

Jamaica Broilers Group Limited

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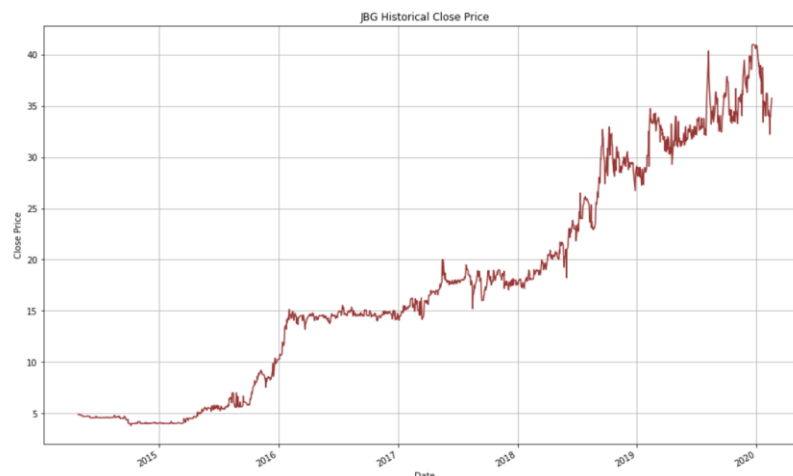
Executive Summary

Jamaica Broilers Group Limited (JBG) was incorporated in 1958 in Jamaica, with its registered office located at Content, McCooks Pen, St. Catherine. The primary activities of JBG include the production and distribution of poultry products, animal feeds and agricultural items. JBG is a vertically integrated group with the Jamaican operations being 100% self-sufficient in the production of poultry meat and eggs. JBG has several well-known brands, including The Best Dressed Chicken, Reggae Jammin, and Hamilton's Smokehouse.

JBG currently reports operations for its three major geographical segments, namely Jamaica, US and Haiti. Of which the Jamaican and US operations are the primary drivers of FY 2019 external revenue, contributing 65.13% and 30.52% respectively. Revenue has increased consistently for the period under review (FY 2015 to FY 2019), at a CAGR of 12.34% to \$55.06 billion. The principal driver of revenue growth has been the US operation which has increased at a CAGR of 23.91% for the same period to \$16.80 billion.

The primary assets on the company's balance sheet as at the end of FY 2019 are PP&E, inventory and biological assets. For the period under review, the company has produced a steady increase in total assets and equity. **Of note, in FY 2018 the company recorded a sudden equity decline due to a subsidiary purchasing a significant quantity of JBG shares.**

JBG has experienced P/E multiple contraction for the period FY 2012 to FY 2014, this changed in FY 2015 when the average P/E started to trend higher. However, FY 2020 average P/E is on pace to be marginally lower than FY 2019 average P/E, indicating that the rapid multiple expansion experienced in recent years may be coming to an end.



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Recent Developments

On September 18, 2019 Wincorp properties Inc. a subsidiary of JBG, acquired Gentry's Poultry Company (a poultry processing plant located in South Carolina, USA) for approximately \$1.5 billion. JBG indicated that this acquisition along with its other US operations will give it full vertical integration in the US.

In JBG's Q2 FY 2020 ended October 2019 revenue fell 4.02% or \$544.90 million to \$13 billion. The primary reason for the decline was external revenue from the Jamaica operations, which fell 5.14% or \$458.56 million to \$8.46 billion. However, gross profit margin in the quarter was 24.35% an increase from 22.41% in the corresponding period last year. This resulted in gross profit increasing 4.28% or \$130.06 million to \$3.17 billion in Q2 FY 2020. Meanwhile, profit was up 37.6% or \$86.75 million to \$317.2 million

Key Financial Data

Per Share Data	2015	2016	2017	2018	2019	CAGR	6M 2019	6M 2020	Change
Book Value Per Share (\$)	9.50	10.93	12.02	10.56	14.44	11.02%	12.70	15.13	19.13%
Earnings Per Share (\$)	0.86	1.45	1.86	1.64	2.30	27.76%	0.61	0.67	9.09%
Stock Price	4.75	14.36	16.97	20.51	31.59	60.59%	31.00	34.44	11.10%
Main Market Index	93,264.43	150,039.18	231,419.04	299,658.77	401,902.02	44.08%	365,133.89	495,187.93	35.62%
Dividends Per Share (\$)	0.17	0.26	0.35	0.34	0.17	-0.24%	-	0.19	N/A
Income Statement Data (\$,000)									
Total Revenue	34,570,050	38,520,649	44,444,248	48,280,867	55,057,931	12.34%	25,714,189	26,265,655	2.14%
Gross Profit	8,021,385	10,370,272	11,849,675	12,862,002	14,234,964	15.42%	6,215,250	6,491,337	4.44%
Other Gains/(Loss)	174,117	268,860	328,347	197,852	585,248	35.40%	142,167	102,534	-27.88%
Finance Income	145,781	159,078	379,379	474	366,817	25.95%	201,483	36,457	-81.91%
Finance Expense	704,701	693,804	647,238	714,897	988,587	8.83%	(471,454)	(518,153)	9.91%
Effective Tax Rate (%)	35.36%	24.29%	23.63%	24.05%	21.22%	-11.99%	32.70%	19.03%	-41.81%
Net Profit	1,036,168	1,744,195	2,228,844	1,961,380	2,365,563	22.92%	629,317	685,628	8.95%
Balance Sheet Data (\$,000)									
Total Assets	22,568,048	24,379,261	27,465,672	31,012,061	35,807,446	12.23%	33,153,455	37,778,469	13.95%
Current Assets	11,627,101	12,447,742	16,521,078	19,431,324	22,391,297	17.80%	20,660,897	23,659,848	14.52%
Common Equity	11,396,414	13,102,210	14,417,993	12,660,373	14,835,523	6.82%	13,022,202	15,493,749	18.98%
Debt	6,354,931	7,079,801	7,702,075	10,023,430	12,624,356	18.72%	12,102,574	14,207,492	17.39%
Total Liabilities	11,171,634	11,277,051	13,047,659	18,351,688	20,971,923	17.05%	20,131,253	22,284,720	10.70%
Current Liabilities	6,893,195	5,673,354	7,095,032	12,465,426	14,096,059	19.58%	14,448,578	14,828,810	2.63%
PP&E	9,939,598	10,501,877	7,062,286	8,186,112	10,106,694	0.42%	9,184,643	11,423,173	24.37%
Key Ratios									
ROE (%)	9.46%	14.24%	16.20%	14.49%	17.21%	Average 14.32%	14.40%	17.14%	19.03%
ROA (%)	4.83%	7.43%	8.60%	6.71%	7.08%	6.93%	6.54%	6.83%	4.45%
Gross Profit Margin (%)	23.20%	26.92%	26.66%	26.64%	25.85%	25.86%	24.17%	24.71%	2.25%
Net Profit Margin (%)	3.00%	4.53%	5.01%	4.06%	4.30%	4.18%	2.45%	2.61%	6.66%
Current Ratio	1.69	2.19	2.33	1.56	1.59	1.87	1.43	1.60	11.58%
Debt/Equity	0.56	0.54	0.53	0.79	0.85	0.65	0.94	0.92	-1.85%
Cash Conversion Cycle	37.95	38.05	39.45	37.04	32.75	37.05	40.10	40.12	0.05%
P/E Ratio	5.50	9.87	9.13	12.54	13.72	10.15	17.73	14.58	-17.74%
P/B Ratio	0.50	1.31	1.41	1.94	2.19	1.47	2.44	2.28	-6.75%
Dividend Payout Ratio	19.68%	17.88%	18.83%	20.79%	7.32%	16.90%	0.00%	28.37%	N/A
Dividend Growth	6.25%	52.94%	34.62%	-2.86%	-50.47%	8.10%	N/A	N/A	N/A
Stock Price Performance									
YoY Stock Price	-3.06%	202.32%	18.18%	20.86%	54.02%	58.46%	51.15%	9.02%	-82.36%
YoY Main Market Performance	25.02%	60.88%	54.24%	29.49%	34.12%	40.75%	21.85%	23.21%	6.23%

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Financial Overview

JBG has produced consistent revenue growth at a CAGR of 12.34% for the period under review FY 2015 to FY 2019, reaching record revenue of \$55.06 billion. Revenue growth accelerated to 14.04% in FY 2019, the primary driver of growth was external revenue from US Operations which was up 39.58% or \$4.76 billion to \$16.8 billion. Revenue growth for the US operations was supported by several US acquisitions completed in recent years. For the period under review, external revenue from Jamaica operations increased at a CAGR of 8.16%, easily eclipsed by the 23.91% CAGR experienced at the US segment over the same period. Meanwhile, gross profit was up at a CAGR of 15.42% for the period under review outpacing revenue growth. This is due to gross profit margin expansion which was at 23.20% in FY 2015 and improved to 25.95% in FY 2019.

The primary asset on JBG's balance sheet is property, plant & equipment accounting for 28.23% of JBG's total assets as at the end of FY 2019. The second-largest contributor to assets was biological assets which constitutes 19.06% of total assets. The main component to biological assets is poultry which are birds in the field including broilers, breeders and layer pullets. **Therefore, the company can be materially impacted by a disease outbreak among its biological assets.**

DuPont analysis indicates that the surge in FY 2019 ROE is due to an increase in its leverage ratio. Meanwhile, debt-to-equity remained relatively stable at about 0.5x for the period FY 2015 to FY 2017, however in FY 2018 and FY 2019 it increased significantly averaging 0.83x in those years. **This is due in part to increased debt to finance a surge in PP&E and treasury stock purchases in excess of \$3 billion in FY 2018.**

JBG has seen a steady decline in its cash conversion cycle to 32.75 days at the end of FY 2019. This is due in part to a decrease in days of sales outstanding and an increase in days of payables outstanding. The decrease in the cash conversion cycle reduces the amount of capital restricted in the sales process, which can result in improved efficiency at the company.

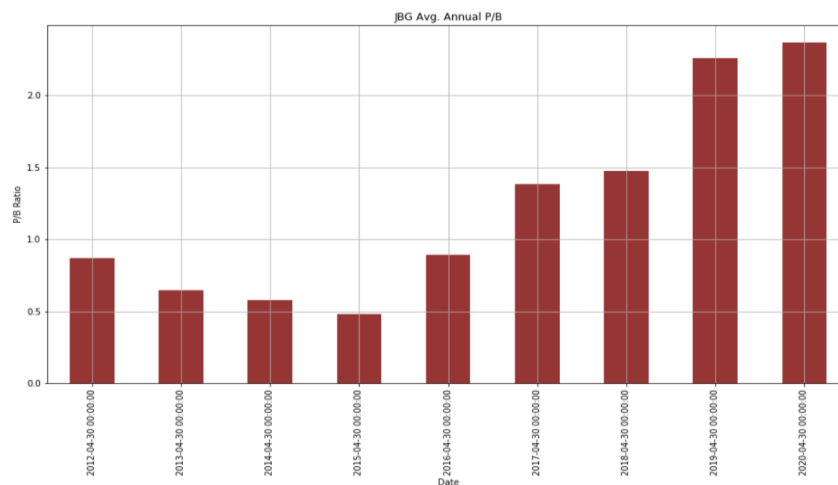
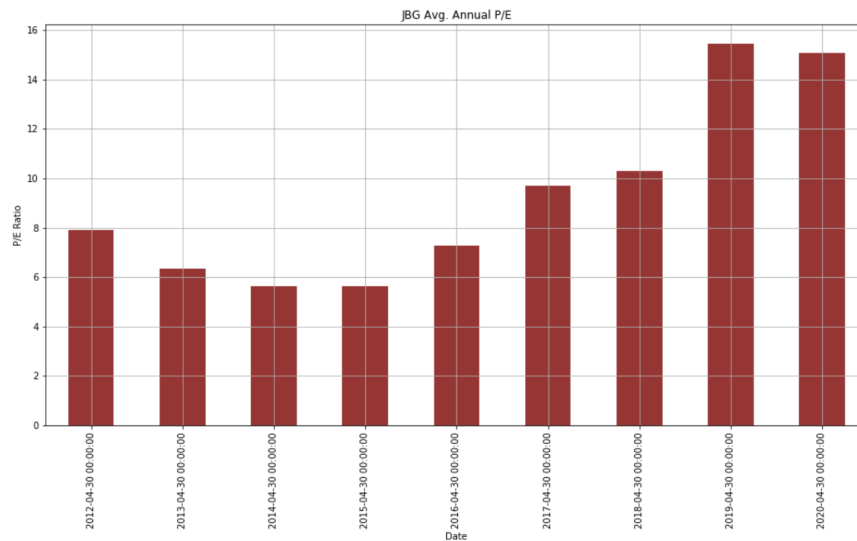
Forecast and Valuation

We arrived at our price target of \$45.57 using an average of the relative value and FCFE method. For the relative value method, we used our expectation for FY 2021 EPS and BVPS and then applied the 1-year average P/B and P/E multiples of JBG to arrive at our lower-end price target of \$42.06. Innate in our lower-end price target assumption is the sentiment towards JBG remains near recent levels. We view this as a realistic assumption given our expectation for strong EPS growth in FY 2021. However, our optimism is tempered given that average P/E and P/B of JBG in FY 2020 indicates multiple expansion is slowing. **Meanwhile, using a FCFE model we arrived at the upper-end price target of \$49.08.**

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JBG Peers - Main Market Food Retail and Manufacturing

Ticker	Market Cap(\$M)	P/E	P/B	ROA	ROE	Dividend Yield
JBG	36,552.74	15.04	2.38	10.97%	17.20%	1.10%
SALF	2,960.67	17.43	3.12	15.49%	18.81%	4.04%
SEP	38,824.20	32.88	2.55	3.33%	7.63%	1.89%
WISYNCO	84,198.23	26.79	6.73	17.68%	27.96%	0.85%
Average	40,633.96	23.04	3.70	11.87%	17.90%	1.97%



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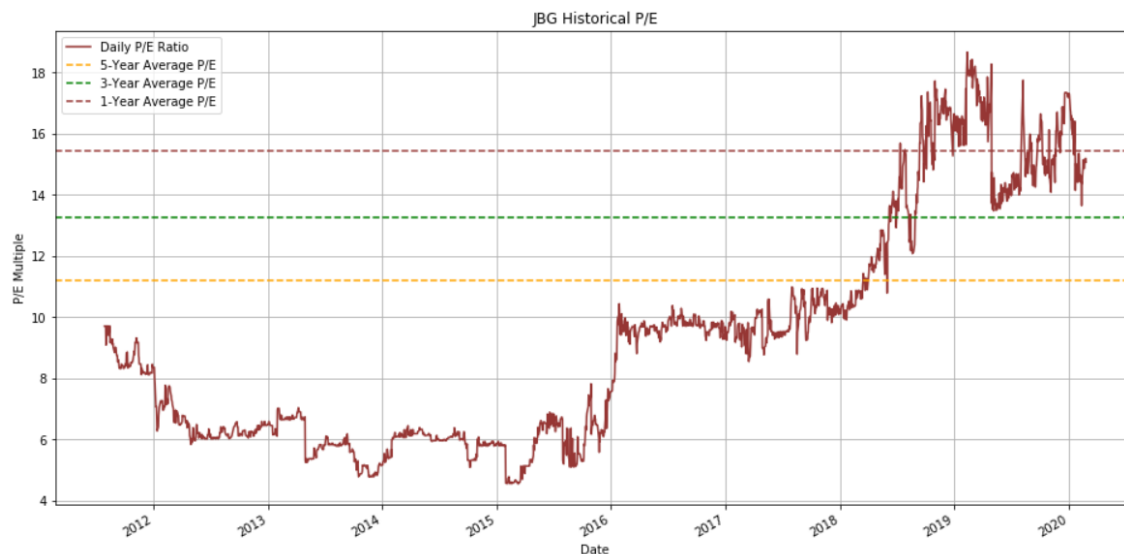
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Outlook

We expect the US segment to be the key growth engine for the company. As at the end of FY 2019 it accounted for 30.52% of JBG's external revenue. The US segment generated a CAGR of 23.91% or \$9.68 billion for the period under review. Meanwhile, the Jamaican operations produced revenue CAGR of 8.16% or \$9.65 billion over the same period. The growth in the US segment was aided by several acquisitions including a hatchery in Pennsylvania renamed International Poultry Breeders Hatcheries Inc. in FY 2018 and 'Crystal Feeds' mill in Georgia USA in FY 2019. We view this as a significant positive as the company hedges its exposure to the Jamaican economy and simultaneously increases its potential for growth. Our outlook is tempered by the weak performance that is expected to persist at the smaller Haitian operations.

Key Risks to Our Price Target

JBG has indicated increased advertising and promoting of the importation of poultry and eggs as a risk. In response, JBG has partnered with the local poultry sector to launch a national media campaign highlighting the thousands of Jamaicans who contribute to this sector. **We see the threat of imports as a significant risk factor.** In Q2 FY 2020 revenue from the Jamaican operations fell 5.14% this may be due in part to increased competition. The revenue decline is in sharp contrast to the consistent revenue growth experienced in the Jamaican operations for the period under review. Other risk considerations include FY 2021 earnings being materially below our forecast and sentiment towards the stock decline to its 5-year average.



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Recommendation:

We recommend a **MARKETWEIGHT** rating on JBG at this point given that the stock currently trades below our price target of \$45.57. We expect US operations to continue to drive revenue and profit growth. Furthermore the product offerings of the company is less impacted by economic downturns, offering diversification benefits for investors. Additionally, the geographical diversification aids the attractiveness of the stock. As indicated in the earlier table JBG trades below its peers on a P/E and P/B basis despite having credible potential for revenue and earnings growth, this indicates the stock is undervalued relative to peers. However, our view is somewhat tempered by recent weakness in the Jamaican and Haitian operations.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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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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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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