

Express Catering Limited

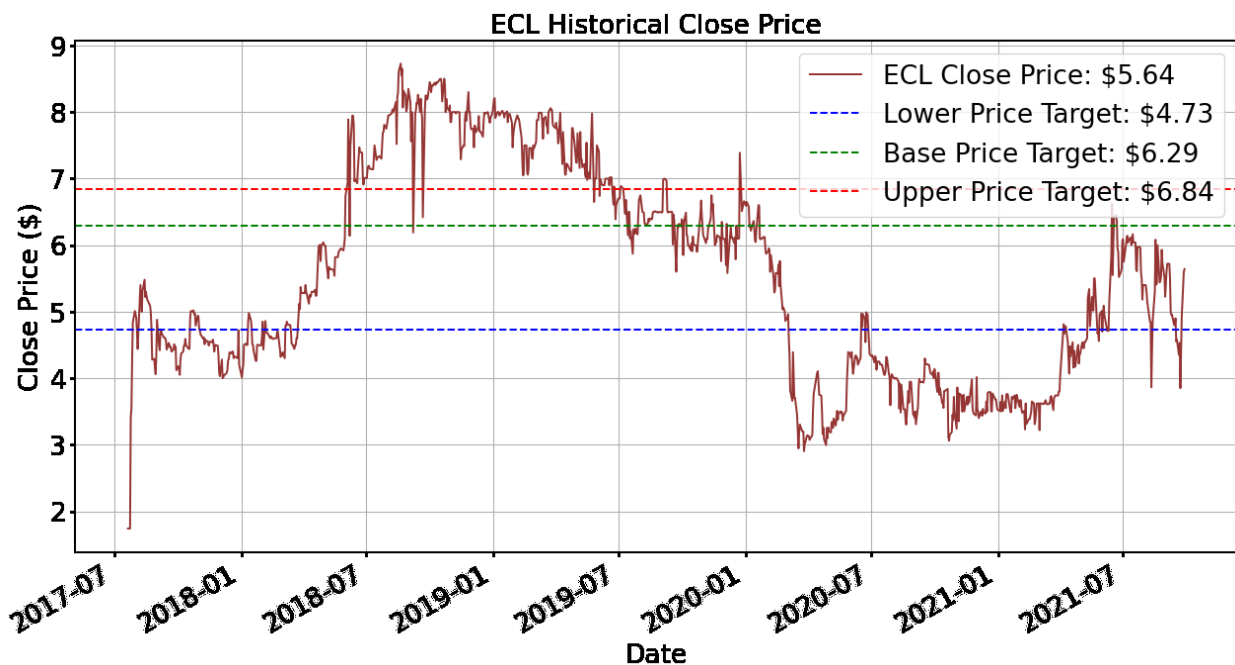
**PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT
INFRINGEMENT IN THE APPENDIX**

Executive Summary

On June 26, 2001 Express Catering Limited (ECL) was incorporated under the laws of Jamaica. ECL's primary activity is operating branded sports bars and restaurants at Sangster International Airport (SIA). The Company is a Margaritaville St. Lucia Inc subsidiary, whose ultimate parent is Margaritaville Caribbean Group Limited. ECL was listed on the Junior Market at J\$1.50 in July 2017.

ECL has been in operation since 2001, providing food and beverage offerings to millions of individuals arriving and departing via the SIA annually. The Company has been the primary food and beverage partner of MJB Airports Limited since 2011, when it negotiated a long-term contract to manage and supply the majority of food and beverage offerings at the SIA. ECL has a meaningful share of pre-security food and beverage offerings and exclusive rights for the post-security sections. ECL currently operates several international franchises, including Starbucks, Quiznos, Wendy's and Domino's.

Meanwhile, ECL is a relatively illiquid Junior Market stock trading an average daily volume of 34.9K units over the past year, valued at approximately \$157.9K. ECL currently trades at approximately 21.6x its BVPS, significantly above the 2.2x harmonic mean of the Junior Market. Meanwhile, ECL has a bid-ask spread averaging about 13.4% over the past month versus the Junior Market median of 5.5% over the same period, indicating a high implicit cost to purchase/sell the shares.



All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Express Catering Limited

Recent Developments

For the 1st quarter ended August 2021, revenue surged 719.3% to US\$3.6 million due to travel to and from Jamaica rebounding from the global pandemic. MJB Airports Limited recorded 452,922 departing passengers for Q1 FY 2022, a 5x increase compared to the prior financial year's comparable period, resulting in ECL recording material gains in operating profit and earnings. However, departures are 27% lower than the same period in 2019. Profits increased from a loss of US\$1.1 million in Q1 FY 2021 to US\$565.1K in Q1 FY 2022.

The expectation is for construction on the refurbished post-security food and beverage lounge to commence in September 2021. ECL expects to benefit from the updates in the upcoming winter season.

Abridged Financials (in US\$ Millions)

	YE 2017	YE 2018	YE 2019	YE 2020	YE 2021	CAGR	Q1 2021	Q1 2022	Chg. %
Share Price	-	6.10	7.50	4.39	5.01	-6.35%	3.46	5.22	51.20%
BVPS (JMD)	0.36	0.51	0.26	0.35	0.20	-13.27%	0.26	0.26	-1.13%
EPS (JMD)	0.08	0.27	0.30	0.13	(0.16)	N/A	(0.10)	0.05	N/A
Dividend Per Share (JMD)	-	0.12	0.58	0.07	-	N/A	-	-	N/A
JSE Junior Market	3,332	2,950	3,077	2,633	3,325	-0.05%	2,481	3,309	33.36%
Revenue	14.23	15.71	17.32	14.00	4.41	-25.38%	0.44	3.64	719.32%
Gross Profit	10.15	11.10	12.25	9.68	2.89	-26.98%	0.28	2.40	741.78%
Operating Profit	1.64	3.95	4.02	2.84	(1.54)	N/A	(0.77)	0.72	N/A
Profit	1.08	3.45	3.73	1.56	(1.73)	N/A	(1.08)	0.57	N/A
PP&E	4.44	4.65	4.39	27.13	30.15	61.40%	26.43	29.51	11.67%
Non-Current Assets	5.09	5.55	5.41	28.13	31.09	57.17%	27.40	30.42	10.99%
Cash & Cash Equivalents	0.39	0.39	0.26	0.18	0.42	2.27%	0.17	0.49	184.79%
Current Assets	4.47	6.86	3.12	4.33	8.72	18.18%	4.19	10.08	140.65%
Total Assets	9.56	12.41	8.53	32.47	39.81	42.84%	31.59	40.50	28.19%
Non-Current Liabilities	3.60	3.60	3.62	26.53	32.75	73.62%	26.61	32.37	21.68%
Current Liabilities	1.41	2.33	1.70	1.96	4.81	35.85%	2.10	5.32	153.73%
Debt	3.64	3.70	3.73	26.95	34.66	75.66%	27.01	34.21	26.64%
Debt (ex-lease obligation)	3.61	3.68	3.69	3.51	8.10	22.41%	3.50	8.12	131.91%
Equity	4.55	6.48	3.21	3.98	2.24	-16.21%	2.89	2.81	-2.95%
CFO/(Outflow)	(2.40)	2.76	7.58	2.94	(3.57)	10.36%	(0.23)	0.24	N/A
CFI/(Outflow)	2.72	(1.86)	(7.31)	(2.45)	4.01	10.18%	0.23	(0.11)	N/A
CFI(Outflow)	(0.11)	(0.97)	(0.41)	(0.39)	(0.26)	24.83%	(0.01)	(0.00)	N/A
FCFE	0.58	2.13	7.37	2.69	0.75	6.98%	(0.24)	0.24	N/A
						Average			
Gross Margin	71.32%	70.68%	70.75%	69.10%	65.41%	69.45%	64.11%	65.86%	2.74%
Operating Margin	11.51%	25.13%	23.23%	20.25%	-35.00%	9.03%	-173.34%	19.88%	N/A
Net Profit Margin	7.58%	21.95%	21.55%	11.17%	-39.31%	4.59%	-244.08%	15.53%	N/A
Current Ratio	3.16	2.94	1.84	2.21	1.81	239.27%	2.00	1.90	-5.15%
Cash Ratio	0.27	0.17	0.15	0.09	0.09	15.53%	0.08	0.09	12.24%
Debt-to-Equity	0.80	0.57	1.16	6.78	15.46	4.95	9.34	12.19	30.49%
Debt-to-Equity (ex-lease obligation)	0.79	0.57	1.15	0.88	3.62	1.40	1.21	2.89	138.96%
ROE	26.94%	62.52%	76.96%	43.51%	-55.80%	30.83%	-15.63%	-3.00%	N/A
ROA	13.82%	31.38%	35.64%	7.63%	-4.80%	16.73%	-2.72%	-0.24%	N/A
P/E	-	30.20	24.96	34.39	(32.82)	14.18	(64.43)	(1,380.63)	N/A
P/B	-	12.05	28.77	12.61	24.51	19.48	13.11	20.05	52.94%
Div. Payout Ratio	0.00%	43.55%	187.60%	51.29%	0.00%	56.49%	0.00%	0.00%	N/A
Div. Yield	0.00%	2.50%	7.45%	1.19%	0.00%	2.23%	0.00%	0.00%	N/A

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Express Catering Limited

Financial Overview

Revenue has declined at a CAGR of 25.4% to \$4.4 million for the period under review (FY 2017 – FY 2021), due primarily to revenue falling 68.5% in FY 2021, a direct consequence of the global pandemic's impact on ECL's performance. Meanwhile, revenue surged in Q1 FY 2022 ended August 2021, as travel in Jamaica continues to recover. However, Q1 FY 2022 revenue is 80.2% of pre-COVID levels recorded in the August 2019 quarter.

ECL produced an operating loss of US\$1.5 million in FY 2021 due to the decline in expenses not keeping pace with revenue decline. The Company was able to reduce administrative costs to US\$2 million. However, depreciation & amortization expenses marginally increased to US\$2.4 million. ECL increased its gross carrying amount of right of use assets in FY 2021 by US\$5.1 million, which contributed to the increase in depreciation & amortization.

At the end of FY 2021, the most significant contributors to assets are right-of-use assets, owed by related companies and PP&E, which accounts for 65.9%, 19.2% and 9.9% of total assets, respectively. The right-of-use assets represent property spaces leased by the Company, which emerged due to adopting IFRS 16 on leasing in FY 2020. The three primary contributors to PP&E and their respective amounts are 'Leasehold Improvements' (US\$1.5 million), 'Furniture and Fixtures' (US\$1.2 million) and 'Bar and Kitchen Equipment' (US\$925.3K). **Meanwhile, owing by related companies at the end of FY 2021 was due from Margaritaville Limited. The amount is unsecured and has no fixed repayment terms. At the end of August 2021, the amount due from Margaritaville Limited has reached a new high of US\$8.8 million. Given the significant size of this asset relative to ECL's total assets and equity, this poses a considerable risk to ECL's solvency.**

The Company's debt levels surged to US\$34.7 million at the end of FY 2021. This increase was most notable in FY 2020 due to adopting IFRS 16 in FY 2020, which increased liabilities associated with lease obligation. However, excluding this change, ECL's debt levels surged to US\$8.1 million in FY 2021 due to a US\$8 million loan from Sygnus Credit Investments Limited on December 15, 2021. ECL used the loan proceeds to refinance preference shares and business expansion. The financial covenants of the loan include ECL maintaining a minimum Debt Service Coverage Ratio of 1.25x and a maximum Debt to EBITDA ratio of 4x. **Therefore, ECL has some restrictions on growing its debt levels.**

ECL's equity declined 43.6% in FY 2021 due to a loss of \$1.7 million, eroding a significant portion of retained earnings. For the period under review, ECL's equity reached a low of US\$1.5 million for the quarter ended February 2021. In subsequent quarters ECL was able to grow equity to its current level of US\$2.8 million at the end of August 2021.

Operating cash flow has been volatile for the period under review peaking in FY 2019 at US\$7.6 million. The main reason for the increase was a repayment from a related party for US\$4.47 million. This aided ECL in producing a record financing cash outflow of US\$7.31 million in FY 2019. Meanwhile, in FY 2021, the cash outflow from operations was US\$3.6 million due to a significant cash outflow to related

Express Catering Limited

companies of US\$4 million. However, the Company generated a positive free cash flow due to a US\$8 million loan.

ECL's debt to equity (ex-lease obligation) ratio surged to 3.6x at the end of FY 2020 due to equity falling and debt surging simultaneously. However, debt to equity (ex-lease obligation) declined to 2.9x at the end of August 2021, primarily due to growth in equity. The Company could quickly improve the currently elevated debt-to-equity by continuing to improve its profitability.

Forecast and Valuation

We arrived at our price target of \$6.29 using the free cash flow to equity (FCFE) approach. Meanwhile, our upper- and lower-case price targets of \$6.84 and \$4.73 were arrived at using an FCFE model assuming two different revenue scenarios and, by extension, free cash flow. For the best-case scenario, we assume revenue rebounds to pre-COVID-19 levels beginning in Q2 FY 2022. Subsequently, in FY 2023, revenue continues to grow in line with its pre-COVID-19 historical rate. Meanwhile, for our worst-case scenario, we assume revenue for the rest of FY 2022 as a % of pre-COVID-19 levels deteriorates before recovering in FY 2023. Finally, for our base-case scenario, we estimate FY 2022 revenue as a % of pre-COVID-19 levels remains at the Q1 FY 2021 amount. After that, we estimate a rebound to pre-COVID-19 levels in FY 2023.

	Price Target	Implied Upside/(Downside)
Upper	6.84	21.28%
Base	6.29	11.47%
Lower	4.73	-16.16%

Outlook

ECL is poised to benefit significantly as travel to Jamaica continues to grow post-COVID-19. ECL has seen a strong rebound in profitability starting in Q4 FY 2021. We expect the Company to see continued improvement from its Q2 FY 2022 performance. MJB Airports Limited reported 452,922 total departing passengers for Q1 FY 2022, which is down 27% compared to the similar period in 2019. Although the decline is significant, departures are much improved versus the steep declines in FY 2021.

Therefore, while there remain uncertainties regarding COVID-19 variants and vaccine hesitancy, the current trajectory for ECL's revenue and earnings is favourable. Furthermore, protocols put in place by airlines and the high efficacy of vaccines have made travel relatively safe.

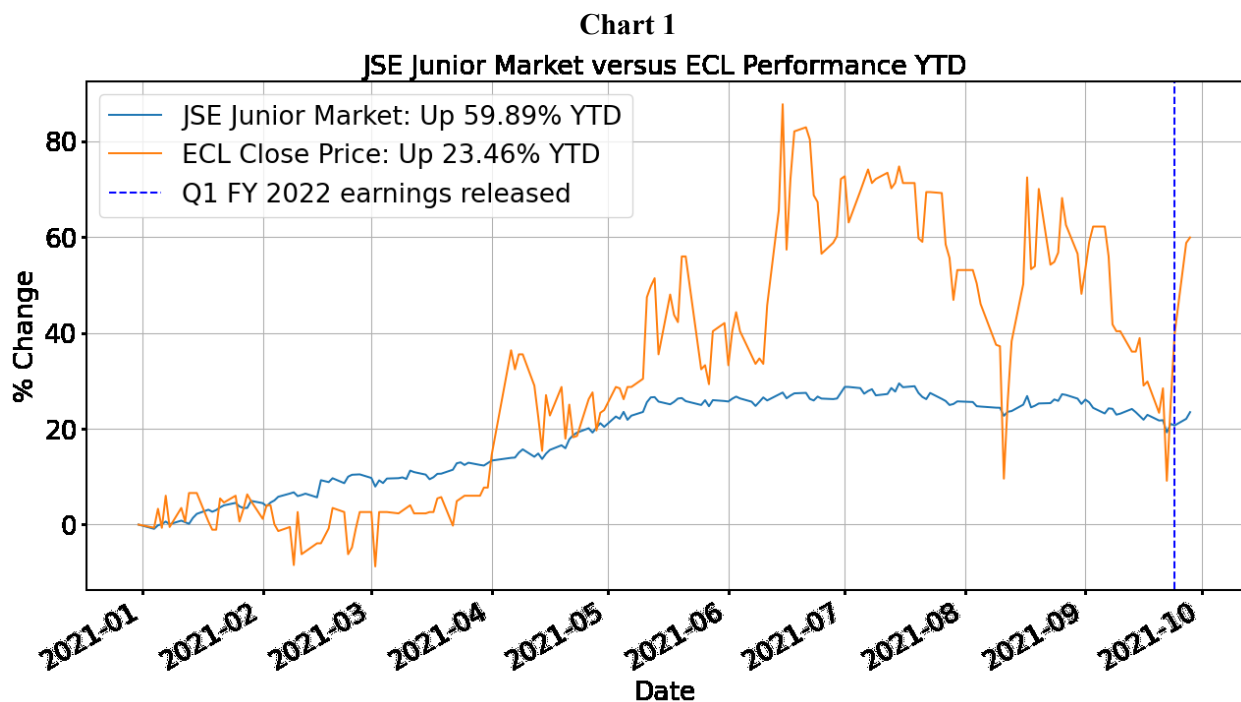
Express Catering Limited

Recommendation

We maintain our **UNDERWEIGHT** recommendation on ECL despite it trading lower than our base-case price target. **Our rating considers several factors, including the quality of balance sheet assets, the uncertainty surrounding the COVID-19 pandemic and the stock's liquidity.**

A significant asset on ECL's balance sheet is 'owing by related party', which is unsecured with no repayment date, creating significant concentrated credit risk. Meanwhile, the losses sustained in FY 2021 has significantly eroded ECL's equity. Furthermore, the Company's debt levels (ex-lease obligations) has surged, leaving little room for execution error in the near-term.

ECL has increased 59.9% YTD, significantly outperforming the JSE Junior Market increase of about 23.5% for the same period. Finally, ECL is a relatively illiquid Junior Market stock trading an average daily volume of 34.9K units over the past year, valued at approximately \$157.9K. **See charts 1 – 3 below for volume and value exchanged annually for the period under review and ECL's YTD performance.**



Express Catering Limited

Chart 2.

ECL Average Daily Volume (ADV)

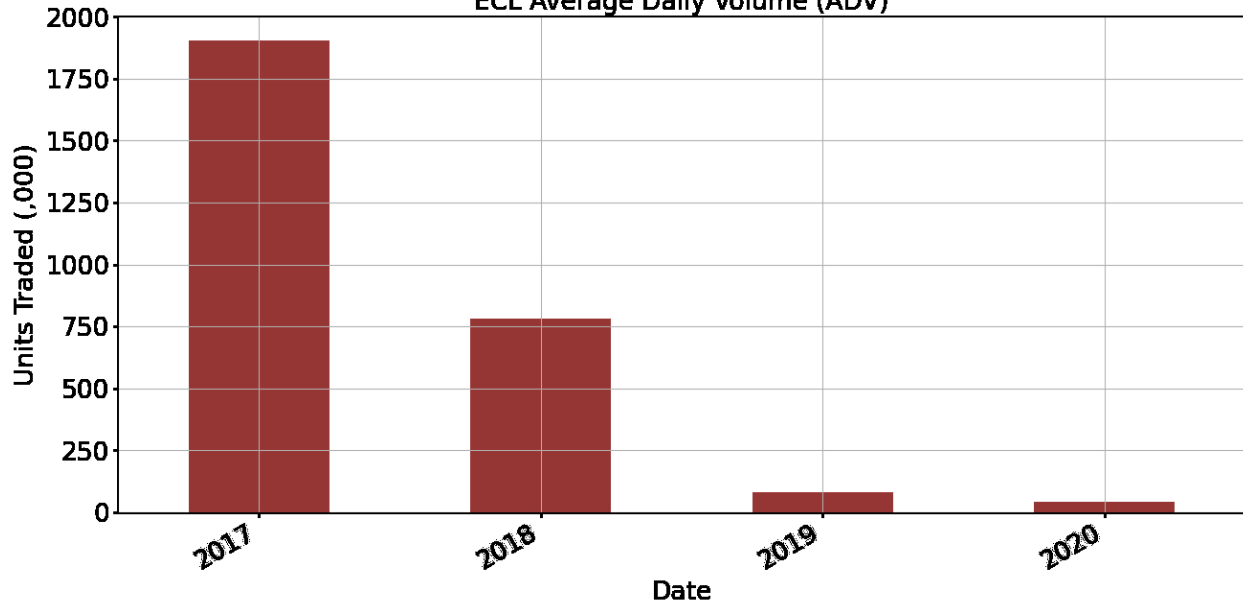
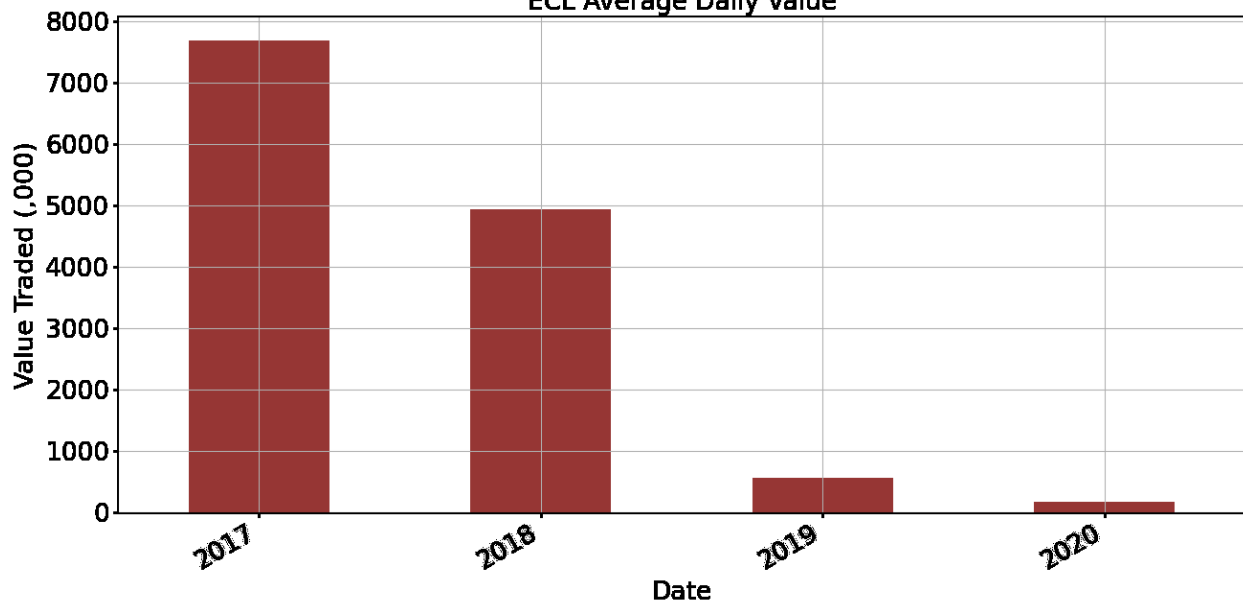


Chart 3.

ECL Average Daily Value



Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, Express Catering Annual Reports

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst’s judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Express Catering Limited

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

“Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money Market Brokers Limited or its affiliates (JMMB) and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst’s judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Express Catering Limited

Web, or over any network, or local area network or otherwise) without written permission from JMMB.

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights.”

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.