

Express Catering Limited

PLEASE SEE **IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT** IN THE **APPENDIX**

Executive Summary

Express Catering Limited was formed in 2001 to carry out food & beverage operations at the Sangster International Airport in Montego Bay. The Company operates international and local brands such as: Quiznos; Dairy Queen; Domino's Pizza; Wendy's; Cinnabon; and Starbucks.

Express Catering reported revenues of \$11.27M for the period ended Feb. 28, 2018, a 12.4% increase year-over-year. Operating profits amounted to \$2.80M, a 135.9% or \$1.61M increase from the previous year's result. The Company noted in its 3Q report that while operating costs related to rent, salaries & wages, and utilities were up in line with the increase in revenues, combined expenditure fell as a result of savings from the removal of Group-related charges. ECL's net profit for the nine months period rose 166.1% to \$2.52M.

ECL stated that the Donald Sangster Airport saw 8% growth in passenger arrivals which contributed to the growth in sales witnessed year-to-date. For 2018, plans are underway to expand the existing terminals and modernize the existing facilities to the tune of approximately US\$40M. These plans are expected to provide a boon to ECL upon completion. The company aims to capitalize on this expansion by adding three Starbucks Coffee locations to its list of offerings at the Airport, which should have substantial impact on revenues.

We are forecasting revenues of US\$15.03M for the year ending May 31, 2018 with net profits of US\$3.24M, an earnings per share of US\$0.002 (JMD: \$0.25). Using the price multiples valuation approach yielded price to our EPS and BV estimates to \$7.88 and \$5.27 for an average of \$6.57, this is 13% higher than the ECL's last traded price of \$5.82.

We recommend Express Catering Limited as Overweight as we believe the stock is trading below its fair value and maintain a positive outlook on the Company for the short to medium term.



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Company Overview

Express Catering Limited was formed in 2001 to carry out food & beverage operations at the Sangster International Airport in Montego Bay. The Company is a subsidiary of Margaritaville St. Lucia Inc., and a member of the Margaritaville Group. Express is the exclusive provider of food & beverages in the Sangster International Airport, after signing a concession agreement with the operators. The Company operates international and local brands such as: Quiznos; Dairy Queen; Domino's Pizza; Wendy's; Cinnabon; and Starbucks.

Financial Performance (USD) – Nine Months ended Feb. 28, 2018

Profitability

Express Catering reported revenues of \$11.27M for the period ended Feb. 28, 2018, a 12.4% increase year-over-year. Cost of sales rose 16.7% to \$2.99M, resulting in gross profits of \$8.28M, an 11.0% increase from the previous year's result. The gross profit margin was down 100 basis points to 73.5% as some supply costs were not passed on to consumers during the period.

Operating profits amounted to \$2.80M, a 135.9% or \$1.61M increase from the previous year's result. This increase came as administrative expenses fell 13.3% to \$5.05M and depreciation & amortization expense fell 4.4% to \$400.48K. Promotional expenses rose 3.6% year-over-year to \$30.38K. The Company noted in its 3Q report that while operating costs related to rent, salaries & wages, and utilities were up in line with the increase in revenues, combined expenditure fell as a result of savings related to the removal of Group-related charges. The operating margin improved 24.8% for the period, in comparison to 11.8% in the prior year's period.

Finance costs closed the period of \$287.18M, up 1.3% from the prior year's period while the foreign exchange adjustment gain fell 75.6% to \$10.99M. As such, ECL's net profit surged 166.1% to \$2.52M, a \$1.57M increase year-over-year. The net profit margin climbed to 22.4%, up from 9.5% from the comparable period of the 2016/17 financial year.

Liquidity & Solvency

As at Feb. 28, 2018, total assets stood at \$10.68M, up 11.7% or \$1.12M from its balance of \$9.56M as at the close of the 2016/17 financial year, May 31, 2017. This increase was largely due to a \$1.48M increase in amounts owed by related companies, which amounted to \$5.13M. Property, plant and equipment (PPE), amounted to \$4.40M, relatively unchanged from the start of the year. Licenses & franchises amounted to \$592.3K, a 9.1% decline over the nine-month period. Inventories amounted to \$376.82K, up 10.7% while trade & other receivables rose 53.3% to \$147.37K. Cash & bank balances stood at \$34.15K.

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Current liabilities amounted to \$1.53M, up 8.3% from the start of the year while non-current liabilities stood at \$3.59M, relatively unchanged from its balance as at May 31, 2017. Trade & other payables of \$1.31M were up 19.2% during the period while preference shares of \$3.5M were unchanged. Income tax payable of \$208.08K was up 7.8% since the start of the financial year. Total debt amounted to \$3.52M, down 3.3% or \$119.45K since the start of the period.

The cash ratio fell to 0.02x from 0.27x in the 2015FY while the current ratio moved from 3.16x as at May 2017 to 3.72x as at Feb. 2018. The steep fall in the cash ratio is cause for concern but the current ratio suggests the company has sufficient liquid assets to meet short-term liabilities.

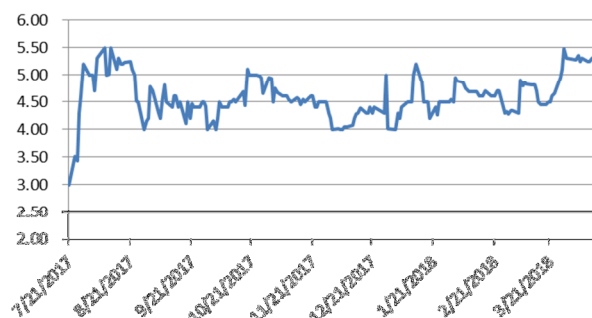
Retained earnings rose 22.9% to \$5.44M, driving the 22.3% increase in shareholders' equity to \$5.56M. The increase in equity in conjunction with the modest fall in debt led to an improvement in ECL's leverage. The debt-to-equity ratio fell from 0.63x as at Feb. 2018, down from 0.80x at the start of the financial year.

Outlook & Valuation

ECL stated that the Donald Sangster Airport saw 8% growth in passenger arrivals which contributed to the growth in sales witnessed year-to-date. For 2018, plans are underway to expand the existing terminals and modernize the existing facilities to the tune of approximately US\$40M. These plans are expected to provide a boon to ECL upon completion. The company aims to capitalize on this expansion by adding three Starbucks Coffee locations to its list of offerings at the Airport, which should have substantial impact on revenues.

So far, ECL has produced results which have exceeded our expectations since listing on the Junior Market of the Jamaica Stock Exchange. Revenue growth and expense management led to profits more than doubling year-to-date from the previous year's results and earnings have already exceed the last financial year's performance. We forecasted revenues of US\$16.2M for the 2017/18 financial year with a net profit of US\$1.6M. To date, the profit of US\$2.5M for the nine-month period has exceeded our estimate by 56%. On this performance, the stock has appreciated by 165% since listing.

ECL Trading History



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We are forecasting revenues of US\$15.03M for the year ending May 31, 2018 with net profits of US\$3.24M, an earnings per share of US\$0.002 (JMD: \$0.25). Shareholders' equity is expected to close the year at \$6.28M for a book value of US\$0.0038 (JMD: \$0.48). Since listing, ECL's average P/E ratio is 34.74x while the average of the P/B ratio has been 11.99x. These multiples are much higher than that of the rest of the market, however, the justification can be seen in the high earnings growth rate of a company that earns foreign exchange with a high return on capital (trailing ROE – 52.9%; trailing ROA – 26.4%).

Price Multiples Comparison

	P/E	P/B
ECL	34.74x	11.99x
Junior Market (Average)	20.34x	2.59x

We applied a 10% to the historical price multiples for ECL as we acknowledge that they are highly unlikely to hold at this level for the long-term. Using the price multiples valuation approach yielded price to our EPS and BV estimates to \$7.88 and \$5.27 for an average of \$6.57, 13% higher than the ECL's last traded price of \$5.82.

Recommendation

We recommend Express Catering as OVERWEIGHT as we believe the shares are currently trading below its intrinsic value. We maintain our positive outlook on the Company given its status as a foreign-exchange income generator with an exclusive contract to provide its services in a high traffic airport, which is in the midst of a major expansion programme. Plans to expand the offerings to include the Starbucks brand, a staple of the United States and Canadian markets, should augur well for continued growth.

The stock is suitable for shareholders who have a medium-to-high risk tolerance and medium term horizon as the Company faces diversification risk as it operates only in the Sangster International Airport and is dependent on tourist and other visitor numbers to that particular airport. The long-term growth potential is also limited by the fact that the company operates several franchises for which extensions of the franchise agreements will have to be negotiated at the end of their current terms.

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Abridged Financials

USD	Year Ended December 31					9M17	9M18	% change
	2013	2014	2015	2016	2017			
Revenues	10,028,525	12,206,420	13,599,073	14,058,053	14,232,136	10,022,727	11,269,642	12.4%
Operating Expenses	5,953,668	7,186,349	8,157,521	7,622,089	7,191,917	5,330,913	2,962,284	-44.4%
Operating Profit	900,869	1,380,713	1,254,853	1,595,305	1,638,131	1,186,550	2,798,816	135.9%
Profit Before Taxation	616,494	639,288	775,282	1,262,781	1,320,263	947,989	2,522,624	166.1%
Profit for the year	465,865	637,578	590,566	1,070,380	1,079,489	947,989	2,522,624	166.1%
Total Assets	6,853,882	7,027,342	6,767,695	6,059,423	9,563,002		10,681,247	
Total Liabilities	5,685,822	5,221,704	4,371,491	2,592,839	5,016,929		5,122,828	
Shareholder's Equity	1,168,060	1,805,638	2,396,204	3,466,584	4,546,073		5,558,420	
EPS (\$)	0.0003	0.0004	0.0004	0.0007	0.0007	0.0006	0.0015	
Book Value per Share (\$)	0.0007	0.0011	0.0015	0.0021	0.0028		0.0028	
Key Ratios								
Gross profit margin	74.4%	75.5%	74.9%	74.5%	71.3%	74.5%	73.5%	
Operating profit margin	9.0%	11.3%	9.2%	11.3%	11.5%	11.8%	24.8%	
Net profit margin	4.6%	5.2%	4.3%	7.6%	7.6%	9.5%	22.4%	
Return on Average Equity	49.8%	42.9%	28.1%	36.5%	26.9%			
Return on Average Assets	8.6%	9.2%	8.6%	16.7%	13.8%			
Debt/Equity (x)	3.41	2.05	1.01	0.35	0.80	-	-	

Source: <http://www.Jamstockex.com>, **JMMB Investment & Research**, **Bloomberg**, **Express Catering Prospectus**; **MBJ Airports Limited**

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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