INVESTMENT AND SOVEREIGN RESEARCH *June-30-2021*

Your Best Interest At Heart. Full Stop.

Caribbean Producers (Jamaica) Limited

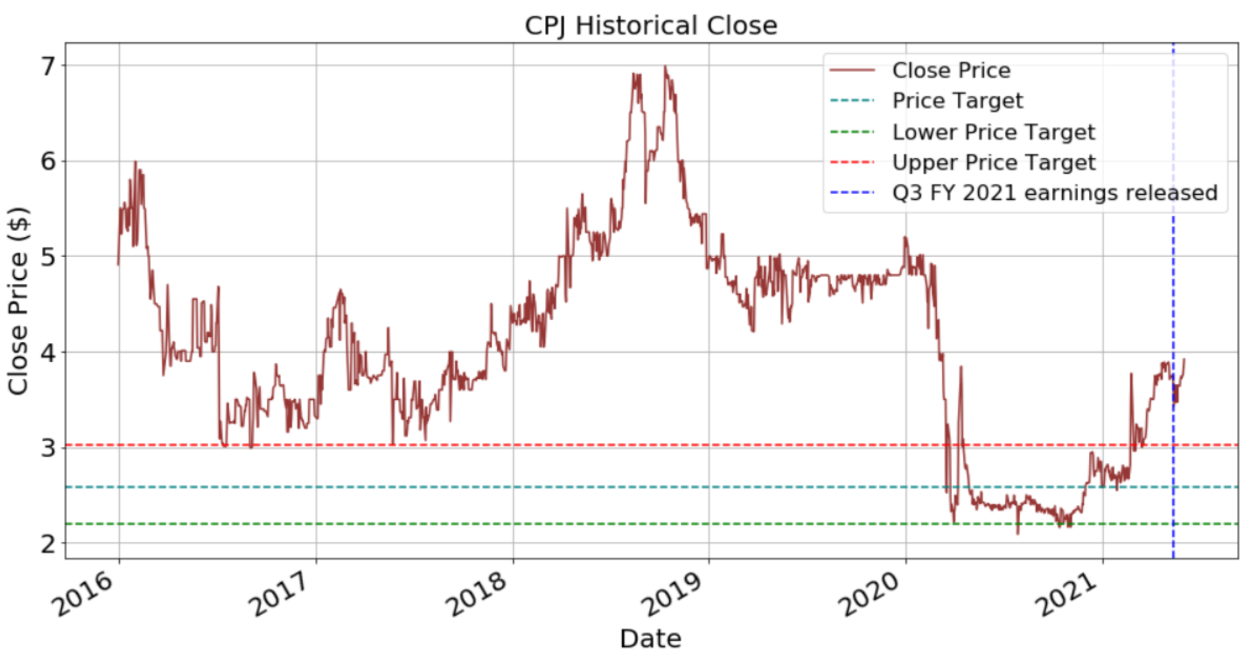
PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Caribbean Producers (Jamaica) Limited (CPJ) was founded in April 1994 by Mark Hart and Thomas Tyler as a distributor of consumable products to the hospitality industry. The Company's primary activities are the wholesale and distribution of food and drinks, the distribution of non-food supplies and the manufacture and distribution of fresh juices and meats. **CPJ listed on the Junior Market on July 20, 2011; therefore, it will no longer receive tax breaks associated with the Junior Market after July 2021.** CPJ holds 100% of the issued shares of CPJ Investments Limited (CPJIL). The primary activity of CPJIL is the holding of 51% investment in CPJ (St. Lucia) Limited, whose primary business is the wholesaling and distribution of food and drinks and distribution of non-food supplies in St. Lucia.

CPJ's revenue has trended higher from FY 2015 to FY 2019 however revenues fell 16.3% in FY 2020 due to the deleterious impact of COVID-19. The decline in revenue triggered a loss of US$4.1 million in FY 2020. The weakness in revenue and earnings continued in the 9M period ended March 2021, where revenue fell 56.8% to US$37.1 million. Meanwhile, losses for the 9M period grew to US$3.6 million.

CPJ's stock price has declined at an annual compounded rate of 14.06% for FY 2016 to FY 2020 (period under review), materially lower than the Junior Market Index increase of 4.09% over the same period. CPJ is a reasonably active stock with an average daily volume (ADV) of 199.1 thousand units traded each day over the past year.



Caribbean Producers (Jamaica) Limited

Recent Developments

CPJ's Q3 ended March 2021 revealed revenue declined 51.9% or US$13.7 million to US$12.7 million. The resurgence of COVID-19 severely impacted the first two months of Q3 FY 2021, resulting in weak results. **However, the Company indicated that it had experienced an improvement in revenue since the end of March 2021**. Although the decline in revenue resulted in CPJ gross profit declining 43.5% to US$3.5 million, the drop was dampened by an improvement in gross profit margin. In addition, CPJ was able to reduce selling and administrative expense by 37.3% to US$3.2 million, but it was not enough to stave off an operating loss of US$565.6 thousand.

CPJ has consistently produced losses since Q3 FY 2020 ended March 2020. **However, CPJ has managed to generate an operating cash flow of US$592.6 thousand for the 9M that ended March 2021.**

Financial Overview

Revenue has declined at a compounded annual rate of 0.6% between FY 2016 to FY 2020 (period under review). The weakness in the second half of FY 2020 due to COVID-19 triggered the revenue decline in FY 2020. The decline in revenue accelerated in FY 2021, with revenue declining 56.8% to US$37.1 million for the 9M period ended March 2021. Meanwhile, gross profit fell at a compounded annual rate of 4.6% due to a significant decline in gross profit margin in FY 2021. As a result, gross profit also declined for the 9M period ended March 2021 by 54% to US$9.9 million.

SG&A declined at a compounded annual rate of 1.22% to US$19.3 million for the period under review. The decline was primarily due to a 15.7% decline in expenses in FY 2020. The significant contributors to operating expense historically have been staff costs and motor vehicle expenses. In FY 2020, motor vehicle expenses fell 22.7% to US$2 million, while staff costs fell 15.8% to US$7.1 million, which are the major contributors to the lower SG&A. In addition, the decline in SG&A accelerated in the 9M period ended March 2021 to 42.9%, which helped to curtail CPJ's loss for the 9M period.

CPJ has increased its cash & cash equivalents at a CAGR of 10.9% for the period under review to US$6.1 million, aiding growth in its current ratio. Current assets declined at a compounded annual rate of 1.8% to US$38.6 million for the period under review. The decline in current assets was primarily due to the Company reducing its inventory by 24.3% in FY 2020. The most significant contributor to current assets is inventory which was US$ 24.1 million or 39.8% of total assets in FY 2020.

The 42% surge in non-current assets in FY 2020 was due to the adoption of IFRS 16, which resulted in right-of-use assets of US$7.4 million.

Caribbean Producers (Jamaica) Limited

CPJ's debt level has been relatively flat for the period under review, declining at a compounded annual rate of 1.8%. At the end of March 2021, debt levels are down 3.6% relative to the same period last year to US$25.9 million. However, CPJ's debt-to-equity ratio surged 18.1% to 1.45x due to the decline in equity. **Of note, in the audited report for FY 2019 and FY 2020, CPJ indicated that it was in breach of certain loan covenants and has obtained a waiver from the respective financial institutions.** The covenant breaches could negatively impact CPJ's ability to raise debt in the short term.

Operating cash flow surged in FY 2020 to US$6.9 million, the highest for the period under review. However, the surge in operating cash flow was against the backdrop of a US$4.3 million loss. The primary reason for the solid operating cash flow was a drawdown of inventory by US$7.8 million and a decline in accounts receivable by US$7.5 million. Meanwhile, for the 9M period ended March 2021, operating cash flow fell 87.3% to US$590 thousand due to weak earnings and cash outflow to reduce accounts payable.

Gross profit margin in FY 2019 and FY 2020 was low due to new IT system implementation issues and the negative impact of COVID-19, respectively. However, for the 9M period ended March 2021, the gross profit margin has increased relative to the similar period last year, which may be an early indication of sustainable improvement in operational efficiency.

CPJ has maintained a relatively high current ratio averaging 2.3x for the period under review, which indicates short-term liabilities can be readily met. Furthermore, CPJ continues to maintain its current ratio levels recording 2.4x at the end of March 2021.

Applying DuPont analysis to ROE reveals that the deterioration in net profit margin is responsible for the fall in ROE for the period under review. To a lesser extent, the decline in ROE has also been due to reduced asset turnover. It should be noted that this trend was observed from FY 2014, well before the negative impact of COVID-19 and IT issues.

For the period under review, inventory turnover has been relatively stable at 2.9x. However, since the end of December 2019, CPJ's inventory turnover has consistently declined to reach a low of 1.5x at the end of March 2021. The decline in inventory turnover was experienced despite falling inventory, highlighting the pace of sales decline.

Caribbean Producers (Jamaica) Limited

Abridged Financials

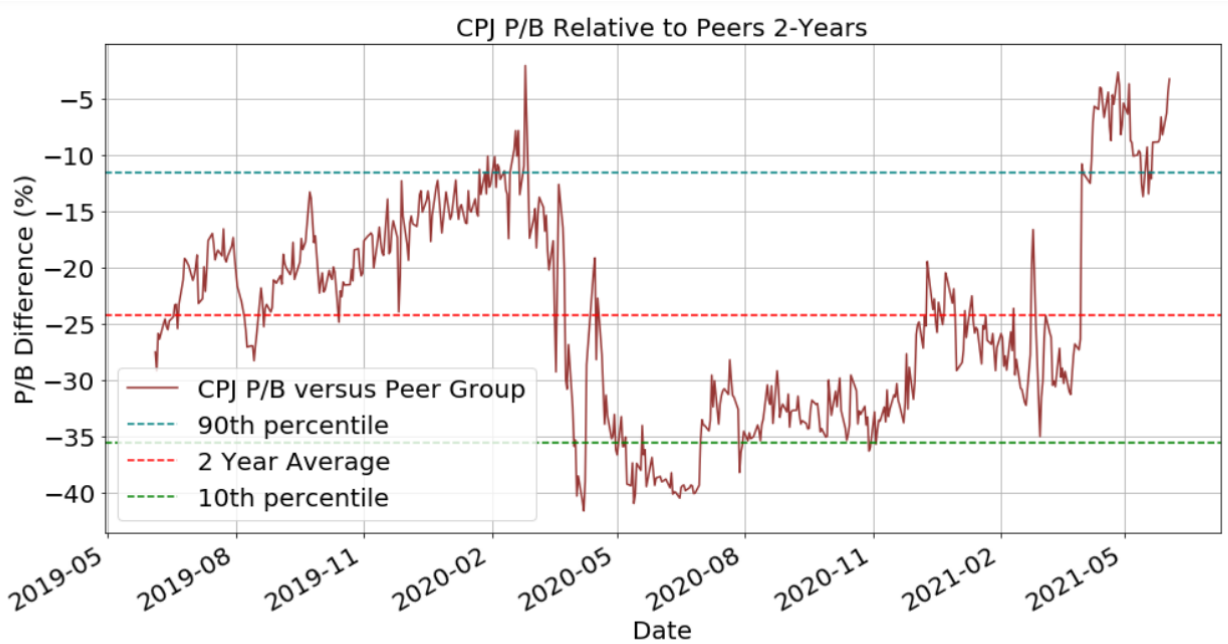
	2016	2017	2018	2019	2020	CAGR	9M 2020	9M 2021	Change
BVPS	2.23	2.56	2.79	2.62	2.28	6.88%	2.70	1.91	-29.23%
EPS	0.12	0.30	0.24	(0.14)	(0.51)	N/A	(0.00)	(0.48)	N/A
Dividend	0.11	-	0.06	-	-	N/A	-	-	N/A
Close Price	4.30	3.49	5.10	4.88	2.35	-14.06%	2.22	3.48	57.07%
Junior Market Index	2,208	3,222	3,038	3,104	2,592	4.09%	2,304	2,983	29.46%
Income Statement (In Millions)									
Revenue	94.10	98.29	107.80	109.62	91.70	-0.64%	85.92	37.11	-56.81%
Gross Profit	25.11	27.13	28.43	26.22	20.77	-4.63%	21.51	9.90	-53.99%
Selling & Admin. Expense	20.24	20.04	21.95	22.86	19.27	-1.22%	16.41	9.37	-42.89%
Operating Profit	2.55	4.62	4.31	0.39	(3.14)	N/A	1.93	(2.48)	N/A
Profits to CPJ Shareholders	1.05	2.55	2.10	(1.17)	(4.07)	N/A	(0.03)	(3.59)	N/A
Balance Sheet (In Millions)									
Cash & Cash Equivalents	4.00	2.76	3.76	4.21	6.05	10.86%	4.42	5.39	21.96%
Current Assets	41.43	41.30	44.88	51.97	38.55	-1.78%	50.60	34.54	-31.75%
Inventory	24.27	24.63	25.91	31.87	24.11	-0.16%	28.02	18.66	-33.43%
Non-Current Assets	14.42	13.28	13.51	15.50	22.01	11.16%	21.39	20.13	-5.88%
Total Assets	55.85	54.57	58.39	67.47	60.56	2.05%	71.99	54.67	-24.06%
Current Liabilities	18.69	15.35	18.00	27.20	16.76	-2.69%	24.08	14.39	-40.24%
Non-Current Liabilities	17.89	17.37	16.75	18.16	26.03	9.83%	25.80	26.30	1.94%
Debt	28.42	24.90	24.16	29.77	26.42	-1.81%	26.89	25.91	-3.64%
Equity	19.37	21.93	23.51	21.97	17.91	-1.95%	21.94	17.91	-18.40%
CFO	3.16	3.59	4.83	(0.12)	6.94	21.75%	4.65	0.59	-87.26%
CFI	(2.74)	(1.31)	(2.57)	(5.03)	(1.00)	N/A	(0.91)	(1.22)	33.31%
CFF	0.73	(3.76)	(1.80)	5.32	(3.15)	N/A	(2.71)	(0.69)	-74.52%
						Average			Change
Inventory Turnover	2.87	2.91	3.14	2.89	2.53	2.87	2.99	1.45	-51.71%
Gross Profit Margin	26.68%	27.61%	26.37%	23.92%	22.65%	25.45%	25.04%	26.68%	6.53%
Operating Margin	2.71%	4.70%	4.00%	0.36%	-3.43%	1.67%	2.24%	-6.68%	N/A
Net Profit Margin	1.11%	2.60%	1.95%	-1.07%	-4.44%	0.03%	-0.03%	-9.67%	N/A
Debt-to-Equity	1.47	1.14	1.03	1.35	1.48	1.29	1.23	1.45	18.10%
Current Ratio	2.22	2.69	2.49	1.91	2.30	2.32	2.10	2.40	14.22%
ROE	5.48%	12.37%	9.24%	-5.14%	-20.40%	0.31%	-0.84%	-44.87%	N/A
ROA	1.93%	4.63%	3.72%	-1.86%	-6.35%	0.41%	-0.27%	-12.85%	N/A
P/E	35.60	11.81	21.05	(34.81)	(4.58)	5.82	(599.98)	(7.27)	N/A
P/B	1.93	1.36	1.83	1.86	1.03	1.60	0.82	1.82	121.95%
Dividend Payout Ratio	91.07%	0.00%	24.77%	0.00%	0.00%	23.17%	0.00%	0.00%	N/A
Stock Performance	51.41%	-18.84%	46.13%	-4.31%	-51.94%	4.49%	-54.60%	48.37%	N/A
Junior Market Performance	141.39%	45.92%	-5.73%	2.17%	-16.48%	33.46%	-25.76%	15.07%	N/A

Forecast and Valuation

We used our projection of CPJ's FY 2022 BVPS and then applied the harmonic mean P/B multiple of peers (adjusted for historical differences) to arrive at our price target of $2.59. Intrinsic to our price target is the assumption that investor sentiment towards CPJ's peer group remains relatively stable. Below is a chart illustrating the relationship between CPJ's P/B ratio and its peer group average over the last two years. **We used the 90th and 10th percentile of the P/B valuation difference to derive the upper and lower price targets of $3.02 and $2.20, respectively.**

The chart below indicates that CPJ's P/B is close to its highest point relative to peers in the last two years. The surge in CPJ's P/B ratio relative to peers is partially due to DTL's significant decline in P/B due to its recent APO. Additionally, CPJ has significantly increased YTD outperforming the Junior Market year-to-date.

The elevated P/B of CPJ relative to peers is counter-intuitive given that CPJ has seen its fortunes deteriorate significantly by the pandemic while LASD and DTL have produced substantial profits.



Caribbean Producers (Jamaica) Limited

Junior Market Food Distributors					
Ticker	**Market Cap($M)**	**P/E**	**P/B**	**ROA**	**ROE**
LASD	14,036.99	15.43	2.17	9.11%	14.93%
DTL	10,537.83	23.65	1.99	4.52%	10.43%
CPJ	4,312.00	-3.88	2.05	-12.50%	-43.80%
EFRESH	780.00	-3.94	2.36	-22.30%	-46.02%
Average	7,416.70	19.54	2.14	6.82%	12.68%

Outlook

We expect CPJ to experience reduced losses in FY 2022 before returning to profitability in FY 2023. The COVID-19 vaccine role out in developed markets like the US will play a critical role in expanding the Company's revenue growth. Furthermore, the Company's ongoing investments include a more extensive retail outlet in St. Lucia and its operational IT infrastructure could aid revenue and efficiency improvements.

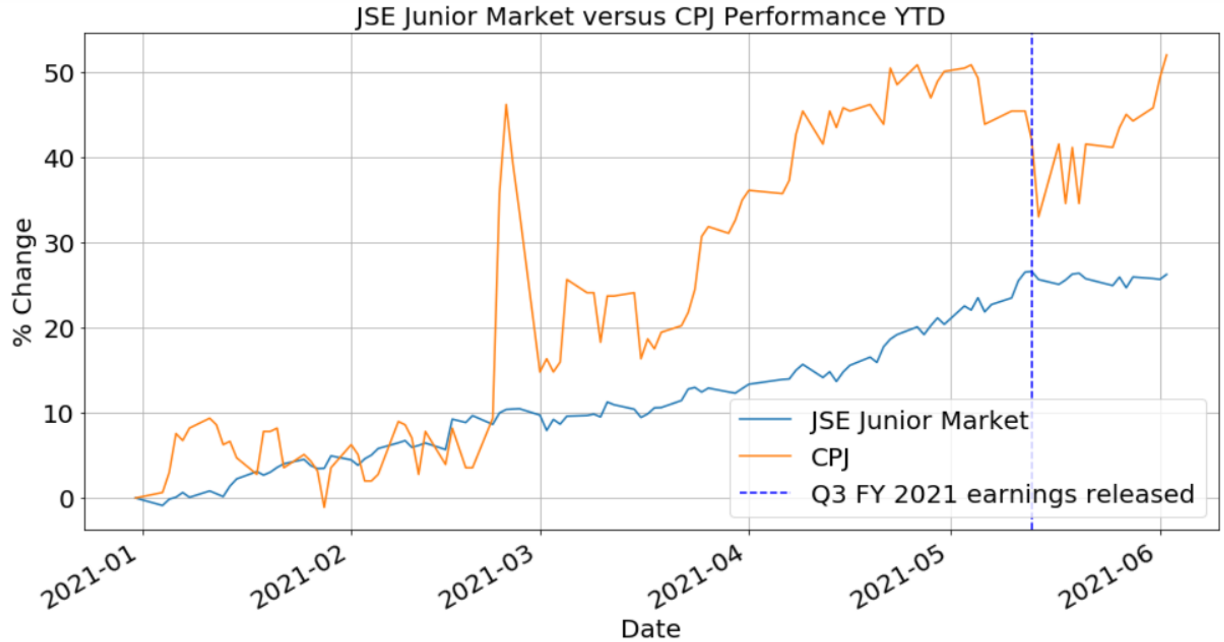
However, our outlook is tempered by CPJ's tax rate increase and decline in critical financial ratios. CPJ begins to pay taxes at the total applicable rate starting in July 2021, limiting earnings and cash flow growth. Furthermore, CPJ has seen a deterioration in financial ratios such as ROE and net profit margin pre-COVID-19. Therefore, post-COVID-19, a continuation of this trend could limit CPJ's growth potential.

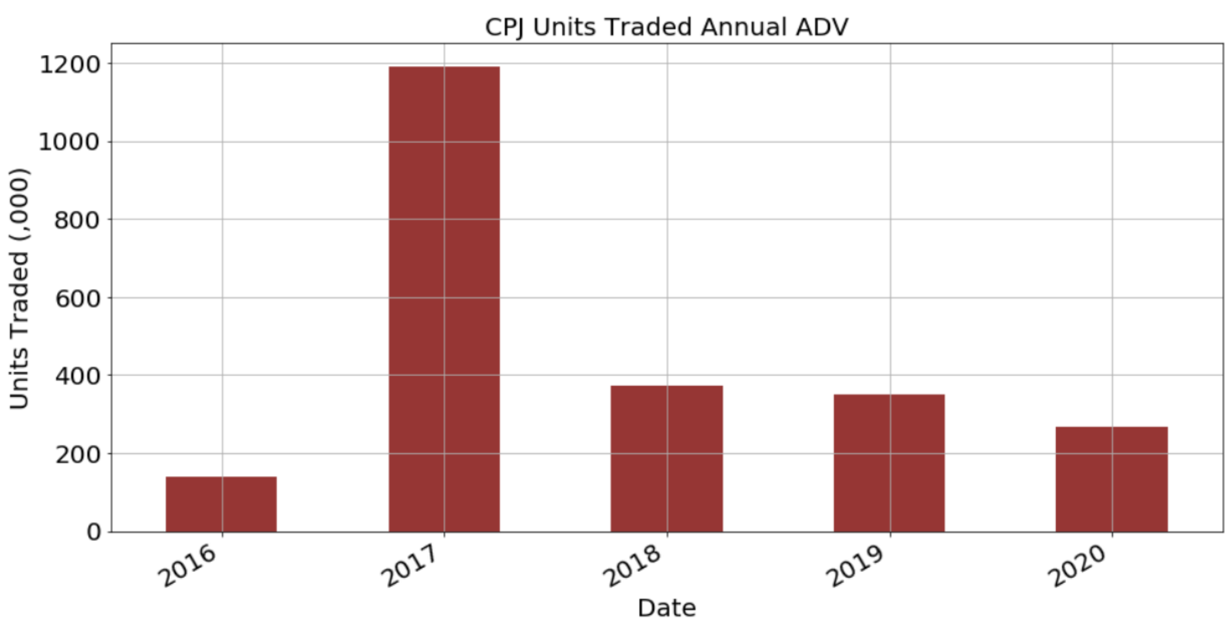
Recommendation:

Our current rating on CPJ is STRONGLY UNDERPERFORM due to it trading materially above our best-case price target of $3.02. Furthermore, we see several headwinds that could result in CPJ being unable to achieve meaningful profit growth. First, starting in July 2021, CPJ will begin to pay tax at the total applicable rate, which may curtail earnings growth. Second, some of CPJ's key ratios were deteriorating before the pandemic, indicating that even post-COVID-19, the Company may have challenges ahead.

Finally, CPJ's P/B ratio is high compared to historical levels despite underperforming peers. Therefore, on a comparable basis, CPJ seems to be overvalued. In our opinion, CPJ's current price reflects a pace of recovery in CPJ's fortunes that could be difficult to achieve.

Caribbean Producers (Jamaica) Limited





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%).

COPYRIGHT INFRINGEMENT

The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

Disclosure Under The Securities Act

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.