

## Paramount Trading (Jamaica) Limited (PTL)

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

### Company Background

Paramount Trading (Jamaica) Limited is a private company limited by shares, incorporated in 1991 and domiciled in Jamaica. Effective, 31 December 2012, the Company's shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE). The principal activity of the Company is importation and distribution of chemicals and other related products. During the year ended 31 May 2010, the Company acquired a franchise with a recognized brand to manufacture chemicals on behalf of an international company. In addition, the Company also entered into arrangements with another international company to distribute "SIKA" branded hardware products. The products include anchoring adhesives and sealants principally distributed to the commercial hardware market.

### SWOT Analysis:

<b>Strength:</b> <ul style="list-style-type: none"> <li>• Strong Brand presence in Jamaica</li> <li>• Track record of growth and willingness to add new profitable ventures</li> <li>• Business expertise with over 20 years of experience</li> </ul>	<b>Weakness:</b> <ul style="list-style-type: none"> <li>• Currently, the company revenues are highly dependent on the local economy.</li> <li>• Operating expenses have been rising</li> <li>• Company faces key partner risk exposure ( that is, Mr. Hugh Graham)</li> </ul>
<b>Opportunity:</b> <ul style="list-style-type: none"> <li>• Expand into other Caribbean territories.</li> <li>• Expand product and service offerings (such as environment protection and food-grade products)</li> </ul>	<b>Threat:</b> <ul style="list-style-type: none"> <li>• Slow economic growth could hinder revenues</li> <li>• Increased competition from new entrants could also adversely affect revenues</li> <li>• Macro-economic instability - volatility in FX rate, inflation, interest rate etc.</li> </ul>

## Paramount Trading (Jamaica) Limited (PTL)

### Abridged Financials:

US\$ Million	Year Ended May										9 Months Ended February		Change %
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2017	2018	
Revenue	280.73	352.75	413.46	513.35	613.81	642.13	709.04	869.46	1,024.35	1,155.87	835.75	1,035.26	23.9%
Manufacturing Costs	212.61	278.20	317.66	342.23	414.24	445.54	479.69	589.67	688.56	801.83	579.40	734.82	26.8%
<b>Gross Profit</b>	<b>68.13</b>	<b>74.55</b>	<b>95.80</b>	<b>171.12</b>	<b>199.57</b>	<b>196.59</b>	<b>229.35</b>	<b>279.79</b>	<b>335.79</b>	<b>354.04</b>	<b>256.35</b>	<b>300.44</b>	<b>17.2%</b>
Other Operating Income	0.70	0.02	0.14	2.01	14.18	40.55	10.63	16.37	38.82	11.67	10.555	4.20	-60.2%
<b>Total Operating Income</b>	<b>68.83</b>	<b>74.57</b>	<b>95.94</b>	<b>173.13</b>	<b>213.74</b>	<b>237.14</b>	<b>239.97</b>	<b>296.15</b>	<b>374.62</b>	<b>365.71</b>	<b>266.91</b>	<b>304.64</b>	<b>14.1%</b>
<b>Operating Expenses</b>	<b>55.47</b>	<b>56.83</b>	<b>59.57</b>	<b>93.42</b>	<b>113.73</b>	<b>129.77</b>	<b>125.63</b>	<b>144.85</b>	<b>193.81</b>	<b>255.07</b>	<b>178.51</b>	<b>235.11</b>	<b>31.7%</b>
Administrative	48.23	49.40	53.21	74.16	98.32	125.64	120.45	138.46	180.97	220.28	151.47	215.53	42.3%
Selling & Distribution	1.91	4.32	2.30	5.33	2.61	4.13	5.19	6.38	12.84	34.79	27.04	19.58	-27.6%
Depreciation	5.33	3.11	4.05	13.93	12.80								
<b>Operating Profit</b>	<b>13.36</b>	<b>17.75</b>	<b>36.36</b>	<b>79.71</b>	<b>100.02</b>	<b>107.37</b>	<b>114.34</b>	<b>151.31</b>	<b>180.80</b>	<b>110.64</b>	<b>88.40</b>	<b>69.53</b>	<b>-21.3%</b>
Interest Expense	8.32	9.67	15.18	14.32	15.89	23.83	21.38	(5.28)	(7.76)	(9.64)	(7.29)	(3.05)	-58.2%
Profit Before Taxation	5.04	8.07	21.18	65.39	84.13	83.54	92.96	146.02	173.04	101.00	81.11	66.48	-18.0%
<b>Profit for the year</b>	<b>2.15</b>	<b>4.96</b>	<b>13.28</b>	<b>44.23</b>	<b>53.37</b>	<b>73.35</b>	<b>93.39</b>	<b>146.02</b>	<b>173.04</b>	<b>101.00</b>	<b>81.11</b>	<b>66.48</b>	<b>-18.0%</b>
other comprehensive Income													
<b>Total Comprehensive Income</b>	<b>2.15</b>	<b>4.96</b>	<b>13.28</b>	<b>44.23</b>	<b>53.37</b>	<b>73.35</b>	<b>93.39</b>	<b>146.02</b>	<b>173.04</b>	<b>101.00</b>	<b>81.11</b>	<b>66.48</b>	<b>-18.0%</b>
Total Assets	131.65	167.47	197.29	378.06	384.93	465.83	524.99	614.51	859.69	1,021.27	865.60	1,161.28	34.2%
Total Liabilities	115.45	146.31	162.86	299.40	252.89	193.23	179.83	146.62	278.91	339.49	203.71	413.02	102.7%
Shareholder's Equity	16.19	21.15	34.44	78.66	132.04	272.59	345.16	467.89	580.78	681.78	661.89	748.26	13.0%
EPS (\$)	0.00	0.00	0.01	0.03	0.03	0.05	0.06	0.09	0.11	0.07	0.05	0.04	
Book Value per Share (\$)	0.01	0.01	0.02	0.05	0.09	0.18	0.22	0.30	0.38	0.44	0.43	0.49	
<b>Key Ratios</b>													
Net Margin	3%	7%	14%	26%	25%	31%	39%	49%	46%	28%	30.4%	21.8%	
Pre-tax Margin	7%	11%	22%	38%	39%	35%	39%	49%	46%	28%	30.4%	21.8%	
P/E Ratio	n/a	n/a	n/a	n/a	n/a	n/a	4.43	4.01	10	47.34	72.07	76.56	
Price / Book Value	n/a	n/a	n/a	n/a	n/a	n/a	1.20	1.25	3	7.01	8.83	6.80	
Return on Average Equity		27%	48%	78%	51%	36%	30%	36%	33%	16%	12.25%	9.43%	
Efficiency Ratio	81%	76%	62%	54%	53%	55%	52%	49%	52%	70%	66.88%	77.18%	

Source: [www.jamstockex.com](http://www.jamstockex.com), JMMBIR

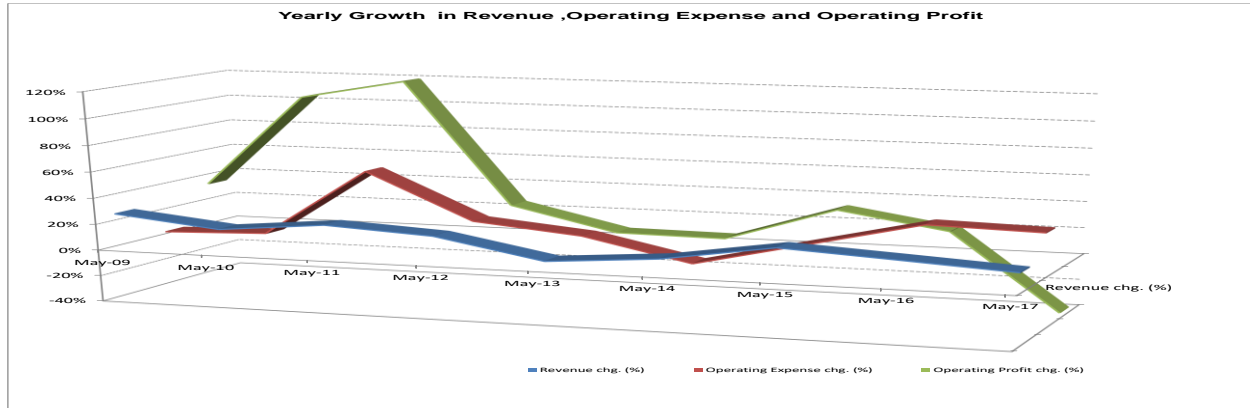
### Financial Overview

Paramount Trading (Jamaica) Limited reported net earnings of \$66.48M for the 9 months ended February 2018, a 18.0% decrease compared to net earnings of \$81.11M for the same period in the previous year. Revenue increased by 23.9% to \$1,035.26M for the period ended February 2017. Despite a 26.8% increase in manufacturing costs, gross profit rose 17.2% to \$300.44M for the review period. Operating expenses moved from \$266.91M to \$304.64M, mainly on account of a 31.7% increase administrative expenses associated with staff costs.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

## Paramount Trading (Jamaica) Limited (PTL)

**Graph 1: Yearly growth in revenue, operating expense and operating profit**

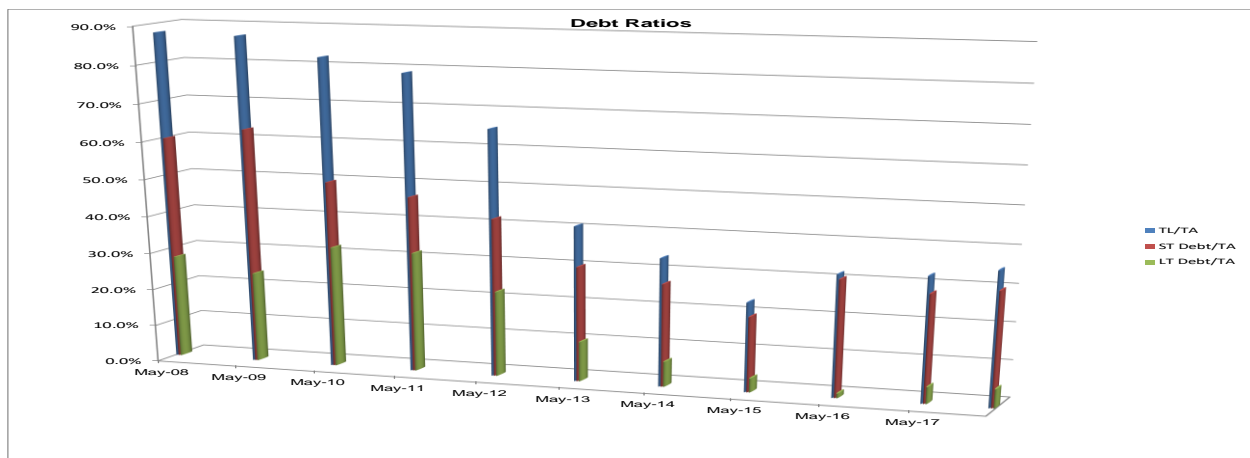


Source: [www.jamstockex.com](http://www.jamstockex.com), JMMBIR

The company experienced a high growth period before 2012. Since then the growth in revenue has averaged 13.7% and the operating expenses grew at an average rate of 18.3%. Consequently, the rate of growth in operating profit has normalized to an average rate of 5.4% over the 5 year period ended May 2017 (see Graph 1).

On a comparable basis, the asset base of the company increased by 34.2% to close at \$1,161.28M as at February 2018. The increase in the asset base stemmed from increases in Property, plant and equipment, inventories, receivables and cash balance. Meanwhile, total liabilities moved from \$203.71M last year to \$413.02M on account of an increase in payables and borrowings during the review period. From this viewpoint, the shareholders’ equity rose 13% to \$748.26M as at February 2018.

**Graph 2: Debt Ratios**



Source: [www.jamstockex.com](http://www.jamstockex.com), JMMBIR

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst’s judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

## Paramount Trading (Jamaica) Limited (PTL)

There has been a general reduction in the leverage ratios of the company from May 2008 to May 2015. On the other hand, there has been a slight uptick since financial year 2016. This uptick was influenced by an increase in payables and borrowing during the review period.

**Table 2: Ratio Analysis**

		May-12	May-13	May-14	May-15	May-16	May-17
Debt Ratios	Total Debt/EBIT	2.53	1.80	1.57	0.97	1.54	3.07
	Net Debt/EBIT	2.45	1.24	1.09	0.68	1.10	2.62
	Equity/Total Assets	0.34	0.59	0.66	0.76	0.68	0.67
	Long-Term Debt/Equity	0.67	0.18	0.10	0.05	0.02	0.07
	Long-Term debt/Total Assets	0.23	0.11	0.07	0.04	0.01	0.05
	Total Debt/Equity	1.92	0.71	0.52	0.31	0.48	0.50
	Total Debt/Total Assets	0.66	0.41	0.34	0.24	0.32	0.33
	Net Debt/Equity	1.86	0.49	0.36	0.22	0.34	0.43
Liquidity	Current Ratio	1.79	2.64	2.99	3.80	2.52	2.46
	CFO/Total Liabilities	0.02	0.16	0.29	0.61	0.58	0.17
	CFO/CapEx	0.31	7.59	3.31	5.60	4.08	0.46
	Acid test	0.73	1.44	1.58	1.54	1.27	1.21
	Net Operating Accruals/TA	0.13	0.09	0.08	0.09	0.01	0.04
	Finance and Policy costs/ Free Cash Flow	-1.41	0.87	1.33	-0.11	-0.13	0.14
Profitability	Return on Equity	40%	27%	27%	31%	30%	15%
	Net Profit Margin	9%	11%	13%	17%	17%	9%
	Revenue/Total Assets	159%	138%	135%	141%	119%	113%
	Operating Margin	16%	17%	16%	17%	18%	10%
	Operating Efficiency Ratio	19%	20%	18%	17%	19%	22%
Working Capital	Inventory Outstanding	152	141	154	172	178	167
	Sales Outstanding	87	83	89	62	92	96
	Payable Outstanding	124	100	97	68	138	128
	Cash Cycle	115	124	146	166	132	135

The financial ratios above suggest that the company has increased its indebtedness. Meanwhile, liquidity ratios have shown some slight deterioration. Meanwhile, the company was able to maintain its profitability for the period 2012 to 2016 but dipped in 2017. Within the context of these developments, the cash cycle showed a slight deterioration in 2017 despite lower payable days outstanding.

### Forecast and Valuation

PTL has expanded its operations by offering chlorine and bleach products for contract manufacturing. The Company has advised that on 26 October 2017 it entered into an Asset Sale Agreement to acquire bleach plant equipment and other assets from Seprod for its new chlorine and bleach operations. Further, the lubricants business line produced strong sales in the third quarter of 2018 and this trend is expected to continue in the near term. Notwithstanding, gross profit margins will remain challenged amidst increase in competition. Within this context, the net earnings for 2019 financial year end are expected to reach \$100M (or EPS of \$0.06). The average trailing price-to-earnings ratio for the Junior Market is approximately 22.37 times. Further, the average trailing price-to-earnings ratio for manufacturers (excluding the outliers) listed on the Junior Market is roughly 22.67 times.

## Paramount Trading (Jamaica) Limited (PTL)

Currently, PTL is trading with a price-to-earnings ratio of 44.41 times. Therefore, assuming a forward P/E ratio of 26.67 times for the 2019 financial year; the intrinsic value for Paramount Trading (Jamaica) Limited's share based on estimated earnings is approximately \$1.73. The capital base of the company is expected to improve to \$838.05M or a book value per share of \$0.54 by 2019 financial year end. Assuming a forward P/BV of 3.31 times, the intrinsic value of stock is \$1.80.

Table 3: Dividend Discounted Model		Table 4: Discounted Free Cash Flow	
<b>Dividend Discount Model</b>		<b>Discounted free cashflow method</b>	
dividend per share	0.02	present value of terminal value	2,422
value of stock	2.01	present value of forecasted period	0
		number of shares (in million)	1,542
		value per share	1.61

**Table 5: Junior Market Manufacturing Sector**

Manufacturing	His. P/E		Price to Book	Return on Assets	Return on Equity
	Last 4 Qtrs				
AMG	36.52	2.08	4.1%	6.0%	
BPOW	24.72	3.21	12.4%	13.8%	
CFF	11.91	2.63	22.2%	24.1%	
HONBUN	26.24	3.82	12.0%	15.4%	
JAMT	18.02	3.25	19.2%	19.6%	
KREMI	21.20	3.55	13.9%	17.9%	
LASM	30.30	3.38	6.9%	11.6%	
<b>PTL</b>	<b>44.41</b>	<b>6.43</b>	<b>11.4%</b>	<b>15.6%</b>	
<b>Average</b>	<b>26.67</b>	<b>3.54</b>	<b>12.8%</b>	<b>15.5%</b>	

From table 5 above it is clear PTL is overpriced relative to its peers while not experiencing the highest level of profitability. From such comparison, investors seeking exposure within the Junior Market manufacturing sector could invest in other companies to achieve greater value for money.

## Paramount Trading (Jamaica) Limited (PTL)

### Recommendation:

Paramount Trading (Jamaica) Limited is overvalued at \$3.00 as evidenced by the average price of \$1.79 associated with the use of the price multiple valuations (that is, P/E and P/BV), the dividend discount model and discounted cash flow method. The company has embarked on a strategic path to add new product offerings, especially in its lubricants and bleach business lines. Notwithstanding, PTL will continue to face challenges from increased competition which will impact its profit margins in the near term. The company will continue to benefit from the tax break associated with listing on the Junior Stock Exchange. Taking all the above factors into consideration, the company may be unwilling to disperse a healthy dividend over the near term. The company may return to a healthy dividend policy should the business return to past profitability levels. Against this background, this stock is recommended as underweight 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**.

**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.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

## Paramount Trading (Jamaica) Limited (PTL)

**OVERWEIGHT/BUY**—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

### ***COPYRIGHT INFRINGEMENT***

“Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money Market Brokers Limited or its affiliates (JMMB) and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide Web, or over any network, or local area network or otherwise) without written permission from JMMB.

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB. Thank you for respecting our intellectual property rights.”

*The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.*

### ***Disclosure Under The Securities Act***

*This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.*

*As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.*

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst’s judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.