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GWEST Corporation Limited

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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.

GWest Centre is a 3-storey multi-purpose 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. The company makes revenue from two primary sources medical services and lease/rental from owned spaces. Medical services include the General Practice Facility, Urgent Care Centre and Laboratory. **Both the General Practice Facility and Urgent Care Centre received accreditation in May 2019, allowing it to accept all major health cards.**

GWEST produced strong performance in FY 2017 with revenue of $1 billion and a net profit of $180.58 million. However, $950.10 million of revenue was from the sale of completed units, which is not a recurring revenue source. GWEST has generated an operating loss and net loss every quarter since Q1 FY 2018. However, losses have tapered off for the first 9-months of FY 2020.

GWEST has trended lower since listing, this is evident in the graph below. It traded at an all-time low of $0.71 on July 7, 2019 a decline of $1.79 or 71.6% from IPO price of $2.50. **The company now trades at a P/B ratio of 0.75x, given that the most significant asset on its balance sheet is real estate this is a critical metric to assess the value of the company.**

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Recent Developments

For the 3rd quarter ended December 2019 revenue rose 1.65% or $535 thousand to $32.92 million. Despite the marginal growth in revenue the company was able to reduce cost of sales and admin expense materially. This resulted in operating loss declining from $20.04 million to $7.54 million. However, the company's loss fell only $7.95 million to $20.98 million due to increased finance costs. This was due to the adoption of IFRS 16 beginning on January 1, 2019.

Effective January 31, 2020 Mrs Karen Christie-Harris resigned from the position of Chief Accountant. This was done as part of GWEST's strategy to reduce costs and improve efficiency.

Key Financial Data

	FY 2017	FY 2018	FY 2019	CAGR	9M 2019	9M 2020	Change
BVPS	0.65	1.25	1.48	50.57%	1.54	1.35	-12.36%
EPS	0.37	(0.18)	(0.28)	N/A	(0.22)	(0.13)	N/A
Close Price	N/A	3.12	1.40	-55.13%	1.42	0.99	-30.23%
Junior Market Index	2,997.03	2,958.51	3,092.02	1.57%	3,246.84	3,348.97	3.15%
Income Statement (,000)							
Revenue	1,008,834	66,389	129,962	-64.11%	89,503	101,466	13.37%
Gross Profit	170,739	19,137	81,782	-30.79%	59,128	76,656	29.64%
Admin & Other Expenses	52,380	76,790	196,999	93.93%	140,167	102,398	-26.95%
Operating Income	311,032	(45,361)	(113,158)	N/A	(79,038)	(25,660)	-67.53%
Finance Costs	134,699	42,054	31,272	-51.82%	25,829	37,565	45.44%
Profits/(Losses)	180,584	(88,109)	(135,876)	N/A	(104,867)	(63,195)	-39.74%
Balance Sheet (,000)							
Non-Current Assets	1,259,797	1,308,882	1,318,179	2.29%	1,314,904	1,405,698	6.90%
Current Assets	241,653	347,950	224,271	-3.66%	259,207	304,759	17.57%
Total Assets	1,501,450	1,656,832	1,542,450	1.36%	1,574,111	1,710,457	8.66%
Non-Current Liabilities	867,371	938,310	644,193	-13.82%	699,248	773,149	10.57%
Current Liabilities	318,468	111,886	182,702	-24.26%	130,477	284,901	118.35%
Debt	394,924	313,965	304,690	-12.16%	302,772	378,236	24.92%
Equity	315,611	606,636	715,555	50.57%	744,385	652,407	-12.36%
Adjusted Equity	315,611	606,636	465,555	21.45%	494,385	402,407	-18.60%
Ratios				**Average**			
Operating Margin	30.83%	-68.33%	-87.07%	-41.52%	-88.31%	-25.29%	-71.36%
Net Profit Margin	17.90%	-132.72%	-104.55%	-73.12%	-117.17%	-62.28%	-46.84%
Current Ratio	0.76	3.11	1.23	1.70	1.99	1.07	-46.15%
Debt-to-Equity	1.25	0.52	0.43	0.73	0.41	0.58	42.54%
ROE		-19.11%	-20.55%	-19.83%	-16.37%	-13.50%	-17.51%
ROA		-5.58%	-8.49%	-7.04%	-7.02%	-5.74%	-18.27%
Junior Market Performance	55.67%	-1.29%	4.51%	19.63%	9.75%	8.31%	-14.73%
Stock Performance		24.80%	-55.13%	N/A	-54.49%	-29.23%	-46.35%

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Financial Overview

GWEST experienced a remarkable revenue surge in FY 2017, this was as a result of gains from the sale of completed units amounting to $950.10 million. In FY 2019 the company generated $52.7 million from lease rentals and $77.2 million from patient fees resulting in total revenue of $129.96 million. **The growth in revenue from patient fees was a major positive highlight in FY 2019. For perspective in FY 2018 of the $66.4 million in revenue only $17.4 million was generated from patient fees.** In GWEST's prospectus it predicted medical services revenue for FY 2019 of $710.65 million, therefore the company materially underperformed expectations. This is problematic given that medical services are expected to be the primary source of revenue. Expenses for GWEST surged 66.44% or $110.36 million in FY 2019, the primary contributors were staff costs and medical consultancy fees which increased by $36.40 million and $45.24 million respectively. This resulted in losses increasing to $135.88 million in FY 2019 from $88.11 million in FY 2018. However, for the 9-months period ended December 2019 expenses declined marginally relative to the corresponding period in the previous year.

The most significant asset on GWEST's balance sheet is its investment property which is valued at $915.60 million (52.99% of total assets) as at the end of March 2019. Therefore real estate exposure is a significant component of GWEST in its current form. 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 March 2019 it stands at $224.27 million a decline of $141.69 million or 38.72%. Reported equity of the company peaked at the end of June 2018 at $815.01 million this was due to a loan from shareholders being converted to 10% non-redeemable preference shares. Of note of the equity figure for June 2018 $250 million was non-redeemable preference shares, which are senior to ordinary stocks. Therefore, adjusting reported equity for preference shares gives a better reflection of book value for ordinary shareholders. 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 $402.41 million or by $232.19 million or 36.59% as at the end of December 2019. **We seek to assess the value to ordinary shareholders, therefore our calculations for equity exclude preference shares.** 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 9.75% as at the end of March 2019. Meanwhile, 'shareholders' loan' declined from a high of $675.81 million in March 2018 to $425.44 due to conversation of $250 million to 10% preference shares.

Debt-to-Equity peaked at the end of September 2017 at 3.37x just before its IPO, subsequently equity surged as a direct result of funds raised in its IPO. **GWEST current ratio as at the end of December 2019 was 1.07x which indicates the company could experience issues meeting near-term liabilities.** Adjusted P/B ratio for GWEST has trended lower since listing, reaching a high of 2.83x on January 2, 2018 to a low of 0.76x on February 11, 2019.

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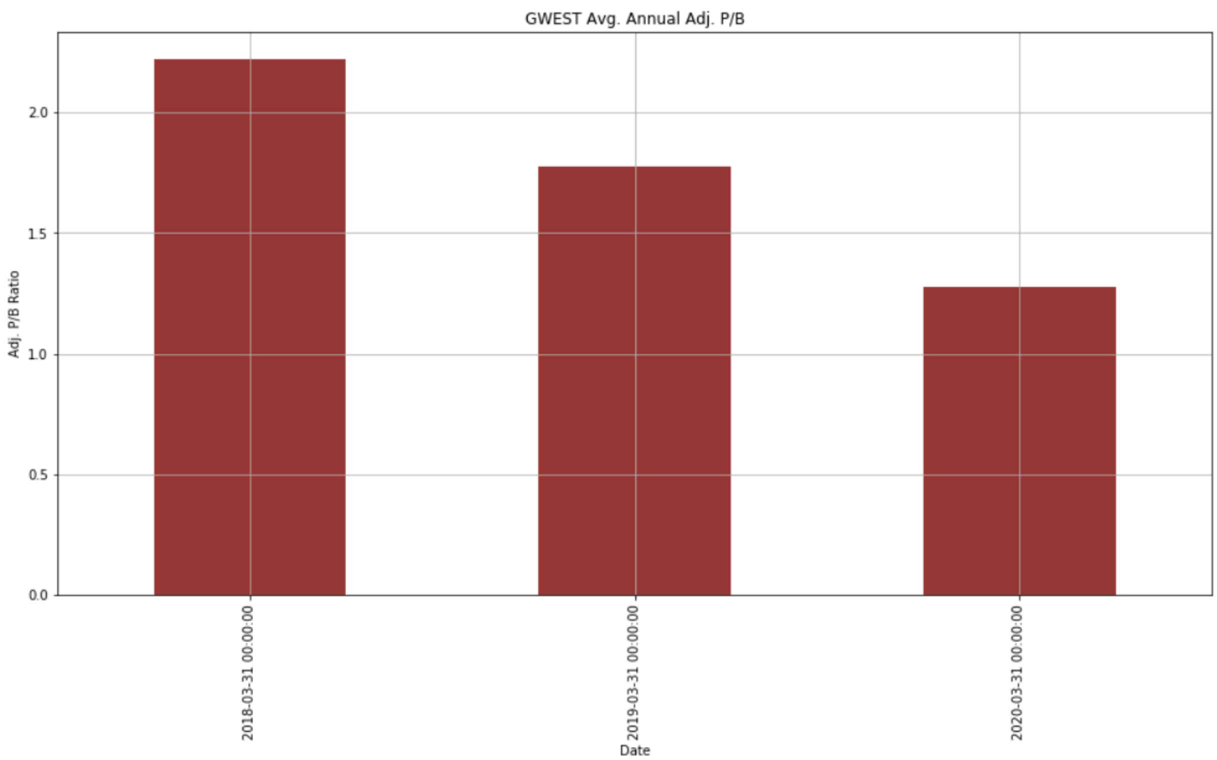
Below we present two charts to show the trend of adjusted P/B for GWEST. It shows a clear pattern of a decrease in adjusted P/B for GWEST as the company continues to produce losses.

Forecast and Valuation

We used the relative value approach to arrive at our base case target of $0.72. Using absolute value approaches such as free cash flow and dividend discount models are inappropriate given negative cash flow expectations which, also impedes the payment of dividends. Therefore, at this point the most credible valuation method we see for GWEST in its current form is a relative value approach applied to BVPS projection**.** The bar chart below shows how the average adjusted P/B of GWEST has been declining each FY. The decline in adjusted P/B average seen in FY 2019 and FY 2020 is 20.19% and 28.05% respectively. Our expectation is FY 2021 could see a similar contraction in adjusted P/B given our expectation for a decline in earnings and book value. Making this adjustment our expectation for FY 2021 P/B is 0.97x, we see this as reasonable given our expectation for a loss in FY 2021 and the resulting impact on investor sentiment. Furthermore, given that the company does not produce sustainable profits it is reasonable to expect it to trade below an adjusted P/B of less than 1x. Meanwhile, for our lower and upper end price target we use the adjusted P/B minimum and maximum of 0.77x and 1.77x respectively over the last 52-weeks. This produces our lower and upper price targets of $0.57 and $1.32 respectively.



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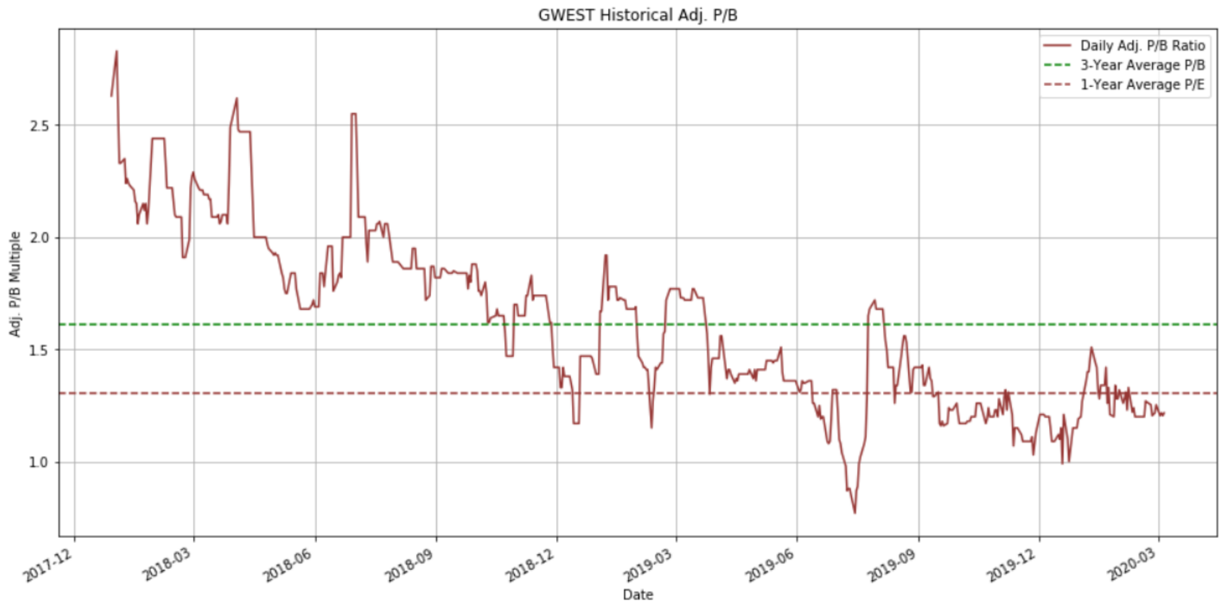

Outlook

We expect negative earnings and a decline in BVPS in the near-term. However, we see the potential for a significant improvement in earnings given initiatives underway, such as the approval for the use of health insurance cards and signed contracts with hotels and businesses in Montego Bay. While we don't expect the company to be profitable in the near-term, we do expect reduced losses. **Our optimism is curtailed by weak revenue growth seen in Q2 and Q3 FY 2020.** In Q3 FY 2020 revenue only grew by 1.65% to $32.92 million. Therefore, the expectations of robust growth from the approval of health cards being accepted does not seem to be materializing.

Key Risks to Our Price Target

Our projections see a low probability of GWEST posting profits in the near-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 this benefit began to matriculate in FY 2020, we don't expect the impact to create meaningful profits in the near to medium-term. Also, our 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.

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Recommendation:

We recommend a **STRONGLY UNDERWEIGHT** rating on GWEST at this point given that the stock trades above our price target. GWEST currently has an adjusted BVPS of $0.83 and trades at 1.22x (as at March 05, 2020) adjusted P/B. This is relatively high for a company that has negative cash flows and consistent losses, but below GWEST's average 1-year adjusted P/B 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.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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