

Jamaica Broilers Group Limited (JBG)

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Company Background

Incorporated in 1958, Jamaica Broilers Group Limited (JBG) is a publicly-listed company whose principal activities include the production and distribution of poultry products, animal feeds and agricultural items. JBG is a vertically-integrated poultry company with business segments spanning egg hatchery to preparing ready-to-eat offerings available in stores. The company has operations spanning Jamaica, the U.S.A. and Haiti.

Financial Performance – Six months ended Oct. 27, 2018

Profitability

For the period ended October 2018, JBG reported an 11.7% or \$2.7B increase in revenues to \$25.71B from the comparable period of the previous year. This performance was driven by growth in all three reporting segments. Sales in Jamaica were up 7.0%, or \$1.13B, to \$17.16B while the US Operations reported a 24.1%, or \$1.43B, increase in revenues to \$7.38B. The Haitian segment's revenues of \$1.17B were up 13.4%, or \$127.67K, year-over-year.

JBG Segment Results (\$'000)

Six Months 2018/19FY	Jamaican Operations	US Operations	Haitian Operations	Other Caribbean	Elimination
Revenues	17,164,166	7,383,116	1,166,935	-	-
Segment Results	1,352,804	665,669	85,394	1,226,853	(1,386,351)
% of total revenues	66.7%	28.7%	4.5%		
% of total segment results	69.6%	34.2%	4.4%	63.1%	(71.3%)

The growth in revenues in the Jamaican segment was attributed to increased poultry sales and inventory management while the US Operations performance was attributed to increased sales in the main products – fertile eggs and baby chicks, as well as, feed sales from the newly-acquired feed mill. In August 2018, JBG acquired a feed mill in Georgia, U.S. The Haitian Operation's market share of table eggs rose to 34%, which compared to 31% at the end of the second quarter of the prior financial year.

Cost of sales rose 12.2% to \$19.5B resulting in gross profits of \$6.22B, a 10.4% or \$584.32M increase, y-o-y. The gross profit margin stood at 24.2% for the period, down from the 24.5% margin noted for the

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prior year period. Distribution costs rose 6.8% to \$917.89M while administrative and other expenses climbed 13.3% to \$4.21B. The increase in operating expenses was attributed to exchange rate movements, salary increases, increased staff complement and greater distribution costs following the acquisition of the Georgian feed mill. Operating expenses related to the new hatchery in Pennsylvania and set up costs related to the Shareholders' Trust also impacted expenses for the period.

As a result, operating profits rose 2.7% or \$31.86M from the previous year period to total \$1.23B. Earnings before interest, taxation, depreciation & amortization (EBITDA) amounted to \$1.76B, up 10.1% y-o-y. The EBITDA margin declined marginally to 6.8% from the period, relative to 6.9% for the prior year period. Pre-tax earnings amounted to \$957.28M, a 6.5% increase over the prior year period's amount as the growth in finance income offset the growth in finance costs. Finance income rose \$187.64M to \$201.48M while finance costs increased by \$160.93M to \$471.45M. JBG noted that it experienced foreign exchange volatility during the second quarter that caused it incur foreign exchange losses of \$231M. As the Group operates in three different countries from time to time the company will face exchange risk dealing in three currencies.

Net profits attributable to shareholders amounted to \$629.32M, which corresponds to an EPS of \$0.52, a 0.7% decline year-over-year. This decline was driven by an increase in the effective tax rate to 32.7% for the six months period, which compared to 26.7% for the comparable period in the previous year. The net profit margin compared to 2.4%, down from 2.8% for the previous year period.

Solvency & Liquidity

JBG's total assets rose \$5.23B or 18.7% to \$33.15B as at October 27, 2018. Non-current assets rose 8.6% or \$985.0M to \$12.49B while current assets rose 25.9% or \$4.25B to \$20.66B. Property, plant & equipment rose 17.6% to \$9.18B while loans receivable fell 19.2% to \$1.36B and post-employment benefit assets amounted to \$438.6M, a 36.5% decline year-over-year.

Inventories rose 10.9% to \$6.33B while biological assets climbed 27.0% to \$5.81B. Trade receivables rose 22% to \$4.54B. Cash & short-term investments rose surged 142.6% to \$2.98B. Cash generated by operating activities amounted to \$1.14B, which compared to \$129.79M for the comparable period of the previous year. Cash used in investing activities amounted to \$1.23B as \$1.41B was expended on the acquisition of property, plant & equipment. Cash used in financing activities amounted to \$291.55M as loan receipts of \$2.11B were outstripped by liability repayments of \$1.85B and interest payments of \$389.52M.

JBG's liquidity improved during the year as evidenced by the increase in the cash ratio from 0.16x in Oct. 2017 to 0.21x in Oct. 2018. The current ratio declined to 1.43x from 2.19x a year prior while the quick ratio declined to 0.56x, from 0.76x as at Oct. 2017. The deterioration of the current and quick ratios was driving by a 92.9% increase in current liabilities. Payables rose 51.7% to \$6.05B while short-term borrowings climbed 139.0% to \$7.06B.

Total liabilities rose 54.2% or \$7.07B to \$20.13B as at Oct. 2018 driven by the increase in current liabilities outlined above. Total debt amounted to \$12.1B and rose 54.2% or \$4.25B. Long-term debt rose 3.0% to

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\$5.04B. With the increase in debt, JBG's leverage increased. The debt-to-equity ratio rose to 0.94x, up from 0.53x a year prior as debt increased and shareholders' equity declined. Equity as at Oct 2018 amounted to \$12.87B after the booking of \$3.23B related to shares held in trust. Retained earnings rose 10.1% to \$14.24M. Book value per share was \$10.73, down from \$12.39 a year earlier. JBG's ability to service its debt obligations remained strong as the interest coverage ratio stood at 3.28x, down from 3.78x for the six months period of the prior year.

During the year, the Group through the JBGL Stockholders Nominee Limited (Shareholder Trust) agreed to purchase 165,452,446 units of its own shares at a fair value of \$3.01B. JBG entered into an agreement in April 2018 to lend JBGL Stockholders Nominee Limited a sum not exceeding J\$4.35B to purchase a block of shares held by family branches of one of the Funds. The Shareholders Trust will hold the shares purchased and all benefits derived will be for the benefit for all shareholders of the Company. The Trust will service the loan from dividends and/or distributions paid upon the shares and from the proceeds of the sale of the shares.

Outlook

JBG continued its expansion drive in the U.S. with the acquisition of a Feed Mill and associated assets in Georgia, USA. The Haitian Operations have also continued to show positive growth with the Company taking the decision to separate it from the Other Caribbean Operations and present it as an individual segment. Notwithstanding foreign exchange fluctuations and acquisition costs surrounding the Feed Mill deal we continue to hold a favourable view of JBG's medium-term outlook.

For the 2018/19 financial year, we estimate an 11.8% growth in revenues to \$53.98B and net profits attributable to shareholders of \$2.04B, a 2.8% increase year-over-year. This net profit corresponds to earnings per share of \$1.68. Shareholders' equity is seen increasing by 12.8% to \$14.23B or \$11.87 per share. Utilizing the 1-year historical price-to-earnings (P/E) multiple of 13.24x yields a price of \$22.25. The 1-year historical price-to-book (P/B) ratio is 1.87x, which when applied to our estimate for the year-end book value yields a price of \$22.14. As such, the average price of our estimate is \$22.20, which is 24.5% below JBG's close price of \$29.41 as at December 19, 2018.

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Peer Comparison – Main Market Retail Sector

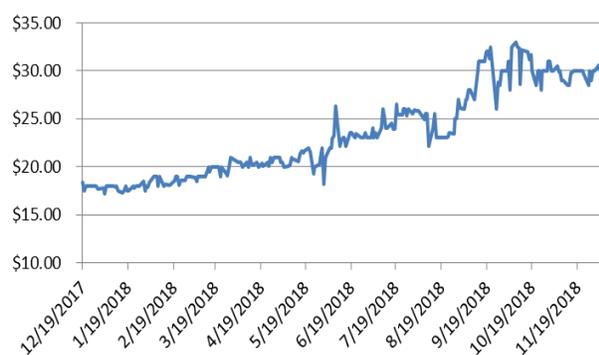
Company	Market Capitalization (J\$B)	Price to Earnings (x)	Price to Book (x)	Return on Equity	Return on Assets	Dividend Yield 2017
JBG JA	33,280	15.67	2.21	14.58%	6.62%	1.62%
BRG JA	4,715	19.73	4.46	24.73%	15.06%	2.40%
CCC JA	35,748	55.50	6.90	13.29%	3.31%	0.00%
SALF JA	3,116	14.23	3.32	25.24%	21.28%	0.00%
SEP JA	22,740	14.42	1.49	10.00%	5.09%	3.17%
WISYNCO JA	39,075	16.42	4.22	28.80%	16.20%	0.00%
Sector Average	23,112	22.66	3.77	19.44%	11.26%	1.20%

A look at the peer comparison shows that from a P/E and P/B perspective JBG is below the sector average. This could be explained by the below sector average ROE and ROA. A median dividend yield compared to the rest of the sector suggests some cash flow to investors.

Recommendation

We maintain our positive outlook for the short-to-medium term for JBG driven by savvy business decisions made both locally and abroad which have driven revenue and profit growth over the past few years. However, we believe that at current prices the stock is overbought and recommend the stock as **UNDERWEIGHT** and would advise clients to crystallize some gains where possible. JBG is suitable for investors with a low-medium risk tolerance, seeking both income and capital appreciation given the Company's growth agenda and history as a consistent dividend payer.

JBG 1-yr Stock Performance



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Abridged Financials

J\$ 000	Year ended April					y-o-y % change %	Six Months ended October		y-o-y % change %
	2014	2015	2016	2017	2018		2017	2018	
Turnover	30,851,350	34,570,050	38,520,649	44,444,248	48,280,867	8.6%	23,017,307	25,714,189	11.7%
Cost of Sales	24,343,646	26,548,665	28,150,377	32,594,573	35,418,865	8.7%	17,386,378	19,498,939	12.2%
Gross Profit	6,507,704	8,021,385	10,370,272	11,849,675	12,862,002	8.5%	5,630,929	6,215,250	10.4%
Operating expenses	5,345,924	6,074,730	7,337,748	8,945,019	9,678,658	8.2%	4,576,353	5,130,165	12.1%
Finance Costs	592,076	704,701	693,804	647,238	714,897	10.5%	310,527	471,454	51.8%
Profit before taxation	1,073,096	1,561,852	2,766,658	2,965,144	2,666,773	-10.1%	898,703	957,281	6.5%
Net Profit attributable to shareholders	919,109	1,009,654	2,094,698	2,264,529	2,025,516	-10.6%	633,465	629,317	-0.7%
Total Assets	20,358,751	22,568,048	24,379,261	27,465,652	31,012,061	12.9%	27,920,292	33,153,455	18.7%
Total Liabilities	9,837,533	11,171,634	11,277,051	13,047,659	17,870,340	37.0%	13,056,460	20,131,253	54.2%
Shareholders' Equity	10,557,241	11,432,039	13,159,709	14,440,830	12,621,416	-12.6%	14,858,444	12,867,688	-13.4%
EPS (\$)	0.80	0.86	1.45	1.86	1.64	-12.2%	0.53	0.52	-0.7%
Book Value per Share (\$)	8.80	9.53	10.97	12.04	10.52	-12.6%	12.39	10.73	-13.4%
Key Ratios									
Operating profit margin	4.4%	6.1%	8.6%	7.3%	7.0%		5.2%	4.8%	
Pre-tax Margin	3.5%	4.5%	7.2%	6.7%	5.5%		3.9%	3.7%	
Net Margin	3.1%	3.0%	4.5%	5.0%	4.1%		2.8%	2.4%	
Return on Average Equity	9.5%	9.4%	14.2%	16.2%	14.5%				
Return on Average Assets	5.1%	4.8%	7.4%	8.6%	6.7%				
Cash Conversion Cycle (days)	44	37	38	39	37				
Cash Ratio (x)	0.12	0.27	0.21	0.28	0.25		0.16	0.21	
Quick Ratio (x)	0.68	0.74	0.91	0.89	0.63		0.76	0.56	
Current Ratio (x)	1.74	1.69	2.19	2.33	1.56		2.19	1.43	
Debt/Equity (x)	0.59	0.56	0.54	0.53	0.79		0.53	0.94	

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

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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**.

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