



## Jamaica Producers Group Limited (JP)

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### Synopsis

Jamaica Producers Group Limited (JP), formerly the Jamaica Banana Producers Association Limited, is a wholly Jamaican-owned company listed on the Jamaica Stock Exchange. The Group was incorporated on April 1, 1929, as a direct descendant of the Jamaica Producers Association formed in 1925, under which separate co-operatives – one for the marketing of each agricultural product – were set up. The company was formed with the objective of protecting the co-operative and the local banana industry from failure due to fierce competition from the large foreign-owned fruit companies in the shipping and marketing of Jamaican bananas.

The outlook for the Jamaica Producers Group is positive as all segments are currently undertaking expansion and efficiency improvement plans. The bakery, juice plant and snack business are undertaking process improvement initiatives in relation to new product lines that were launched within the last 18 months.

JP Farms is completing the commissioning of state-of-the-art cold storage and ripening facilities for the banana and pineapple business, which is expected to improve the quality and availability of fresh produce. JP's focus for the immediate future will be on marketing and product development. Attention will turn to the Tortuga rum cake business as it expands its presence in travel retail markets across the region and benefits from the winter tourist season.

Applying the 1-year average P/E ratio of 7.03x to the forward EPS of \$0.47 yields a price of \$3.32 while the forward BVPS of \$10.11 and the 1-year average P/B ratio of 1.53x yields a price of \$15.43. The current average P/E ratio for the conglomerate sector is 10.98x while the P/B ratio is 1.61x. Applying the peer group multiples to our forecasts yields prices of \$5.19 and \$16.28, respectively.

*As such, our estimation of the fair value of JP's shares ranges between \$10.06 and \$15.43. The high end of our price range is in line with JP's most recent price of \$15.0 as at January-26-2018.*

*We therefore recommend Jamaica Producers as a **HOLD** as we believe the company is currently fairly priced based on our series of estimates applied above.*



## Jamaica Producers Group Limited (JP)

### Company Background

Jamaica Producers Group Limited (JP), formerly the Jamaica Banana Producers Association Limited, is a wholly Jamaican-owned company listed on the Jamaica Stock Exchange. The Group was incorporated on April 1, 1929, as a direct descendant of the Jamaica Producers Association formed in 1925, under which separate co-operatives – one for the marketing of each agricultural product – were set up. The company was formed with the objective of protecting the co-operative and the local banana industry from failure due to fierce competition from the large foreign-owned fruit companies in the shipping and marketing of Jamaican bananas.

The business has grown, diversifying into shipping, food and juice manufacturing, and moving up the value chain to provide processed foods like smoothies, banana chips, rum cakes and juices, in addition to branching out into other agricultural products such as pineapples.

### Financial Performance – Nine Months ended September 30, 2017

#### *Profitability*

JP reported revenues of \$11.38B for the first nine months of the 2017FY, an increase of 38.9% or \$3.19B year-over-year while net profits attributable to shareholders was down 87.4% or \$2.96B to \$426.45M. The decline in net profits was mainly driven by the non-recurrence of a \$2.46B gain on recognition of Kingston Wharves as a subsidiary in the comparable period of 2016.

JP Food & Drink generated revenues of \$6.21B for the period, up 3.0% year-over-year while the JP Logistics & Infrastructure segment recorded sales of \$5.18B, more than doubling the sales of the comparable period of the 2016FY. At the start of the third quarter of 2016FY, the results of JP Logistics & Infrastructure were consolidated with the revenues, expenses and profits generated in the KW subsidiary, which explains the sharp increase in the segment's revenues. Prior to the third quarter, JP's share of KW's profit was included as that of an associate.

The Food & Drink division reported profits before finance cost and taxation of \$131.27M, a 94% increase on the 2016 period's amount of \$67.81M JP attributed this result to strong performance in the European juice business that was partially offset by a poor outturn on the banana and pineapple farm in Jamaica. The booking of KW's results as a subsidiary was the driver behind the increase in profits before finance and taxation for the Logistics & Infrastructure division to \$1.53B, up from \$767.83M a year earlier.

## Jamaica Producers Group Limited (JP)

### JP GROUP Segment Results

9M16	JP Food & Drink	JP Logistics & Infrastructure	Corporate Services
External Revenues	6,205,657	5,178,542	-
Profit before Finance Cost and Taxation	131,274	1,534,611	(100,987)
9M15			
External Revenues	6,026,265	2,149,612	55,016
Profit before Finance Cost and Taxation	67,813	767,834	2,974,557

Gross profits rose 89.7% to \$3.61B, despite a 23.5% increase in the cost of operating revenue to \$7.77B. The gross profit margin improved to 31.7% for the period, compared to 23.2% for the nine months ended September 2016. Operating costs amounted to \$2.18B, a 23.5% increase on the prior year period's result. Nevertheless, the surge in gross profits resulted in a six-fold increase in operating profits that amounted to \$1.56B. The operating profit margin surged to 13.7%, compared to 3.2% a year prior.

With the recognition of Kingston Wharves as a subsidiary, the share of profit in associated companies and joint ventures amounted to just \$155K, down from \$438.8M for the comparable period of 2016. Finance costs rose 22.6% to \$214.02M. The interest coverage ratio deteriorated but remained high at 7.31x, in comparison to 21.83x in the prior year period. The non-recurrence of the \$2.46B gain on recognition as a subsidiary resulted in a 62.8% or \$2.28B decline in pre-tax profits, which amounted to \$1.35B.

The pre-tax profit margin stood at 11.9%, down from 44.4% in 2016 and 13.1% in 2015. The effective tax rate rose to 18.2% from 3.9% a year prior and 11.7% in 2015. The net profit margin fell to 3.7%, down from 41.3% a year earlier and 12.7% in 2015. This decline is attributable to the fall in the pre-tax profit margin and the increase in the effective tax rate.

### ***Solvency & Liquidity***

Total assets for JP amounted to \$31.59B, up 9.5% or \$2.75B from a year prior. This increase was driven by an 11.9% or \$2.2B increase in property, plant & equipment to \$20.76B. Intangible assets amounted to \$1.69B, a 13.8% increase year-over-year. "Securities purchased under resale agreements" rose 16.9% to \$3.28B while accounts receivable amounted to \$2.25B, a 3.0% increase year-over-year. Inventories rose 2.6% to close the period at \$820.55M.

Cash & cash equivalents climbed \$435.43M to \$1.0B, a 76.9% increase from a year earlier. The cash ratio rose to 1.27x from 1.17x a year prior while the current ratio improved to 2.18x, from 2.00x as at

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## Jamaica Producers Group Limited (JP)

September 2016. Cash provided by operating activities amounted to \$1.98B, up from cash provided of \$424.74M in the comparable period of 2016.

Total liabilities rose 3.1% to \$9.17B. Borrowings amounted to \$4.99B, up 3.4% from a year earlier. Leverage decreased as the debt to equity ratio stood at 0.45x at the end of the quarter, compared to 0.48x as at September 2016 as shareholders' equity grew at a faster pace than debt. Long-term loans were up 13.3% to \$4.36 B while short-term debt moved from \$977.0M to \$629.78M. Shareholders' equity amounted to \$11.1B, a 10.6% year-over-year improvement. Accounts payable rose 3% year-over-year to \$2.65B at the close of the period.

### Outlook & Valuation

The outlook for the Jamaica Producers Group is positive as all segments are currently undertaking expansion and efficiency improvement plans. The bakery, juice plant and snack business are undertaking process improvement initiatives in relation to new product lines that were launched within the last 18 months.

JP Farms is completing the commissioning of state-of-the-art cold storage and ripening facilities for the banana and pineapple business, which is expected to improve the quality and availability of fresh produce. JP's focus for the immediate future will be on marketing and product development. Attention will turn to the Tortuga rum cake business as it expands its presence in travel retail markets across the region and benefits from the winter tourist season.

KW is currently expanding its capacity to serve a wider range of local and transshipment requirements for the loading, discharge and storage of bulk, break-bulk, containerised and automated cargo. The commissioning of on-dock bulk storage facilities, a near-port domestic automotive centre and a terminal resurfacing and rehabilitation programme are some of the projects the JP subsidiary currently has underway. In addition to these initiatives, the company aims to launch its Total Logistics Facility prior to the end of the financial year.

We are forecasting revenues of \$15.18B for the year ending December 2017, an increase of 25% year-over-year. Net profit attributable to shareholders is seen declining 86.5% to \$530.63M, which corresponds to an earnings per share of \$0.47. Shareholders' equity is expected to improve to \$11.35B, an 8.9% increase year-over-year, for a book value per share of \$10.11.

## Jamaica Producers Group Limited (JP)

Conglomerate	Market Capitalization	Last Close 11/15/2017	YTD Change	TTM EPS	P/E ratio	Book Value	P/B Ratio	ROE	ROA	Dividend Yield 2017	Dividend Yield 2016
GK	42,335,831,926	42.56	5.60%	4.03	10.55	44.68	0.95	9.30%	3.20%	1.70%	1.90%
<b>JP</b>	<b>16,877,046,301</b>	<b>15.04</b>	<b>62.90%</b>	<b>1.32</b>	<b>11.37</b>	<b>9.65</b>	<b>1.56</b>	<b>14.70%</b>	<b>5.20%</b>	<b>1.30%</b>	<b>1.30%</b>
PJAM	44,586,806,600	41.82	47.70%	3.96	10.56	25.52	1.64	16.50%	12.60%	2.80%	2.00%
SJ	147,945,450,694	37.88	30.40%	3.31	11.43	16.53	2.29	21.40%	3.60%	4.40%	5.60%
<b>Sector Average</b>	<b>62,936,283,880</b>				<b>10.98</b>		<b>1.61</b>	<b>15.50%</b>	<b>6.10%</b>	<b>2.60%</b>	<b>2.70%</b>

Applying the 1-year average P/E ratio of 7.03x to the forward EPS of \$0.47 yields a price of \$3.32 while the forward BVPS of \$10.11 and the 1-year average P/B ratio of 1.53x yields a price of \$15.43. The current average P/E ratio for the conglomerate sector is 10.98x while the P/B ratio is 1.61x. Applying the peer group multiples to our forecasts yields prices of \$5.19 and \$16.28, respectively.

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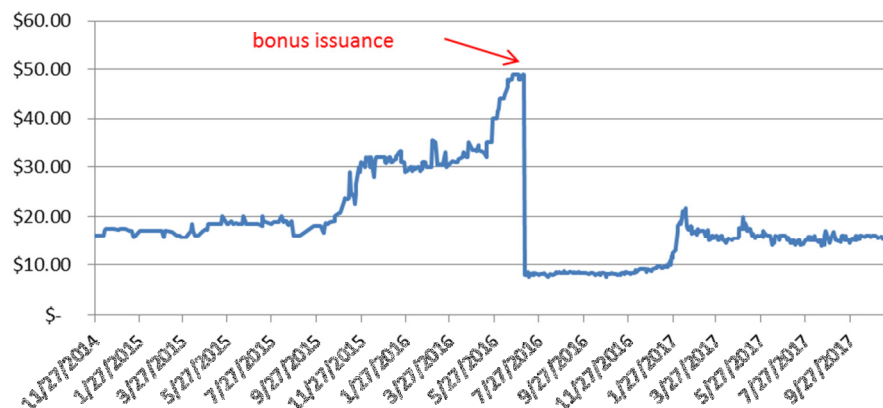
### Recommendation

*We therefore recommend Jamaica Producers as a **HOLD** as we believe the company is currently fairly priced based on our series of estimates applied above.* JP ran up as high as about \$33 recently which is an indication of the markets appetite for the stock. Recent concerns about the impact of "BREXIT" could have hurt the stock price as approximately a half of the company's revenues are from Europe. Despite these concerns we are confident in the capacity of the JP team to rebound. It should be noted that the KW segment is expanding and could yield improvements in profit. The Benelux region is also a high end segment of Europe and could show resilience to the uncertainty.

This stock is suitable for investors with a medium to high risk appetite with a medium term investment horizon given the company's renewed focus on its core operations which will require some time to realize returns.

## Jamaica Producers Group Limited (JP)

### JP 3-yr Stock Performance



### Abridged Financials

J\$000	Year Ended December 31					9M ended Sept. 30		Change %
	2012	2013	2014	2015	2016	2016	2017	
<b>Turnover</b>	6,790,257	7,753,863	8,817,029	8,705,924	12,139,235	8,195,717	11,384,199	38.9%
Direct Costs	5,349,882	5,977,926	6,846,671	6,691,496	8,579,606	6,291,165	7,770,421	23.5%
<b>Gross Profit</b>	1,440,375	1,775,937	1,970,358	2,014,428	3,559,629	1,904,552	3,613,778	89.7%
Operating Expenses	1,477,022	1,731,725	1,967,939	1,999,769	2,831,618	1,765,963	2,180,722	23.5%
<b>Operating Profit</b>	(36,647)	44,212	2,419	14,659	728,011	260,819	1,564,743	499.9%
Profit Before Taxation	272,449	431,022	404,905	748,383	4,533,071	3,810,204	1,564,898	-58.9%
<b>Profit for the year</b>	189,406	252,273	358,220	792,256	3,940,446	3,493,570	1,105,677	-68.4%
<b>Total Assets</b>	7,505,392	8,553,150	9,943,446	10,248,203	29,879,878	28,835,055	31,587,369	9.5%
<b>Total Liabilities</b>	2,230,130	2,522,047	3,757,709	3,687,739	8,681,404	8,892,836	9,171,384	3.1%
<b>Shareholder's Equity</b>	5,016,175	5,697,807	5,863,693	6,399,006	10,418,488	10,033,134	11,096,726	10.6%
EPS (\$)	0.17	0.22	0.32	0.71	3.51	3.01	0.38	
Book Value per Share (\$)	4.47	5.08	5.23	5.70	9.28	8.94	9.89	
<b>Key Ratios</b>								
Gross profit margin	21.2%	22.9%	22.3%	23.1%	29.3%	23.2%	31.7%	
Operating profit margin	-0.5%	0.6%	0.0%	0.2%	6.0%	3.2%	13.7%	
Net Margin	2.8%	3.3%	4.1%	9.1%	32.5%	41.3%	3.7%	
Return on Average Equity	3.9%	4.7%	6.2%	12.9%	46.9%			
Return on Average Asset	2.8%	3.1%	3.9%	7.8%	19.6%			
Debt/Equity (x)	0.25	0.22	0.37	0.35	0.44	0.48	0.45	

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Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials; Betting Gaming & Lotteries Commission Annual Reports

# 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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