

## TransJamaican Highway

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INFRINGEMENT IN THE APPENDIX**

### Executive Summary

The National Road Operating and Constructing Company (NROCC) is inviting prospective investors to apply to purchase up to 8,000,000,000 Ordinary Shares in the capital of TransJamaican Highway Limited, the operators of the Highway 2000 East-West Toll Road, with the right to upsize the offer by an additional 2,000,000,000 Shares in the event of oversubscription. Of these shares, 5,362,962,963 are reserved for Reserved Shares Applicants, and 2,637,037,037 are available to the general public.

The shares are being offered at a price of US\$0.01 or J\$1.41 per share to all applicants. We recommend TransJamaican Highway Limited as MARKETWEIGHT and believe that the offer is suitable for income-seeking investors with a long-term investment horizon.

### Offer Details

|                |   |
|----------------|---|
| Offeror        | TransJamaican Highway Limited   |
| Securities     | Ordinary Shares   |
| Purchase Price | J\$1.41 or US\$0.01 per share for all applicants  |
| No. of Shares  | <p>8,000,000,000; subject to option to upsize by an additional 2,000,000,000 shares</p> <p>Up to 5,362,962,963 shares in the Offer for Sale are reserved:</p> <ul style="list-style-type: none"> <li>Up to 88,888,889 shares for employees of the Company and its key operating parties</li> <li>Up to 296,296,296 shares for eTag Customers of Highway 2000 East-West leg on record as at February 14, 2020</li> <li>Up to 829,629,630 shares for Public Sector employees</li> <li>Up to 2,074,074,074 shares for purchase by the Underwriters</li> <li>Up to 2,074,074,074 shares for purchase by Registered Pension Funds</li> </ul> <p>Up to 2,637,037,037 shares are reserved for the General Public</p> |

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|                         |   |
|-------------------------|---|
| Use of Proceeds         | <ol style="list-style-type: none"> <li>1. Pay Offer for Sale and Listing fees</li> <li>2. Redeem Equity Bridges Notes</li> <li>3. Balance to be used as determined by NROCC and Ministry of Finance and the Public Service</li> </ol>   |
| Lead Arranger/Co-Broker | NCB Capital Markets Limited/JMMB Securities Limited   |
| Basis of Allocation     | <p>Concession Companies Employees, eTag Customers and Public Sector Employees will be allocated shares from their respective reserve pools on a “pro-rata” basis until all applications are met or shares in the respective pools are full allocated</p> <p>Underwriters and Registered Pensions Funds will be allocated shares from their respective reserve pools based on the amounts that they have previously committed to apply for</p> <p>The General Public will be allocated shares from the General Public Pool on a “bottom-up” basis in tranches of 10,000 shares until all applications are met in full or shares in this pool are fully allocated</p> |
| Dividend Policy         | The Company is estimating an average dividend yield of approximately 18.8% to 27.8% for the 2020 to 2036 period   |
| Underwriting            | Approximately 79.69% of the 8,000,000,000 being offered has been underwritten by the Underwriters – NCB Capital Markets Limited & Jamaica Money Market Brokers Limited  |
| Listing                 | Company will apply to list shares on the US\$ Main Market of the JSE with a cross-listing on the J\$ Main Market of the JSE   |
| Timetable of Key Dates  | <p>Opening Date: 9:00 A.M. 17 February 2020</p> <p>Closing Date: 4:30 P.M. 9 March 2020</p>   |

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### Post-Offer for Sale Ownership Structure

| Shareholder                       | Shareholding                         | Percentage Ownership |
|-----------------------------------|--------------------------------------|----------------------|
| NROCC                             | 4,501,000,000                        | 36.0%                |
| Concession Companies<br>Employees | 88,888,8889                          | 0.7%                 |
| eTag Customers                    | 296,296,296                          | 2.4%                 |
| Public Sector Workers             | 829,629,630                          | 6.6%                 |
| Underwriters                      | 2,074,074,074                        | 16.6%                |
| Registered Pension Funds          | 2,074,074,074                        | 16.6%                |
| General Public                    | 2,637,037,037                        | 21.1%                |
| <b>Total</b>                      | <b>8,000,000,000 Ordinary Shares</b> | <b>100.00%</b>       |

### Company Overview

TJH was formed in 2001 and its business is the development, operation and maintenance of a tolled road network in Jamaica known as the “Highway 2000 East-West”. Highway 2000 East-West is a 49.9km tolled motorway with two sections: T1 – 43.5km between Kingston and May Pen and T2 – 6.5k between Portmore and Kingston. TJH, as concessionaire, operates Highway 2000 East-West under a concession agreement dated 21 November 2001 granted by NROCC. The concession is for a period of 35 years, with 16 years remaining.

Previously, TJH was owned jointly by Bouygues Travaux Publics, Vinci Construction, IFC, and Proparco. The Government of Jamaica, through (NROCC), purchased 100% of the ordinary shares in TJH on 23 December 2019. This acquisition has created the opportunity to make this Offer for Sale of up to 80% of the Company (assuming the offer is upsized) to Jamaicans.

Under the 2020 Amended & Restated Concession Agreement, TJH: has an option to renew the concession for a further 35 years, subject to the payment of a renewal concession fee, and was granted a first right of refusal to secure a similar concession to maintain, operate and/or own, once completed, the leg of Highway 2000 that will extend from May Pen to Williamsfield. This new leg will extend the length of the Toll Road by 50%.

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TJH operates four toll plazas located at: May Pen; Vineyards (Old Harbour); Spanish Town; and Portmore. Annual vehicle volume was approximately 24 million for the year ended December 31, 2019, up from 19 million in 2014. The operation and maintenance of the Toll Road has been outsourced to JIO (a joint venture between Vinci and Bouygues – two of the former shareholders in TJH). The Operating & Maintenance Agreement has been in place since September 2003 and was amended and restated in 2019. This agreement remains in effect and is renewable at 5-year intervals. JIO employs over 200 individuals who are responsible for road maintenance, toll collection, patrolling, security and surveillance among other activities.

### Use of Proceeds

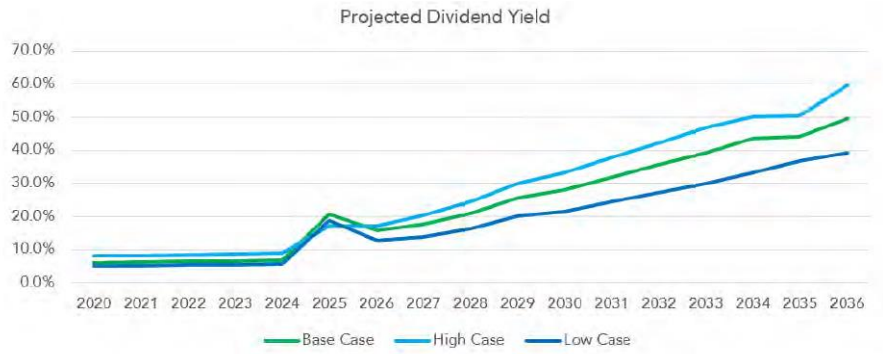
The funds raised in this Offer will be used to:

1. Pay for the Offer for Sale & Listing Expenses - US\$4,500,000/J\$634,500,000
2. Repay the debt in respect to the Equity Bridge Notes. NROCC raised debt to purchase the shares of TJH from the previous shareholders. This Offer fulfils the Government of Jamaica's strategic objective to promote direct public ownership by ordinary Jamaicans of key strategic national assets – US\$72,000,000/J\$10,152,000,000
3. NROCC and the Ministry of Finance & Public Service will decide on how to utilize the balance of proceeds – US\$3,500,000/J\$493,500,000

### Dividend Policy

The company is projecting dividend yields ranging from an average of 5.3% to 8.7% in 2020-2025 and an average of 24.5% to 35.8% thereafter as the 2036 Bond amortizes and distributable cash flows rise. The overall average dividend yield is projected to range from 18.8% to 27.8% for the period of 2020-2036. The charts below show that the expected trajectory of the dividend pay-out ratio, starting above 20% and rising to as high as 85% after 2024.

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Source: TransJamaican Highway Prospectus

## Corporate Governance

TJH’s Board of Directors currently consists of 4 independent directors and 3 non-independent directors. The Underwriters will have the right to appoint directors in line with their shareholding of TJH and the Company expects that this group will appoint at least 2 additional directors.

| Name                      | Bio   |
|---------------------------|---|
| <b>Charles (Chairman)</b> | <div style="text-align: center; background-color: #f2f2f2; padding: 5px;"><b>Independent</b></div> <p>Mr Paradis has over 20 years’ experience in civil engineering and management of shareholdings with Specific focus on road, tunnel and bridge projects in Hungary, Croatia, UK South Africa, Germany, France, Jamaica and South Korea.</p> |

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He was made Senior Vice President of Concessions prior to his appointment as Chief Executive Officer of Bouygues Construction Concessions in February 2003. He was also a member of the General Management Committee at Bouygues Construction. Charles Paradis graduated from Massachusetts Institute of Technology, the Ecole Polytechnique and the Ecole Nationale des Ponts et Chaussées. He has a master's degree in sciences- Civil Engineering, option Mechanics of Fluids as well as Engineer degrees.

### John Bell

John Bell is a director of Proven Wealth Limited, Cable & Wireless Jamaica Limited and Advantage General Insurance Limited as well as a past director of NCB Capital Markets Limited and a past Chairman of Salada Foods Jamaica Limited. Mr. Bell is a former partner of PricewaterhouseCoopers, where he was Lead Partner of the firm's Financial Services Audit and Assurance practice for several years. Mr. Bell has a B.Sc. degree in Economics and Accounting from the University of the West Indies. He is a Certified Accountant and a fellow of the Institute of Chartered Accountants of Jamaica.

### Ian Dear

Ian Dear is the founder and current Chairman and CEO of Margaritaville Caribbean Group (MCG), a hospitality company which has two subsidiaries publicly traded on the Jamaica Stock Exchange. Ian has served as a member and board member for several organizations which include the Jamaica Hotel and Tourist Association, the Private Sector Organization of Jamaica, Young President's Association, the Montego Bay Chamber of Commerce, the Jamaica Cruise Council and the Attractions Association of Jamaica.

### Julie Thompson-James

Julie Thompson-James is an Attorney at Law and founder of Cube Corporate Support Limited, a corporate governance advisory firm. Her legal experience spans over 19 years in both the private and public sector and includes: Complex Commercial & Civil Litigation; Banking, Insurance and Securities law; Company Law, Corporate Governance and Shareholder engagement.

Julie has held several directorships including the Director of Allied Insurance Brokers Limited, Director Students Loan Bureau. She holds a Bachelor of Laws (LLB), (Hons.) from the London School of Economics, Certificate of Legal Education from the Norman Manley Law School, and

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a Bachelor of Arts degree in Economics & Business Administration (Hons.) from Howard University.

### Non-Independent

#### Alok Jain

Alok Jain is a former partner of PricewaterhouseCoopers (PwC) where he held a number of leadership roles, most recently as leader of PwC's Advisory practice in the Caribbean. He previously served as leader of PwC's Assurance practice in Jamaica. Alok currently serves as a Consultant at the Office of the Prime Minister. He is an Adjunct Lecturer at the Mona School of Business and Management at the University of the West Indies. He is also a director of Mayberry Investments Limited.

Alok is a Chartered Accountant, Certified Information Systems Auditor as well as a CFA Charterholder. He has extensive experience in accounting, auditing as well as in corporate finance - privatization and public private partnerships (PPP), valuations of companies, due diligence investigations, "going public" and listing shares on the stock exchange, capital restructuring, and acquisitions and mergers.

#### Phillip Henriques

Phillip Henriques is presently Managing Director of Kingston Industrial Agencies Limited, a position he has held since 2002. He has been a director of the CHASE Fund since 2002 and assumed the chairmanship from 2007 until 2011. In 2012, he was again asked to serve as Chairman. Phillip is vastly experienced in the areas of strategic business development, leadership and management. He is also the current chairman of NROCC.

Phillip Henriques currently serves on the board of Kingston Ice Making Company and is Vice-Chairman of Hillel Academy High School. He has had the distinction of serving the people of Southeast St. Andrew as a representative/caretaker from 1999 to 2003. Mr. Henriques holds a B.Sc. degree in Business Administration and an MBA in Finance from Nova University in Florida. An avid sports enthusiast he is a member of the Kingston Cricket Club.

#### Ivan Anderson

Ivan Anderson is Managing Director of the National Road Operating and Constructing Company Limited (NROCC), which was formed to implement the Highway 2000 Toll Road project. He is the former Chief



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Executive Officer of the National Works Agency. He is also the former General Manager of the Urban Development Corporation.

Mr. Anderson holds a BSc in Engineering from the University of the West Indies, and an MBA from the University of Minnesota. He has also done graduate studies in Project Management and Urban Renewal (Rutgers University), Investment Appraisal and Management (Harvard University), among others.

### Underwriter Board Seats

At least two seats

## Financial Performance - USD

### Profitability

TJH reported revenues of \$52.43M for the financial year ended Dec. 31, 2018, a 13.7% or \$6.31M increase year-over-year and was up 14.3% from the 2016FY to the 2017FY. TJH attributed this growth to traffic which diverted to the Toll Road due to the construction works along the Nelson Mandela Highway. TJH noted that the growth rate observed during the construction period started to slow down in March 2019 when the expansion works were nearly complete and traffic volumes diverted back to the Nelson Mandela Highway. All toll plazas allow for both manual and electronic toll collection. For the year ended Dec. 31, 2018, approximately 70% of all tolls were paid in cash and the remainder (30%) were paid via pre-paid electronic tags.

Revenues grew at a compound average growth rate (CAGR) was 8.5% over the last five financial years. The growth in revenues over the review period is attributable to increases in the toll rates and greater traffic volume. Average daily traffic volume increased from 44,933 in 2013 to 65,456 in 2018. The weighted average toll rate was J\$286 in 2018, up from J\$209 in 2014. Average daily traffic volume had a CAGR of 9.9% while the weighted average toll rate's CAGR over the period was 8.4%.

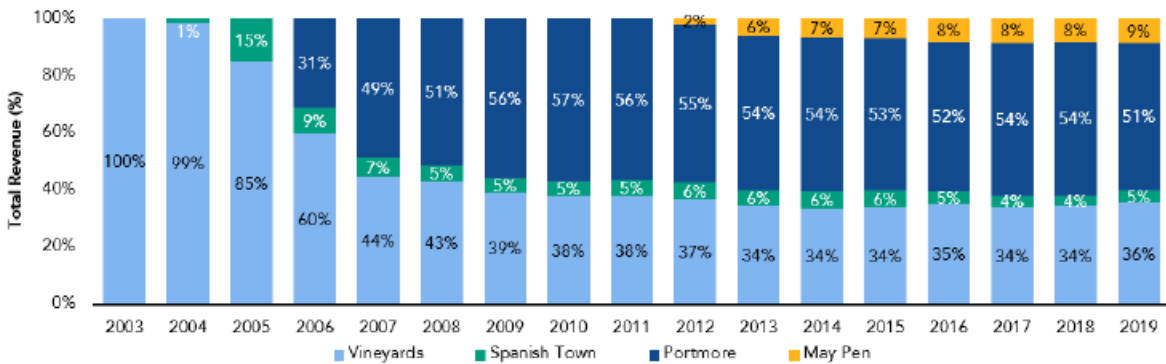
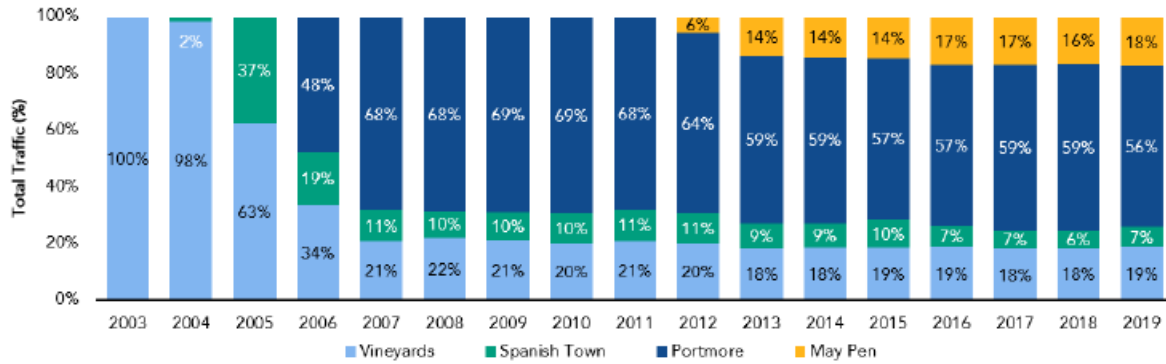
For the 2019 calendar year, the Portmore toll accounted for 56% of total traffic, May Pen accounted for 18%, Vineyards accounted for 19% while Spanish Town accounted for 7%. Portmore accounted for 51% of total toll revenues while Vineyards accounted for 36%, May Pen accounted for 9% and Spanish Town accounted for 5%. Vineyards accounted for 36% of revenues, but just 19% of traffic due to this leg having higher toll rates relative to the others.

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**Total Traffic Breakdown per Toll Station**



Source: TJH Prospectus

TJH also recorded other revenues of \$4.1M for 2018 which is primarily sourced from gains on financial market operations and financial income on investment instruments. Other income has grown from \$2.5M in 2014 and is attributable to a change in management strategy which resulted from more effective active treasury management and investment of funds. Prior to 2014, the Company did not invest its restricted cash and traditionally maintained funds in its operating bank accounts.

Other income was also driven by amortization of the NROCC grant. TJH entered into a loan conversion agreement with NROCC in February 2011 in order to convert debt obligations owed to NROCC. The agreement saw US\$89.59M of TJH’s outstanding debt being converted into an amortizing grant which was amortized using a projection of Toll Road traffic over the concession period. As of December 2019, this revenue stream will no longer exist due to the accelerated write-back of the grant.

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### TJH's Operating Performance 2014-2018



Operating expenses amounted to \$33.05M for the 2018FY, up 5.8% from the prior year. TJH's management has displayed prudent financial management as while revenues grew at an annual rate of 8.5% from 2013-2018, operating expenses grew at a rate of just 3.5% per annum over the same period. Operating costs consist primarily of operator fees (fixed & variable), repairs & maintenance, insurance, other expenses (bank charges, utilities, etc.) and amortization of intangibles. Amortization of intangible assets was the biggest expense line, amounting to \$16.2M in 2018, followed by operator fees of \$12.8M (\$11.2M - fixed fees and \$1.6M - variable fees). TJH records its concession as an intangible asset, which it amortizes yearly based on the projected usage of the highway during the concession period.

Administrative expenses amounted to \$1.13M and were up 6.5% year-over-year. Administrative expenses have been fairly consistent over the past 5 years, averaging \$1.08M per annum. As a result of the faster growth in revenues relative to expenses, TJH has seen an improvement in profitability over the past five years. EBITDA moved from \$18.94M in 2014 to \$35.22M in 2018 and EBITDA margin improved from 54.2% to 67.2%.

Finance costs amounted to \$15.37M in 2018, down 3.2% from 2017. Finance costs have steadily improved over the last five-years, coming from \$20.2M in 2014. This improvement was attributed to fair value gains on an interest rate swap and reduction in principal balances through semi-annual repayments of loans.

As such, Net profits surged in 2018 to \$6.35M, a 263.1% or \$4.6M improvement year-on-year. TJH profits increased for the second consecutive year in 2018 after reporting losses in the three years prior to 2017. The net profit margin in 2018 was 12.1%, up from 3.8% in the prior year.

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The return on assets improved to 2.0% from 0.5% while the return on equity improved to 11.0%, up from 3.0% in the prior year.

### *Liquidity & Solvency*

As at Dec. 31, 2018, TJH's total assets amounted to \$310.51M, down 5.8% or \$19.14M y-o-y. The main driver behind this decline was a 5.7% or \$16.22M decline in intangible assets to \$266.18. Total assets have declined at an average rate of 3.7% per annum over the review period, driven by a declining intangible asset balance.

Intangible assets are TJH's primary asset class, representing 86% of total assets at 2018 yearend, and consist of TJH's rights under the concession agreement. Historical cost includes costs of design, site installation, earthworks and construction of bridges, structures and pavements. Amortization is charged so as to write off these costs over the life of the concession period.

TJH also had a balance of \$3.03M in cash and bank balances as at Dec. 31, 2018, up 6.4% year-over-year, and \$39.25M in restricted cash (related to debt covenants), which was down 6.2% year-over-year.

Total liabilities amounted to \$253.56M, down 6.5% year-over-year. This performance was driven by a 7.5% or \$13.52M decline in total debt to \$166.34M. Shareholder's grant amounted to \$65.85M, down 5.2%. The grant represents NROCC's loan contribution to the project which was written off. Up to December 23, 2019, this grant was amortised based on expected traffic flows. This treatment was amended to reflect the grant as a one-time gain.

Derivative financial instrument stood at \$3.98M, down 28.2% year-over-year. This balance represents the fair value of an interest rate swap implemented by TJH with IFC. The facility was repaid on December 23, 2019. Provisions amounted to \$13.46M, up from \$13.0M a year prior, which represents estimated costs for scheduled repairs.

Shareholders' equity amounted to \$56.95M, down 2.7% year-over-year, due to a 35.3% decline in accumulated profits to \$2.95M. The decline in accumulated profit was driven by the distribution of \$7.96M dividend payment. Share capital was unchanged at \$54.0M, which consisted of \$27M in ordinary shares and \$27M in preference shares. The USD preference shares were redeemed by proceeds of a new issue of 8% JMD Cumulative Redeemable Preference shares as a part of the capital restructuring that preceded this Offer for Sale. This restructuring will result in the preference shares being reclassified as debt and not equity as was the case with the USD Preference Share.

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TJH's leverage ratio (debt/equity) stood at 2.92x, down from 3.07x a year prior. Net debt to EBITDA stood at 4.64x, down from 5.90x in 2017. The cash ratio was 0.15x, down from 0.17x while the current ratio was 0.19x, down from 0.24x a year prior.

Cash flow from operations has improved steadily over the past five years, moving from \$2.73M in 2014 to \$18.64M in 2018. This performance reflects steadily increasing revenues and reduced core operating expenses. The wide differential between cash flow from operations and net profit highlights the fact that a significant portion of the Company's expenses are non-cash. Free cash flow stood at \$18.68M, up from \$13.58M in the prior year. This was occasioned in part by subdued capital expenditure during the review period, as the Company has completed all major construction works.

### *Year-to-date Performance – Nine Months ended September 30, 2019*

TJH reported revenues of \$39.26M for the nine months period ended September 30, 2019, a 0.6% increase year-over-year. The marginal revenue growth reflected annual toll rate increases which began in July 2019, partially offset by decreased traffic flow since March 2019 at the Portmore Toll as a result of the near completion of the Nelson Mandela Highway construction works. While the Portmore Toll saw lower traffic numbers, the Spanish Town Toll plaza reported increased traffic as more users diverted to the Nelson Mandela Highway.

Operating expenses rose 6.0% to \$25.5M while finance costs climbed 23.6% to \$13.55M and administrative costs climbed 13.4% to \$844.0K. This resulted in a 63.4% decline in pre-tax profits which amounted to \$2.14M. The increase in operating expenses was largely due to a 7% increase in the amortization of intangible assets from US\$11.56M to US\$12.4M due to higher than projected toll usage and a 14% increase in the Operator's Monthly Fixed Fee.

The increase in finance costs reflected a US\$1.3M loss as of September 30, 2019 on the interest rate swap agreement (floating to fixed interest rate) related to the the IFC loan, compared to a gain of US\$1.9M in the comparable period of 2018.

EBITDA for the period stood at \$25.63M, down 1.5% from the prior year. The EBITDA margin stood at 65.3%, down from 66.7% in the prior year. Reduction in net profit resulted in a net profit margin of 5.4%, which compared to a margin of 15.0% in the previous year.

### **Investment Positives and Negatives**

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### Positives

Attractive business profile – Highway 2000 East-West represents a brownfield<sup>1</sup> investment with minimal operational risk relative to greenfield infrastructure projects. TJH enjoys stable traffic volumes and gross toll collections with limited volatility.

Fair Concession Agreement – The Agreement balances the economic consideration of operations and the value provided to users by providing for CPI-adjusted and J\$/US\$ exchange rate-linked toll rates. NROCC is also liable to compensate the Company for lost revenues if the Government promotes transportation that competes with the Toll Road or fails to approve toll rate adjustments in line with the Concession Agreement

TJH has the exclusive right to own and operate the Toll Road until 2036 and the exclusive option to extend this right for another 35 years for a fee payable to NROCC. TJH also has first right of refusal to own and operate the upcoming May Pen to Williamsfield leg of the highway (Phase 1C). These two opportunities representing potential upside if realized that was not accounted for in the Company's pricing or our valuation.

### Negatives

As it stands, TJH is set to hand back the Toll Road to the government in 2036. If the Company is unable to pay for the right to extend the concession agreement, their ability to continue as a going concern will be brought into question.

The Concession Agreement allows TJH to raise the toll rates to preserve its contractual IRR but price elasticity could see motorists diverting to alternate routes if tolls become burdensome and no longer represent an attractive value proposition

Development of alternative routes along the Toll Road may negatively impact TJH's traffic volumes and ultimately its revenues. This risk has already been realized as TJH noted a reduction in traffic at its Spanish Town plaza after 2015 due to the opening of the North-South Highway. Calendar year 2020 represents the first full year since the widening of the Nelson Mandela Highway. This is likely to impact traffic flow at the Portmore Toll Plaza

<sup>1</sup> A Brownfield Investment is a when an investor purchases or leases existing production facilities to launch new production. In this case, investors would be purchasing shares in an already constructed Toll Road that is fully operational

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JIO has operated the Toll Road since its inception and brings to the table its experience in infrastructure construction both locally and through the global access of its shareholders. To date, JIO has incurred no penalty points as a result of breaches in its contractual obligations

JIO operates under five-year contracts and the current Operation & Maintenance Agreement comes to an end in 2024. Operating expenses for TJH could be negatively impacted at the end of the contract if it is renewed at less attractive terms with JIO, or another Operator.

At the current price, an investment in the Company is expected to generate an internal rate of return (IRR) of 13% to 14% on USD. We view this return as attractive for brownfield investment.

Planned residential and commercial developments along the areas along which the Toll Road travels should continue to support revenue growth

The Company has stated plans to explore other areas such as secondary developments near the highway and will reorganize to take advantage of regional opportunities in construction and other infrastructure. These avenues could prove accretive to shareholders if materialized

### Outlook & Valuation

Investing in TJH gives investors the opportunity to take direct exposure to a nation-critical infrastructure investment. One can expect stable, predictable and consistent cash flows, making it an attractive proposition for investors primarily seeking income-based returns. The benefits of

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investing in an alternative asset class such as infrastructure is limited by the fact that investors would be taking equity exposure and as such will be vulnerable to market risks. As a brownfield investment, the upside for capital appreciation is limited unless the company is able to realize plans to diversify revenue streams. TJH's concession agreement's structure also makes it a good inflation hedge, as erosion in purchasing power can be passed on to toll users through toll increases.

### *Future Opportunities*

TJH has 18 years of experience in toll road development and management and believes its track record has demonstrated the Company's ability to execute on its mandate. As such, TJH aims to pursue opportunities in the near-, medium-, and long-term within and outside of Jamaica to continue these services amongst others. As currently constructed, TJH is prohibited from performing any non-concession related activities. As such, TJH aims to reorganize/restructure into a group of companies with special purpose vehicles through which TJH can make indirect investments outside the remit of the Concession Agreement.

In the near term, TJH has identified the US\$220M Montego Bay Perimeter Project as a possible investment opportunity. TJH would design and build, by partnering with a Construction Company, and own and operate the road under a long-term concession with GOJ/NROCC.

The table below displays some of the medium term opportunities the Company has also identified.

| North Cost Highway Projects            | Priority Improvement       | Length | Total budget including land, design, etc. US\$M |
|--|----------------------------|--------|---|
| Montego Bay Drainage                   | Improvement Work and Study | 2km    | 26.93   |
| Mamme Bay to Salem                     |                            | 12.3km | 102.98  |
| Sea Castle to Greenwood                |                            | 6.8km  | 56.93   |
| Runaway Bay/Salem/Discovery Bay Bypass |                            | 15.5km | 129.77  |
| Lucea Bypass                           |                            | 4.4km  | 31.37   |
| Port Maria/Oracabessa Bypass           |                            | 11.5km | 82.00   |
| Annotto Bay Bypass                     |                            | 6.5km  | 46.35   |
| Hopewell Bypass                        |                            | 7.3km  | 52.05   |

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To fund revenue enhancement projects, TJH may utilize: reopening the 2036 Bonds to fund only new activities that are allowable under the existing Concession Agreement such as Phase 1C; internal cash resources; rights issue, other public offerings and debt instruments to fund non-existing Concession Project activities under the reorganized TJH.

TJH is forecasting profits of \$2.89M for the 2019 financial year after booking \$22.53M in costs related to its refinancing at the close of the year and a tax credit of \$18.03M, which would offset the projected pre-tax loss stemming from the one-off finance costs. Adjusting for these one-offs, we calculated a net profit of \$6.2M which corresponds to earnings per share (EPS) of US\$0.0005 and a price to earnings (P/E) ratio of 20.28x.

We utilized the Discounted Cash Flow Model to determine the fair price as we believe it to be the most appropriate model for infrastructure investments. We forecasted free cash flows to the end of the current Concession Agreement and utilized a cost of equity of 11.3%. **Our model produced a price of J\$1.79, which represents a potential upside of 27.2%. Company projections place the average dividend yield at 18.8% per annum at low end and 27.8% at the high end.**

### Recommendation

**We recommend participation in this Offer and assign a MARKETWEIGHT/MARKETPERFORM rating to TransJamaican Highway Limited. We believe the offer is suitable for income-seeking investors with a long-term investment horizon.** We also believe that the potential for capital appreciation is limited in the current business model, but may improve if TJH is successful in its plans to diversify its revenue streams. The dividend yield is expected to increase as the Company's debt is amortized over time. This should lead to greater cash flows being made available for distribution to shareholders.

### Abridged Financials

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| US'000                                   | Year ended December 31 |          |          |          |          | %       | 9M ended Sept 30 |          | %      |
|--|------------------------|----------|----------|----------|----------|---------|------------------|----------|--------|
|  | 2014                   | 2015     | 2016     | 2017     | 2018     | Change  | 2018FY           | 2019FY   | Change |
| <b>Income Statement</b>                  |                        |          |          |          |          |         |                  |          |        |
| Revenue                                  | 34,958                 | 38,229   | 40,342   | 46,125   | 52,430   | 13.7%   | 39,020           | 39,264   | 0.6%   |
| Other Income                             | 2,472                  | 2,397    | 2,863    | 3,850    | 4,122    | 7.1%    | 2,548            | 2,734    | 7.3%   |
| Operating Expenses                       | (27,571)               | (28,558) | (30,174) | (31,228) | (33,049) | 5.8%    | (24,022)         | (25,467) | 6.0%   |
| Administrative Costs                     | (1,154)                | (1,036)  | (1,018)  | (1,061)  | (1,130)  |         | (744)            | (844)    | 13.4%  |
| Finance Costs                            | (20,174)               | (17,489) | (16,134) | (15,868) | (15,365) | -3.2%   | (10,964)         | (13,551) | 23.6%  |
| Pre-tax Profit                           | (11,469)               | (6,457)  | (4,121)  | 1,818    | 7,008    | 285.5%  | 5,838            | 2,136    | -63.4% |
| Net Profit                               | (11,469)               | (6,457)  | (4,121)  | 1,749    | 6,350    | 263.1%  | 5,838            | 2,136    | -63.4% |
| <b>Balance Sheet</b>                     |                        |          |          |          |          |         |                  |          |        |
| Total Assets                             | 363,871                | 351,776  | 339,379  | 329,653  | 310,511  | -5.8%   | 310,511          | 293,716  | -5.4%  |
| Total Liabilities                        | 296,483                | 290,845  | 282,569  | 271,094  | 253,560  | -6.5%   | 253,560          | 234,629  | -7.5%  |
| Shareholder's Equity                     | 67,388                 | 60,931   | 56,810   | 58,559   | 56,951   | -2.7%   | 56,951           | 59,087   | 3.8%   |
| <b>Cash Flows</b>                        |                        |          |          |          |          |         |                  |          |        |
| Net Cash Flows from Operating Activities | 2,734                  | 5,899    | 7,116    | 13,565   | 18,640   | 37.4%   | 13,259           | 11,098   | -16.3% |
| Net Cash Flows from Investing Activities | (1,752)                | (2,656)  | (1,646)  | (4,687)  | 3,377    | -172.1% | 982              | 3,999    | 307.2% |
| Net Cash Flows from Financing Activities | (1,040)                | (3,796)  | (4,468)  | (8,593)  | (21,480) | 150.0%  | (13,614)         | (15,425) | 13.3%  |
| <b>Key Ratios</b>                        |                        |          |          |          |          |         |                  |          |        |
| EBITDA margin                            | 18,937                 | 21,901   | 23,570   | 29,983   | 35,216   |         | 66.7%            | 65.3%    |        |
| EBITDA/interest expense                  | 0.94                   | 1.25     | 1.46     | 1.89     | 2.29     |         | 237.3%           | 189.2%   |        |
| Net Margin                               | -32.8%                 | -16.9%   | -10.2%   | 3.8%     | 12.1%    |         | 15.0%            | 5.4%     |        |
| Cash Ratio (x)                           | 0.21                   | 0.14     | 0.16     | 0.17     | 0.15     |         | 0.15             | 0.09     |        |
| Current Ratio (x)                        | 0.30                   | 0.20     | 0.20     | 0.24     | 0.19     |         | 0.19             | 0.12     |        |
| Debt/Equity (x)                          | 2.91                   | 3.16     | 3.31     | 3.07     | 2.92     |         | 2.92             | 2.56     |        |
| Net debt/EBITDA (x)                      | 10.24                  | 8.72     | 7.88     | 5.90     | 4.64     |         | -                | 4.28     |        |

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, IPO Prospectus

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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.

**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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