INVESTMENT AND SOVEREIGN RESEARCH Monday March-25-2019

GWest Corporation Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

GWest Corporation Limited (GWEST) is a limited liability company, founded in 2007. Its primary activities are the development of commercial properties and the provision of healthcare services. GWEST listed on the Junior Market on December 21, 2017 and the registered office of the company is lot 6 Crane Boulevard, Fairview, Montego Bay, St. James. The company has sold/leased 80% of GWest Centre to complementary health and medical facilities.

GWest Centre is a 3-storey multipurpose commercial complex focused on medical professionals and services. The general practice and specialist suite opened in May 2017. Subsequently, the GWest Urgent Care Centre commenced operations in November 2017 and later became a 24-hour facility. As at the end of FY 2018, GWEST has a staff complement of 30 full-time and 13 part-time employees. The company makes revenue from two primary sources medical services and lease/rental from owned spaces.

GWEST closed FY 2017 in strong standing with revenue more than $1 billion and a net profit of $180.58 million. However, $950.10 million of revenue was from the sale of completed units. Therefore, it this not a recurring revenue source in the near to medium-term. GWEST has generated an operating loss and net loss every quarter since Q1 FY 2018 to present. Losses have accelerated for the first 9-months of FY 2019.

GWEST has trended lower since listing and as evident below, it hit an all-time low of $1.17 on February 11, 2019 a decline $1.13 or 53.20% from IPO price of $2.50. **The company now trades at a P/B ratio of 1.14x, given that the majority of assets on its balance sheet is real estate this an essential figure to note.**

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Recent Developments

For the 3rd quarter ended December 30, 2018 revenue rose 44.49% or $10.72 million to $32.38 million. It has resulted in GWEST reducing 3rd quarter operating loss from $38.22 million to $20.04 million. Ultimately 3rd quarter loss was reduced from $53.07 million in FY 2018 to $28.93 million in FY 2019. GWEST indicated that it is working with the Ministry of Health and the National Public Health Laboratory to finalise registrations that will allow it to accept health insurance cards as payment for urgent care and laboratory services. GWEST expects this to help revenue growth.

On June 15, 2018 the resolution was passed at an extraordinary general meeting for the conversion of $250 million of shareholder loans to 10% cumulative non-redeemable preference shares. This has resulted in a meaningful boost of equity for GWEST which would have been $565.15 million versus the $815.02 million at the end as of June 2018.

In July 2018 Mr Richard Barrow resigned as General Manger and was replaced by Mrs Joy Clark who soon left in November 2018.

Key Financial Data

	2017	2018	9M FY 2018	9M FY 2019	YTD Change	YTD Change
BVPS	0.65	1.25	1.31	1.54	0.23	17.30%
EPS	0.49	(0.55)	(0.17)	(0.23)	(0.06)	-35.29%
Dividend Per Share	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Payout Ratio	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00	0.00	0.00	0.00	0.00	0.00
Income Statement Data ($,000)						
Revenue	1,008,834	66,389	61,583	90,080	28,497	46.27%
Admin & Other Expenses	52,380	76,790	93,970	140,167	46,197	49.16%
Operating Income	311,032	(45,361)	(47,839)	(86,015)	(38,176)	-79.80%
Finance Costs	134,699	42,054	28,431	26,237	2,194	7.72%
Profits /(Losses)	180,584	88,109	(81,011)	(112,251)	(31,240)	-38.56%
Balance Sheet Data						
Non-Current Assets	1,259,797	1,308,882	1,272,958	1,314,904	41.946	3.30%
Current Assets	241,653	347,950	365,959	259,207	(106,752)	-29.17%
Total Assets	1,501,450	1,656,832	1,638,917	1,574,111	(64,806)	-3.95%
Non-Current Liabilities	867,371	938.310	911,254	699,248	(212,006)	-23.27%
Current Liabilities	318,468	111,886	93,063	130,477	37,414	40.20%
Total Liabilities	1,185,839	1,050,196	1,004,317	829,725	(174,592)	-17.38%
Debt	982,225	992,053	924,044	763,336	(160,708)	-17.39%
Equity	315,611	606,636	634,600	744,385	109,785	17.30%

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	2017	2018	9M FY 2018	9M FY 2019
Ratios				
Operating Margin	30.83%	-68.33%	-176.43%	-61.89%
Net Profit Margin	17.90%	-132.72%	-245.00%	-89.33%
Current Ratio	0.76x	3.11x	3.93x	1.99x
Debt-to-Equity	3.11x	1.64x	1.46x	1.03x
ROE	17.90%	-19.11%	N/A	-16.37%
ROA	12.03%	-5.58%	N/A	-7.02%
P/E	5.10x	N/A	N/A	N/A
P/B	3.84x	2.49x	2.63x	0.92x
Adj. Close	2.50	3.12	3.44	1.42

Financial Overview

GWEST experienced a noteworthy surge in FY 2017 revenue due to funds from the sale of completed units amounting to $950.10 million. In FY 2018 the company generated $48.95 million in lease rentals and $17.44 million from patient fees resulting in total revenue of $66.39 million. GWEST projections in its prospectus predicted medical services revenue in FY 2018 of $86.39 million. For the nine months ended December 2018, GWEST has reported revenue of $90.08 million which is approximately $120.11 million when annualised. This is materially different from the $803.33 million in revenue projected by GWEST for FY 2019. The primary reason for the difference is revenue generated from medical services varying substantially from projections. This is problematic given that medical services are expected to be the primary source of revenue. For FY 2019 GWEST projected medical services revenue of $710.65 million. Expenses were also lower than GWEST projected, it reported FY 2018 expenses of $166.10 million meaningfully less than the expected $268.77 million. The principal reasons for the difference were significantly lower salaries and depreciation than projected. The net result is FY 2018 loss of $88.11 million better than the expected $110.70 million loss. However, for FY 2019 the company is on pace to underperform its projections given expected profits of $165.82 million and GWEST has a loss of $112.25 million for the nine months ended December 2018.

The most significant asset on GWEST's balance sheet is its investment property which is valued at $915.60 million (58.17% of total assets) as at the end of December 2018. Current assets peaked at $365.60 million at the end of December 2017 following the closure of its IPO on December 7, 2017. It has since trended lower as at the end of December 2018 it stands at $259.21 million a decline of $106.75 million or 29.17%. Reported equity of the company peaked at the end of June 2018 at $815.01 million however, this figure considers 10% non-redeemable preference shares as equity. On review of the adjusted figures we see equity has trended lower since December 2017, when it peaked at $634.60 million and has since deteriorated to $494.39 million or by $140.22 million (22.10%). However, given that the shares are non-redeemable we perform all calculations were applicable in the table above using equity has presented by GWEST. Non-current liabilities at the company is made up of borrowings from related parties and NCB. The 'other borrowings' term loan from NCB carry an average interest rate of 15.90% as the end of March 2018. Meanwhile, 'shareholders' loan' declined from a high of $675.81 million in March 2018 to $425.81 due to conversation of $250 million to 10% preference shares.

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Debt-to-Equity peaked at the end of September 2017 at 3.37x just before its IPO subsequently equity surged resulting in a decline in the ratio. Current ratio as at the end December 2018 was 1.99x, the major contributor to current assets is funds due from related parties. P/B ratio for GWEST has trended lower since listing with a High P/B of 2.97x on January 2, 2018 to a low of 0.76x on February 11, 2019. **However, investors should note that $250 million of equity is preference shares therefore under a worst case scenario of GWEST being liquidated the preference shares would rank above ordinary shareholders.**

Forecast and Valuation

We used the relative value approach to arrive at our base case target of $1.92. Using absolute value approaches such as free cash flow and dividend discount model are inappropriate given negative cash flows expectations which also impedes the payment of dividends. Therefore at this point the most credible valuation method we see for GWEST in its current and expect future performance is to use a relative value approach applied to BVPS projection. **Of note our worst case assumption could see GWEST stock go to a low of $1.04.**

Given that GWEST major revenue sources are rental/lease income and medical services we see the companies listed in the table below as closest comparable.

Ticker	*Market Cap(M)*	*P/E*	*P/B*	*Div Yield*	*ROA*	*ROE*
GWEST	688	N/A	0.88	0.00%	-9.00%	-26.00%
ELITE	1,039	28.84	2.59	0.00%	7.60%	11.30%
KPREIT	966	14.55	0.53	0.00%	2.50%	3.70%
SML	4,017	1.60	1.13	0.00%	96.00%	139.00%
Average	**1,677.50**	**21.70**[1]	**1.28**	**0.00%**	**0.37%**[2]	**13.67%**

Data above as at January 2, 2019

Outlook

Our outlook on GWEST is neutral because a mix of negatives and positives, these include severely underperforming projections, declining BVPS & current assets and our projection of continued losses. However we see potential for a significant improvement in earnings given initiatives underway such as the use of health insurance and signed contracts with hotels and businesses in Montego Bay. While we don't expect earnings in the near-term we do see expected reduced losses. However while we would need more data to confirm GWEST may be turning a corner, Q3 FY 2019 revenue is the highest for FY 2018 and FY 2019. Additionally, the company as able to reduce its loss of $53.07 million in Q3 FY 2018 to

[1] P/E of SML removed due to being an outlier

[2] SML data excluded for ROA and ROE average due to being an outlier

$28.93 million in Q3 FY 2019. Therefore this could indicate GWEST is on a path to reduce losses going forward.

Key Risks to Our Price Target

Our projections see a low probability of GWEST posting profits in the near to medium-term. However, the approval by the Ministry of Health and the National Public Health Laboratory to allow the use of insurance cards could create a large boost to revenue and help make the company profitable. While we expect this benefit to matriculate in FY 2020 we don't expect the impact to create meaningful profits if any in the near to medium-term. Also or valuation is heavily reliant on the value of GWEST's property therefore if this were to decline materially in value it could impact our valuation of the company.

Recommendation:

We recommend an **UNDERWIEGHT** rating on GWEST at this point given that the stock trades marginally below our base case price target. GWEST currently has a BVPS of $1.54 and trades at 1.14x (as at March 11, 2018) book value. This is relatively high for a company that has negative cash flows and has reported consistent losses, but below GWEST's average P/B of the past year of $1.33x. Until the company produces results that show a clear path to profitability and stable positive cash flows the risk at its current price is too high for the majority of investors. GWEST could be a part of a long-term portfolio seeking real estate/medical services exposure and able to withstand the risk associated with the investment given that GWEST is a relatively undeveloped company.

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.

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

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