Your Best Interest At Heart. Full Stop.

Stationery Office & Supplies Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Stationery Office & Supplies Limited (SOS) began trading as a purveyor of office supplies and stationery items and has since expand its business to include the sale of modular office furniture, partitions, metal products, chairs, cabinets and shelving. SOS' reported revenues of $906.5M for the 2017FY, a 29.1% or $204.4M increase over the prior year's result. The company attributed increased economic activity to this performance and noted that its Torch and Image branded lines of furniture saw a 60% increase in sales. SOS' net profit for 2017 stood at $83.0M, up $36.4M or 78.1% from the $46.6M reported for 2016. The net profit margin stood at 9.2%, up from 6.6% for the previous year.

We recommend Stationery Office & Supplies Limited as a HOLD as while we maintain a positive outlook on the Company, its shares are trading above our estimate of its fair price and we would advise investors who participated in the IPO to realize some of their gains.

Company Overview

Founded in 1965, Stationery Office & Supplies Limited (SOS) has expanded from its core business of office supplies and stationery items to include modular office furniture, partitions, metal products, chairs, cabinets and shelving. SOS carries international brands of office furniture (Fursys & Boss) for which they are the sole local distributors. In 2011, they introduced the proprietary brand, "Image", and launched a second brand, "Torch", in 2012. Over the past few years, the Company added commercial shredding to its suite of services offered to the general public. The shredding facility meets international best practice standards and has the capacity to shred up to 10,000lbs of paper per day as well as the destruction of tapes, hard drives and compact discs.

Financial Performance – Year ended Dec. 31, 2017

Profitability

SOS' reported revenues of $906.5M for the financial year ended Dec. 31, 2017, a 29.1% or $204.4M increase over the prior year's result. The company attributed increased economic activity to this performance and noted that its Torch and Image branded lines of furniture saw a 60% increase in sales.

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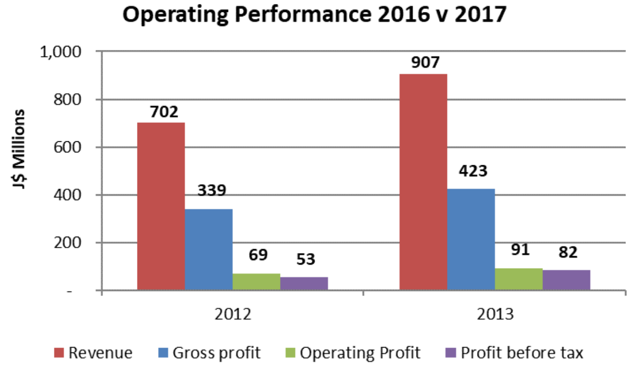

Cost of sales grew by 33.0% to $483.5M, resulting in a gross profit of $423.0M for the year. The gross profit margin saw a decline to 46.7%, from 48.2% in 2016. Other income fell 39.9% to $97.99M.

Operating profits for 2017 amounted to $91.2M, up 32.3% year-over-year. The operating profit margin improved to 10.1%, from 9.8% a year prior. The growth in operating profit was driven by the increase in gross profits which offset a rise in operational expenses. Administrative & general expenses rose 22.4% to $236.6M while selling & promotional costs climbed 21.9% to $72.3M. Depreciation amounted to $22.3M, a 40.0% increase year-over-year. Bad debt expense fell 43% to $715K. Earnings before interest, tax, depreciation & amortization (EBITDA) closed 2017 at $113.5M, up 33.7% from the 2016 result. The EBITDA margin edged up to 12.5% from 12.1% a year earlier.

Pre-tax profits amounted to $82.3M for the year, up 54.8%. Finance income rose 85.5% to $420.4K while finance costs fell 14.9% to $9.5M. During the year, the company retired a short-term loan of $5M and secured new loans at lower rates. The company also reported a gain on foreign exchange of $208.0K, a reversal of the loss of $4.9M a year prior. The pretax profit margin was 9.1% for the year, which compares to 7.6% in 2016.

SOS' net profit for 2017 stood at $83.0M, up $36.4M or 78.1% from the $46.6M reported for 2016. The net profit margin stood at 9.2%, up from 6.6% for the previous year. As expected, SOS saw a decline in return on equity following its IPO. ROE for the year was 25.3%, down from 28.1% a year prior. The return on assets stood at 14.6%, up from 11.9% for 2016.

Liquidity & Solvency

Total assets as at Dec.31, 2017 amounted to $655.2M, a 35.2% or $170.5M increase on the balance as at Dec. 31, 2016. Property, plant & equipment amounted to $322.5M, 30.8% or $75.9M greater than the balance at the start of the year. During the year, the company expanded its Beechwood Avenue office and warehouse space from 35,000 sq. ft. to 55,000 sq. ft. following the acquisition of an adjoining lot. The acquisition also allows the flexibility to add another 20,000 sq. ft. of space. The property was acquired for $68M while another $20M was spent to acquire motor vehicles.

Inventories grew by 33.6% year-over-year to $158.7M while trade and other receivable rose by 49.3% to $130.7M. Bank & cash amounted to $8.3M, a 60.0% increase year-over-year. The cash ratio improved to 0.07x in 2017, from 0.04x as at Dec. 2016. The current ratio ended the year at 2.69x, up from 1.84x as at Dec. 2016.

SOS saw a slight increase in the time it takes to generate a sale and receive payment as the cash conversion cycle increased to 87 days, up from 83 days in 2016. This was driven by a decrease in the days-payables outstanding from 71 days to 62 days, partially offset by the decrease in days-inventory outstanding from 113 days to 105 days. Days-sales outstanding rose by 3 days to 44 days.

Total liabilities amounted to $241.4M, down 0.3% or $650.8K from the prior year. Total debt amounted to $140.4M, a 7.5% increase year-over-year. Short-term debt fell 9.9% to $35.9M while long-term debt rose 15.2% to $104.4M. Trade and other payables rose 7.5% to $85.1M. Equity rose by 70.5% to $413.8M due to a 63.7% or $83.0M increase in retained profits to $213.2M and a $88.1M increase in share capital following the success of the IPO.

As such, SOS' leverage fell significantly as the debt-to-equity ratio declined to 0.34x, from 0.54x as at 2016. Net debt/EBITDA fell to 1.16x, compared to 1.48x a year prior. With an interest coverage ratio of 9.62x for the year, up from 6.19x in 2016, SOS is able to comfortable cover its debt obligations.

Outlook & Valuation

Following a successful IPO, SOS has reported strong financial performance as discussed above. This growth continued into the current financial year as net profit rose 82% to $44.5M for the quarter ended Mar. 30, 2018, on revenues of $279.2M, which were up 27% year-over-year. ***The Company also reported that 1Q18 was its best month for revenues in its 50-year history and that sales in March were the highest ever for any single month.***

We anticipate growth to continue in this vein for the remainder of the financial year as the company has expanded warehouse space which should improve inventory turnover and also announced that it had acquired the manufacturing assets of Book Empire Limited and the Seek brand in April

2018. The acquisition positions SOS in the light manufacturing space, allowing the company to cease the outsourcing of the production of some its paper products which now can be produced in house and expands the owned product line. The Company noted in its 2017 annual report that it had signed agreements with distributors to make its "first major push into the wider Caribbean region" which should be a benefit to the company as it diversifies its revenue stream geographically.

We are forecasting revenues of $1.11B for the year ended Dec. 2018, a 22.9% increase year-over-year and net profits of $106.2M, a 28.7% increase from the prior year. This translates to an earnings per share of $0.42. Equity is expected to rise to $306.8M or $1.23 per share. Applying the historical P/E ratio of 16.66x for SOS since listing to the forward EPS of $0.42 yields a price of $7.07. The peer average for the retail sector on the Junior Market is 18.45x, which when applied to the forward EPS yields a price of $7.83. The average of these two estimates is $7.45, 12.3% below the last traded price of $8.50 as at July 25, 2018.

Junior Market -Retail Sector

SYMBOL	Mar. Cap.	Close Price July 25, 2018	TTM EPS	P/E ratio	BVPS	P/B ratio	ROA	ROE
CAC	1,161,290,322	9.00	0.80	11.30	3.69	2.44	10.4%	24.2%
CPJ	6,050,000,000	5.50	0.34	15.96	2.72	2.02	5.1%	13.2%
DTL	5,740,057,407	21.00	1.09	19.26	3.82	5.50	14.4%	30.9%
EFRESH	1,560,000,000	2.00	0.05	41.82	0.31	6.42	8.0%	16.6%
FOSRICH	1,336,052,976	2.66	0.14	18.93	1.27	2.09	5.3%	13.4%
JETCON	2,392,350,000	4.10	0.28	14.84	0.82	5.00	36.5%	40.5%
LASD	13,434,215,977	3.98	0.30	13.38	1.35	2.94	12.6%	23.3%
MDS	1,328,947,370	5.05	0.42	12.13	2.56	1.97	8.2%	17.7%
SOS	**2,126,024,250**	**8.50**	**0.41**	**20.65**	**1.83**	**4.64**	**17.5%**	**28.4%**
Sector Average	**35,128,938,302**			**18.45**		**3.55**	**12.6%**	**22.5%**

Recommendation

We recommend Stationery Office & Supplies Limited as a HOLD as while we maintain a positive outlook on the Company, its shares are trading above our estimate of its fair price and would advise investors who participated in the IPO to realize some of their gains. The shares were offered at a price of $2.00 at IPO and the current price of $8.50 translates to an appreciation of 325% since August 2017. The Company remains positioned to capitalize on the current positive economic environment and have initiated plans to expand their capacity and line of products. SOS is suitable for shareholders with a medium risk appetite and investment horizon.

Stationery Office & Supplies Limited

Abridged Financials

J$	Year Ended December 31					Y-o-Y	3M ended March	
	2013	2014	2015	2016	2017	% change	2017	2018
Revenues	**522,690,006**	**549,606,434**	**626,580,325**	**702,070,851**	**906,505,818**	**12.0%**	**220,182,391**	**279,178,802**
Operating Expenses	192,059,202	197,923,720	224,973,878	243,318,435	269,888,990	8.2%	76,055,102	93,474,613
Operating Profit	**23,635,330**	**19,958,589**	**25,411,792**	**68,942,327**	**91,197,233**	**171.3%**	**32,588,473**	**45,398,423**
Profit Before Taxation	9,914,354	7,985,153	14,006,514	53,153,078	82,281,578	279.5%	30,111,496	44,543,539
Profit for the year	**7,252,961**	**5,848,614**	**7,106,510**	**46,586,193**	**82,966,445**	**555.5%**	**24,505,480**	**44,493,539**
Total Assets	**236,442,390**	**268,977,918**	**298,647,898**	**484,741,011**	**655,203,852**	**62.3%**	**497,910,178**	**676,137,897**
Total Liabilities	**160,716,769**	**187,403,683**	**209,967,153**	**242,099,988**	**241,449,170**	**15.3%**	**230,763,675**	**217,899,676**
Shareholder's Equity	**75,725,621**	**81,574,235**	**88,680,745**	**242,641,023**	**413,754,682**	**173.6%**	**267,146,503**	**458,238,221**
EPS ($)	0.03	0.02	0.03	0.19	0.33		0.10	0.18
Book Value per Share ($)	0.30	0.33	0.35	0.97	1.65		1.07	1.83
Key Ratios								
Gross profit margin	42.1%	44.5%	42.9%	48.2%	46.7%		49.3%	49.5%
Operating profit margin	4.5%	3.6%	4.1%	9.8%	10.1%		14.8%	16.3%
Net profit margin	1.4%	1.1%	1.1%	6.6%	9.2%		11.1%	15.9%
Return on Average Equity	10.1%	7.4%	8.3%	28.1%	25.3%			
Return on Average Assets	3.1%	2.3%	2.5%	11.9%	14.6%			
Debt/Equity (x)	1.30	1.30	1.51	0.54	0.34		0.47	0.32

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, IPO Prospectus

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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