

GraceKennedy Limited

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Executive Summary

GK's revenues grew by 4.8% to \$92.48B for the year ended December 2017 relative to the same period last year following improvements in all divisions (see Table 1 and Graph 1). On the other hand, direct expenses grew 5.0% to \$88.94B during the review period. Gross profit declined 1.4% to \$3.53B for the year ended December 2017 relative to the previous year. Further, there was a decrease in other operating income amidst a reduction in the net foreign exchange gains. GK benefited from the recognition of tax credits. From this standpoint, net earnings for the year ended December 2017 increased by 5.2% to \$4.77B from \$4.53B for the same period last year. As such, the earnings-per-share (EPS) for GK amounted to \$4.80 for the current period relative to \$4.56 last year.

The Food Trading segment registered growth in revenue on the heels of higher sales from the Jamaican foods distribution segment. There were improvements from the banking and investments segment. There were innovations and strong marketing efforts in both segments as well as a major acquisition in the distribution business (that is; Consumer Brands). Notwithstanding, GK was negatively impacted by the temporary ban on corned beef from Brazil in Jamaica and other territories. The suspensions of some remittance locations had an adverse impact on GraceKennedy Money Services (GKMS) during the year.

Grace Foods Latin America and Caribbean (GF LACA) is expected to show some signs of recovery in 2018 following the lifting of the ban on corn beef last year. GF LACA will also continue to benefit from product offerings such as Grace Instant Porridges and Sauces in the Latin America markets. First Global Bank (FGB), a subsidiary of GK, is slated to increase the number of branches in Jamaica via FGB Money Link. Money Link will contribute approximately 28 new mini branches being established in locations across the island by 2018. These initiatives will enhance GK's performance in the medium term.

GraceKennedy has implemented initiatives to increase efficiency and enhance customer experience. These initiatives include re-organization, distribution agreements and new product offerings. In addition to aforementioned initiatives, strategies to curtail the growth in direct expenses are needed to enhance shareholders' value. From these standpoints, the average target price (avg. of DDM, P/E and P/BV targets) of \$47.04 is 2.96% lower than the current price of \$49.47. The abovementioned changes and concerns have influenced our recommendation of GK as **MARKETWEIGHT** at this time.

GraceKennedy Limited

Company Background

Grace Kennedy limited (GK) is a company incorporated and domiciled in Jamaica. The registered office of the company is located at 73 Harbour Street, Kingston, Jamaica. The company is a publicly listed company having its primary listing on the Jamaica Stock Exchange, with a further listing on the Trinidad and Tobago Stock Exchange. The Group is organised into two divisions namely, GK Foods and GK Financial Group. The GK Foods division comprises all the food related companies while the GK Financial Group division comprises all the financial services companies in the Group.

The principal activities of the company, its subsidiaries and its associated companies are as follows:

- **Food Trading:** Merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.
- **Banking and Investments:** Commercial banking; stock brokerage; corporate finance; advisory services; and lease financing.
- **Insurance:** General Insurance and insurance brokerage.
- **Money Services:** Operation of money transfer services, cambio operations and bill payment services.

Abridged Financials:

J\$/Million	Year Ended December											Change %
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Revenues	48,749.43	53,462.28	57,406.42	55,318.41	58,216.73	61,340.27	67,257.50	70,839.89	79,742.23	88,267.59	92,475.65	4.8%
Expenses	45,723.47	52,151.28	55,232.08	52,716.66	55,030.82	58,178.78	63,913.04	67,944.56	76,949.19	84,684.56	88,944.42	5.0%
Gross Profit	3,025.96	1,311.00	2,174.34	2,601.75	3,185.91	3,161.49	3,344.46	2,895.32	2,793.04	3,583.03	3,531.23	-1.4%
Other Operating Income	2,112.00	1,247.23	1,488.56	1,056.46	1,034.01	1,035.73	1,710.63	1,730.12	1,571.13	2,383.73	2,088.01	-12.4%
Operating (Loss)/Profit	5,137.96	2,558.23	3,662.90	3,658.21	4,219.92	4,197.22	5,055.09	4,625.44	4,364.17	5,966.76	5,619.24	-5.8%
Finance Income / (Loss)	(380.88)	(175.19)	(153.07)	(505.30)	(345.05)	(268.83)	(240.07)	(267.91)	(376.55)	(306.58)	(284.65)	-7.2%
Share of results of assoc. Com	45.09	95.85	144.04	106.74	157.57	174.01	260.18	230.91	316.19	441.15	484.97	9.9%
Profit Before Taxation	4,802.17	2,478.89	3,653.87	3,259.65	4,032.44	4,102.40	5,075.20	4,588.43	4,303.81	6,101.33	5,819.56	-4.6%
Net Profit	3,535.22	1,780.89	2,722.82	2,396.26	2,992.47	3,786.33	3,794.06	3,799.13	3,254.02	4,534.86	4,772.10	5.2%
Total Assets	80,005.76	94,086.60	97,567.25	98,066.14	99,542.28	104,119.44	108,643.31	101,859.53	108,693.45	126,479.15	129,988.64	2.8%
Total Liabilities	58,392.79	71,896.42	72,722.24	70,222.98	69,835.52	72,251.10	74,409.92	63,614.56	69,320.39	82,940.54	82,975.53	0.0%
Long-term Liabilities	10,026.44	15,670.37	17,227.29	13,764.16	11,808.92	10,388.33	11,571.79	11,064.16	13,936.11	13,242.04	16,515.62	24.7%
Shareholder's Equity	21,612.97	22,190.18	24,845.01	27,843.16	29,706.76	31,868.35	34,233.38	38,244.97	39,373.06	43,538.61	47,013.11	8.0%
EPS (\$)	3.56	1.79	2.74	2.41	3.01	3.81	3.82	3.82	3.27	4.56	4.80	
Book Value per Share (\$)	21.74	22.32	24.99	28.00	29.87	32.05	34.43	38.46	39.60	43.79	47.28	
Key Ratios												
Net Margin	7.25%	3.33%	4.74%	4.33%	5.14%	6.17%	5.64%	5.36%	4.08%	5.14%	5.16%	
Gross Margin	6.21%	2.45%	3.79%	4.70%	5.47%	5.15%	4.97%	4.09%	3.50%	4.06%	3.82%	
Operating Profit Margin	10.54%	4.79%	6.38%	6.61%	7.25%	6.84%	7.52%	6.53%	5.47%	6.76%	6.08%	
Pre-tax Margin	9.85%	4.64%	6.36%	5.89%	6.93%	6.69%	7.55%	6.48%	5.40%	6.91%	6.29%	
P/E Ratio	6.7	8.10	4.93	7.05	6.98	4.38	4.81	5.39	8.20	8.93	9.14	
Price / Book Value	1.1	0.65	0.54	0.61	0.70	0.52	0.53	0.54	0.68	0.93	0.93	
Return on Average Equity	17.88%	8.13%	11.58%	9.1%	10.4%	12.3%	11.5%	10.5%	8.4%	10.9%	10.5%	

Source: www.Jamstockex.com, JMMBIR

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GraceKennedy Limited

Financial overview

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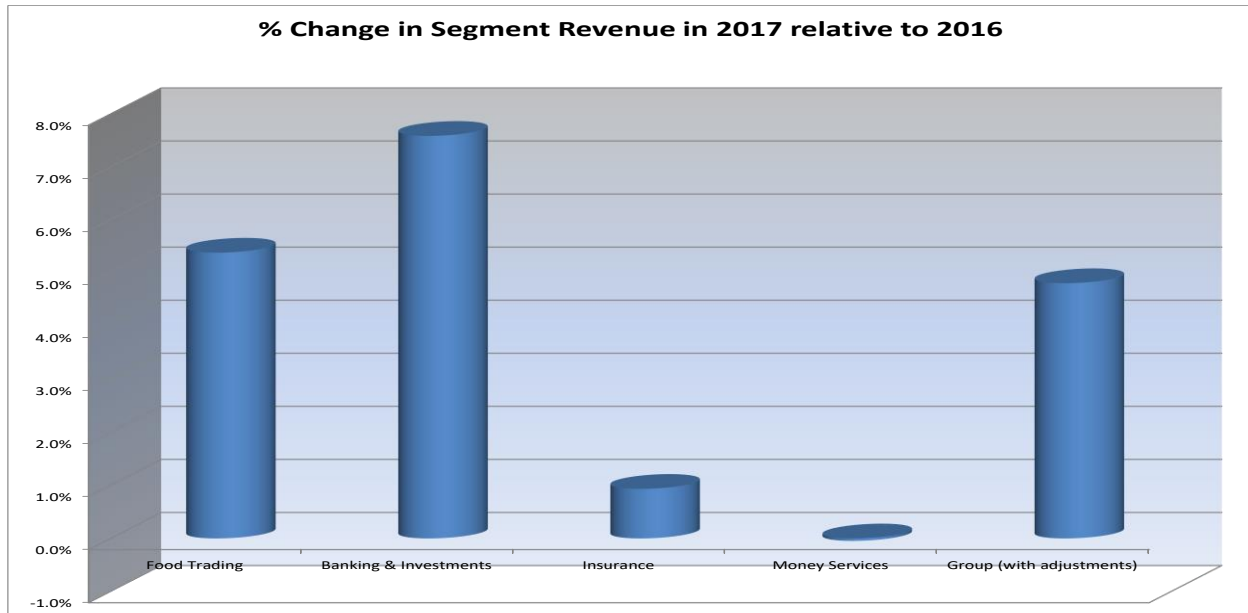
Table 1: GraceKennedy Financial Performance by Segments (Year ended December 2017)

GraceKennedy Financial Performance by Segments (Year ended December 2017--J\$M)					
	Food Trading	Banking & Investments	Insurance	Money Services	Group (with adjustments)
Total Revenue/ (Including Sales)	72,791.48	6,049.43	6,425.85	7,845.87	91,838.67
Operating Profit	1,671.49	587.63	549.46	3,153.90	5,619.24
Finance Income	19.05	53.83	19.43	22.14	378.21
Finance Expense	(509.50)	(81.62)	(1.68)	(1.40)	(662.86)
Share of Associates	369.98	115.52	(0.53)		484.97
Profit Before Taxation	1,551.03	675.37	566.68	3,174.64	5,819.56
Taxation					(1,047.46)
Net Profit for the period					4,772.10

The Food Trading segment registered growth in revenue on the heels of higher sales from the Jamaican food distribution segment. There were improvements from the banking and investments segment. There were innovations and strong marketing efforts in both segments as well as a major acquisition in the distribution business (that is; Consumer Brands). Notwithstanding, GK was negatively impacted by the temporary ban on corned beef from Brazil in Jamaica and other territories. The suspension of some remittance locations also had an adverse impact on GraceKennedy Money Services (GKMS) during the year.

GraceKennedy Limited

Graph 1: Percentage change in Segment Revenue for year ended December 2017 relative to 2016



Source: www.Jamstockex.com, JMMBIR

The asset base of the company moved from \$126.48B to \$129.99B on the heels of increases in the loan portfolio, investment securities and fixed assets. Meanwhile, total liabilities were virtually flat at \$82.97B. From this viewpoint, shareholders' equity moved 8% higher to close at \$47.01B against the background of increase in retained earnings and reserves.

Forecast and Valuation

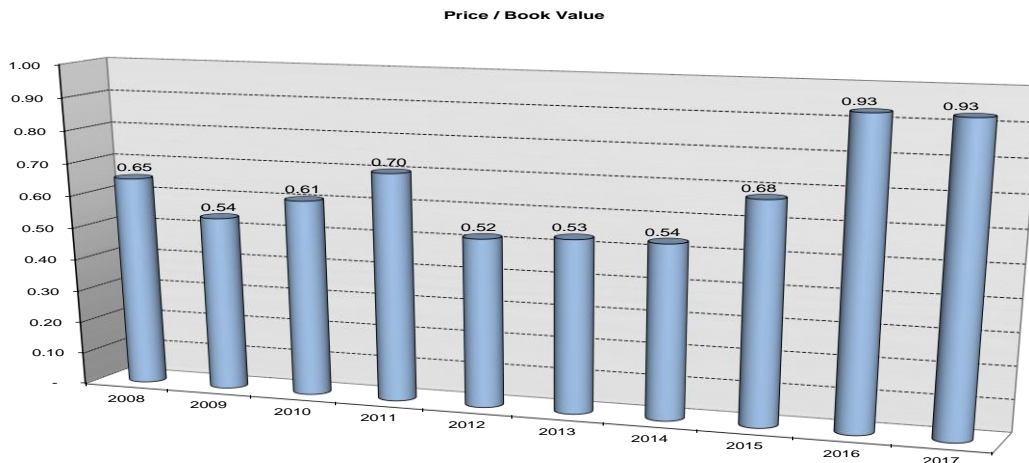
Grace Foods Latin America and Caribbean (GF LACA) is expected to show some signs of recovery in 2018 following the lifting of the ban on corn beef last year. GF LACA will also continue to benefit from product offerings such as Grace Instant Porridges and Sauces in the Latin America markets. First Global Bank (FGB), a subsidiary of GK, is slated to increase the number of branches in Jamaica via FGB Money Link. Money Link will see 28 new mini branches being established in locations across the island by 2018. These initiatives will enhance GK's performance in the medium term. GraceKennedy has confirmed that Signia Financial Group Inc. is exploring a potential merger with Globe Finance Inc. GraceKennedy Group has a 40% interest in Signia Financial Group which is based in Barbados. Such a merger will increase GK's footprint in Barbados and offer some synergy benefits going forward.

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GraceKennedy Ltd has benefited from tax credits under Jamaica's Urban Renewal (Tax Relief) Act (URA). The investment in the new corporate headquarters of US\$25M or over \$3B has allowed GK to recognised tax credits of \$416M in 2017. According to the Group Chief Financial Officer, additional tax credits are to be recognised in 2018. From these viewpoints, net profits are forecasted to reach \$5.07B or an EPS of \$5.10 for the 2018 financial year. Assuming a forward price-to-earnings (P/E) ratio of 9 times, the forward price of the stock at the end of the 2018 financial year is likely to reach \$45.92 which is 7.7% lower than the current price of \$49.47 as at June 1, 2018.

Graph 2: Price-to-Book Value



Source: www.Jamstockex.com, JMMBIR

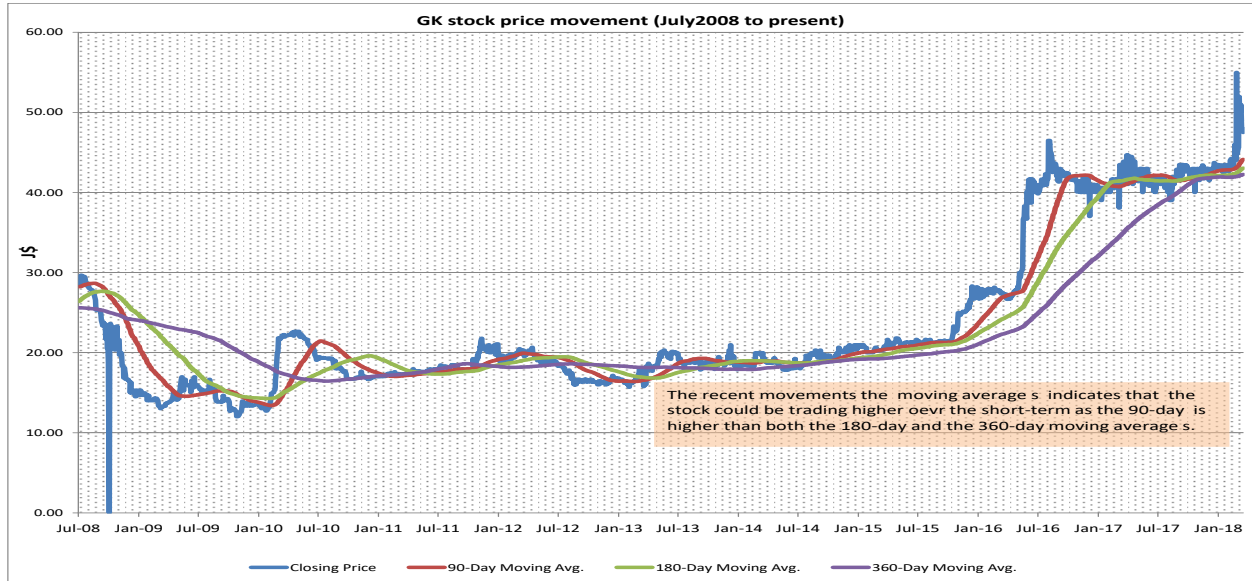
The stock is trading at a price-to-book value (P/BV) ratio of 1.03 times. The 10-year average P/BV ratio is 0.70 times which is below the current level. With the recent re-organization and improved growth trajectory; book value per share is expected to reach \$50. Assuming forward P/BV ratio of 0.93, the projected stock price is \$46.50. Meanwhile, the constant Dividend Discount Model (DDM) has projected a long-run intrinsic value of \$48.71.

From a technical perspective, GK peaked at \$52 on March 14, 2018 before falling to its current price of \$49.47. Notwithstanding, the 90-day moving average is above both the 180-day and 360-day moving averages which may indicate an uptrend in trading prices (see Graph 3 below).

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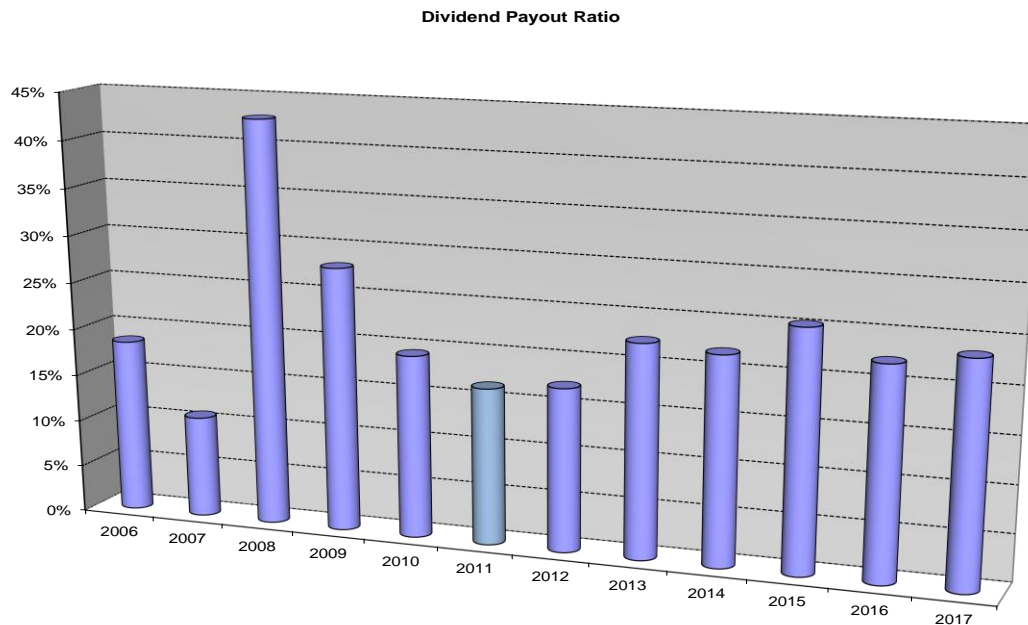
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Graph 3: GK stock price movement (July 2008-Present)



Source: www.Jamstockex.com, JMMBIR

Graph 4 Dividend Payout Ratio



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Table 5 Dividend Yield

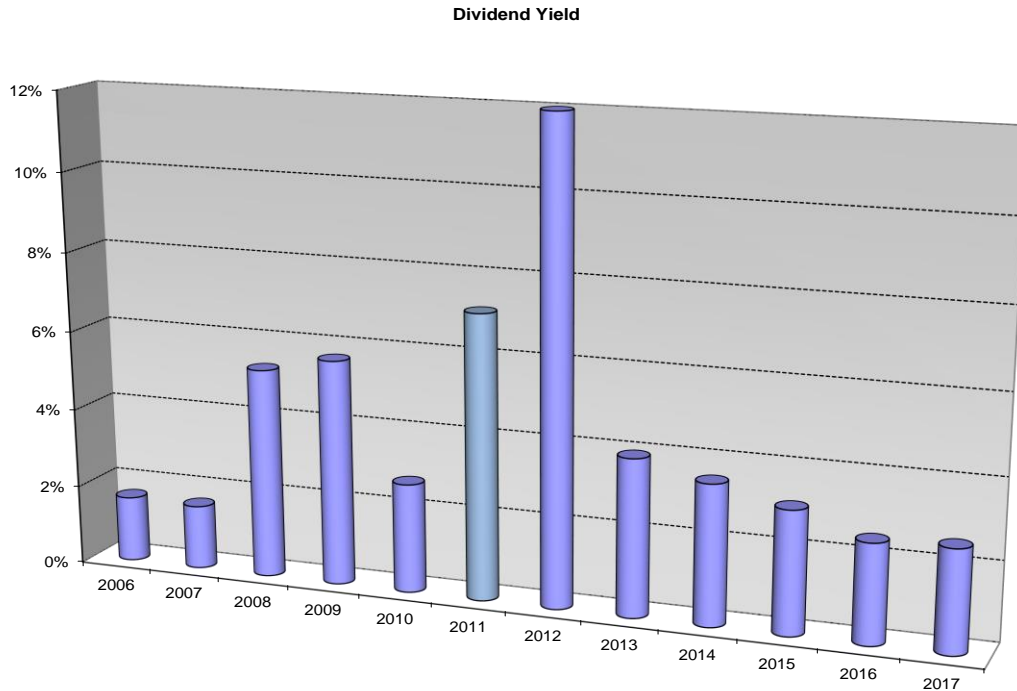


Table 6: Conglomerate Comparison

Stock	His. P/E	Price to Book	Return on Equity	Return on Assets
	Last 4 Qtrs			
GK	11.68	1.03	10.5%	3.7%
JP	25.85	1.52	6.1%	2.1%
PJAM	10.83	1.49	14.7%	11.5%
Average	16.12	1.35	10.4%	5.8%

From the table above, GK's return on assets and price to book value is lower than PJAM which may indicate that GK has under-utilized assets or not enough earning assets compared to PJAM. This dynamic may indicate the pace of growth of GK's stock price relative to its peers.

Recommendation

GraceKennedy has implemented initiatives to increase efficiency and enhance customer experience. These initiatives include re-organization, distribution agreements and new product offerings. In addition

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to aforementioned initiatives, strategies to curtail the growth in direct expenses are needed to enhance shareholders' value. From these standpoints, the average target price (avg. of DDM, P/E and P/BV targets) of \$47.04 is 2.96% lower than the current price of \$49.47. The abovementioned changes and concerns have influenced our recommendation of GK as **MARKETWEIGHT** at this time.

Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements

APPENDIX

IMPORTANT DISCLOSURES

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

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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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