

Express Catering Limited

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

Executive Summary

Express Catering Limited was formed in 2001 to carry out food & beverage operations at the Sangster International Airport in Montego Bay. The Company operates international and local brands such as: Quiznos; Dairy Queen; Domino's Pizza; Wendy's; Cinnabon; and Starbucks.

Express Catering reported revenues of \$12.11M for the period ended Feb. 28, 2018, a 7.4% increase year-over-year. However, operating profits amounted to \$2.81M, up just 0.5% year-over-year due to erosion in operating margins from the previous year's results. Net profit for the period amounted to \$2.55M, up 0.9% year-over-year, up just \$23.88K.

We forecast revenues of US\$16.14M for the 2018/19 financial year with a net profit of US\$3.59M which corresponds to an earnings per share of US\$0.0022 or J\$0.29. Shareholders' equity is expected to fall 32.4% year-over-year to US\$3.07M, a book value per share of US\$0.0019 or J\$0.24. We have valued ECL's fair price at \$7.21, 4.5% above the closing price of \$6.90 as at June 18, 2019.

We recommend Express Catering Limited as MARKETWEIGHT as we believe the stock is trading near its fair value and maintain a positive outlook on the Company for the short to medium term.

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Company Overview

Express Catering Limited is a subsidiary of Margarita St. Lucia, Inc., whose ultimate parent company is Margaritaville Caribbean Group Ltd. (MCG). MCG through its various subsidiaries and partnerships owns and operates a diverse portfolio of restaurant and nightclub concepts in: Jamaica; the Cayman Islands; Turks & Caicos and most recently; St. Thomas USVI. The group is the franchise operator of the Jimmy Buffet Margaritaville Restaurant, Bar and Retail Shops across the Caribbean.

ECL represents the 3rd of 8 locations across the Caribbean for MCG and has been providing food and beverage offerings to the passengers and staff at the Sangster International Airport in Jamaica since 2001. ECL has exclusive rights to the food and beverage offerings for the post security sections of the Sangster International Airport and a significant share of pre-security food and beverage offerings.

ECL operates the following international franchises at the Sangster International Airport: Jimmy Buffet's Margaritaville; International Dairy Queen; Auntie Anne's; Cinnabon; Starbucks; Moe's Southwest Grill; Quiznos; Nathans Hot Dogs; Wendy's; Domino's.

Financial Performance (USD) – Nine Months ended Feb. 28, 2019

Profitability

Express Catering reported revenues of \$12.11M for the period ended Feb. 28, 2019, a 7.4% or \$836.22K increase year-over-year. Cost of sales rose 8.8% to \$3.25M, resulting in gross profits of \$8.86M, a 6.9% increase from the previous year's result. The gross profit margin was 73.2% slightly down from the 73.5% margin in the 2017/18 period.

Operating profits amounted to \$2.81M, a 0.5% increase from the previous year's result. This outturn came as administrative expenses rose 10.6% to \$5.59M while depreciation & amortization expense rose 3.9% to \$415.95K. Promotional expenses rose 18.9% year-over-year to \$36.11K. The Company noted in its 3Q19 report that upgrade works being undertaken at the Sangster International Airport put pressure on ECL's operations as it became more costly to achieve same store revenues compared to the previous year. Additional staff was retained to man pop-up locations which resulted in increased wage and utility costs. The operating margin declined to 23.2% for the period, in comparison to 24.8% in the prior year's period. EBITDA amounted to \$3.23M, up 1% as the EDITDA margin fell from 28.4% in the 2018 period to 26.7% in the current year period.

Finance costs closed the period at \$259.08M, down 9.8% from the prior year's period while a foreign exchange adjustment loss of \$8.46K was booked relative to a gain of \$10.99K in the comparable period of the previous year. ECL's ability to service its debt is strong as evidenced by the interest coverage ratio of 10.86x, which is up from 9.75x in the prior year period. As such, ECL's net profit marginally improved

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(0.9%) to \$2.55M. The net profit margin climbed to 21.0%, down from 22.4% from the comparable period of the 2017/18 financial year.

Liquidity & Solvency

As at Feb. 28, 2019, total assets stood at \$7.04M, down 34.1% or \$3.64M from the balance of \$10.68M a year prior. Non-current assets rose 8.9% to \$5.44M while current assets amounted to \$1.60M, down 71.9% year-over-year. This decline was largely due to a 97.7% reduction in amounts owed by related companies from \$5.13M to \$119.59K. The decline in related party transactions was partially offset by a 552.1% increase in trade & other receivables to \$960.94K and a 64.5% increase in licenses & franchises to \$974.17K. Property, plant & equipment rose marginally (1.5%) to \$4.47M while inventories amounted to \$462.79M to 22.8%.

Cash and cash bank balances rose 57.1% to \$53.63K. Net cash provided by operating activities amounted to \$7.15M, up from \$1.58M in the comparable period of the previous year. This increase was driven mainly by a decrease of \$5.88M in amounts owed by related companies. Net cash used in investing activity amounted to \$304.62M, relatively unchanged year-over-year while net cash used in financing activity amounted to \$7.01M due to the \$7.0M in dividends paid.

Total liabilities amounted to \$5.01M, down 2.2% year-over-year. Current liabilities amounted to \$1.42M, down 7.1% from the prior year period. Non-current liabilities stood at \$3.59M, relatively unchanged from its balance as at Feb. 28, 2018. The fall in total liabilities was driven by a 55.8% decrease in income tax payable which closed the period at \$91.99K. Trade & other payables of \$1.32M were up just 1.1% while cumulative preferences were unchanged at \$3.5M. Total debt amounted to \$3.51M, down 0.3% from a year prior. Shareholders' equity amounted to \$2.03M, down 63.5% due to a 64.9% decline in retained earnings from \$5.44M to \$1.91M. During the nine months ended Feb. 2019, \$7.0M was paid out in dividends, which drove the decline in retained earnings.

The cash ratio doubled from 0.02x to 0.04x as at Feb. 28, 2019 while the current ratio fell from 3.72x to 1.12x, driven by the decline in related party balances. ECL's leverage increased significantly, moving from 0.63x as at Feb. 28, 2018 to 1.73x as at Feb 28, 2019 due the decline in equity following the \$7M in dividends paid.

Outlook & Valuation

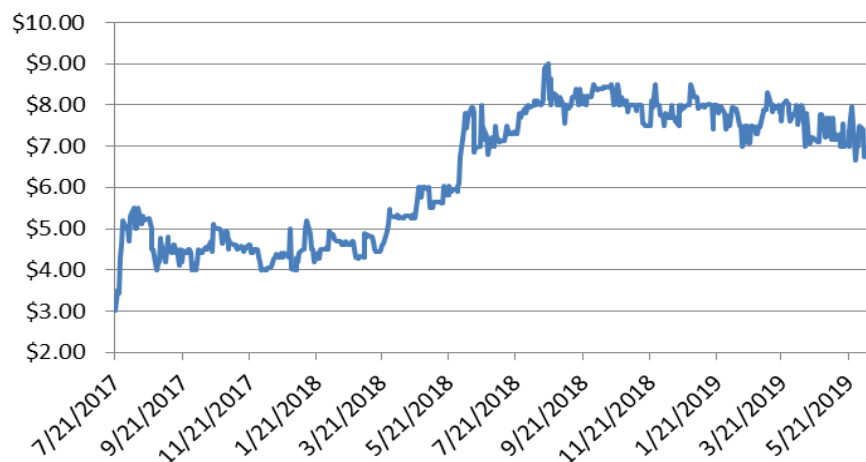
Work is currently underway at the Donald Sangster International Airport to expand the existing terminals and modernize the facilities to the tune of approximately US\$40M. These plans are expected to provide a boon to ECL in the medium to long-term but in the short-term the company has noted that it has had a negative impact on its operations. ECL noted that achieving same store revenues compared to the previous year was more expensive.

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For the 2018 calendar, stopover arrivals amounted to 2.35M visitors, up 5.1% year-over-year. This positive trend continued into 2019 with stopover arrivals for the January to April 2019 period amounting to 829.74K, a 13.4% increase from the number of stopover arrivals in the comparable period of 2018. A continuation of the observed upward trend in stopover arrivals should prove beneficial to ECL. As we enter into the hurricane season, ECL's positive outlook is threatened by adverse weather systems which could negatively impact visitor numbers.

We forecast revenues of US\$16.14M for the 2018/19 financial year with a net profit of US\$3.59M which corresponds to an earnings per share of US\$0.0022 or J\$0.29. Shareholders' equity is expected to fall 32.4% year-over-year to US\$3.07M, a book value share of US\$0.0019 or J\$0.24. We applied the 1-year historical P/E ratio of 28.17x to the forward EPS and yielded a price of J\$7.23. The 1-year historical P/B ratio is 32.78x, which when applied to the forward BPS yields a prices of \$7.20. The average of these two estimates is \$7.21, 4.5% above the close price of \$6.90 as at June 18, 2019.

ECL Trading History



ECL share price is down 15.9% year-to-date and 1.4% year-over-year.

Recommendation

We recommend Express Catering as MARKETWEIGHT as we believe the shares are currently trading close to its fair value. We maintain our positive outlook on the Company given its status as a foreign-exchange income generator with an exclusive contract to provide its services in a high-traffic airport, which is itself in the midst of a major expansion programme. ECL recently expanded its offerings to include the Starbucks brand, which is a staple of the United States and Canadian markets and should augur well for continued growth.

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The stock is suitable for shareholders who have a medium-to-high risk tolerance and medium term horizon as the Company faces diversification risk as it operates only in the Sangster International Airport and is dependent on tourist and other visitor numbers to that particular airport. The long-term growth potential is also limited by the fact that the company operates several franchises for which extensions of the franchise agreements will have to be negotiated at the end of their current terms.

Abridged Financials

USD	Year Ended December 31					9M18	9M19	% change
	2014	2015	2016	2017	2018			
Revenues	12,206,420	13,599,073	14,058,053	14,232,136	15,705,421	11,269,642	12,105,863	7.4%
Operating Expenses	7,186,349	8,157,521	7,622,089	7,191,917	3,590,316	2,962,284	3,496,997	18.1%
Operating Profit	1,380,713	1,254,853	1,595,305	1,638,131	3,947,458	2,798,816	2,814,040	0.5%
Profit Before Taxation	639,288	775,282	1,262,781	1,320,263	3,562,760	2,522,624	2,546,501	0.9%
Profit for the year	637,578	590,566	1,070,380	1,079,489	3,447,791	2,522,624	2,546,501	0.9%
Total Assets	7,027,342	6,767,695	6,059,423	9,563,002	12,411,184	10,681,247	7,039,864	-34.1%
Total Liabilities	5,221,704	4,371,491	2,592,839	5,016,929	5,927,597	5,122,828	5,010,908	-2.2%
Shareholder's Equity	1,805,638	2,396,204	3,466,584	4,546,073	6,483,587	5,558,420	2,028,958	-63.5%
EPS (\$)	0.0004	0.0004	0.0007	0.0007	0.0021	0.0015	0.0016	
Book Value per Share (\$)	0.0011	0.0015	0.0021	0.0028	0.0040	0.0028	-	
Key Ratios								
Gross profit margin	75.5%	74.9%	74.5%	71.3%	70.7%	73.5%	73.2%	
Operating profit margin	11.3%	9.2%	11.3%	11.5%	25.1%	24.8%	23.2%	
Net profit margin	5.2%	4.3%	7.6%	7.6%	22.0%	22.4%	21.0%	
Return on Average Equity	42.9%	28.1%	36.5%	26.9%	62.5%			
Return on Average Assets	9.2%	8.6%	16.7%	13.8%	31.4%			
Debt/Equity (x)	2.05	1.01	0.35	0.80	0.57	-	-	

Source: <http://www.Jamstockex.com>, **JMMB Investment & Research, Bloomberg, Express Catering Prospectus; MBJ Airports Limited**

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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**.

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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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