



## tTech Limited

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#### Executive Summary

tTech is a provider of managed information technology services to organizations in Jamaica. These services include: the management of core IT infrastructure such as servers and network devices; service or Help Desk support services for end users and the computers and mobile devices which they use; the deployment and management of IT Security systems; cloud migration and support services. In addition to managed services, tTech also provides IT Consultancy services which include the provision of virtual CIO (vCIO) services, project management, disaster recovery planning, and assisting internal IT teams to improve the delivery of their services within their organizations.

We recommend tTech as **MARKETWEIGHT** as we believe the stock is trading in line with our estimate of its intrinsic value. Growth has slowed but marketing initiatives have been started to address this concern and investments were made to improve internal processes and broaden the Company's capabilities.



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### Company Background

The Company was incorporated in Jamaica on December 1st, 2006, and is a managed information technology (IT) service provider, or what industry insiders refer to as a “Managed Services Provider”. tTech’s main service offering is the management of other businesses’ IT infrastructure remotely and on a monthly, recurrent basis. The Company’s customers therefore effectively outsource specific and predetermined IT operations and functions to the Company, and the Company assumes an ongoing responsibility for such operations and functions, such as: design, deployment, monitoring and problem resolution for the selected IT systems and functions. Services offered include Service Desk, IT Security, Unified Communications, Infrastructure Management, Cloud Migration and Consulting Services.

tTech’s customers are based in Jamaica and the majority of the sites that they support are in Jamaica. However, their main support services are delivered remotely over the Internet so that they also provide support for customer locations outside of Jamaica. Countries to which tTech provides support services include the USA, Canada, the UK, Trinidad, Guyana and Belize.

### Financial Performance – Year ended December 31, 2017

#### *Profitability*

tTech reported a 2.7% decrease in revenues for the 12 months ended Dec. 31, 2017, closing the year at \$217.25M. Gross profits fell 0.7% to \$189.17M as cost of sales declined by 14.2% to \$28.08M, resulting in an improvement in the gross profit margin from 85.3% to 87.1%. The decrease in revenues was attributed to a reduction in revenues from PBX systems. However, monthly recurring revenue from tTech’s managed service customers grew by 9%.

Operating expenses rose 5.3% to \$170.08M as administrative expenses rose by 4.8% to \$149.87M while other operating expenses climbed 9.3% to \$20.20M. The increase in expenses was due to higher rental and utilities costs as well as greater professional, marketing and insurance expenses. As such, operating profits fell 34.0% to \$19.09M and the operating profit margin stood at 8.8%, down from 13.0% in the previous year. Earnings before interest, taxation, depreciation & amortisation amounted to \$23.12M, a 29.9% decline year-over-year.

Other income moved from a gain of \$9.29M in 2016 to a loss of \$439.0K in 2017, exacerbating the falling operating performance and resulted in a 51.2% decline in pre-tax profits to \$18.65M. Net profits fell 52.6% from the previous year as no taxes were reported for the 2017 financial year, while a tax credit of \$1.12M was reported in 2016. The net profit margin fell from 17.6% to

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8.6% in 2017 while return on equity and return on assets moved from 26.9% and 21.4% to 10.9% and 9.2% for the 2017 financial year, respectively.

### **Solvency & Liquidity**

tTech's assets grew 6.5% or \$12.72M over the financial year to \$208.77M. This increase was driven by a 143.9% increase in non-current assets to \$38.15M due to a \$23.97M increase in investments to \$26.0M. This increase was partially offset by a \$9.79M decline in current assets, driven by a 36.8% decrease in accounts receivable to \$29.8M. Short-term investments amounted to \$94.91M, up 1.1% year-over-year, while cash & cash equivalents amounted to \$30.58M, up 26.6% from its balance at the start of the year. Fixed assets declined by 10.8% to \$12.15M.

Accounts payable was the only liability reported as at December 31, 2017 and was down 5.3% to \$30.39M. This resulted in an increase in the cash ratio to 4.13x from 3.68x a year prior while the current ratio was relatively unchanged at 5.61x. Shareholders' equity amounted to \$178.38M, up 8.8% year-over-year, and corresponds to a book value per share of \$1.68.

### **Outlook and Valuation**

Whilst project-based revenues saw a decline from the 2016 financial year, monthly recurring revenues for long-term contracts rose by 9%, a positive indicator for the long-term sustainability of the company. In an attempt to boost revenues, the Company initiated customer engagement strategies to obtain feedback on current and future needs so as to cater its offerings to better suit the market space. The success of these strategies is yet to be seen as it did not immediately translate to greater overall revenues for the Company.

tTech also invested in process management during the year by installing new RMM (remote monitoring and management) software that allows the Company to remotely support a wider range of customers and scale the delivery of its services. A PSA (professional services automation) application was installed which tracks tTech's support activities and ensures invoices are generated accurately and promptly. The PSA application will also allow tTech to capture customer feedback in real time and monitor customer satisfaction. These investments are expected to improve the quality and range of services tTech offers, resulting in long-term growth in revenues and profitability. tTech's challenge remains getting Jamaican businesses on board with the idea of outsourcing its technological needs. As a developing nation, the potential for growth is high with limited implementation on a whole but with weak economic growth, companies would be hesitant to expand on information technology unless the value proposition is clearly laid out to them as a net positive.

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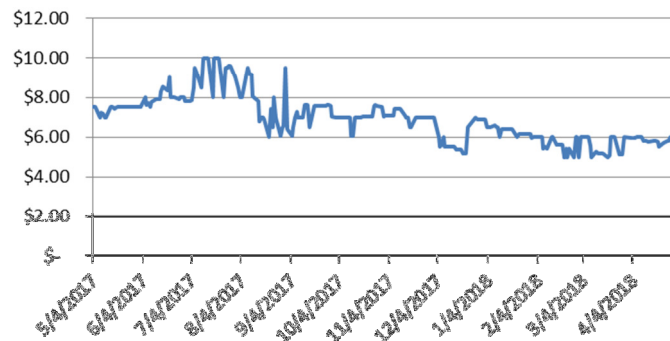
We anticipate revenues of \$235.58M for the year ended December 31, 2017, an 8.4% increase year-over-year. Net profits are seen rising 71.8% from the previous year to \$32.04M, but down 18.6% from the 2016 result, which corresponds to an earnings per share (EPS) of \$0.30. Shareholders' equity is expected to close the year at \$190.12M, up 6.6% year-over-year, which translates to a book value per share of \$1.79

The 2-year average P/E ratio for tTech is 21.56x while the 2-year average P/B ratio is 4.02x. Applying our estimates for the EPS and BVPS to these multiples yielded prices of \$6.52 and \$7.20, respectively. The 2-stage dividend discount model produced a price of \$3.16 assuming three more years of high growth given the 100% corporate tax holiday. The average of these three estimates is \$5.63, which is 1.7% lower than the last traded price of \$5.72 per share.

### Recommendation

We recommend tTech as **MARKETWEIGHT** as we believe the stock is trading in line with our estimate of its intrinsic value. Growth has slowed but marketing initiatives have been started to address this concern and investments were made to improve internal processes and broaden the Company's capabilities.

**tTech 1-yr Trading Performance**



The company has a healthy balance sheet with no debt and a strong liquidity base. The outlook for growth remains fairly positive and is driven continued growth of information technology implementation in everyday business and the subsequent rise in demand for IT support services. The company has also demonstrated a history of paying dividends so we expect investors to benefit from capital appreciation and income. However, potential investors should be aware of the small number of shares outstanding and the even smaller free float. We believe these shares are most suitable for retail clients with a medium to long-term investment horizon.

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### Abridged Financials

J\$	Year Ended December 31					Change %
	2013	2014	2015	2016	2017	
<b>Turnover</b>	<b>109,052,870</b>	<b>128,541,765</b>	<b>177,976,000</b>	<b>223,164,000</b>	<b>217,247,000</b>	<b>25.4%</b>
Expenses	(89,640,235)	(111,982,311)	(153,357,000)	(161,486,000)	(170,078,000)	5.3%
<b>Operating Profit</b>	<b>19,412,635</b>	<b>16,559,454</b>	<b>24,619,000</b>	<b>28,933,000</b>	<b>19,088,000</b>	<b>17.5%</b>
Profit Before Taxation	23,585,266	20,505,358	30,702,000	38,221,000	18,649,000	24.5%
<b>Profit for the year</b>	<b>17,727,874</b>	<b>16,762,637</b>	<b>24,871,000</b>	<b>39,341,000</b>	<b>18,649,000</b>	<b>58.2%</b>
<b>Total Assets</b>	<b>70,948,481</b>	<b>93,934,850</b>	<b>172,413,000</b>	<b>196,048,000</b>	<b>208,767,000</b>	<b>13.7%</b>
<b>Total Liabilities</b>	<b>27,591,861</b>	<b>27,684,633</b>	<b>42,690,000</b>	<b>32,079,000</b>	<b>30,389,000</b>	<b>-24.9%</b>
<b>Shareholder's Equity</b>	<b>43,356,620</b>	<b>66,250,217</b>	<b>128,603,000</b>	<b>163,969,000</b>	<b>178,378,000</b>	<b>27.5%</b>
EPS (\$)	0.17	0.16	0.23	0.37	0.18	
Book Value per Share (\$)	0.41	0.63	1.21	1.55	1.68	
<b>Key Ratios</b>						
Operating profit margin	17.8%	12.9%	13.8%	13.0%	8.8%	
Pre-tax Margin	21.6%	16.0%	17.3%	17.1%	8.6%	
Net Margin	16.3%	13.0%	14.0%	17.6%	8.6%	
Return on Average Equity	47.19%	30.59%	25.53%	26.89%	10.89%	
Return on Average Assets	27.78%	20.33%	18.68%	21.35%	9.21%	
Cash Ratio (x)	1.62	1.85	1.58	3.68	4.13	
Current Ratio (x)	2.22	2.90	3.67	5.62	5.61	

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

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### 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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