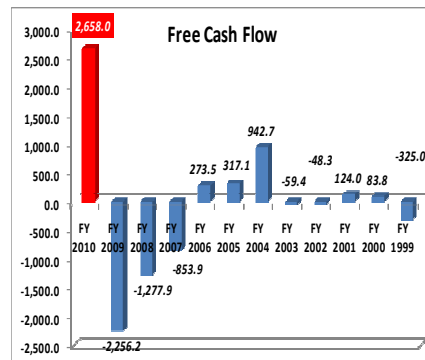
Source: JMMBIR, Company Financials

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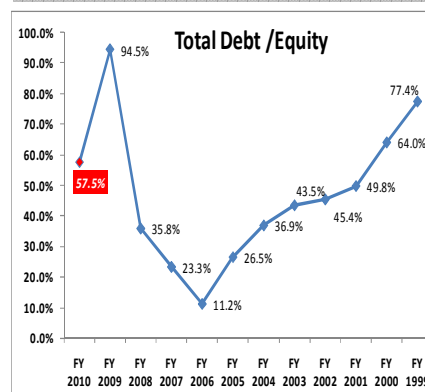
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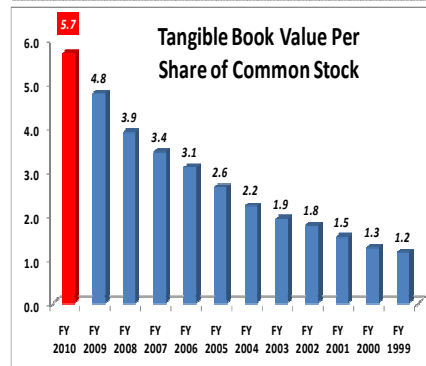
Free Cash Flow Position



Debt Ratios



Tangible Book Value Per Share



Is The Stock Properly Priced?

Ratios—The JB Group's latest financials have led to a buzz in the market with the company's stock price climbing 36.3% year to date. The company's financials have shown that the book value per share has increased by 19.1% (to J\$5.70) but the price/book ratio (1.19) is actually below the company's seven year historical average of (1.32). While the holding company's profits have taken a hit (down 38.7%) the performance of its subsidiaries has driven profits. At 1.19 the JB Group's P/book ratio is also below the manufacturing sector's average of 1.34.

If we assume that companies in the same sector should be priced using similar ratios (P/B of 1.34); **JB should be priced at J\$7.64.**

In terms of the P/E ratio (6.2), JBG is cheap compared to key players in the manufacturing sector. Companies like Berger Paints, D&G, Seprod and Trinidad Cement are all being sold at prices in excess of 6.2 times earnings. In fact, isolating the aforementioned stocks gives an average P/E of 8. **Using this average JB should be priced at J\$8.75.**

The above indicates that, based on ratios, the company's price is actually **undervalued**.

Intrinsic Value—using the Dividend Discount Model (DDM), the intrinsic value of the Jamaica Broilers Group, using our projections for growth, dividends, risk premium and EPS, comes in at **J\$6.64.**

Combining our P/E, P/Book, and intrinsic value, the average price for JB is J\$7.67.

Conclusion

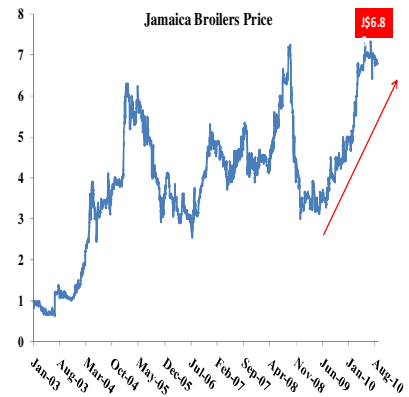
In our opinion, based on the ratios (P/E, P/B) and the intrinsic value, the stock is under priced. Investors are pricing the stock below its value because of concerns regarding the outlook for the Jamaican and global economy and more importantly, weak consumer purchasing power. Local job losses in excess of 60, 000 since the crisis began (Sep-08), the threat of a double dip US recession, ongoing concerns about Greece and the Eurozone and its pass through effect to the global and Jamaican economy are issues that could negatively affect consumer purchasing power going forward.

Our opinion is that the company is relatively mature but it may outperform the long run trend growth of the Jamaican economy because of the ethanol component and improved technology. Management has had a history of innovation and change and this key ingredient should continue to push Jamaica Broilers' price, dividends and earnings.

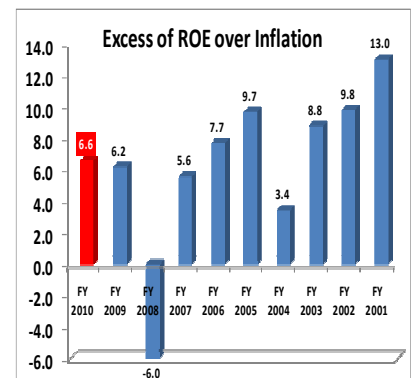
An investor's decision regarding the purchase of JB at the current price (J\$6.80) will depend on their risk appetite and portfolio positioning. If you are a medium to long run investor (pension fund, portfolio manager) it is a clear buy. If you are a short term player looking to jump in an out, you might get burnt. From our viewpoint, we see the stock as a **BUY** at this time.



Historical Price Performance



ROE vs Inflation



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