



Lasco Distributors Limited (LASD)

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Executive Summary

Founded in 1988, LASCO Distributors Limited is now a market leading distribution company in Jamaica. LASD is comprised of two divisions: Consumer and Pharmaceutical. The company is well known for several innovations and product introductions: namely its flagship product LASCO Food Drink and LaSoy - a range of soy beverage products, Curves Sanitary Napkins, and the iCool range of water, flavoured water and juice drinks.

We recommend a **MARKETPERFORM/HOLD/MARKETWEIGHT** position in LASCO Distributors Limited, as we believe the stock is currently trading near its fair value. We maintain our favourable opinion of the company and its moves to improve its distribution capacity, widen its sales network and improve margins.

Company Background

Founded in 1988, LASCO Distributors Limited is a major distribution company in Jamaica. Market positioning and a focus on satisfying consumer needs has helped LASD to become a market leader in several major categories in the industry. The company is well known for several innovations, namely its flagship product LASCO Food Drink and LaSoy a range of soy beverage products, Curves Sanitary Napkins, the iCool range of water, flavoured water, and juice drinks.

The company comprises of two divisions - the Consumer Division and the Pharmaceutical Division. The Consumer Division's major segments are food, beverage, personal care, baby care, adult incontinence and home care products. On the Pharmaceutical side, the supply network includes the distribution of ethical and over the counter (OTC) pharmaceutical products, animal health and equipment for major international brands, as well as the LASCO brand of generics - LASMED.

LASD distributes Unilever's home and personal care portfolio, with brands such as Breeze, Dove, St. Ives, Mistolin and Axe. LASD also distributes Salada's Jamaica Mountain Peak and Mountain Bliss 876 coffee as well as their range of teas. LASD's route to market covers all core channels which include supermarkets; wholesalers; small shops; schools; pharmacies; government institutions and health care facilities across Jamaica.

Lasco Distributors Limited (LASD)

Financial Performance – Nine Months ended December 31, 2020

Profitability

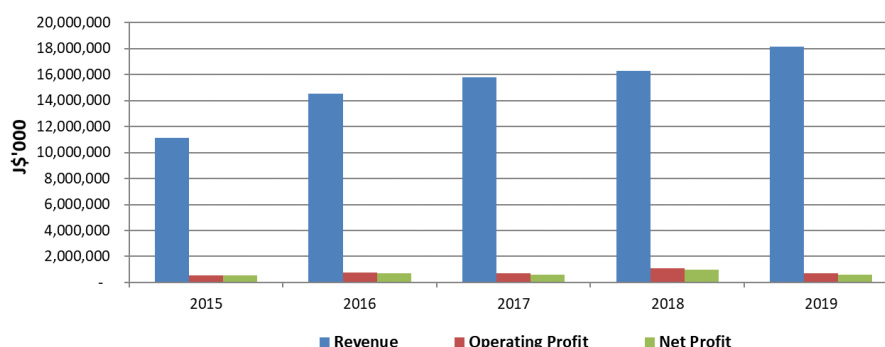
LASD reported a 6.5% or \$928.31M increase in revenues to \$15.23B for the nine months period ended Dec. 31, 2020. In its 1Q21 results, the company noted an increase in demand for its canned food products, and LASCO Food drink and pharmaceutical products. However, a “significant reduction” was reported in the sales of beverage products attributed to the closure of schools, hotels and social gatherings as part of coronavirus curtailment measures. Cost of sales grew at a faster pace, up 8.3% or \$958.13M to \$12.44B. As such, gross profits declined 1.1% or \$29.82M to \$2.79B. The gross profit margin contracted to 18.3%, relative to 19.7% in the 2020FY. Other income amounted to \$105.68M, up 49.4% or \$34.95M from the prior year period.

Despite the decline in gross profit, LASD was able to report a 38.6% or \$238.41M increase in operating profit to \$873.81M. This result was possible due to a double-digit decline (10.6%) in operating expenses, which amounted to \$2.02B. The operating profit margin improved to 5.7%, relative to 4.4% in the prior year period.

Finance costs slid to \$3.59M, down 71.4% year-over-year, resulting in pre-tax earnings of \$870.22M. The decline in finance costs can be traced back to the 70.6% decline in total debt from a year prior. The interest coverage ratio¹ moved from an already impressive 50.19x to 243.47x.

After taxes of \$138.97M, LASD reported a net profit of \$731.25M, which was up 31.2% from the prior year period. The effective tax rate rose from 9.7% in the 9M20 period to 16.0% in the 9M21 period. The net profit margin rose to 4.8% from 3.9% in the prior year period. The company listed on the Junior Market of the Jamaica Stock Exchange on October 12, 2010 was entitled to a remission of taxes for ten years; this tax holiday expired in October 2020.

Operating Performance 2016-2020



¹ Interest coverage ratio – Operating profit/interest expense

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Lasco Distributors Limited (LASD)

Solvency & Liquidity

LASD's assets totalled \$10.17B as at Dec. 31, 2020, up 7.1% or \$674.87M from a year prior. Non-current assets increased by 4.6% or \$101.65M to \$2.32B as investment assets rose 82.3% to \$369.38M. Property, plant & equipment fell 2.4% to \$1.87B. Current assets rose 7.9% or \$573.21M to \$7.85B, driven primarily by an 81.1% increase in cash and bank investments to \$2.23B and a 5.6% increase in inventories to \$2.64B. Partially offsetting the increase in cash and inventories was 14.4% decline in receivables to \$2.79B. Short-term investments amounted to \$128.06M, down 38.0% year-over-year.

Total liabilities amounted to \$3.87B, down \$24.76M or 0.6% year-over-year. Current liabilities amounted to \$3.79B, down 1.2% year-over-year, as payables fell 2.3% to \$3.62B and "current portion of long-term loan" fell 58.3% to \$33.33M. Taxation payable rose 165.9% to \$132.25M. Non-current liabilities rose 39.4% to \$78.15M. A long-term loan balance of \$33.33M fell to zero, as it became a current liability in the year while deferred tax liability rose 211.4% to \$70.79M.

Total debt amounted to \$33.33M, and the company has no long-term debt. Shareholders' equity amounted to \$63B, a 12.5% or \$699.63M improvement on its balance from a year earlier. Retained earnings rose 14.3% to \$5.75B. As such, leverage, as measured by the debt-to-equity ratio, fell to 0.01x, down from 0.02x a year prior.

The cash ratio stood at 0.62x, up from 0.37x a year earlier. The current ratio improved to 2.07x, relative to 1.90x as at Dec. 31, 2019. LASD's cash generation improved in the period, as cash provided by operating activities amounted to \$1.14B, up 36.0% year-over-year. Receivables declined by \$88.7M during the 9M21 period, relative to an increase of \$686.22M in the 9M20 period.

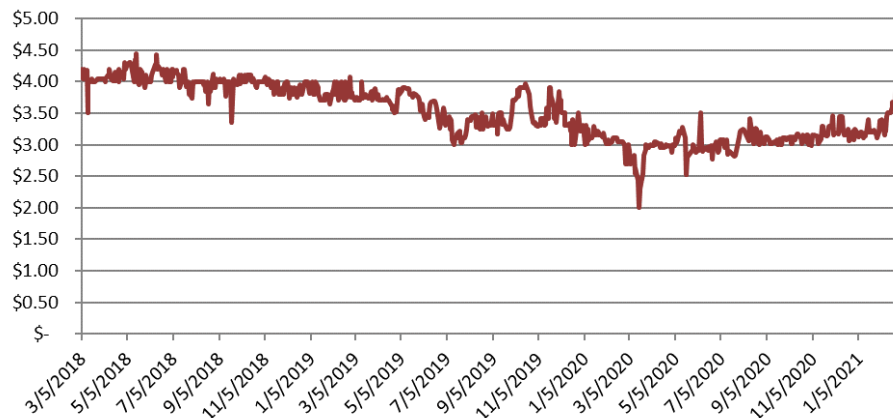
Outlook & Valuation

Prudential expense management has allowed LASD to report net profits for the nine months period of \$731.3M, which is above the 2020 full year net profit of \$725.8M. Even with greater taxation expense in the fourth quarter, relative to the previous three quarters owing to the end of the Junior Market tax holiday, barring any shocks, LASD is expected to generate revenues of \$20.31M for the 2021FY and a net profit of \$943.0M, increases of 4.1% and 29.9%, respectively. Earnings per share is forecasted at \$0.27.

We utilized the 1-year P/E average of 13.58x, which when applied to our forward EPS yielded a price of \$3.65. Shareholders' equity is seen closing the 2021FY at \$6.43B, which translates to book value of \$1.83. Utilizing the 1-year P/B average of 1.84x yields a price of \$3.36. **Averaging these estimates gives us a fair value of \$3.50 per share, 4.0% lower than the closing price of \$3.65 on March 3, 2021.**

Lasco Distributors Limited (LASD)

LASD 3-year Trading History



Shares of LASD are up 13.85% year-to-date and 23.33% year-over-year. Following the sharp decline experienced in March 2020, the share price has recovered to pre-pandemic levels underscoring investors' faith in the strategic direction of the management team and reflects the strong financial performance over the last twelve months.

Recommendation

We recommend LASCO Distributors Limited at MARKETPERFORM/HOLD/MARKETWEIGHT as we believe the stock is currently trading in line with our estimation of its fair value. We positively view the company's efforts to continually improve its distribution capacity, widen its sales network and innovate its product line. Moderate inflation expectations should continue to support revenue growth and the company is expected to continue to show recovery in profitability. Shares of LASD is most suitable for the medium to long-term investor with a medium to high-risk appetite as the distribution sector remains highly competitive.

Lasco Distributors Limited (LASD)

Abridged Financials

| J\$000 | Year Ended June 30 | | | | | Nine Months ended Dec. 31 | | % change |
|-----------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|--------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2020 | 2021 | |
| Turnover | 14,549,098 | 15,803,329 | 16,269,083 | 18,130,689 | 19,496,216 | 14,300,588 | 15,228,899 | 6.5% |
| Operating Expenses | 1,984,020 | 2,363,076 | 2,487,376 | 2,979,036 | 3,073,300 | 2,259,380 | 2,020,970 | -10.6% |
| Operating Profit | 758,930 | 689,508 | 1,079,893 | 705,859 | 833,469 | 630,270 | 873,809 | 38.6% |
| Profit Before Taxation | 757,495 | 686,892 | 1,079,369 | 691,942 | 818,265 | 617,713 | 870,220 | 40.9% |
| Profit for the year | 716,751 | 609,678 | 1,003,879 | 597,781 | 725,756 | 557,499 | 731,252 | 31.2% |
| Total Assets | 6,496,070 | 7,392,240 | 8,510,266 | 8,639,662 | 9,158,627 | 9,491,525 | 10,166,392 | 7.1% |
| Total Liabilities | 2,938,026 | 3,344,104 | 3,940,412 | 3,450,675 | 3,450,278 | 3,892,128 | 3,867,370 | -0.6% |
| Shareholder's Equity | 3,558,044 | 4,048,136 | 4,569,854 | 5,188,987 | 5,708,349 | 5,599,397 | 6,299,022 | 12.5% |
| EPS (\$) | 0.20 | 0.17 | 0.29 | 0.17 | 0.21 | 0.16 | 0.21 | |
| Book Value per Share (\$) | 1.01 | 1.15 | 1.30 | 1.48 | 1.63 | 1.59 | 1.79 | |
| Key Ratios | | | | | | | | |
| Gross profit margin | 18.3% | 18.6% | 19.5% | 19.6% | 19.4% | 19.7% | 18.3% | |
| Operating profit margin | 5.2% | 4.4% | 6.6% | 3.9% | 4.3% | 4.4% | 5.7% | |
| Net Margin | 4.9% | 3.9% | 6.2% | 3.3% | 3.7% | 3.9% | 4.8% | |
| Return on Average Equity | 22.3% | 16.0% | 23.3% | 12.3% | 13.3% | | | |
| Return on Average Assets | 12.1% | 8.8% | 12.6% | 7.0% | 8.2% | | | |
| Debt/Equity (x) | 0.00 | 0.06 | 0.09 | 0.06 | 0.10 | 0.02 | 0.01 | |

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

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Lasco Distributors Limited (LASD)**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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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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