



Jetcon Corporation Limited

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

Executive Summary

Jetcon saw its revenues exceed the billion dollar mark in 2017 as turnover amounted to \$1.18B, a 37.3% or \$319.54M increase on the \$857.04M reported in the 2016 financial year. Profit before taxation rose 49.1% to \$153.85M while net profit for the year was \$153.79M, up 145% year-over-year.

Positive growth is expected to continue into 2018 as Jetcon became the first occupant of Kingston Wharves' Global Logistic Centre which was commissioned in December 2017. Jetcon has stated its intent to target the export market for additional revenue opportunities as the company is in talks with suppliers in Japan to distribute pre-owned cars to Caribbean markets. This arrangement will allow the company to import a large shipment of cars into the logistics centre at once, and then distribute locally or regionally over time. Additional space was also acquired at Dumbarton Avenue to handle inventory overflow from the Sandringham Avenue complex.

As such, we are forecasting revenues of \$1.41B for the year-end with profits of \$173.45M, which correspond to an earnings per share of \$0.30. Our estimate of Jetcon's fair price is \$5.62 per share and is based on a range of estimates from \$2.84 to \$7.69. Based on our estimate of an intrinsic value of \$5.62, and a last traded price of \$4.10, which is 37.2% above our fair price, we recommend Jetcon as **OVERWEIGHT**.



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Company Background

Incorporated in 1994, Jetcon is a dealer in pre-owned motor vehicles. The Company specializes in Japanese imports with ages up to 6 years and provides related products, motor vehicle servicing and parts. Imports are funded by the Company's resources, which may be supported by loans if needed. The Company, formerly a privately owned limited liability entity, was listed on the Junior Market of the Jamaica Stock Exchange after an invitation to the public to subscribe for shares. Since the Initial Public Offer, the Company has financed imports mainly by internal funds. Imports are subject to licenses granted by the Government of Jamaica's Trade Board.

Financial Performance – Year ended December 31, 2017

Profitability

Jetcon's turnover amounted to \$1.18B, a 37.3% or \$319.54M increase on the \$857.04M reported in the 2016 financial year. This is Jetcon's first year exceeding \$1B in a single calendar year and the growth came despite lower than expected sales in December, which was due to delays in vehicles being cleared from the wharf, impeding customer deliveries. Cost of sales rose 35.7% to \$954.89M, which resulted in a gross profit of \$221.7M, a 44.7% increase year-over-year. The gross profit margin improved to 18.8%, up from 17.9% in 2016.

Operating expenses rose 36% to \$67.181M. Selling & marketing expenses surged 73.7% to \$22.71M while administrative & other expenses rose 22.5% to \$44.47M. Other income was up 24.8% to \$1.6M, resulting in operating profits of \$156.11M for the period. The operating profit margin moved from 12.3% in 2016, to 13.3% for the 2017 financial year. Earnings before interest, taxation, depreciation & amortisation amounted to \$157.8M, a 49.0% increase year-over-year, which corresponds to an EBITDA margin of 13.4%, an improvement on the margin of 12.4% for the previous year.

Finance costs were up 19.0% to \$2.27M. With an interest coverage ratio of 68.86x (2016: 55.15x), Jetcon's profitability was more than sufficient to cover the increase in debt servicing costs. Profit before taxation rose 49.1% to \$153.85M while taxation fell 98.6% to \$60.0K resulting in a net profit for the year of \$153.79M, up 145% year-over-year. The net profit margin rose to 13.1% from 11.5% in 2016. The return on equity amounted to 42.24%, down from 49.40% in the 2016FY while the return on assets stood at 35.3% for the year, down from 41.5% for the prior year.

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Solvency & Liquidity

Total assets as at December 31, 2017 amounted to \$538.97M, a 9.2% or \$205M increase, year-over-year, as inventories rose \$142.99M to \$393.82M at year-end. **Receivables rose 29.9% to \$59.19M, a lower growth rate than that of revenues, a positive indicator.** Property, plant & equipment amounted to \$68.72M, a 2.1% decline year-over-year. Cash & bank balances rose 83.8% to \$14.84M, as current assets totalled \$172.94M, a 12.7% increase year-on-year. Non-current assets amounted to \$68.77M, a 2.1% decrease year-over-year.

The cash ratio doubled to 0.16x as at Dec. 31, 2017, while the current ratio fell to 5.10x, compared to 7.61x as at Dec. 31, 2016. The cash conversion cycle rose to 115 days from 85 days in 2016 as the days inventory outstanding moved from 87 days to 123 days while days sales outstanding rose just 4 days to 15 days while days payable outstanding increased by 9 days to 23 days.

Total liabilities amounted to \$104.75M as at the close of 2017, up 168% or \$65.66M, year-over-year. This increase was driven by a \$50.79M increase in payables to \$85.7M while \$12.47M was reported in long-term liabilities. Shareholders' equity amounted to \$434.22M, up 47.7% or \$140.21M, as retained earnings rose 74.4% to \$328.65M.

Outlook

Jetcon reported a strong 2017 as revenues topped a billion dollars for the first time in the company's history, even as delays were encountered at the wharf, slowing sales in December. Positive growth is expected to continue into 2018 as Jetcon become the first occupant of Kingston Wharves' Global Logistic Centre which was commissioned in December 2017.

In a report by the Jamaica Gleaner in March 2018, Jetcon stated its intent to target the export market for additional revenue opportunities as the company is in talks with suppliers in Japan to distribute pre-owned cars to Caribbean markets. This arrangement will allow the company to import a large shipment of cars into the logistics centre at once, and then distribute locally or regionally over times. The company aims to quadruple its distribution to 400 cars per month through the export strategy, from the current output of 100 cars per month. Additional space was also acquired at Dumbarton Avenue to handle inventory overflow from the Sandringham Avenue complex.

As such, we are forecasting revenues of \$1.41B for the year-end with profits of \$173.45M, which correspond to an earnings per share (EPS) of \$0.30 (shares outstanding – 583,500,000).

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Shareholders' equity is forecasted to increase 36.3% to \$592.06M, a book value per share (BPS) of \$1.01. Jetcon's P/E ratio averaged 25.86x over the last 12 months while the P/B ratio averaged 7.28x. Applying these multiples to our EPS and BPS forecasts yielded prices of \$7.69 and 7.38. We utilized the Retail Sector price multiples average of 15.33x (P/E) and 2.80x (P/B) and yielded prices of \$4.56 and \$2.84. The average price of these estimates is \$5.62.

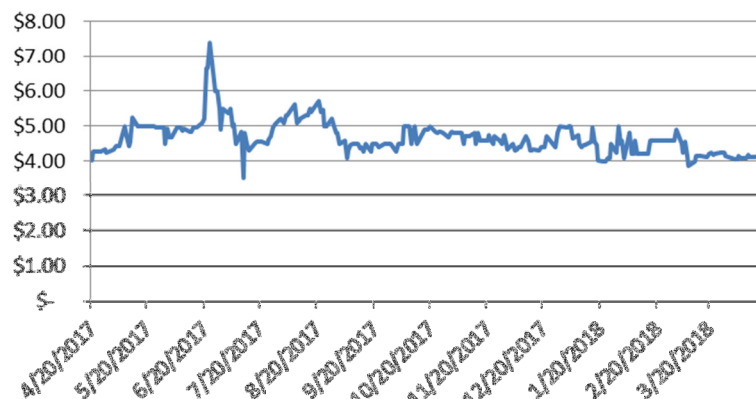
Peer Comparison – Junior Market Retail Sector

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Yield 2017
CAC	1,033,548,387	13.90x	2.46x	19.40%	7.70%	-
CPJ	5,500,000,000	14.07x	1.92x	14.30%	4.60%	-
DTL	2,052,753,863	8.13x	2.38x	35.30%	9.80%	-
FOSRICH	1,255,688,888	22.86x	2.06x	10.90%	4.50%	-
LASD	13,738,004,781	18.88x	3.06	17.50%	9.60%	1.20%
MDS	1,342,105,265	13.80x	2.14	16.80%	7.60%	1.00%
Sector Average	3,904,565,169	15.33x	2.80x	22.30%	11.30%	1.09%
JETCON	2,409,855,000	15.67x	5.55x	42.20%	35.30%	-

Recommendation

Based on our estimate of an intrinsic value of \$5.62 per share for Jetcon, and a last traded price of \$4.10, which is 37.2% above our fair price, we recommend Jetcon as **OVERWEIGHT**. Jetcon's share price has appreciated 5.5% over the past twelve (12) months and but is down 15%

Jetcon 1-yr Trade Performance



calendar year-to-date.

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While our view holds that fundamentally Jetcon is sound, backed by strong revenue & earnings growth, high returns on equity and assets positive cash flow generation and strong debt-servicing ability. Investors should also be mindful of the risks associated with Jetcon's business model. Jetcon is exposed to significant regulatory and foreign exchange risks as well as a highly competitive business space given the fragmented nature of the used car business.

Abridged Financials

J\$	Year Ended December 31					2016/17 % change
	2013	2014	2015	2016	2017	
Turnover	372,962,057	349,040,626	523,245,799	857,044,456	1,176,584,124	37.3%
Cost of Sales	317,688,358	295,814,263	435,647,929	703,856,068	954,887,165	35.7%
Gross Profit	55,273,699	53,226,363	87,597,870	153,188,388	221,696,959	44.7%
Operating Expenses	33,763,954	30,040,323	33,298,071	49,394,333	67,181,312	36.0%
Operating Profit	21,774,108	23,422,503	55,309,963	105,074,702	156,113,615	48.6%
Profit Before Taxation	16,317,705	12,898,409	50,612,200	103,169,495	153,846,485	49.1%
Profit for the year	12,114,035	10,466,373	40,349,411	98,987,289	153,786,485	55.4%
Total Assets	136,973,523	132,009,852	144,101,511	333,101,413	538,972,902	61.8%
Total Liabilities	83,520,893	65,655,382	37,397,774	39,086,940	104,751,511	168.0%
Shareholder's Equity	53,452,630	66,354,470	106,703,737	294,014,473	434,221,391	47.7%
EPS (\$)	0.02	0.02	0.07	0.17	0.26	
Book Value per Share (\$)	0.09	0.11	0.18	0.50	0.74	
Key Ratios						
Operating profit margin	5.8%	6.7%	10.6%	12.3%	13.3%	
Pre-tax Margin	4.4%	3.7%	9.7%	12.0%	13.1%	
Net Margin	3.2%	3.0%	7.7%	11.5%	13.1%	
Return on Average Equity	25.6%	17.5%	46.6%	49.4%	42.2%	
Return on Average Assets	9.5%	7.8%	29.2%	41.5%	35.3%	
Cash Ratio (x)	0.05	0.07	0.17	0.08	0.16	
Current Ratio (x)	1.70	2.20	3.38	7.61	5.10	
Debt/Equity (x)	0.77	0.35	0.11	0.01	0.04	
Net Debt/EBITDA (x)	0.72	0.30	0.06	(0.00)	0.01	
Cash flow from operations	(18,104,216)	19,706,480	16,867,846	(72,794,361)	38,248,894	

Source: <http://www.Jamstockex.com>, **JMMB Investment & Research**, **Bloomberg**, **Jetcon Prospectus**

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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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