



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. In addition, one of the company's subsidiaries, JB Ethanol Limited contractually processes fuel products on behalf of customers for a fee. The major activities within the Jamaica Operations take place in the Best Dressed Chicken Division, Hi-Pro Division and JB Ethanol. The US Operations segment consists of Wincorp International in Florida and International Poultry Breeders in Georgia and Arkansas. Haiti Broilers S.A. is the major activity within the Other Caribbean Operations segment.

Financial Performance – Year ended April 29, 2017

Profitability

For the year ended April 2017, JBG reported a 15.4% or \$5.92B increase in revenues to \$44.44B from the prior year's \$38.52B. All reporting segments recorded increases year-over-year. The Jamaica Operations' revenues reported a 72% increase to \$31.96B; the US Operations' revenues climbed 24% to \$10.86B while the Other Caribbean Operations rose 4% to \$1.63B.

JBG Segment Results

2017FY	Jamaican Operations	US Operations	Other Caribbean
Revenues	31,955,577	10,862,452	1,626,219
Segment Results	2,872,997	1,291,764	943,657
% of total revenues	71.9%	24.4%	3.7%
% of total segment results	58.2%	26.2%	19.1%

JBG's management noted that demand for protein meat offered under its various business lines and brands held stable during the year resulting in the strong returns reported, despite a non-recurrence of the strong demand for poultry meat witnessed in the prior year. New products were introduced under the "further-processed" lines to gain market share which included the *Breaded Chicken* products, *Chicken Bologna*, and a range of *Miniature Cocktail Burgers*.

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In the US Operations, the company reported solid results while focusing on biosecurity and quality due to the threat of Avian influenza. The virus did not negatively impact JBG despite being a major challenge to the US poultry industry. The Other Caribbean Operations reported a strong year on the back of the performance of the Haiti Operations, as sales moved from 619M gourdes to 851M gourdes. Egg sales accounted for the majority of this growth as the company invested in the expansion of layer hens for egg production. The increase in production also led to improvements in efficiencies in the feed mill, hatchery and general overheads.

Cost of sales rose 15.8% to \$32.59B resulting in \$11.85B of gross profits, a 14.3% or \$1.48B increase, y-o-y. The gross profit margin stood at 26.7% for the year, down from the 26.9% margin noted for the prior year. Distribution costs rose 30.5% to \$1.58B while administrative and other expenses climbed 20.2% to \$7.37B. The increase in operating expenses was due to the inclusion of costs related to JBG's new hatchery in Iowa, inflation and exchange rate movement on US\$ denominated costs. As a result, operating profits declined 2.1% or \$68.38M from the previous year to total \$3.23B. Earnings before interest, taxation, depreciation & amortization (EBITDA) amounted to \$4.09B, down 2.7% y-o-y. The EBITDA margin declined to 9.2% from the 10.9% recorded for the previous financial year.

Pre-tax earnings amounted to \$2.97B, a 7.2% or \$198.49M increase over the prior year's amount due to a 138.5% or \$220.30M increase in finance income, which totalled \$379.38M for the period. Finance costs also contracted by \$46.57M or 6.7% to \$647.24M. Net profits attributable to shareholders amounted to \$2.23B, which corresponds to an EPS of \$1.86, a 28.0% increase from the \$1.74B reported in the prior year. The net profit margin improved to 5.0%, up from 4.5% for the previous year. JBG's return on average equity for the 2017FY was 16.2%, up from 14.2% in 2016FY while the return on average assets rose from 7.4% in the previous year to 8.6% in 2017FY.

Solvency & Liquidity

JBG's total assets rose \$3.09B or 12.7% to \$27.47B as at April 29, 2017. Non-current assets fell 8.3% or \$986.95M to \$10.94B but current assets rose 32.7% or \$4.07B to \$16.52B. Property, plant & equipment fell 32.8% to \$7.06B as the company sold off its ethanol plant while a loans receivable of \$2.05B was recorded at the year end, against no such value a year prior. Intangibles amounted to \$1.09B, down 6.8% y-o-y.

Inventories rose 20.7% to \$5.16B while biological assets climbed 51.0% to \$4.46B. Trade receivables rose 8.9% to \$3.57B while short-term loans receivables of \$500.97M were recorded as at April 2017. Cash & short-term investments rose surged 67.2% to \$2.00B. Cash generated by operating activities amounted to \$1.35B, a 10.3% increase from the previous year's total. Cash used in investing activities amounted to \$137.22M as \$749.30M in capital expenditure was contrasted by \$461.87M in proceeds from the disposal of subsidiaries. Cash used in financing activities amounted to \$539.0M as loan receipts of \$1.67M were outstripped by repayments of \$1.17B, interest paid of \$619.51M and dividends paid of \$419.75M.

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JBG's liquidity improved during the year as evidenced by the increase in the cash ratio from 0.21x in 2016 to 0.28x in 2017. The current ratio improved to 2.33x from 2.19 a year prior while the quick ratio declined to 0.89x, from 0.91x as at April 2016.

Total liabilities rose 15.7% or \$1.77B to \$13.05B as at April 29, 2017. Driving this increase was a 37.6% increase in payables to \$4.41B and a 26.1% increase in short-term borrowings to \$2.50B. Long-term debt rose 2.0% to \$5.2B while deferred income taxes climbed 50.4% to \$729.76M. As such, total debt was up 8.8% y-o-y to \$7.70B.

Despite the increase in total debt, JBG's leverage slightly improved due to a 9.7% increase in shareholders' equity, which amounted to \$14.44B. Book value per share was \$12.04, up from \$10.97 a year earlier. The debt-to-equity ratio fell to 0.53x at the close of the year, from 0.54x a year prior. Net debt-to-EBITDA was 1.39x, an improvement on the 1.40x at the end of previous year. JBG's ability to service its debt obligations was relatively unchanged as the interest coverage ratio stood at 5.16x, down from 5.18x for the 2016FY.

Outlook

JBG stated in its 2017 Annual Report that its goal for 2017/18 financial year is consolidation of its operations. The medium term plan is focused around updating internal systems and operations to develop a more "robust" operating platform. JBG also announced in October 2017, that it had acquired a second hatchery in the United States in Pennsylvania, which it expects to grow its hatching capacity by 40%. The acquisition cost did not exceed 5% of the net worth of JBG, according to the release. This move is expected to allow the group to "access a larger company base, reduce any bio-security risk factors faced by its customers and lower delivery mileage."

JBG was off to a solid start to the 2017/18 financial year as revenues for the first quarter ended July 29, 2017 rose 15% to close at \$11.49B. All segments grew y-o-y with the Jamaica Operations' revenue up 8.9% to \$7.87B. The US Operations' revenue rose 27.2% to \$3.09B while the Other Caribbean Operations segment reported a 46.5% increase to \$526.77M. Segments results in Jamaica stood at \$449.46M, up 205.9% on the \$146.92M in the comparable period of the previous year, but down 30% on last year's normalised segment result of \$631M. US operations reported a 6.8% increase in segment results to \$317.67M. The Other Caribbean segment reported a 78.8% decline in segment results to \$120.8M. Net profits attributable to shareholders for the quarter amounted to \$197.69M, a 50.6% or \$202.33M decline y-o-y.

For the 2017/18 financial year, we estimate a 13.4% growth in revenues to \$50.4B and net profits attributable to shareholders of \$2.04B, a decline of 8.8% from the prior year. This net profit corresponds to earnings per share of \$1.70. Shareholders' equity is seen increasing by 11.3% to \$16.07B or \$13.40 per share. Utilizing the 1-year historical price-to-earnings (P/E) multiple of 9.04x yields a price of \$15.35.

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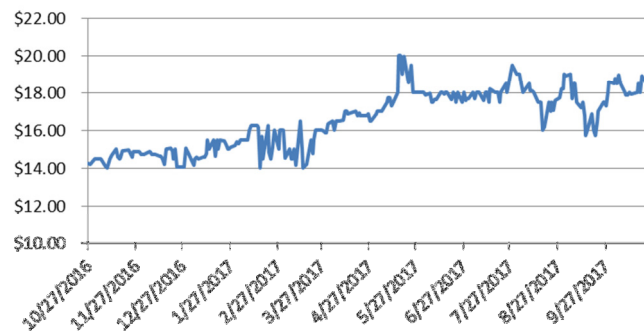
The 1-year historical price-to-book (P/B) ratio is 1.42x, which when applied to our estimate for the year-end book value yields a price of \$19.07.

Recommendation

We maintain our positive outlook for the short-to-medium term for JBG as savvy business decisions made both locally and abroad have driven revenue and profit growth over the past few years. The US Operations have proven critical to JBG's success in recent times and the Pennsylvania acquisition is expected to aid in the furthering of JBG's goal of geographical diversification..

We recommend Jamaica Broilers Group Limited as a HOLD as our average fair price is \$17.21, which is in line with the closing price of \$17.20 as at January 22-2018. The stock price appreciated by approximately 20% in 2017 and closed the year at roughly \$18.0. This stock is suitable for investors with a medium risk tolerance who are seeking exposure in a regional company that generates foreign currency and is also a dividend-payer. The dividend yield in 2016 was 3.2%.

JBG 1-yr Stock Performance





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Abridged Financials

J\$ 000	Year ended April					y-o-y %	Three months ended July		y-o-y %
	2013	2014	2015	2016	2016	change %	2016	2017	change %
Turnover	26,522,970	30,851,350	34,570,050	38,520,649	44,444,248	11.4%	10,018,719	11,487,354	14.7%
Cost of Sales	21,054,291	24,343,646	26,548,665	28,150,377	32,594,573	6.0%	7,363,879	8,815,615	19.7%
Gross Profit	5,468,679	6,507,704	8,021,385	10,370,272	11,849,675	29.3%	2,654,840	2,671,739	0.6%
Operating expenses	3,987,345	5,345,924	6,074,730	7,337,748	8,945,019	20.8%	2,108,909	2,304,252	9.3%
Finance Costs	463,752	592,076	704,701	693,804	647,238	-1.5%	163,268	150,447	-7.9%
Profit before taxation	1,172,684	1,073,096	1,561,852	2,766,658	2,965,144	77.1%	560,989	296,422	-47.2%
Net Profit attributable to shareholders	1,027,993	919,109	1,009,654	2,094,698	2,264,529	107.5%	400,017	197,687	-50.6%
Total Assets	17,392,106	20,358,751	22,568,048	24,379,261	27,465,652	8.0%	23,916,841	27,701,100	15.8%
Total Liabilities	7,865,937	9,837,533	11,171,634	11,277,051	13,047,659	0.9%	11,268,556	13,054,508	15.8%
Shareholders' Equity	9,582,046	10,557,241	11,432,039	13,159,709	14,440,830	15.1%	12,699,862	14,652,179	15.4%
EPS (\$)	0.91	0.80	0.86	1.45	1.86	68.3%	0.33	0.16	-50.6%
Book Value per Share (\$)	7.99	8.80	9.53	10.97	12.04	15.1%	10.59	12.22	15.4%
Key Ratios									
Operating profit margin	6.1%	4.4%	6.1%	8.6%	7.3%		6.0%	3.8%	
Pre-tax Margin	4.4%	3.5%	4.5%	7.2%	6.7%		5.6%	2.6%	
Net Margin	4.1%	3.1%	3.0%	4.5%	5.0%		4.0%	1.7%	
Return on Average Equity	12.2%	9.5%	9.4%	14.2%	16.2%				
Return on Average Assets	6.7%	5.1%	4.8%	7.4%	8.6%				
Cash Ratio (x)	0.36	0.12	0.27	0.21	0.28		0.18	0.27	
Cash Conversion Cycle (days)	45	44	37	38	39				
Quick Ratio (x)	1.04	0.68	0.74	0.91	0.89		0.90	0.92	
Current Ratio (x)	2.07	1.74	1.69	2.19	2.33		2.32	2.35	
Debt/Equity (x)	0.57	0.59	0.56	0.54	0.53		0.54	0.52	

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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