INVESTMENT AND SOVEREIGN RESEARCH *March-27-2019*

Your Best Interest At Heart. Full Stop.

Paramount Trading Jamaica Limited 8.75% Preference Shares

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Transaction Overview

Paramount Trading (Jamaica) Limited (PTL) is seeking to raise J$300 million via the issuance of 8.75% fixed cumulative redeemable preference shares due in 2021. PTL will issue 150 million preference shares at $2.00 each. The dividends are payable on the last business day of each month beginning on April 30, 2019. The offer opens on March 28, 2019 and closes on April 4, 2019.

Term Sheet

Issuer	Paramount Trading (Jamaica) Limited
Interest Rate	8.75% per annum (paid monthly)
Arranger	Mayberry Investments Limited
Issue Size	Up to J$300 million
Tenor	2-years
Prepayment	The issuer reserves the right to prepay any or all the facility without premium or penalty on any dividend date
Subscription Basis	Minimum J$500,000 (250,000 units) and multiples of J$100,000 (50,000 units)
Ranking	The preference shares will rank pari passu to any previously issued preference shares , but behind statutory creditors and secured creditors
Financial Covenants	PTL will maintain the following while preference shares are in issue 1. Minimum EBITDA / Interest expense of 1.5x 2. Maximum Debt Service Coverage Ratio of 1.2x 3. Maximum Total Debt / Total Equity of 2.0x
Listing	PTL intends to list preference shares on the Jamaica Stock Exchange
Voting Rights	The preference shares will not carry any voting rights except when cumulative dividend has not been paid for more than 12 months
Use of Proceeds	Improvement and expansion of business, provide working capital, general corporate purpose and to pay the expenses of the invitation

Paramount Trading Jamaica Limited 8.75% Preference Shares

Company Background

Paramount Trading Jamaica (PTL) Limited was incorporated in 1991 and effectively listed on the Junior Market on December 31, 2012. The primary activities of PTL are the distribution of chemicals, lubricants, other related products and haulage services. As a result, PTL has five reportable segments namely Chemical, Construction & Adhesive, Manufacturing, Transportation and Lubricants. The primary revenue source for PTL is the chemicals segment which accounted for 81% of FY 2018 revenue. Located at 39 Waltham Park Road and 8 East Bell Road is the chemical segment, it distributes chemicals and chemical products for food and pharmaceutical additives and ingredients. In January 2018, PTL through a joint venture with its supplier of lubricants began blending operations at its plant located at its central location. PTL has an arrangement to distribute SIKA branded hardware products, which include anchoring adhesives and sealants principally dispersed to the commercial hardware market.

Financial Summary

Revenue growth has been consistent and increased at a CAGR of 18.51% for the period under review (FY 2014 – FY 2018). Meanwhile, EBITDA has remained relatively flat over the same period and peaked in FY 2016 at $192.37 million significantly higher than FY 2018 figure of $121.66 million. The main reason for the limited growth in EBITDA has been operating expenses increasing at a faster pace than revenue. This is essentially due to increased staff cost as the company endeavours to enter new business lines. Ultimately the increased administrative costs have led to declining profits for the period under review.

The most considerable contributor to total assets as at the end of FY 2019 has been inventory which was $500.02 million or 40.68% of total assets. The bulk of inventory is in chemicals amounting to $326.17 million at the end of FY 2018. The surge seen in inventories in FY 2018 was due to increased raw materials which were $97.42 million versus $0.94 million at the end of FY 2017. The majority of liabilities is in the form of payables which was $410.80 million or 84.05% of total liabilities at the end of FY 2018. More than half of payables at the end of FY 2018 was in foreign currency, creating currency risk.

The company has experienced a declining trend of gross, operating and EBITDA margins for the period under review. However, the declines in operating and EBITDA margins are the most pronounced. PTL has maintained a relatively stable inventory turnover ratio averaging 2.35x for the period under review.

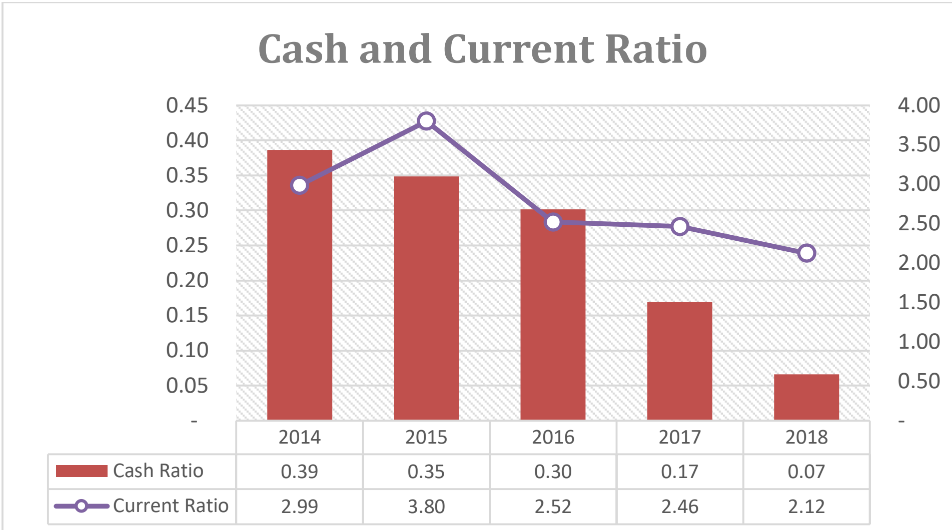
Your Best Interest At Heart. Full Stop.

Paramount Trading Jamaica Limited 8.75% Preference Shares

Summary of Financial Statements (,000)	2014	2015	2016	2017	2018	CAGR
Revenue	709,037	869,455	1,024,352	1,155,871	1,398,410	18.51%
Gross Profit	479,690	589,667	688,558	801,829	972,056	16.77%
EBITDA	125,036	162,673	192,372	131,560	121,658	-0.68%
Operating Profit	114,340	151,306	180,804	110,644	79,388	-8.73%
Interest Expense	21,378	6,868	9,484	10,747	13,254	-11.27%
Profits	93,387	146,023	173,043	101,003	58,644	-10.98%
Current Assets	430,609	469,068	675,644	722,396	907,693	20.49%
PP&E	88,892	93,584	126,572	239,971	263,598	31.23%
Total Assets	524,988	614,515	859,690	1,021,273	1,229,166	23.70%
Current Liabilities	144,230	123,489	268,231	293,377	427,444	31.21%
Debt	52,201	36,228	18,312	58,711	69,545	7.44%
Total Liabilities	179,829	146,624	278,912	339,493	488,741	28.40%
Equity	345,159	467,891	580,778	681,780	740,425	21.02%
						Average
Gross Margin	32.35%	32.18%	32.78%	30.63%	30.49%	31.69%
EBITDA Margin	17.63%	18.71%	18.78%	11.38%	8.70%	15.04%
Operating Margin	16.13%	17.40%	17.65%	9.57%	5.67%	13.28%
Inventory Turnover	2.56x	2.45x	2.24x	2.28x	2.24x	2.35x
Cash Ratio	0.39x	0.35x	0.30x	0.17x	0.07x	0.25x
Current Ratio	2.99x	3.80x	2.52x	2.46x	2.12x	2.78x
Debt to Equity	0.15x	0.08x	0.03x	0.09x	0.09x	0.09x
Debt Ratio	0.10x	0.06x	0.02x	0.06x	0.06x	0.06x
Interest Coverage Ratio	5.35x	22.03x	19.06x	10.30x	5.99x	12.55x
EBITDA Coverage Ratio	5.85x	23.69x	20.28x	12.24x	9.18x	14.25x

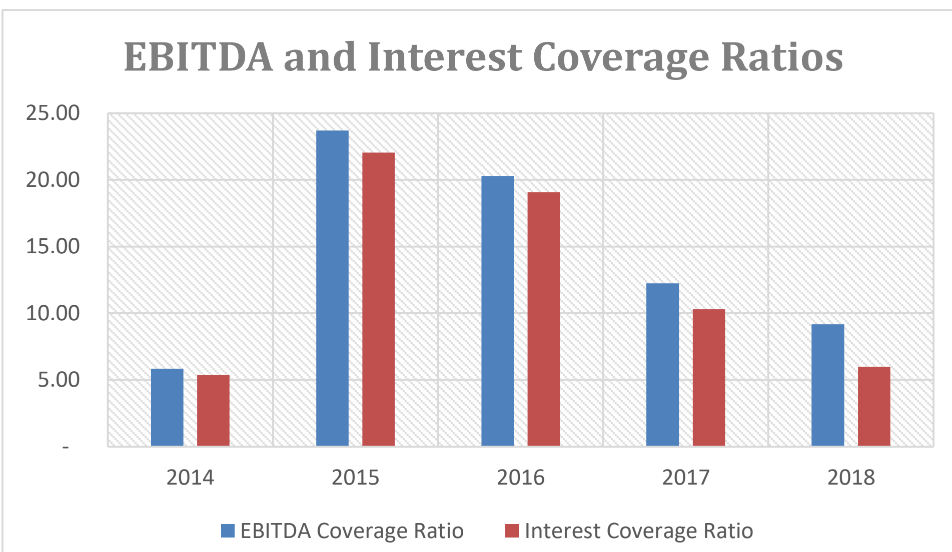
Paramount Trading Jamaica Limited 8.75% Preference Shares

Solvency & Liquidity



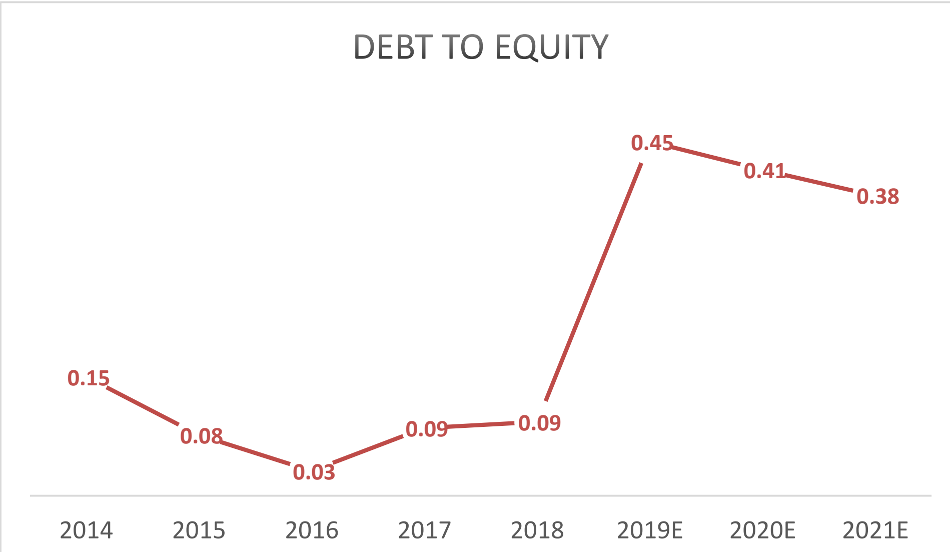
	2014	2015	2016	2017	2018
Cash Ratio	0.39	0.35	0.30	0.17	0.07
Current Ratio	2.99	3.80	2.52	2.46	2.12

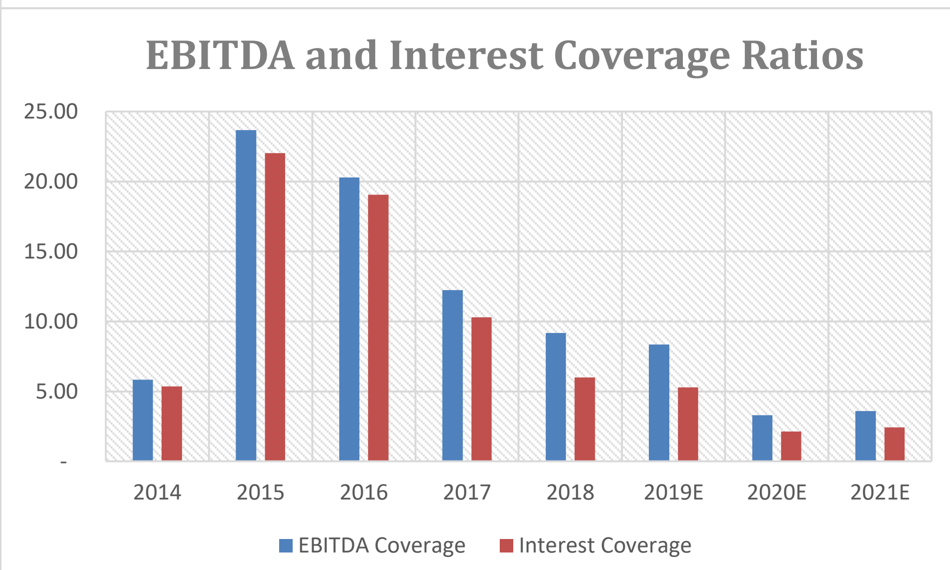
The cash ratio has remained relatively low and has trended lower due to higher current liabilities. The current ratio has also trended lower. However, it has remained above the 2x level for the period under review. The current ratio indicates that short-term requirements can be comfortably met. However, as stated previously, a significant portion of current liabilities is payables which are denominated in foreign currency. In Q1 FY 2019 the USD currency surged 9% versus the JMD resulting in a forex loss of $18.9 million for PTL which contributed to a profit decline of $26.84 million or 79.18% to $7.06 million. However, there are sufficient current assets to cover a surge in liabilities.



Paramount Trading Jamaica Limited 8.75% Preference Shares

As indicate above PTL has historically conformably been able to pay interest expense associated with its debt. However, of note for the period under review, debt levels peaked at $69.55 million, which is significantly below the projected debt levels with the issuance of new debt. Therefore below we review expected figures of critical metrics to establish the solvency and liquidity of the company along with its ability to repay debt.





As indicated above, debt to equity levels are set to surge in FY 2019 following the issuance of the preference shares. However, it is expected to peak in FY 2019 at 0.45x, well below the financial covenant maximum of 2x. Meanwhile, EBITDA and interest coverage ratios are set to plunge following the issuance. PTL is projected to pay $26.25 million per annum or $2.19 million each month due to this new issuance. However, EBITDA coverage is expected to remain above 3.60x, while interest coverage ratio is projected to be above 2x for the next two years. Therefore both ratios are above the financial covenant minimums.

Investment Positives & Negatives

Positives

- Payments are made monthly providing regular cash flows
- The company has a relatively low debt to equity ratio indicating it can meet long-term liabilities.
- Relatively high historical and expected EBITDA and Interest coverage margin indicating a high probability of timely dividend payments

Negatives

- PTL has recorded negative profit growth in recent years. With profits declining to its lowest level for the period under review in FY 2018 to $58.64 million.
- Increase in expenses has outpaced revenue growth
- **Rapid devaluation of the dollar could trigger a surge in liabilities and by extension current ratio could decline below financial coverage minimum**

Key Risks

- **Prepayment Risk. The preference shares can be redeemed in part or in full on any dividend payment date without any premium or penalty if notice is provided at least 30 days before to preference shareholders**.

- **Litigation Risk**. As at the date of the prospectus, PTL has two material litigation, arbitration, or similar proceedings pending or threatened against PTL as the defendant, both involve vehicle accidents.

Key Assumptions & Projections

Our projections for FY 2019 to FY 2021 are reasonably conservative. We expect steady growth in revenue and EBITDA to be below FY 2018 levels for FY 2019 and FY 2020 before exceeding FY 2018 in FY 2021. We see this as conservative given the investments done by PTL over the years are yet to meaningful pay off in the form of operating profit growth.

Outlook & Recommendation

Our outlook on PTL is positive given the ongoing investments and strong revenue growth. PTL's joint venture is in its nascent stage and has the potential for significant growth. While we do see the increased administrative costs as an issue, we expect the growth of such costs to subside and revenue growth to continue as the company completes its expansion programme.

We recommend the captioned note at MARKETWEIGHT. We see some issues such as declining EBITDA and Operating margins. Additionally, the current offer increases the company's debt levels to levels not seen for the period under review. However, given the tenure and relatively high rate offered we believe investors are appropriately compensated. Additionally, the continuously increasing revenue and relatively high projected EBITDA and Interest coverage ratio indicate that the company can readily make dividend payments.

Source: JMMB Investment & Research, PTL Limited 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

The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

Disclosure Under The Securities Act

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.