

Jamaica Broilers Group Limited

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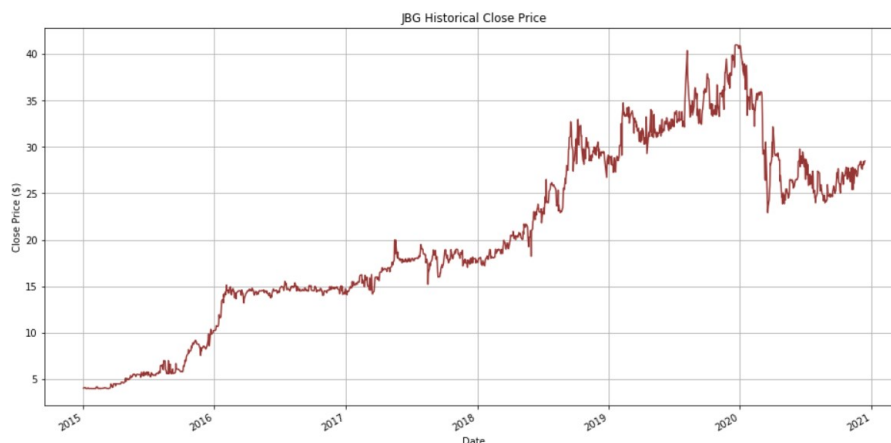
Executive Summary

Jamaica Broilers Group Limited (JBG) was incorporated in 1958 in Jamaica, with its registered office located at Content, McCooks Pen, St. Catherine. The primary activities of JBG include the production and distribution of poultry products, animal feeds and agricultural items. JBG is a vertically integrated group with the Jamaican operations being 100% self-sufficient in the production of poultry meat and eggs. JBG has several well-known brands, including The Best Dressed Chicken, Reggae Jammin, and Hamilton's Smokehouse.

JBG currently reports operations for its three major geographical segments, namely Jamaica, US and Haiti. Of which the Jamaican and US operations are the primary contributors of FY 2020 external revenue, contributing 62.36% and 33.93% respectively. Revenue has increased consistently for the period under review (FY 2016 to FY 2020), at a CAGR of 9.68% to \$55.75 billion. The principal driver of revenue growth is the US segment which has produced a CAGR of 21.08% for the period under review to \$18.72 billion.

The primary assets on the company's balance sheet as at the end of FY 2020 are PP&E, inventory and biological assets. For the period under review, the company has produced a steady increase in total assets and equity. **Of note, in FY 2018 the company recorded a sudden equity decline due to a subsidiary purchasing a significant quantity of JBG shares.**

JBG's stock price has increased at a CAGR of 14.71% for the period under review underperforming the Main Market's increase of 24.81% for the same period. JBG's close price peaked on December 24, 2019 at \$40.98.



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Recent Developments

In JBG's most recent earnings report for the quarter ended October 2020 revenue and profitability improved. Revenue increased by \$956.53 million or 7.35% to \$13.96 billion. Revenue growth was driven largely by the US segment which produced growth of 18.17% to \$4.83 billion. While revenue growth at the Jamaican segment only increased by 1.02% to \$8.55 billion. JBG reported improved gross profit margin which increased from 24.35% in Q2 FY 2020 to 25.11% in Q2 FY 2021. Ultimately the company was able to produce profit growth of \$302.44 million or 95.34% to \$619.67 million. The main segment that drove profit growth was the Jamaican operations which produced segment results of \$1.04 billion an increase of \$383.89 million or 58.79%.

Insider activity on the stock has been positive in calendar year 2020. Net purchases of JBG shares was over 6.4 million by a mix of connected parties, directors and senior management.

Key Financial Data

Per Share Data	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	CAGR	6M 2020	6M 2021	Change
Book Value Per Share (\$)	9.50	10.93	12.02	10.56	14.44	15.60	9.31%	15.11	16.96	12.23%
Earnings Per Share (\$)	0.86	1.45	1.86	1.64	2.30	1.37	-1.52%	0.67	1.01	50.97%
Stock Price	4.75	14.36	16.97	20.51	31.59	24.86	14.71%	34.44	26.91	-21.86%
Main Market Index	93,264	150,039	231,419	299,659	401,902	364,046	24.81%	495188	375386	-24.19%
Dividends Per Share (\$)	0.17	0.26	0.35	0.34	0.17	0.49	17.34%	0.18	0.13	-26.57%
Income Statement Data (\$,000)										
Total Revenue	34,570,050	38,520,649	44,444,248	48,280,867	55,057,931	55,747,933	9.68%	26,265,655	26,543,439	1.06%
Gross Profit	8,021,385	10,370,272	11,849,675	12,862,002	14,234,964	14,604,128	8.94%	6,491,337	6,453,364	-0.58%
Other Gains/(Loss)	174,117	268,860	328,347	197,852	585,248	366,534	8.06%	102,534	228,469	122.82%
Operating Profit	2,120,772	3,301,384	3,233,003	3,381,196	3,634,697	3,000,724	-2.36%	1,305,097	1,701,149	30.35%
Finance Income	145,781	159,078	379,379	474	366,817	36,458	-30.81%	36,457	0	N/A
Finance Expense	704,701	693,804	647,238	714,897	988,587	1,183,799	14.29%	-518,153	-179,876	-65.29%
Net Profit	1,036,168	1,744,195	2,228,844	1,961,380	2,365,563	1,400,069	-5.35%	685,628	1,033,731	50.77%
Balance Sheet Data (\$,000)										
Total Assets	22,568,048	24,379,261	27,465,672	31,012,061	35,807,446	44,233,006	12.23%	37,778,469	44,848,764	18.72%
Current Assets	11,627,101	12,447,742	16,521,078	19,431,324	22,391,297	28,613,778	17.80%	23,659,848	27,291,939	15.35%
Common Equity	11,396,414	13,102,210	14,417,993	12,660,373	14,835,523	15,962,383	6.82%	15,493,749	17,365,942	12.08%
Debt	6,354,931	7,079,801	7,702,075	10,023,430	12,624,356	17,222,914	18.72%	14,207,492	17,843,962	25.60%
Total Liabilities	11,171,634	11,277,051	13,047,659	18,351,688	20,971,923	28,270,623	17.05%	22,284,720	27,482,822	23.33%
Current Liabilities	6,893,195	5,673,354	7,095,032	12,465,426	14,096,059	19,631,329	19.58%	14,828,810	17,557,298	18.40%
PP&E	9,939,598	10,501,877	7,062,286	8,186,112	10,106,694	12,454,524	0.42%	11,423,173	13,835,312	21.12%
Key Ratios										
ROE (%)	9.46%	14.24%	16.20%	14.49%	17.21%	9.09%	14.24%	17.14%	10.75%	-37.31%
ROA (%)	4.83%	7.43%	8.60%	6.71%	7.08%	3.50%	6.66%	6.83%	4.23%	-38.03%
Gross Profit Margin(%)	23.20%	26.92%	26.66%	26.64%	25.85%	26.20%	26.45%	24.71%	24.31%	-1.63%
Operating Profit Margin(%)	6.13%	8.57%	7.27%	7.00%	6.60%	5.38%	6.97%	4.97%	6.41%	28.98%
Net Profit Margin (%)	3.00%	4.53%	5.01%	4.06%	4.30%	2.51%	4.08%	2.61%	3.89%	49.19%
Effective Tax Rate (%)	35.36%	24.29%	23.63%	24.05%	21.22%	26.61%	23.96%	19.03%	27.31%	43.50%
Current Ratio	1.69	2.19	2.33	1.56	1.59	1.46	1.83	1.60	1.55	-2.57%
Debt/Equity	0.56	0.54	0.53	0.79	0.85	1.08	0.76	0.92	1.03	12.06%
Cash Conversion Cycle	37.95	38.05	39.45	37.04	31.65	28.11	34.86	40.12	41.64	3.79%
P/E Ratio	5.50	9.87	9.13	12.53	13.72	18.18	12.69	14.58	15.69	7.59%
P/B Ratio	0.50	1.31	1.41	1.94	2.19	1.59	1.69	2.28	1.59	-30.38%
Dividend Payout Ratio	19.68%	17.88%	18.83%	20.79%	7.32%	36.03%	20.17%	26.47%	12.87%	-51.36%
Dividend Yield	3.92%	2.89%	2.34%	1.86%	0.60%	1.46%	1.83%	0.53%	0.50%	-5.33%

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Financial Overview

JBG has produced consistent revenue growth at a CAGR of 9.68% for the period under review FY 2016 to FY 2020 and completed the period with record revenue of \$55.75 billion. Revenue growth decelerated significantly in FY 2020 to only \$690 million or 1.25%, well below the CAGR in recent years. The slow down in revenue growth can be attributed to weakness in Q2 and Q3 in FY 2020. The weakness in Q2 and Q3 stemmed from the Jamaican segment. For the period under review, external revenue from Jamaica operations increased at a CAGR of 5.18%, easily eclipsed by the 21.08% CAGR experienced at the US segment over the same period. Meanwhile, gross profit was up at a CAGR of 8.94% for the period under review underperforming revenue growth. This is due to gross profit margin contraction which was at 26.92% in FY 2016 and declined to 26.20% in FY 2020.

As at the end of April 2020 the primary asset on JBG's balance sheet is property, plant and equipment accounting for 28.16% of JBG's total assets. Other significant assets include inventory and biological assets which represent 21.43% and 20.59% of total assets respectively. A major component of inventories is grain & feed ingredients. The main contributor to biological assets is poultry which are birds in the field including broilers, breeders and layer pullets. Therefore, the company can be materially impacted by a disease outbreak among its biological assets.

DuPont Analysis indicates that the decline in FY 2020 ROE is due to a decrease in total asset turnover and net profit margin which was partially countered by an increased leverage ratio. Meanwhile, debt-to-equity remained relatively stable at about 0.5x for the period FY 2015 to FY 2017, however in FY 2018 and FY 2019 it increased significantly averaging 0.83x in those years. **This is due in part to increased debt to finance acquisitions and treasury stock purchases in excess of \$3 billion in FY 2018.** Debt-to-equity hit its highest level of 1.08x at the end of FY 2020 and has declined marginally to 1.03x as at October 2020.

JBG has seen a steady decline in its cash conversion cycle to 28.11 days at the end of FY 2020. The decrease in the cash conversion cycle reduces the amount of capital restricted in the sales process, which can result in improved efficiency at the company. The decline cash conversion cycle is largely due to an increase in days of payables, which indicates the company is taking longer to pay its liabilities. We don't expect this trend to continue in a meaningful way therefore the company may be close to maximizing efficiency from a cash management standpoint.

For the period under review JBG's stock price has increased at a CAGR of 14.71%, lower than the Main Market's increase of 24.81% over the same period. Investor sentiment may have been constrained by JBG's profit increasing at a CAGR of -5.35% over the same period. This has resulted in P/E expansion for JBG which increased from an average of 7.28x in FY 2016 to 14.95x in FY 2020. JBG is a relatively liquid stock trading an average daily value (ADV) of at least \$4.3 million each calendar year since 2016, with over \$22.4 million of ADV in calendar year 2018.

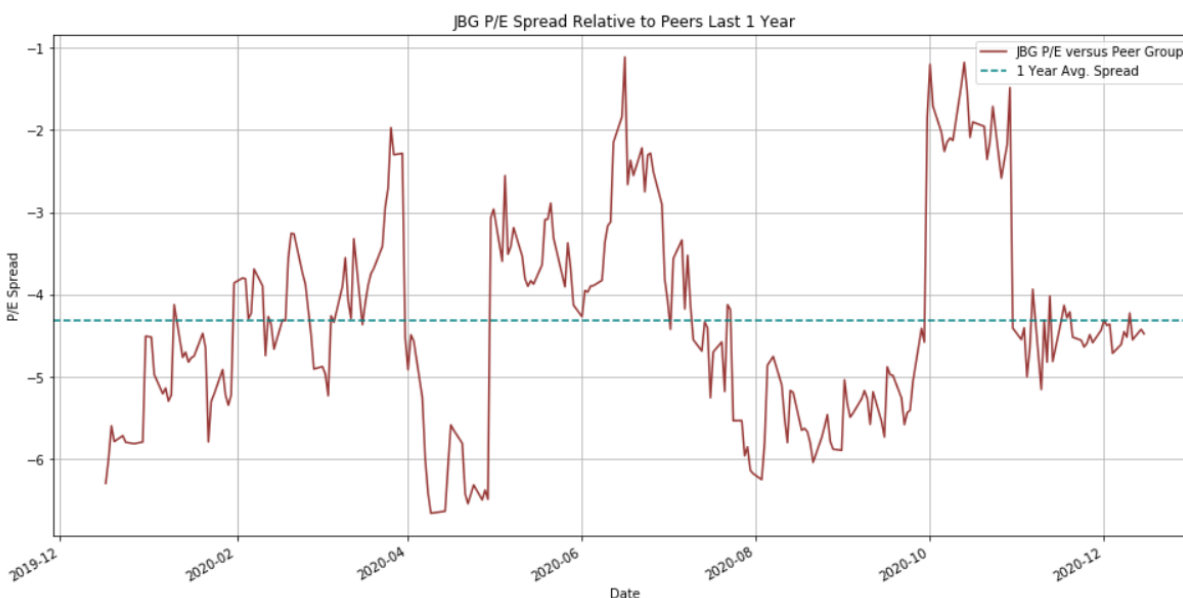
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Forecast and Valuation

We used our projection of JBG's FY 2022 EPS and BVPS and then applied the harmonic mean P/B and P/E multiples of peers (adjusted for historical differences) to arrive at our price target of \$37.14. Innate in our base-case assumption is the sentiment towards JSE Main Market Food Retail & Manufacturing remain near recent levels. Also, below is a chart illustrating the relationship between JBG P/E and its peer group average. Similar patterns were observed for JBG versus peers on a P/B basis. For the upper and lower price targets, we used the peer average adjusted for historical high and low of P/E and P/B spread over the last year. **This resulted in our upper and lower price targets of \$44.71 and \$32.77, respectively.**

JBG's P/E and P/B is significantly lower than peers which matches recent history, this may be partially attributed to it having a lower ROA and ROE relative to peers.

Ticker	Market Cap(\$M)	JBG Peers			
		P/E	P/B	ROA	ROE
JBG	28,072.03	16.06	1.64	4.23%	10.93%
SALF	3,010.54	47.99	3.25	5.51%	6.69%
SEP	47,240.43	15.16	2.86	8.62%	19.88%
WISYNCO	60,372.91	25.81	4.35	11.55%	18.15%
Average	34,673.98	21.30	2.67	7.48%	13.91%



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Outlook

We expect the US segment to be the key growth engine for the company. As at the end of FY 2020 it accounted for 33.93% of JBG's external revenue up from 30.52% for FY 2019. The US segment generated a CAGR of 21.08% or \$10.11 billion for the period under review. Meanwhile, the Jamaican operations produced revenue CAGR of 5.18% or \$6.36 billion over the same period. The growth in the US segment has been aided by several acquisitions including a hatchery in Pennsylvania renamed International Poultry Breeders Hatcheries Inc. in FY 2018 and 'Crystal Feeds' mill in Georgia USA in FY 2019. We view this as a significant positive as the company hedges its exposure to the Jamaican economy and simultaneously increases its potential for growth. Our outlook is tempered somewhat, by the weak performance that is expected to persist at the smaller Haitian operations.

Key Risks to Our Price Target

Weakness in the Jamaican operations is a key risk to our price target. Since Q2 FY 2020 revenue for JBG has declined Y-o-Y, with the steepest decline in Q1 FY 2021 of 16.41% due to COVID-19. However, the Jamaican segment was able to produce revenue growth of 1.02% in Q2 FY 2021. We expect continuous growth to return to the Jamaican operation however this outlook is obfuscated by rising COVID-19 cases in the US and Jamaica. **Another major risk is a decline in investor sentiment** which is up significantly from the lows experienced in late March 2020. We believe that the resurgence of investor confidence is warranted given how well JBG has performed given the economic backdrop.



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Recommendation:

We recommend a **MARKETWEIGHT** rating on JBG at this point given that the stock currently trades below our price target of \$37.14. Our recommended weighting is constrained by the elevated risk of the Jamaican operation which generates more than 60% of JBG's external revenue. However, some of the weakness in the Jamaican operations is countered by the strength in the U.S operations. Furthermore, the product offerings of the company are less impacted by economic downturns. Additionally, JBG's geographical diversification aids the attractiveness of the stock.

Source: <http://www.jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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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**.

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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

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