THE JMMB GROUP
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INVESTOR UPDATE

JUNE, 2020

GRUPO UNICOMER (GU) UPDATE

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

COMPANY OVERVIEW

Grupo Unicomer Co. Ltd. (GU) is a leading retailer of durable consumer goods such as home appliances, consumer electronics, furniture, motorcycles, mobile devices, computer equipment and optical wear in its Latin American and Caribbean markets. Grupo Unicomer is owned 50% by Infotech of the Caribbean and Central Corp. (which is 100% controlled by Milady Associates Ltd.) and 50% by Gromeron, SLU (which is 100% controlled by El Puerto de Liverpool S.A.B. de C.V.). The company's current structure was achieved through four large-scale acquisitions, in addition to organic expansion, throughout its 20-year history.

The Group runs an integrated business model which includes sales of goods, consumer finance, extended warranties, credit protection insurance and post-sale repair services. Based in El Salvador, the Group estimates that it holds the largest market share in 20 of the 26 countries in which it operates. The target market is the middle- and lower-middle-income segments of the Latin American and Caribbean populations in the countries where Grupo Unicomer operates, and the Hispanic and Caribbean populations in Texas and New York.

Bond Details

Issuer	**Grupo Unicomer Co. Ltd.**
Issue Price	**US$99.998**
Coupon and Payment Frequency	**Fixed at 7.875%. Semi-annual interest payment**
Principal Outstanding	**US$350,000,000.00**
Maturity Date	**April 01, 2024**
Bond Rating	**Fitch: BB-/S&P: BB-**
Price/Yield to Maturity	**US$87.636/12.001%**
Optional Redemption	**Callable on and any time after dates below:**
	April 1, 2021 @ $103.938
	April 1, 2022 @ 101.969
	April 1, 2023 @ $100.00

FINANCIAL PERFORMANCE – NINE MONTHS ENDED DECEMBER 31, 2019 (USD)

Profitability

Sales for the nine months ended December 31, 2019 amounted to $974.8M, a 0.2% or $1.5M increase on the comparable period of the 2019FY. Cost of goods sold rose 0.9% to $697.9M which resulted in a gross profit on sales of $276.9M, which was down 1.6% against the comparable period of the previous year. GU reported premium income of $13.1M (down 5.4% y-o-y) and finance income earned on credit sales of $327.9M (up 4.0% y-o-y) to generate total gross profit of $617.9M, a 4.0% or $12.7M increase y-o-y. The gross profit margin was marginally down to 28.4%, down from the 28.9% reported a year prior.

Distribution and selling expenses fell 2.4% to $317.97M while administrative expenses rose 20.6% to $112.98M. Impairment losses from accounts receivable amounted to $69.5M, a 1.9% increase while net other operating income rose 1.6% to $6.9M. As a result, operating profits amounted to $124.4M, which was down 4.1% or $5.4M y-o-y. The operating profit margin fell from 0.5 percentage points to 12.8%.

GU reported interest expense of $49.4M, relatively unchanged from the prior year period and booked $11.1M during the period for 'financial expenses in regards to leases'. GU reported strong debt servicing ability with an interest coverage ratio of 2.52x, relative to 2.65x for the comparable period of the previous year. As such, pre-tax profits amounted to $65.87M, a 14.3% or $10.98M decrease over the prior year period. Net profit for the nine-month period amounted to $37.2M, down 19.4% or $8.9M y-o-y. The pre-tax profit margin fell 1.1 percentage points to 6.8% while the net profit margin fell 0.9 percentage points to 3.8%. The decrease in the net profit margin was driven by the decline pre-tax earnings and an increase in the effective tax rate, which moved from 40.0% to 43.5%.

Solvency & Liquidity

Grupo Unicomer's total assets as at Dec. 31, 2019 amounted to $2.02B, up 9.2% or $170.0M from its balance as at Dec. 31, 2018. Current assets fell 4.2% to $1.1B, due to: a 4.8% decline in net accounts receivable to $604.3M, a 5.4% decline in inventories to $276.7M and a 70% decrease in prepaid income tax to $9.5M, partially offset by a 20% increase in cash and cash equivalents to $120.8M.

Non-current assets rose 30.7% or $216.11M to $919.2M. Driving this increase was the booking of rights-of-use assets of $152.8M, a 6.3% increase in net accounts receivable to $319.9M and a 146.4% to $50.3M. Property, plant & equipment amounted to $141.6M, down 1.9% y-o-y, while intangible assets amounted to $160.2M, up 4.0% y-o-y. Goodwill amounted to $67.7M, up 2.9% y-o-y.

Total liabilities stood at $1.44B, up 13.5% or $171.5 y-o-y. Current liabilities fell 8.3% or $48.9M to $540.5M. This decline is attributable to a 73.5% decline in unearned premiums to $19.2M, a 29.9% decline in 'current portion of long-term borrowings' to $91.3M and a 59.4% decrease in current income tax liabilities to $11.96M, partially offset by the booking of $46.19M in 'short-term financial leasing liabilities'.

Non-current liabilities rose 32.5% or $220.5M to $897.9M as GU booked $126.6M in 'long-term financial leasing liabilities', as well as an 83.3% increase in deferred warranty income to $123.6M and a 4.2% increase in long-term borrowings to $601.1M. Total debt amounted to $768.1M, a decline of 1.2% y-o-y. Short-term debt fell 16.8% to $166.99M. GU's leverage as reflected by its debt-to-equity ratio was stable at 1.33x as at Dec. 31, 2019, down from 1.34x a year prior.

GU's liquidity position improved during the period as the cash ratio rose to 0.22x, up from 0.17x a year prior while the quick ratio increased from 1.35x to 1.46x. The current ratio stood at 2.03x, which compares to 1.94x as at Dec. 31, 2018. Net cash provided by operating activities amounted to $89.5M, a 78% increase on the $50.4M generated in the comparable period of the previous year.

Rating Agency Actions

On April 16, 2020, Fitch Ratings affirmed Grupo Unicomer's Long-term Local and Foreign Currency Issuer Default rating at 'BB-' and revised the rating outlook to Stable from Positive. The US$350M senior notes due 2024 were also affirmed at 'BB-'. Fitch stated that its revision to a Stable outlook reflects the view that a rating upgrade for Unicomer is unlikely with the next 12 months. This view was driven by the expectation that Unicomer's "operations and financial profile will be strained given the significant business interruption from the global Coronavirus pandemic and the expected downturn in discretionary spending that could extend into 2021." Fitch also added that it expects Unicomer's credit metrics will return to levels in line with its rating category in 2022FY after softening in 2021FY. This view is supported by consistent cash flow generation with free cash flow expected to be "mostly positive" despite a temporary fall in sales and EBITDA.

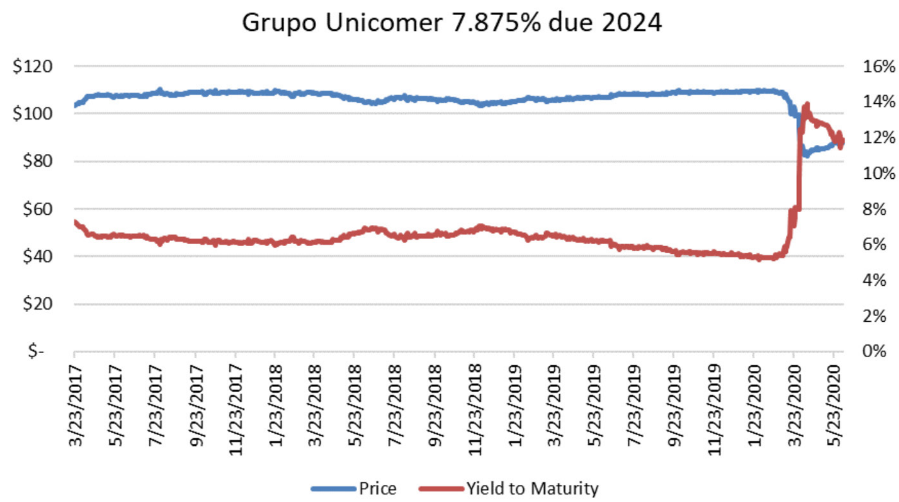
The 'BB-' rating incorporates its leading business position in most of the countries in which it does business, relatively stable operating cash flows and the solid financial position of its main shareholders. Fitch also views GU's geographic and format diversification favourably as it contributes to solid operating cash flow generation throughout economic cycles. Fitch sees Unicomer's revenues falling 25% during the 2021FY and EBITDA declining approximately 39%. Leverage is expected to rise to 5.3x in 2021FY up from 4.4x in 2019FY as measured by consolidated gross-adjusted debt-to-EBITDAR (earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs).

On May 21, 2020, Standard & Poor's Rating Agency placed Grupo Unicomer's 'BB-' ratings on CreditWatch Negative. S&P explained that the global recession, coupled with temporary lockdowns in many countries has resulted in a significant adverse environment for the retail industry. S&P expects revenues and EBITDA to contract by double-digits over the next 12 months, resulting in a temporary increase in leverage metrics. The CreditWatch listing reflects the potential for a downgrade of Unicomer over the next few months "if the company's liquidity position deteriorates in its retail or consumer finance operations, in addition to potential breaches of covenants in the near term." This may occur if Unicomer's operating and financial performance worsens beyond S&P's current forecasts. Despite its geographical diversification, most of the countries in which Unicomer operates have enforced similar lockdown measures to control the Coronavirus pandemic.

S&P expects Unicomer's retail division's adjusted net debt to EBITDA to rise to near 3.0x over the next 12 months, up from 1.5x for the last twelve months ended Dec. 31, 2019. The company will defer capital expenditures and dividend payments until cash flow normalizes, to mitigate cash pressures. In May, Unicomer reached agreements with creditors to defer and/or capitalize debt service payments due in the next three to six months, mostly on amortizing bank loans. These agreements are viewed by S&P as opportunistic rather than distressed as the company's cash reserves are significantly higher than debt servicing and a conventional default would not have been predicted in the absence of these agreements. Unicomer's consumer finance segment is an important driver of its business growth in the past few years and the division's access to funding will be crucial to address potential liquidity needs in adverse market conditions.

RECOMMENDATION

We recommend the 7.875% due 2024 notes as UNDERWEIGHT. If we assume Fitch's 39% fall in EBITDA for the 2021FY and hold interest costs constant, Unicomer's interest coverage ratio would stand at 1.86x, which highlights the company's ability to service its debt. The company had US$167M in short-term debt due as at Dec. 31, 2019 but with a current ratio of 2.0x, the company had sufficient liquidity to cover these obligations. However, if the pandemic remains a threat in the longer term and the ongoing recession is sustained, one can expect a greater loss of discretionary income and rise in unemployment in the company's markets, which would further impact its ability to service its debt. As such, we balance the company's favourable credit metrics with the risks that prevail in the retail market for discretionary goods in a time when persons would be seeking to be more frugal amidst financial uncertainty.



From the chart above we can see that the Grupo Unicomer 2024 notes have traded fairly stable since listing in March 2017. With the onset of the Coronavirus pandemic, the yield rose from 5.4% as at Dec. 31, 2019 to as high as 13.9% % in April. The bond currently trades at discount to par at $88.2 with a yield of 11.8%, which is 6.53 percentage points above the US JAMAN interpolated curve and 11.43 percentage points above the US Active Treasuries Curve.

Abridged Financials

US$'000	Year Ended March 31					Nine Months ended Dec. 31		
	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY	2019 FY	2020 FY	Change %
Turnover	**1,084,862**	**1,120,567**	**1,187,801**	**1,205,383**	**1,216,354**	**973,328**	**974,843**	**0.2%**
Cost of Sales	781,840	802,882	841,957	851,427	862,834	691,825	697,943	0.9%
Gross Profit	**303,022**	**317,685**	**345,844**	**353,956**	**353,520**	**281,503**	**276,900**	**-1.6%**
Operating Expenses	526,257	551,677	598,274	645,905	634,897	419,441	430,948	2.7%
Operating Profit	**149,247**	**154,183**	**162,679**	**164,619**	**175,420**	**129,713**	**124,360**	**-4.1%**
Profit Before Taxation	96,890	100,264	101,635	95,278	106,015	76,848	65,870	-14.3%
Profit for the year	**73,732**	**74,410**	**68,460**	**64,197**	**73,170**	**46,121**	**37,194**	**-19.4%**
Total Assets	**1,495,474**	**1,626,772**	**1,716,815**	**1,737,921**	**1,754,685**	**1,847,502**	**2,017,519**	
Total Liabilities	**991,189**	**1,079,065**	**1,186,348**	**1,168,567**	**1,174,636**	**1,266,813**	**1,438,338**	
Shareholder's Equity	**504,285**	**547,707**	**530,467**	**569,354**	**580,049**	**580,689**	**579,181**	
Key Ratios								
Gross profit margin	61.9%	62.9%	63.6%	66.3%	65.9%	62.7%	63.4%	
Operating profit margin	13.8%	13.8%	13.7%	13.7%	14.4%	13.3%	12.8%	
Net Margin	6.8%	6.6%	5.8%	5.3%	6.0%	4.7%	3.8%	
Interest coverage ratio (x)	2.89	3.12	2.98	2.57	2.71	2.65	2.52	
Total debt/equity (x)	1.24	1.26	1.48	1.29	1.26	0.35	1.35	
Net debt/TTM EBITDA (x)	3.30	3.60	3.50	3.30	3.60	3.60	3.70	

SOURCES: OFFERING MEMORANDUM, BLOOMBERG, FITCH RATINGS; STANDARD & POOR'S RATING AGENCY

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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/MARKET WEIGHT -
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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