

Paramount Trading Jamaica Limited

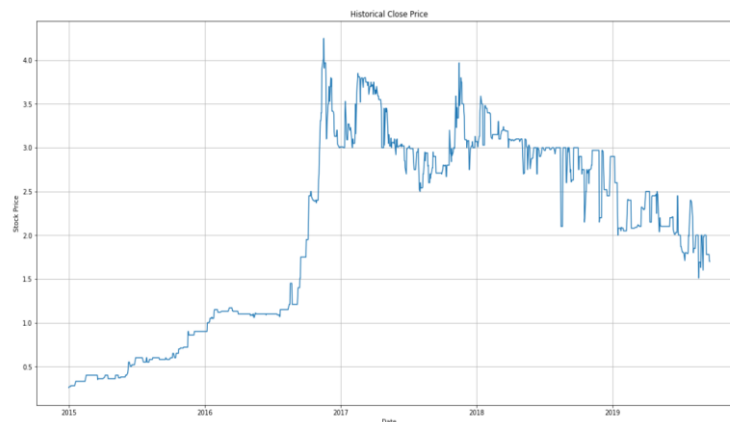
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INFRINGEMENT IN THE APPENDIX**

Executive Summary

Paramount Trading Jamaica (PTL) Limited was incorporated in 1991 and effectively listed on the Junior Market on December 31, 2012 at \$2.43 per share. 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.

PTL has experienced steady revenue growth, however profit growth has been elusive. For the period FY 2015 to FY 2019 (period under review). Revenue has grown monotonically resulting in a CAGR of 16.39% for the period under review. However profit growth has not fared as well declining at a CAGR of 19% for the same period. Profits peaked in FY 2016 at \$173.04 million and then declined materially in FY 2017 and subsequently in FY 2018. However PTL was able to produce marginal growth in FY 2019.

Below is the historical chart for PTL adjusted for the 10-for-1 stock split that was executed in November 2016. The stock began a rapid ascent in the latter part of calendar year (CY) 2017 in line with strong FY 2016 earnings and when a stock split was announced.



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Recent Developments

PTL reported earnings growth of \$4 million or 6.8% to \$62.64 million for the FY 2019. For the same period revenue increased by \$197 million or 14.1% to a record high of \$1.6 billion.

In March 2019, PTL issued 150 million preference shares at \$2.00 per share, raising \$300 million. The offer was for 8.75% fixed rate cumulative redeemable preference shares due in 2021, which pays holders monthly. The proceeds of the invitation were used to take advantage of opportunities for improvement and expansion of the business and provide working capital.

Key Financial Data

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	CAGR
BVPS	0.30	0.38	0.44	0.48	0.48	12.19%
EPS	0.09	0.11	0.07	0.04	0.04	-19.07%
Dividend Per Share	0.015	0.039	-	-	0.040	27.58%
Price	0.38	1.10	3.01	2.88	2.10	53.32%
Revenue	869,455,432	1,024,351,766	1,155,871,702	1,398,409,815	1,595,644,995	16.39%
Direct Expense	589,666,773	688,557,566	801,829,362	972,056,069	1,093,782,137	16.70%
Gross Profit	279,788,659	335,794,200	354,042,340	426,353,746	501,862,858	15.73%
EBITDA	162,673,265	192,371,939	131,559,955	121,657,585	133,218,854	-4.87%
Operating Expense	144,849,286	193,811,358	255,068,753	352,763,278	421,708,051	30.62%
Operating Profit	151,305,613	180,804,200	110,644,012	79,338,043	88,185,697	-12.63%
Interest Expense	6,867,690	9,483,834	10,747,259	13,253,914	14,201,555	19.92%
Pre-tax Profits	146,023,323	173,043,013	101,002,560	67,044,079	75,621,619	-15.17%
Profits	146,023,323	173,043,013	101,002,560	58,644,473	62,643,098	-19.07%
PP&E	93,584,263	126,571,503	239,971,127	263,597,645	360,287,984	40.08%
Cash and Cash Equivalents	43,061,392	80,920,662	49,633,811	28,205,145	45,455,080	1.36%
Current Assets	469,068,201	675,644,447	722,396,204	907,692,797	968,036,767	19.86%
Inventory	278,353,618	336,321,271	367,058,842	500,024,099	547,909,019	18.45%
Current Liabilities	123,488,508	268,230,651	293,376,925	427,444,133	504,894,457	42.20%
Total Assets	614,514,710	859,690,248	1,021,272,842	1,229,165,911	1,579,773,674	26.62%
Total Liabilities	146,623,725	278,912,466	339,492,500	488,741,096	838,404,444	54.64%
Debt	36,228,088	18,311,842	58,711,326	69,545,450	337,250,570	74.67%
Equity	467,890,985	580,777,782	681,780,342	740,424,815	741,369,230	12.19%
CFO	88,796,450	161,054,557	59,339,415	32,653,228	146,540,546	13.34%
CFI	15,844,898	39,510,773	129,594,537	65,946,060	141,723,594	72.94%
CFE	(39,264,786)	(78,072,462)	40,399,484	10,834,124	206,006,437	
FCFE	56,978,019	103,627,538	(29,855,638)	(22,458,708)	272,522,072	47.88%

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	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Average
Ratios						
Gross Margin	32.18%	32.78%	30.63%	30.49%	31.45%	31.51%
EBITDA Margin	18.71%	18.78%	11.38%	8.70%	8.35%	13.18%
Operating Margin	17.40%	17.65%	9.57%	5.67%	5.53%	11.17%
Net Profit Margin	16.79%	16.89%	8.74%	4.19%	3.93%	10.11%
Current Ratio	3.80	2.52	2.46	2.12	1.92	2.56
Debt-to-Equity	0.08	0.03	0.09	0.09	0.45	0.15
Inventory Turnover	2.45	2.24	2.28	2.24	2.09	2.26
Debt Ratio	0.06	0.02	0.06	0.06	0.21	0.08
Receivables Turnover		5.06	4.11	4.10	4.25	4.38
ROE	35.92%	33.00%	16.00%	8.25%	8.46%	20.32%
ROA	25.63%	23.48%	10.74%	5.21%	4.46%	13.90%
P/E	4.01	9.80	45.97	75.75	51.71	37.45
P/B	1.25	2.92	6.81	6.00	4.37	4.27
Payout Ratio	15.95%	34.76%	0.00%	0.00%	98.49%	29.84%
EBITDA Coverage	23.69	20.28	12.24	9.18	9.38	14.95
Interest Coverage Ratio	22.03	19.06	10.30	5.99	6.21	12.72
Cash Ratio	0.35	0.30	0.17	0.07	0.09	0.20

Financial Overview

Revenue growth has been consistent and increased at a CAGR of 16.39% for the period under review (FY 2015 – FY 2019). Meanwhile, EBITDA has remained relatively flat over the same period and peaked in FY 2016 at \$192.37 million, significantly higher than FY 2019 figure of \$133.22 million. The main reason for the limited growth in EBITDA has been operating expenses increasing at a CAGR of 30.51%, which is faster than revenue growth. This is primarily due to increased staff cost as the company endeavours to enter new business lines. Staff costs increased by \$60.6 million or 41.43% for in FY 2019 from FY 2018 levels. 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 \$547.91 million or 56.60% of current assets. The bulk of inventory is in chemicals amounting to \$294.13 million at the end of FY 2019. Meanwhile, the majority of liabilities is in the form of payables which was \$483.7 million or 57.7% of total liabilities at the end of FY 2019. More than half of payables at the end of FY 2019 was in foreign currency, creating currency risk.

EBITDA, Operating and Net Profit Margins have all declined from their peak levels in FY 2016. ROE for the company has steadily declined for the period under review peaking in FY 2015 at 35.92% and has declined to 8.46%. **Dupont analysis reveals that the primary reason for the fall in ROE has been the decline in NPM.**

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Key Assumptions & Projections



Our price target for PTL is \$0.73. We arrived at our price target using a combination of the relative value method and the dividend discount model (DDM). **We applied a 19.5x (4-year harmonic mean) multiple to our estimate of FY 2020 EPS to arrive at the upper end of our price target of \$0.85.** Evident above is PTL P/E multiple expansion which began in earnest around the time of its stock split. Subsequently, the P/E multiple continued higher as EPS declined rapidly; however, the stock price did not fall as aggressively. The lower end price target was derived using the DDM \$0.61. However, it should be noted that the company's recent track record of dividend payment has inconsistent.

Outlook & Recommendation

Our outlook on PTL is positive, given the ongoing investments and revenue growth. PTL's joint venture is in its nascent stage and has the potential for significant growth. However, we do view the rapid increase in administrative costs as an issue. We expect the growth of such expenses to recede and revenue growth to continue as the company completes its expansion programme. **However, our recommendation for PTL is a SELL.** This is because the rapid run-up in the stock price in earlier years, coupled with a steep decline in EPS resulted in the market price of PTL, implying growth well above our expectations. **Furthermore, the stock trades materially above our best-case price target.** While revenue has consistently increased for the period under review

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profit growth as failed to keep place declining more than 41 % in FY 2017 and FY 2018. Subsequently, in FY 2019, profits increased by 6.82%, producing a marginal recovery.

Source: JMMB Investment & Research, PTL Financials

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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STRONGLY UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 2.5% FOR THIS PARTICULAR ASSET

UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO 2.5% - 4.9% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

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

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

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