Your Best Interest At Heart. Full Stop.

Wisynco Group Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. Wisynco owns, manufactures and distributes a portfolio of beverage brands which include *WATA* and *BIGGA Soft Drink* and also owns and manufactures the *SWEET* brand range of plastic and foam disposable lunch boxes, plates and cups. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands *SqueezZ* and *Hawaiian Punch*. The Company also distributes *Red Bull, Tru Juice Freshhh, Welch's, Mott's* and *Snapple. The beverage portfolio is complimented by a range of grocery products from international brands such as Kellogg's, General Mills, Hershey Company, Butterball, Herr's, and Nestlé, as well as local brands* such as *Kremi.*

Using relative value valuation models our average estimate of the fair price is $12.79, with a range of $12.61 to $12.95. As such, we recommend Wisynco as a BUY as we believe the stock is priced below its intrinsic value and hold a favourable view of the Company's short to medium term outlook.

Company Overview

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. The parent company is Wisynco Group (Caribbean) Limited, a Barbadian International Business Company (IBC) while the ultimate controlling party is Evesam Investment Holdings Limited, a company incorporated in and resident of the Cayman Islands.

The Company affected a Scheme of Reconstruction on October 30, 2016 which resulted in the retention of its core businesses by transferring three non-core entities to the ultimate parent company. The interests transferred were Wisynco Foods (the company which controls the Wendy's and Domino's brands), Seville Development Corp (a land holding company with no other operations) and Fusion Holdings Limited (parent company of Trade Winds Citrus and United Estates Limited).

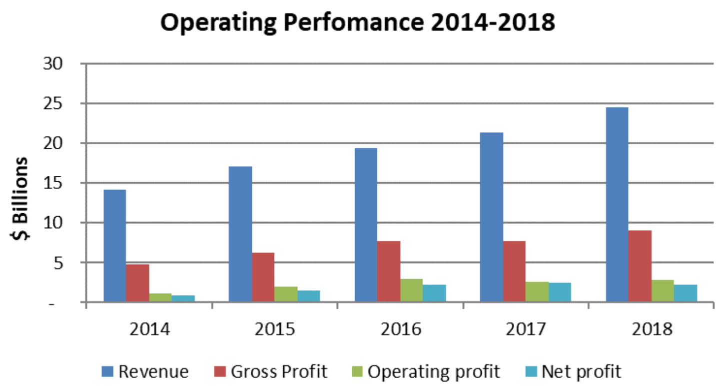
Wisynco owns, manufactures and distributes a portfolio of beverage brands which include: *WATA, cranberry-flavoured WATA, BOOM Energy Drink* and *BIGGA Soft Drink.* The Company also owns and manufactures the *SWEET* brand range of plastic and foam disposable lunch boxes, plates and cups. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands *SqueezZ* and *Hawaiian Punch*. The Company also distributes *Red Bull, Tru Juice Freshhh, Welch's, Mott's* and *Snapple.*

The beverage portfolio is complimented by a range of grocery products from international brands such as *Kellogg's, General Mills, Hershey Company, Butterball, Herr's*, and *Nestlé*, as well as local brands such as *Kremi.*

Financial Overview – Year ended June 30, 2018

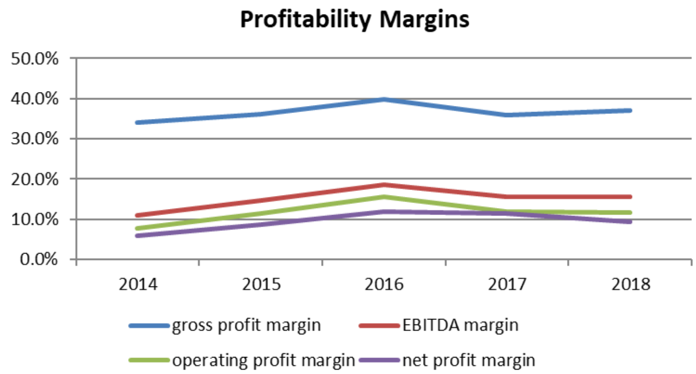
Profitability

Wisynco reported revenues of $24.54B for the year ended June 2018, a 14.8% or $3.16B increase on the previous year's result. The company recorded double-digit sales growth in all four quarters of the financial year, showing strong recovery from the impact of the May 2016 fire which destroyed its main distribution facility. Business interruption stemming from the fire was estimated at a cost of $117.82M in the 2017FY. Cost of goods sold rose by 12.5% year-over-year, resulting in a 18.8% increase in gross profits to $9.12B. The gross profit margin improved as it stood at 37.2% for the 2018FY, up from 35.9% in the prior year. Other income fell by 87.6% to $92.16M as the company recorded net insurance proceeds of $597.67M in the previous year.



Operating expenses as a percentage of revenues declined from 27.4% in the 2017FY to 26.0% in the 2018FY. Selling & Distribution expenses rose 8.8% to $5.41B while administrative expenses rose 7.3% to $956.68M. As such, operating profits rose 11.5% to $2.85B. The non-recurrence of the proceeds received from the fire insurance claim led to a fall in the operating profit margin from 11.9% to 11.6%. EBITDA amounted to $6.37B, up 15.1% from the prior year's result while the EBITDA margin was relatively unchanged, up 0.1 percentage points.

Finance costs rose 24.5% to $211.41M while finance income declined by 18.2% to $130.84M. This led to pre-tax profits of $2.77B, up 8.8% or $223.27M. Taxes of $513.83M were recorded for the year, a 79.5% increase on the previous year's figure resulting in an increase in the effective tax rate to 18.6% (2017FY: 11.3%).



Net profit attributable to shareholders for the 2018FY amounted to $2.29B, a 6.3% decline from the 2017FY. This was driven by the increase in taxation and a 78.2% fall in profit from discontinued operations from $190.85M to $41.56M. The net profit margin moved from 11.4% to 9.3% in the 2018FY. Normalized earnings for the 2017FY – net profit adjusted for the insurance proceeds and business interruption – was $1.97B which translates to a 16.6% increase in profits for the 2018FY. Return on assets amounted to 15.3%, down from 17.7% in the previous year while return on equity fell from 38.4% to 34.4%.

Solvency & Liquidity

Wisynco reported total assets of $15.66B for the year ended June 2018, a 14.3% or $1.96B increase over the previous year. This increase was mainly driven by a 29.2% or $1.51B increase in property, plant & equipment to $6.69B, partially offset by the write off of $664.85M in investments in associates. The company spent $2.59B on the purchase of property, plant and equipment during the financial year. Inventory increased by 12.3% to $2.2B while receivables & prepayments amounted to $2.3B, a 20.5% increase year-over-year.

Cash and short-term deposits rose 17.6% to $3.98B. Net cash from operating activities rose 68.2% to $3.3B while $2.51B in cash was spent on investing activities, consisting primarily of $2.6B in capital expenditure partially offset by $68.49M in interest income. Wisynco spent $182.58M net of financing activities, paying a dividend of $1.3B, repaying loans to the tune of $533.97M and interest of $165.36M, partially offset by the $1.13B raised in the IPO and $725.0M in long-term loans received. The cash conversion cycle for 2018 was -2 days, down from -3 days in 2017. A negative cash conversion cycle indicates that Wisynco sold inventory and collected receivables faster than it paid its creditors.

Wisynco's total liabilities amounted to $6.97B, an increase of 13.5% or $831.14M from the previous year. Of these liabilities, total debt amounted to $2.55B, a 0.3% decline year-over-year. Short-term debt fell 13% to $376.69M and amounts due to parent company of $259.75M were written off. On the other hand, long-term debt increased by 16.5% to $2.17B. Trade and other payables amounted to $3.8B, up 19.2% from a year earlier.

Shareholders' equity rose 15% to $8.69B driven by the $1.13B increase in share capital from the IPO proceeds as retained earnings fell 0.4% to $7.35B. As such, leverage as represented by the debt-to-equity ratio improved to 0.29x, down from 0.34x a year prior. Wisynco's ability to services it debt remains strong with an interest coverage ratio of 13.98x, down from 15.09x in the previous financial year.

Outlook & Valuation

Wisynco enjoyed favourable results during the year and made moves to continue this growth in the current financial year. The company spent $2.6B on capital expenditure, of which, $1.5B represented Wisynco's largest capital investment in production equipment since inception. The additional productive capacity is to be commissioned in the first quarter of the 2019 financial year while work on the company's new cold storage facilities is expected to be completed by August 2018. Wisynco expects an improvement in efficiency and reduced costs as a result of these initiatives. The company also annouced that it had begun distribution of the Unilever portfolio of food products throughtout Jamaica, which includes brands such as: Red Rose Tea; Lipton Tea; Knorr; Ben & Jerry's; Breyers Ice Cream; Hellman's; Blue Band; Flora; Country Crock; and I Can't Believe It's Not Butter.

The performance of the Jamaican dollar remains a concern to the company as the recent depreciation led to the company taking back a price reduction a few months after it was announced. In January 2018, Wisynco announced a 3% price reduction for the majority of its imported portfolio, driven by the revaluation of the Jamaican Dollar versus the US Dollar. This move, however, was shortlived as the company announced a 3% increase effective July 2, 2018, due to the subsequent depreciation of the Jamaican Dollar.

In our IPO piece we had raised concerns about the recent discussions in the public domain around the topics of plastic & styrofoam use and disposal and their impact on the environment given Wisynco's position as a major manufacturor and distributor of such goods. Wisynco appears to be cognisant of the public's perception of its role in the proliferation of plastic garbage in Jamaica and launched the Wisynco Eco Corporate Recycle Challenge in the fourth quarter, where over 264,000 bottles were collected from 5 corporate entities. The company also completed the Eco Club recycling competition which included 33 schools and saw 1.3 million plastic bottles being collected and recycled.

The company noted that the Jamaica Manufacturers and Exporters Association, of which Wisynco is a member, has submitted a proposal for a national deposit refund scheme to the Government for their review and consideration. By taking a proactive approach to managing the plastic disposal issue, Wisynco positions itself as a corporate entity with social and evironmental awareness, a positive for investors

Wisynco is also contending with media campaigns promoting lower sugar consumption as a step to curb heavy sugar diet-related conditions such as diabetes. In April, the company filed a defamation claim against the Heart Foundation of Jamaica for a series of ads which they believed presented false and misleading information in relation to its brands, particulary CranWata. The suit was dropped a few weeks later after the Heart Foundation admitted that it had "inadvertently and unintentionally" included the CranWata brand in a post related to their campaign and had removed accessibility to the post on the internet.

The saga highlights the waters the company must navigate as attempts to grow in a shifting climate towards not just plastic use but sugar consumption. The company claims to manufacture and distribute the widest range of zero and low sugar beverage products in the market and stated that it is working on additional low sugar and healthier alternatives.

Valuation

We are forecasting revenues of $28.05B for the year ended June 30, 2019, a 14.3% increase year-over-year. Net profits are expected to improve by 21.5% to $2.79B ,which represents earnings per share of $0.74 (no. of share - 3,750,000,000). ***We are forecasting a forward book value of $10.08B as at June 30, 2018 which translates to a book value per share of $2.69.***

We employed the price-multiples approach to determine the fair price for Wisynco. ***The historical average for the P/E ratio is 17.44x, which when applied to the forward EPS of $0.74 yields a price of $12.95. The historical average for the P/B ratio is 4.76x, when when applied to the forward BVPS yields a price of $12.79.***

Main Market Manufacturing Peer Group

SYMBOL	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets
BRG	4,059,266,123	34.03	3.96	11.8%	7.4%
CCC	38,113,896,545	34.99	3.81	11.6%	5.7%
JBG	27,595,349,964	14.07	2.19	14.5%	6.7%
SALF	1,740,045,108	12.31	2.08	17.4%	13.7%
SEP	18,600,653,006	21.30	1.76	8.4%	4.5%
Wisynco	**34,837,500,000**	**15.17**	**4.01**	**28.3%**	**15.7%**
Average	**20,824,451,791**	**21.98**	**2.97**	**15.3%**	**8.9%**

The enterprise value-to-EBITDA (EV/EVITDA) multiple for the peer group[1] is 11.99; applied to Wisynco's trailing twelve month EBITDA of $3.82B yields a price of $12.61. Averaging these three estimates yields a price of $12.79, 36.0% higher than the last traded price of 36.0%.

[1] Peer group: Berger Paints, Caribbean Cement, Jamaica Broilers, Salada Foods, Seprod

Recommendation

We continue to recommend as a Wisynco as a BUY as we believe the stock is priced below its intrinsic value and maintain our favourable view of the Company's short to medium term outlook. This stock is suitable for investors who are seeking exposure to a "blue-chip" corporate who is capable of facing the challenging economic headwinds common to Jamaica.

Abridged Financials

J$000	Year Ended June 30					
	2014	2015	2016	2017	2018	Change %
Turnover	**14,229,683**	**17,150,482**	**19,413,691**	**21,381,665**	**24,544,049**	**10.1%**
Cost of Goods Sold	9,384,206	10,945,181	11,676,741	13,705,311	15,421,144	17.4%
Gross Profit	**4,845,477**	**6,205,301**	**7,736,950**	**7,676,354**	**9,122,905**	**-0.8%**
Operating Expenses	3,803,501	4,296,752	4,926,400	5,868,172	6,369,284	19.1%
Operating Profit	**1,104,585**	**1,965,957**	**3,023,205**	**2,551,720**	**2,845,778**	**-15.6%**
Profit Before Taxation	1,002,416	1,857,574	3,000,784	2,541,939	2,765,204	-15.3%
Profit for the year	**848,898**	**1,477,023**	**2,298,701**	**2,255,627**	**2,251,370**	**-1.9%**
Total Assets	**8,102,099**	**9,078,704**	**11,743,742**	**13,694,692**	**15,655,694**	**16.6%**
Total Liabilities	**4,300,812**	**4,362,101**	**5,621,411**	**6,134,392**	**6,965,533**	**9.1%**
Shareholder's Equity	**3,801,287**	**4,716,603**	**6,122,331**	**7,554,560**	**8,690,161**	**23.4%**
EPS ($)	0.23	0.39	0.61	0.60	0.60	
Book Value per Share ($)	1.01	1.26	1.63	2.01	2.32	
Key Ratios						
Gross profit margin	34.1%	36.2%	39.9%	35.9%	37.2%	
Operating profit margin	7.8%	11.5%	15.6%	11.9%	11.6%	
Net Margin	6.0%	8.6%	11.8%	11.4%	9.3%	
Return on Average Equity	20.7%	34.1%	46.0%	38.4%	34.4%	
Return on Average Assets	20.7%	34.1%	46.0%	38.4%	34.4%	
Debt/Equity (x)	0.50	0.35	0.24	0.34	0.29	

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

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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