INVESTMENT AND SOVEREIGN RESEARCH *September-18-2020*

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Wisynco Group Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. Wisynco owns, manufactures and distributes a portfolio of beverage brands that include WATA and BIGGA Soft Drinks. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands SqueezZ and Hawaiian Punch. The Company also distributes Red Bull, Tru Juice, Freshhh, Welch's, Mott's and Snapple. The beverage portfolio is complimented by a range of grocery products from international brands such as Kellogg's, General Mills, Hershey Company, Butterball, Herr's, and Nestlé, as well as local brands such as Kremi. The Company is also the exclusive distributor for Worthy Park Estate spirits and sugar.

Using relative value valuation models, our average estimate of the fair price is $18.44, with a range of $11.45 to $22.35. As such, we recommend Wisynco as MARKETWEIGHT / MARKETPERFORM / HOLD as we believe the stock is priced below its intrinsic value. While we maintain a positive outlook on the Company, long-term, the short-term prospects face significant headwinds due to the ongoing impact of the coronavirus pandemic.

Company Overview

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. The parent company is Wisynco Group (Caribbean) Limited, a Barbadian International Business Company (IBC) while the ultimate controlling party is Evesam Investment Holdings Limited, a company incorporated in and resident of the Cayman Islands.

Wisynco owns, manufactures and distributes a portfolio of beverage brands that include WATA, cranberry-flavoured WATA, BOOM Energy Drink and BIGGA Soft Drink. The Company also owns and manufactures the SWEET brand range of plastic and foam disposable lunch boxes, plates and cups. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands SqueezZ and Hawaiian Punch and is the exclusive distributor for Worthy Park Estate Limited spirts and sugar

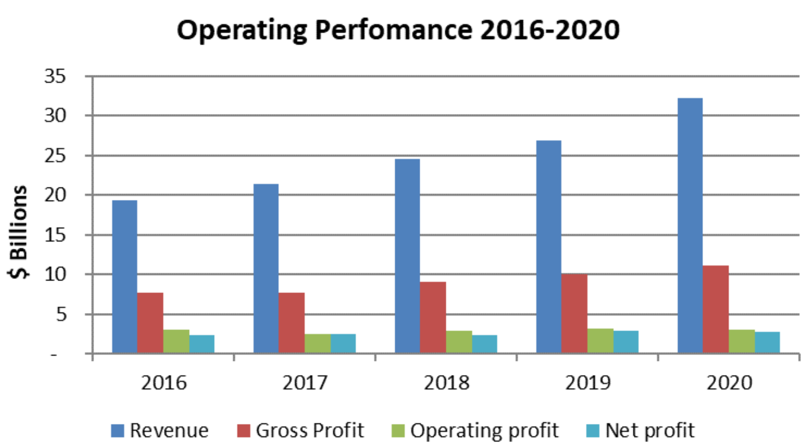
The Company also distributes Red Bull, Tru Juice Freshhh, Welch's, Mott's and Snapple. The beverage portfolio is complimented by a range of grocery products from international brands such as Kellogg's, General Mills, Hershey Company, Butterball, Herr's, and Nestlé, as well as local brands such as Kremi. The Company operates from a modern centralized 36,000 sq. ft. warehouse space and commands a fleet of over 60-owned and 300 contracted trucks. Wisynco distributes 126 brands with over 4,000 different products and has a direct customer base of over 12,000 customers.

Financial Overview – Year ended June 30, 2020

Profitability

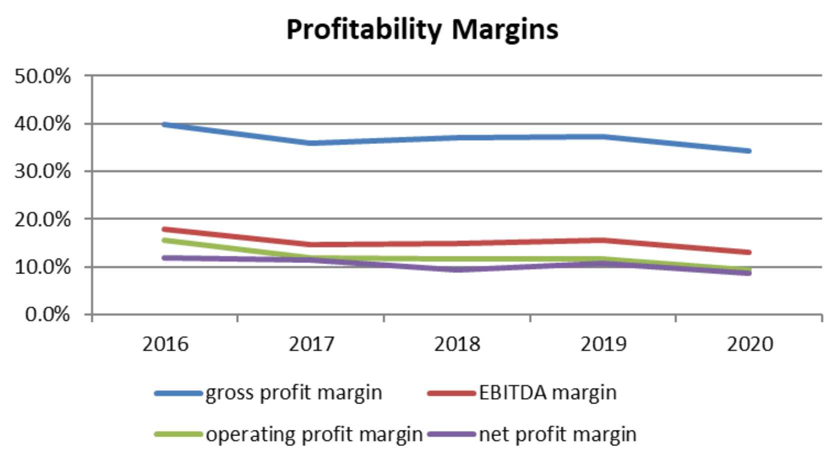
Wisynco reported revenues of $32.17B for the year ended June 2020, a 19.4% or $5.23B increase on the previous year's result. The Company was not spared the impact of the coronavirus pandemic as the revenue growth rate for the nine-month period ended March 2020 was 27.5% over the comparable period of the previous year.

Cost of goods sold rose by 25.1% year-over-year to $21.1B, resulting in a 9.9% increase in gross profits to $11.1B. The gross profit margin declined to 34.4% for the 2020FY, down from 37.4% in the previous year. Wisynco attributed this decline to an increase in the volume of lower margin products sold during the year as well as a reduction in revenues of higher margin products in the fourth quarter. Other operating income amounted to $142.65M, a 50.6% decline year-over-year. The major driver behind the decline in other income was a 95% decline in capital grants from $168.4M to $8.6M.



Operating expenses rose 12.9% to $8.2B while the operating expenses margin fell from 26.8% in the 2019FY to 25.3% in the 2020FY. Selling & Distribution expenses rose 10.8% to $6.8B while administrative expenses rose 24.8% to $1.37B. Wisynco's management stated that there was a focus on expense containment, particularly in the final quarter. However, operating profit was down 2.6% to $3.05B and the operating profit margin stood at 9.5%, down from 11.6% year-over-year. The increase in operating expenses and decline in other income drove this outcome in operating profits. EBITDA amounted to $4.21B, relatively unchanged (up 0.7%) from the prior year's result while the EBITDA margin fell to 13.1% from 15.5% in the 2019FY.

Finance costs fell 32.3% to $155.8M while finance income more than doubled (168.8%) to $320.5M. The increase in finance income was attributed to a sharp increase in foreign exchange gains, which rose 549.9% to $182.0M. This led to pre-tax profits of $3.2B, up 6.1% or $186.3M. Taxes of $557.6M were recorded for the year, a 13.4% increase on the previous year's figure. The effective tax rate rose to 17.3%, relative to 16.2% in the prior year.



Profit for the year from continuing operations amounted to $2.66B, up 4.7% year-over-year while profit from discontinued operations amounted to $139.7M, down 63.9% year-on-year. Net profit attributable to shareholders for the 2020FY amounted to $2.8B, down 4.3% from the prior year's result. The net profit margin moved from 10.9% to 8.7% in the 2020FY. Return on assets amounted to 15.1%, down from 17.5% in the previous year, while return on equity stood at 23.3% for the year, relative to 29.6% in the prior year period.

Wisynco Group Limited

Solvency & Liquidity

Wisynco reported total assets of $19.3B for the year ended June 30, 2020, an 8.4% or $1.5B increase over the previous year. This increase was mainly driven by a 24.6% or $976.2M increase in cash and short-term deposits to $4.95B, a 5.4% or $364.2M increase in property, plant & equipment to $7.1B, and a 243.0% or $316.9M increase in short-term investments. Inventories were also up 2.8% to $3.3B while investments in associates was up 1.7% to $604.3M. Long-term investments were down 65.4% to $131.3M while receivables and prepayments were down 2.2% to $2.5B.

Total liabilities amounted to $6.3B, down 5.9% or $392.9M year-over-year. Driving this decline was a 30.1% or $666.2M decline in long-term borrowings to $1.5B, partially offset by a 44.6% or $216.7M increase in short-term borrowings to $702.4M. Trade and other payables amounted to $3.3B, relatively unchanged year-over-year, while taxation payable stood at $437.3M, down 1.7% from the prior year. Deferred tax liabilities amounted to $155.6M, and was down 27.1% year-over-year.

Total debt amounted to $2.2B, down 16.7% or $449.5M year-over-year. Shareholders' equity amounted to $12.97B, up 17.0% from the prior year, as retained earnings rose 18.0% to $11.5B. Wisynco's leverage, as measured by the debt-to-equity ratio, stood at 0.17x, down from 0.24x a year prior. Wisynco's ability to service its debt obligations improved during the year, as the interest coverage ratio moved from 13.6x in the 2019FY to 19.6x.

Net cash provided by operating activities amounted to $3.67B, up 62% year-over-year, driving a 6.5% increase in cash & cash equivalents to $3.64B, as cash used in financing activities rose 164.9% to $1.49B. Driving the increase in net cash from operating activities was the 91% decline in spending on inventories from $1.02B in the 2019FY to $91.07M in the 2020FY. The net cash used in financing activities was driven by a 39.4% increase in long-term loans repaid to $525.0M and no long-term borrowings in the year, relative to $567.0M in the previous year.

The cash ratio improved to 1.09x, versus 0.93x a year prior while the current ratio rose from 2.32x to 2.47x. The cash conversion cycle deteriorated in the year, moving from 14 days to 28 days in the 2020FY. This result was largely due to an decrease in days payables outstanding from 78 days to 58 days, which offset improvements in days sales outstanding and days inventory outstanding. Days sales outstanding improved to 29 days from 33 days while days inventory outstanding declined to 57 days, compared to 59 days in the prior year.

Cash Conversion Cycle	*Days*				
Year	**2016**	**2017**	**2018**	**2019**	**2020**
DIO	47	47	49	59	57
DSO	39	37	31	33	29
DPO	86	87	84	78	58
CCC	**0**	**-3**	**-3**	**14**	**28**

Outlook & Valuation

In September 2018, the Jamaican government announced it would ban Styrofoam, single-use plastic bags and single-use plastic straws starting January 1, 2019. Following this announcement, in December 2019, Wisynco made the decision to discontinue its food packaging operations and made the positions of over 100 workers redundant in December 2019. As at September 2018, plastic straws represented less than 1/10th of 1% of the Company's revenue while Styrofoam represented 4% of total revenues and 3% of net profits.

As such, these results of the food packaging operations have been disaggregated in Wisynco's results and reported as "profits from discontinued operations". For the 2020FY, the results from discontinued operations were down 63.9%, totalling $139.7M. We can expect zero earnings from this line item in the current year.

Wisynco had implemented several cost containment measures heading into the 2020FY, but intensified its efforts in response to the fallout of the coronavirus pandemic. These measures included the centralisation of its cold store facilities as well as the construction of a LNG-powered, 2-megawatt energy plant at the Lakes Pen, St. Catherine location. The Cogen plant experienced delays due to COVID-19 but the Company was able to commission the engine and start production on July 16, 2020 and it has been running at 75% of capacity.

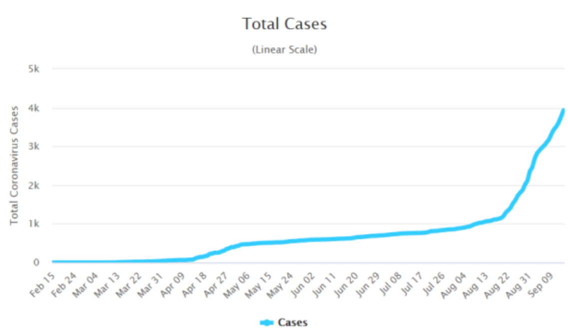
On the revenue generation side, in April 2019 the Company announced an agreement to acquire 30% of the shares in Jamaica Producers Group Limited's (JP) subsidiary, JP Snacks Caribbean – a holding company that will own the "JP St. Mary's" brand and JP's tropical snack manufacturing operations. The Company also negotiated a five-year exclusive distribution agreement with Worthy Park Estate Limited for the distribution of Worthy Park's sugar and spirits. The 2019/20FY was the first full year under these agreements, which Wisynco noted, contributed positively to top-line growth.

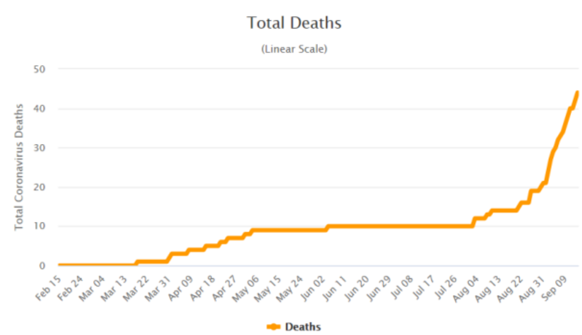
Wisynco Group Limited

The COVID-19 pandemic and the measures put in place to limit its spread by health authorities have significantly impacted Wisynco's operations, which, based on our calculations, led to a 32.8% decline in net profits year-over-year for 4Q20, and a 2.8% decline in revenues for the comparable period of the previous year. Wisynco's 9M20 results were strong enough to offset the decline in a quarter which was also affected by seasonality.

This sharp decline comes in a quarter in which the Planning Institute of Jamaica estimates real GDP declined by 18% with a 7.0% decline in the Goods Producing Industry and a 20.6% decline in the Services Industry. These declines were driven by no output from Alpart relative to being operational in the corresponding quarter of 2019 and the fallout of tourist arrivals & restaurants activities due to the impact of COVID-19 in the Mining & Quarrying and Hotel & Restaurants sectors, respectively.

At the time of this report, Jamaica is currently experiencing a surge in daily new cases and deaths related to the coronavirus pandemic as displayed in the charts below. As such, the probability of more stringent measures being implemented by health authorities is significant if Jamaica's situation worsens.





Source: https://www.worldometers.info/coronavirus/country/jamaica/

Valuation

We are forecasting revenues of $36.2B for the year ended June 30, 2021, a 12.4% increase year-over-year. Net profits are expected to decline by 7.7% to $2.70B ,which represents earnings per share of $0.72 (no. of share - 3,750,000,000). ***We are forecasting a forward book value of $12.14B as at June 30, 2020 which translates to a book value per share of $3.63.***

We employed the price-multiples approach to determine the fair price for Wisynco. ***The 1-year historical average for the P/E ratio is 26.63x, which when applied to the forward EPS of $0.72***

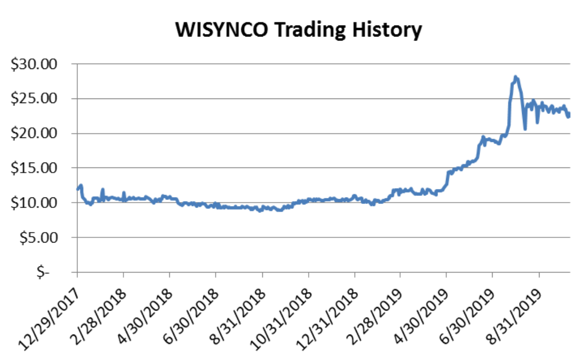
yields a price of $19.20. The 1-yr historical average for the P/B ratio is 6.15x, which when applied to the forward BVPS yields a price of $22.35.

Main Market Manufacturing Peer Group					
SYMBOL	**Market Capitalization ($B)**	**Price to Earnings (x)**	**Price to Book (x)**	**Return on Equity (%)**	**Return on Assets (%)**
Wisynco	61.50	21.95	4.74	23.3	15.1
Average	29.66	28.80	3.15	9.9	5.6

The P/E multiple for the peer group[1] is 28.80x which when applied to our forward EPS yields a price of $20.77 while the P/B for the peer group of 3.15x yields a price of $11.45. <u>Averaging these estimates yields a price of $18.44, 12.5% higher than the closing price of $16.40 on September 15, 2020.</u>

Recommendation

We recommend Wisynco at MARKETWEIGHT/MARKETPERFORM/HOLD, as we believe the stock is priced slightly above our estimate of its intrinsic value but also make note of the impact the ongoing coronavirus pandemic has had on Wisynco's 4Q20 results and the potential risks it poses for the current financial year.



We believe the company is sufficiently capitalized with high liquidity and relatively low leverage, which provides a cushion for shocks the company may face as the country continues to grapple with the economic impact of the curtailment measures that have been instituted to stem the transmission of the COVID-19 disease.

Like most stocks on the Jamaica Stock Exchange, Wisynco's share price plummeted in March 2020 but has since experienced some recovery, but is still below its price at the start of the year.

[1] Peer group: Berger Paints, Caribbean Cement, Jamaica Broilers, Salada Foods, Seprod, Wisynco

Wisynco Group Limited

Wisynco represents a "blue chip" corporate with strong brand equity and equally impressive financials with further growth potential as the majority of its revenues are generated locally. This investment is suitable for investors with a medium to high-risk tolerance, who are seeking capital appreciation and modest income generation.

Abridged Financials

J$000	Year Ended June 30					%
	2016	2017	2018	2019	2020	change
Revenues	**19,413,691**	**21,381,665**	**24,544,049**	**26,939,227**	**32,170,426**	**19.4%**
Cost of Goods Sold	11,676,741	13,705,311	15,421,144	16,867,965	21,103,363	25.1%
Gross Profit	**7,736,950**	**7,676,354**	**9,122,905**	**10,071,262**	**11,067,063**	**9.9%**
Operating Expenses	4,926,400	5,868,172	6,369,284	7,222,835	8,155,120	12.9%
Operating Profit	**3,023,205**	**2,551,720**	**2,845,778**	**3,137,083**	**3,054,597**	**-2.6%**
Profit Before Taxation	3,000,784	2,541,939	2,765,204	3,033,888	3,220,232	6.1%
Profit for the year	**2,298,701**	**2,255,627**	**2,251,370**	**2,542,165**	**2,662,667**	**4.7%**
Total Assets	**11,743,742**	**13,694,692**	**15,731,058**	**17,778,979**	**19,275,249**	**8.4%**
Total Liabilities	**5,621,411**	**6,134,392**	**7,040,897**	**6,693,398**	**6,300,476**	**-5.9%**
Shareholder's Equity	**6,122,331**	**7,554,560**	**8,690,161**	**11,085,581**	**12,974,773**	**17.0%**
EPS ($)	0.61	0.60	0.60	0.68	0.71	
Book Value per Share ($)	1.63	2.01	2.32	2.96	3.46	
Key Ratios						
Gross profit margin	39.9%	35.9%	37.2%	37.4%	34.4%	
Operating profit margin	15.6%	11.9%	11.6%	11.6%	9.5%	
Net Margin	11.8%	11.4%	9.3%	10.9%	8.7%	
Return on Average Equity	42.4%	35.8%	28.2%	29.6%	23.3%	
Return on Average Assets	42.4%	35.8%	28.2%	29.6%	23.3%	
Debt/Equity (x)	0.24	0.34	0.29	0.24	0.17	

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

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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