INVESTMENT AND SOVEREIGN RESEARCH November-11-2022

Jamaica Producers Group Limited

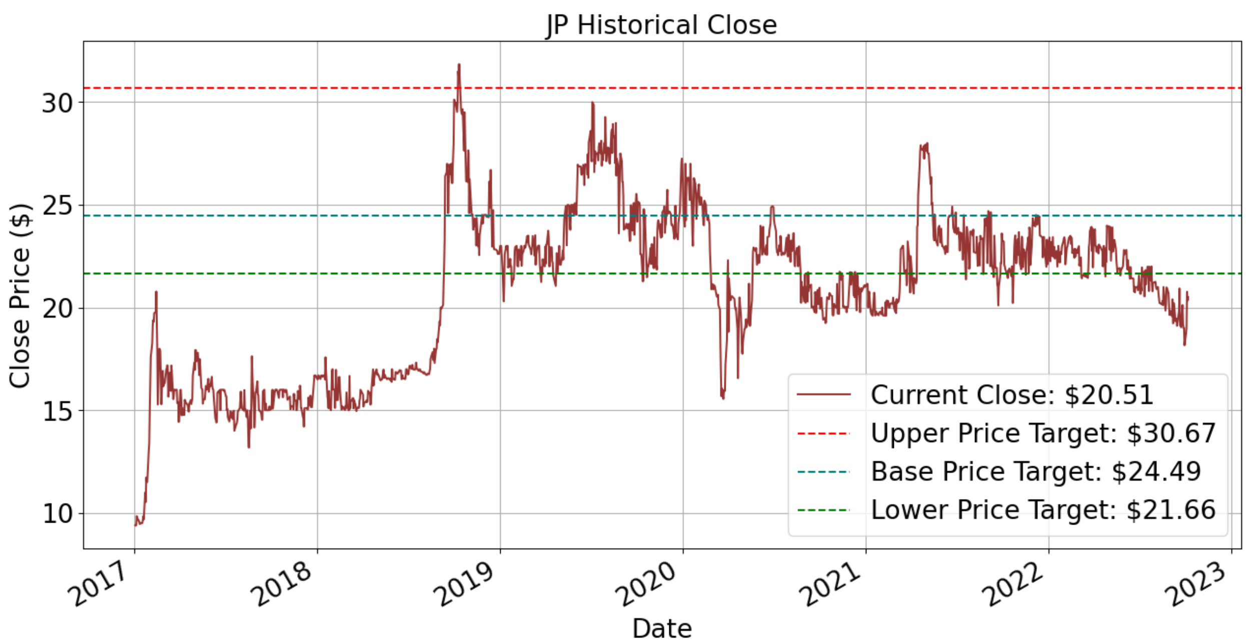
PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Jamaica Producers Group Limited (JP) is incorporated and domiciled in Jamaica, with its registered office at 4 Fourth Avenue, Newport West Kingston 13. Its primary activities are port terminal operations, logistics, the cultivation, marketing & distribution of fresh produce, Food & Juice manufacturing and land management, and holding investments. JP has two primary operating divisions: JP Food & Drink (F&D) and JP Logistics & Infrastructure (L&I). JP Food & Drink includes Hoogesteger, St. Mary's, Alaska, CoBeverage and Tortuga brands. Meanwhile, JP L&I subsidiaries include Kingston Wharves Limited, Geest Line and JP Shipping Services.

The L&I division accounts for most of JP's assets and generates most of the Company's profits. However, the F&D segment generates the majority of JP's revenue. JP has exposure in several countries across the Caribbean and Europe, particularly Jamaica and the Netherlands, which accounted for 42.2% and 34.1% of FY 21 revenues, respectively.

JP currently trades at approximately 11x, its trailing 12-months EPS, close to the 10.6x harmonic mean of the peer group. Meanwhile, JP has modest liquidity, exchanging an average daily volume of 56.5K units over the past year, valued at approximately $1.2 million. Over the past month, JP has had an average bid-ask spread of about 5.4%, indicating a relatively high implicit cost to acquire shares.



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Key Financial Data

	YE 2017	YE 2018	YE 2019	YE 2020	YE 2021	CAGR	Q2 2021	Q2 2022	Change
BVPS	10.0	10.8	12.3	14.4	16.0	12.4%	15.0	16.4	9.3%
EPS	0.6	0.7	1.1	1.9	1.6	29.2%	0.5	0.8	41.7%
Dividend Per Share	0.10	0.12	0.15	0.20	0.25	25.7%	-	-	N/A
JP Adj. Close Price	16.7	22.6	27.3	21.0	22.1	7.3%	24.6	21.2	-13.8%
JSE Main Market Index	288,382	379,791	509,916	395,615	396,156	8.3%	425,564	384,186	-9.7%
Abridged Income Statement (in $Billions)									
Revenue	16.2	19.6	21.5	21.0	25.0	11.6%	11.4	14.4	26.2%
Gross profit	5.1	6.0	6.8	5.5	7.1	8.2%	3.3	4.0	21.4%
Profit from operations	2.3	2.7	3.7	2.6	4.5	18.3%	1.7	1.7	-4.6%
JP Shareholders Profits	0.7	0.8	1.2	2.2	1.8	29.2%	0.61	0.86	41.7%
Abridged Balance Sheet (in $Billions)									
PP&E	21.1	21.6	21.8	22.3	22.8	2.0%	22.9	22.9	-0.2%
Total Non-Current Assets	24.7	26.1	27.6	27.2	28.7	3.7%	28.0	29.0	3.5%
Cash and Cash Equivalents	0.9	0.8	1.4	1.1	1.3	9.7%	0.8	0.8	-10.0%
Repos	3.8	4.5	5.4	7.6	10.3	28.3%	8.8	9.4	6.6%
Total Current Assets	7.9	9.0	11.0	13.8	16.4	19.9%	14.2	16.0	12.7%
Total Assets	32.7	35.1	38.6	41.0	45.1	8.4%	42.2	45.0	6.6%
Total Current Liabilities	4.4	4.9	5.2	5.0	5.8	7.4%	5.1	5.0	-2.5%
Total Non-Current Liabilities	5.5	5.4	5.8	5.1	5.1	-2.2%	4.8	4.8	-0.4%
Debt (Borrowings + Finance Lease)	4.8	4.5	5.0	4.2	4.3	-2.4%	4.0	4.0	-0.5%
Total Borrowings	4.8	4.5	4.4	3.6	3.8	-5.7%	3.4	3.5	1.8%
Total Liabilities	9.9	10.3	11.0	10.0	10.9	2.4%	9.9	9.8	-1.5%
JP Shareholders Equity	11.3	12.1	13.8	16.1	18.0	12.4%	16.9	18.4	9.3%
Abridged Cash Flow Statement (in $Billions)									
CFO	3.3	4.0	3.2	3.5	5.0	11.5%	2.3	0.7	-68.9%
CFI	(2.3)	(2.9)	(1.5)	(2.1)	(4.0)	14.8%	(1.7)	(0.1)	-91.4%
CFF	(0.7)	(1.1)	(1.1)	(1.8)	(0.9)	5.8%	(0.9)	(1.1)	22.7%
Ratios						**Average**			
Gross Margin	31.8%	30.5%	31.5%	26.2%	28.2%	29.7%	28.9%	27.8%	-3.8%
Operating Margin	14.1%	13.7%	17.3%	12.5%	17.9%	15.1%	15.3%	11.5%	-24.4%
Net Profit Margin	4.1%	4.2%	5.6%	10.3%	7.4%	6.3%	5.3%	6.0%	12.3%
Current Ratio	1.8	1.8	2.1	2.8	2.8	2.3	2.8	3.2	15.6%
Cash Ratio	1.1	1.1	1.3	1.8	2.0	1.4	1.9	2.0	7.9%
Debt-to-Equity	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	-8.8%
Financial Leverage	1.4	1.4	1.4	1.4	1.3	1.4	1.3	1.3	-2.9%
ROE	6.1%	7.0%	9.3%	14.5%	10.8%	9.5%	15.5%	11.9%	-23.3%
ROA	2.1%	2.4%	3.3%	5.4%	4.3%	3.5%	6.0%	4.8%	-19.5%
P/E	28.31	31.11	27.95	5.70	7.90	20.2	11.4	12.0	5.2%
P/B	1.7	2.1	2.4	1.5	1.5	1.8	1.6	1.4	-16.8%
Payout Ratio	17.0%	16.5%	14.0%	10.4%	15.2%	14.6%	0.00%	0.00%	N/A

Financial Overview

Income Statement Review

Revenue increased 19.2% in FY 21 to $25 billion. Most of the revenue growth came from the Netherlands, which saw revenue improving by $1.8 billion or 26.2% to $8.5 billion. However, Jamaica remains the single largest market for JP, accounting for 42.2% of FY 21 revenues. Kingston Wharves contributes substantially to this alongside product sales from JP Snacks, JP Farms and Tortuga. Notably, these revenues only relate to subsidiaries of the Group and do not include the revenues of associated companies and joint ventures. JP's associates and joint ventures have revenues totalling $13.1 billion, all from outside Jamaica. As a result, approximately three-quarters of the Group's revenue is generated outside Jamaica.

Meanwhile, from a segment viewpoint, the L&I segment generated a 23.8% increase in revenue to $10.3 billion, resulting in it being the primary driver of revenue growth. More recently, revenue increased 26.3% in Q2 FY 22 to a Q2 record of $7.5 billion. The primary contributor to revenue growth in Q2 was the F&D segment, which increased by 30.9% to $4.5 billion.

Operating profit surged 70% in FY 21 to a record $4.5 billion. Operating profit growth was aided by selling, administrative and other operating expenses, only increasing 5.9% to $3.5 billion. Additionally, other income surged 127.9% to $872.3 million. JP handles considerable treasury assets as part of its operations. These are generally short-term investments designed to maintain liquidity to support the business. The growth in these treasury assets resulted in a material increase in interest income and treasury-related foreign exchange gains. This significantly contributed to the change in the Group's other income. In addition, the prior year's balances included one-off impairments and charges related to the impact of the pandemic on the Group. In the most recent quarter, profit from operations was down 17.4% to $807.6 million. Other income declined to a loss of $51.2 million versus a gain of $182.9 million, which was the primary reason for the decline in operating income.

Meanwhile, the L&I segment accounts for most of JP's net assets and profits. The L&I segment performance was aided by KW's total revenues increasing by 22% to $8.7 billion, more than recovering the drop in revenues experienced in FY 20 when overall volumes were lower due to the initial COVID-19 impact on cargo volumes going through the terminal. During FY 21, JP Shipping Services Limited made further progress in its growth plans, growing revenue by 31% and operating profits by 69%. However, EBIT for the L&I segment was down 8.6% to $921.2 million in Q2 FY 22.

In JP's F&D segment, Hoogesteger continues to be the largest business in the division by revenues, earnings and net assets. Although Hoogesteger recorded a 19% increase in revenues in FY 21, the prices of all its critical raw material inputs continued to rise, both at source and from increased shipping rates. Similarly, packaging input costs rose partly due to the business switching the bulk of its volume to a 100% recycled PET product, as it constantly seeks to be ahead of the market on sustainable packaging solutions. However, EBIT in the F&D segment advanced 161% to $202.8 million in Q2 FY 22.

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In 2021, the contribution of the three acquisitions (Grupo Alaska S.A., CoBeverage Lab S.A. and Geest Line Limited) was $256 million of new earnings for the Group. Notably, in the 9M since the acquisition, Geest Line Limited contributed $292 million to JP's net profit in FY 21. Meanwhile, CoBeverage Lab S.A. contributed positively to earnings, and Grupo Frontera Limited recorded a slight loss due to start-up and transaction costs.

The Group's earnings before interest and tax grew by 5% to $4.7 billion. However, normalizing for the one-time gain in FY 20, the earnings before interest and tax rose by $2.1 billion or 80%.

The Group's financing costs dropped 12% to $257 million in FY 21. Both average borrowing rates and average debt levels dropped during FY 20. However, the Group's capital investment programme at Kingston Wharves necessitated an increase in general borrowing levels towards the end of 2021.

Profit attributable to JP shareholders declined by 14.9% to $1.8 billion in FY 21. However, when normalizing for the prior year's one-off gain, there was a 161% increase. Additionally, in the recent 6M, profit attributable to JP shareholders surged by 29.7% to $458 million. The 297.4% increase in the share of profits from associates and joint ventures to $191.1 million aided the improvement in profit attributable to JP shareholders.

Balance Sheet Review

The primary assets on JP's balance sheet at the end of FY 21 are PP&E and securities purchased under resale agreements. Securities purchased under resale agreements surged 35% to $10.3 billion at the end of FY 21. As a result, securities purchased under resale agreements account for 22.9% of total assets at the end of FY 21. Notably, cash and marketable securities totalled $12 billion at the end of FY 21.

Meanwhile, PP&E increased marginally by 2.3% to $22.8 billion at the end of FY 21. However, it remains the primary asset on JP's balance sheet, accounting for 50.6% of total assets at the end of FY 21. The majority of PP&E is freehold land and buildings, carried at $20.5 billion. Notably, land holdings are recorded at historical price and were purchased decades ago; therefore, current fair value is likely materially higher.

The L&I division constitutes the majority of assets, which is logical given that the EBIT return on assets and EBIT margin tends to be higher relative to the F&D segment. Assets for the L&I segment reached $34.5 billion at the end of FY 21, meaningfully more elevated than the $8.6 billion at the F&D segment. EBIT return on average assets at the L&I segment averaged 10.5% versus 6.5% for the review period (FY 17 – FY 21).

JP has consistently increased shareholders' equity for the review period, with a considerable gain in FY 20, and the trend continued into FY 21. The surge in FY 21 was due to the material gain on the sale of SAJE Logistics.

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Total liabilities marginally increased by 8.6% to $10.9 billion in FY 21. JP's primary liabilities, namely debt and accounts payable, have been reasonably stable for the review period. Debt (borrowings + finance lease) for the review period peaked at $5 billion at the end of FY 19. Recently, debt marginally increased by 3.6% to $4.3 billion at the end of FY 21. Additionally, borrowings increased by 4.5% to $3.8 billion in FY 21.

Cash Flow Statement Review

Operations cash flow increased by 45.5% to $5 billion in FY 21 to reach a record for the review period. The progress in FY 21 resulted primarily from much improved operating income. More recently, For the 6M ended June 2022, operating cash flow declined by 68.9% to $723.3 million (FY 20: inflow $2.4 billion). The material decline in operating cash was due to a simultaneous increase in accounts payable and a reduction in current liabilities.

Cash flow used in investing activities increased by 93.4% to $4 billion in FY 21. Significant outflows in FY 21 include funds spent on securities purchased under repurchase agreements and additional PP&E of $2.7 billion and $1.7 billion, respectively. Cash used in investing activities declined to $146.7 million in FY 21 (FY 20: outflow of $1.7 billion). A significant contributor to the reduced outflow was the sale of repos of $561.6 million versus an investment of $514.2 million in a similar period last year.

Cash flow used in financing activities decreased by 49% to $903.3 million in FY 21. The primary reason for the decline in financing outflows was an inflow from loans and borrowings of $131.3 million versus an outflow of $804.5 million in FY 20. Cash used in financing activities increased to $1.1 billion (FY 20: Outflow $891.8 million). The primary contributor to outflows in the recent 6M was the repayment of loans for $361.8 million and dividend distributions to non-controlling interest and JP shareholders of $306.9 million and $262.8 million, respectively.

Key Ratios Review

JP's liquidity ratios have steadily increased over the review period, and current levels indicate near-term liabilities are sustainable. The current ratio reached 2.8x at the end of the review period. Additionally, it continues to improve, reaching 3.2x at the end of June 2022. At the same time, the cash ratio has consistently exceeded 1x since FY 17 and achieved a high of 2x at the end of the review period. Therefore, JP has sufficient cash to allow for material acquisitions in the near term if desired.

JP's solvency ratios remain low, indicating that long-term liabilities are easily managed. For instance, at the end of FY 21, the debt-to-equity ratio (using total equity) was 0.13x, showing equity is several times larger than debt levels. Additionally, financial leverage decreased to 1.3x at the end of the review period.

The Company's activity ratios remain stable under the review period, indicating consistent utilization of firm assets. Inventory turnover averaged 15.9x for the review period and increased by 5.5% to 16.7x at the end of FY 21. Therefore, the risk of material right-offs due to obsolete inventory is manageable. At the same time, the receivables turnover has also been consistent, averaging 7.9x for the review period and ending FY 21 at 8.3x. The pattern of the turnover ratio indicates a reduced risk of impairment charges due to past-due receivables. In fact, at the end of FY 21, of the $2.6 billion in trade receivables, approximately 12.3% was more than 30 days past due (17.5% in FY 20), indicating improved credit quality.

Outlook

Our long-term outlook on JP is upbeat, given the strength of the Company's balance sheet and long-term growth potential through organic and inorganic means. Additionally, we expect sentiment towards JP to improve as it continues to enhance its dividend payments, as seen in its recent history. However, in the near term, the Company could face some challenges due to increased commodity prices and interest rates. Furthermore, the weakening of the EUR and GBP versus the JMD will likely drag on the Company's near-term earnings.

The table below shows our expectations for EPS for the rest of FY 22 and FY 23. We expect JP to improve its FY 22 and FY 23 earnings as it integrates recent acquisitions and produces organic growth. Furthermore, JP has significant liquid assets to aid further acquisitions.

FY	Q1	Q2	Q3	Q4	YE
2023	0.36E	0.44E	0.44E	0.67E	1.91E
2022	0.36	0.41	0.38E	0.60E	1.75E
2021	0.23	0.31	0.40	0.70	1.64

Forecast and Valuation

We used our projection of JP's FY 23 EPS and BVPS and then applied the harmonic mean P/E and P/B multiple of peers (adjusted for historical differences) to arrive at our price target of $24.49. Essential to our price target is the assumption that investor sentiment towards JP's peer group remains relatively stable. Below are charts illustrating the relationship between JP's P/B and P/E ratios relative to its peer group average over the last three years. We used the 80th and 20th percentile of the P/B and the P/E valuation difference to derive our upper and lower price targets of $21.66 and $30.67, respectively.

Chart 1 below indicates that JP's P/E is trading at a 3.8% premium to peers. Notably, JP has traded above a 1.9% P/E premium to peers 50% of the time over the last three years; therefore, its current P/E ratio is in line with the historical norm. JP's pattern of consistently producing profits and operating cash flow and highly diversified revenue base may explain this premium.

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Meanwhile, JP usually trades at a premium to the peer group average on a P/B basis. As indicated in the chart below, its P/B exceeds peers by 4.1%, 50% of the time over the last three years. While currently, JP trades at a 1.2% discount to peers on a P/B basis. The premium JP usually commands on a P/B basis may be explained by its consistent production of strong shareholder equity growth under the review period.

The peer group P/B ratios deteriorated to 1.3x, well below elevated levels of more than 1.9x in January 2020. In fact, the peer group P/B is currently below the low experienced during the March 2020 market sell-off and close to the low over the last three years of about 1.2x. Therefore, we view the sentiment towards conglomerates as relatively negative and see limited risk to the downside, assuming no material exogenous unexpected shocks to the market. We believe the current market sentiment reflects investors' expectations of a slowdown in the global economy.

	Price Target	**Implied Upside/(Downside)**
Upper	30.67	49.54%
Base	24.49	19.41%
Lower	21.66	5.61%

Large Cap. Conglomerates					
Ticker	**Market Cap($B)**	**P/E**	**P/B**	**ROA**	**ROE**
GK	88.37	10.64	1.28	4.31%	12.51%
JP	23.02	10.96	1.25	4.82%	11.89%
PJAM	61.13	10.11	1.26	9.41%	12.45%
H Mean	57.50	10.56	1.26	6.18%	12.29%

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Chart 1.

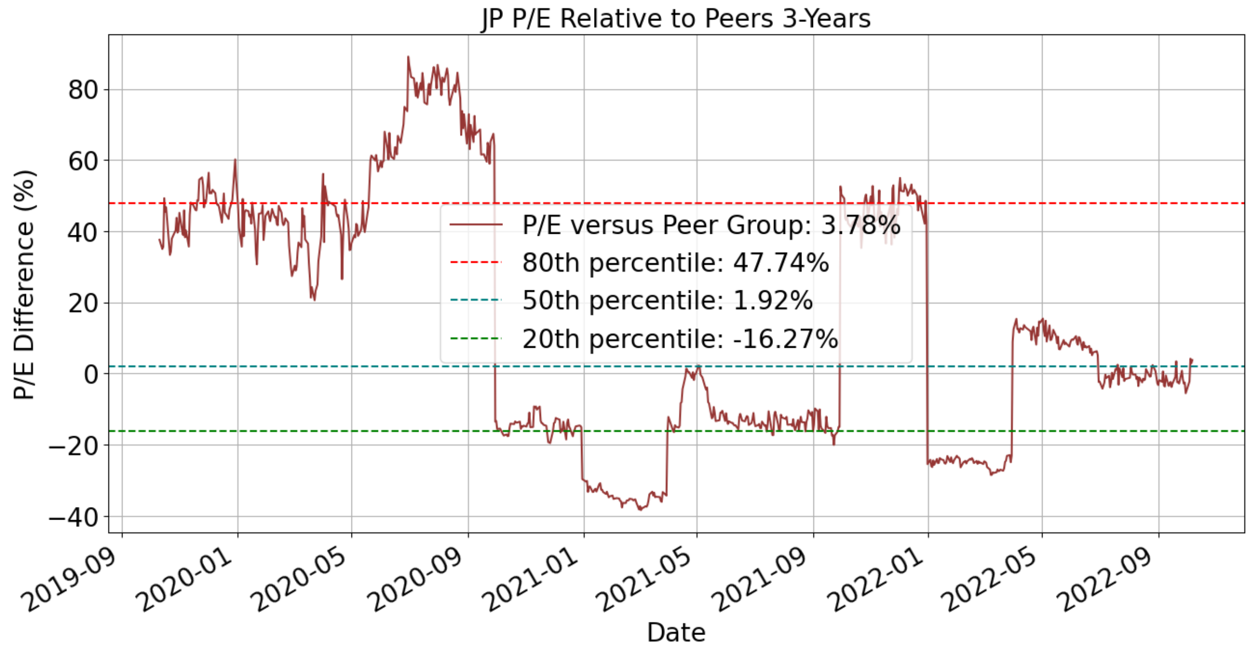
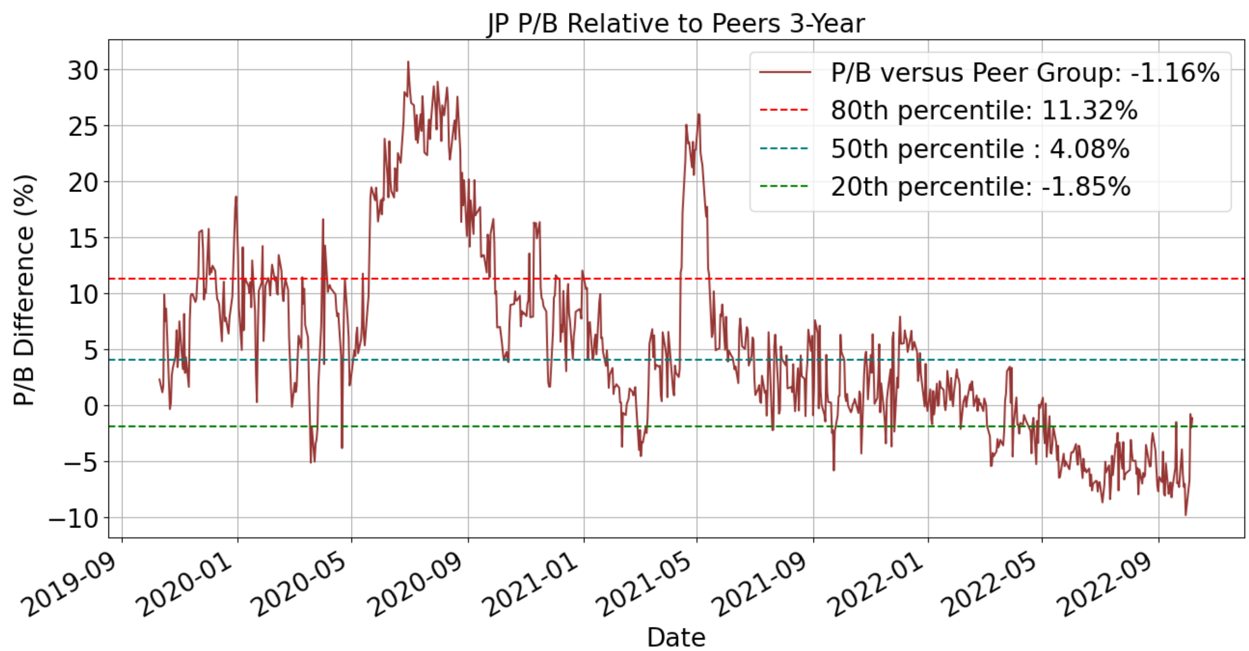


Chart 2.



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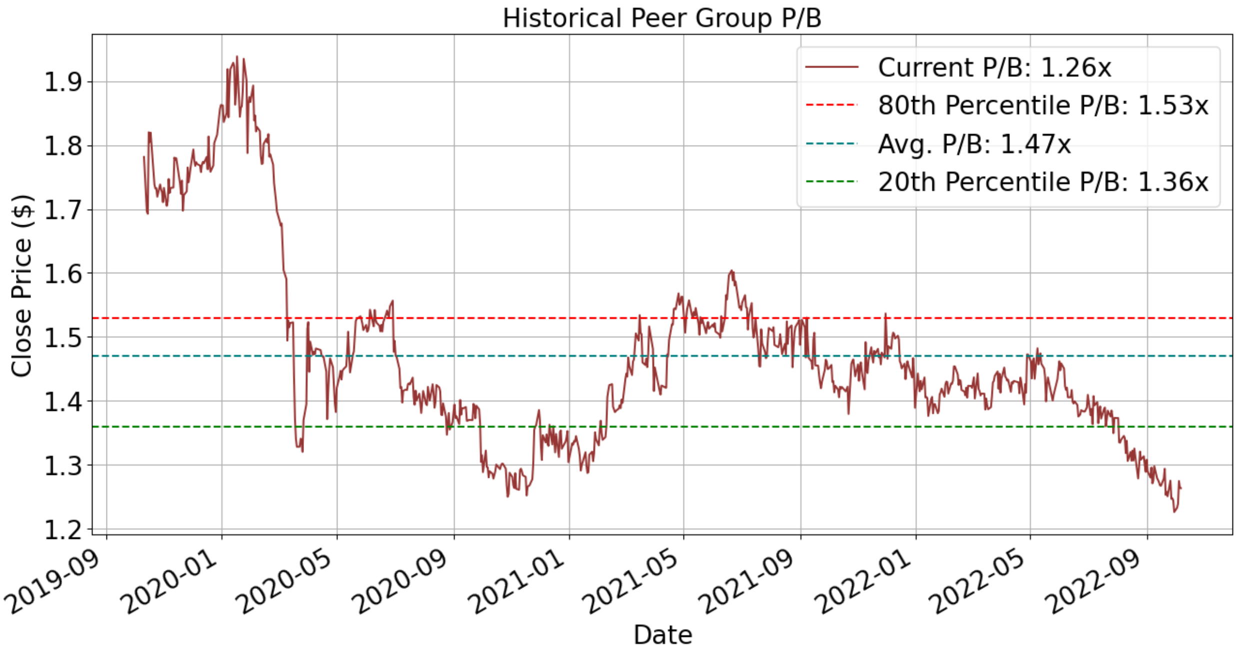

Key Risks to Our Price Target

JP has geographic and sector diversification, which helps stabilize the Company's performance through different economic environments. However, JP generates over 76% of its FY 21 revenue from two regions. Furthermore, the L&I segment generates most of JP's operating earnings; therefore, a slowdown in trading, shipping, and consumption would negatively impact operating income. Therefore, our price target is at risk if economic conditions weaken in key geographic markets and operating segments. Additionally, due to its Europe exposure, JP's earnings could be materially impacted by movement in the EUR, USD or GBP (significant currency exposures). At the end of FY 21, JP's currency sensitivity analysis revealed that a 2% appreciation of the JMD versus significant currency exposures would result in a $173.7 million decline in profitability, all else equal. The USD and EUR account for the majority of the potential negative impact.

Recommendation

We are upgrading our recommendation on JP to **OVERWEIGHT**, given that the stock currently trades below our lower price target of $21.66. Our rating considers several factors: JP's balance sheet quality, earnings potential, price target, liquidity of shares, and diversified sector and geographic exposures.

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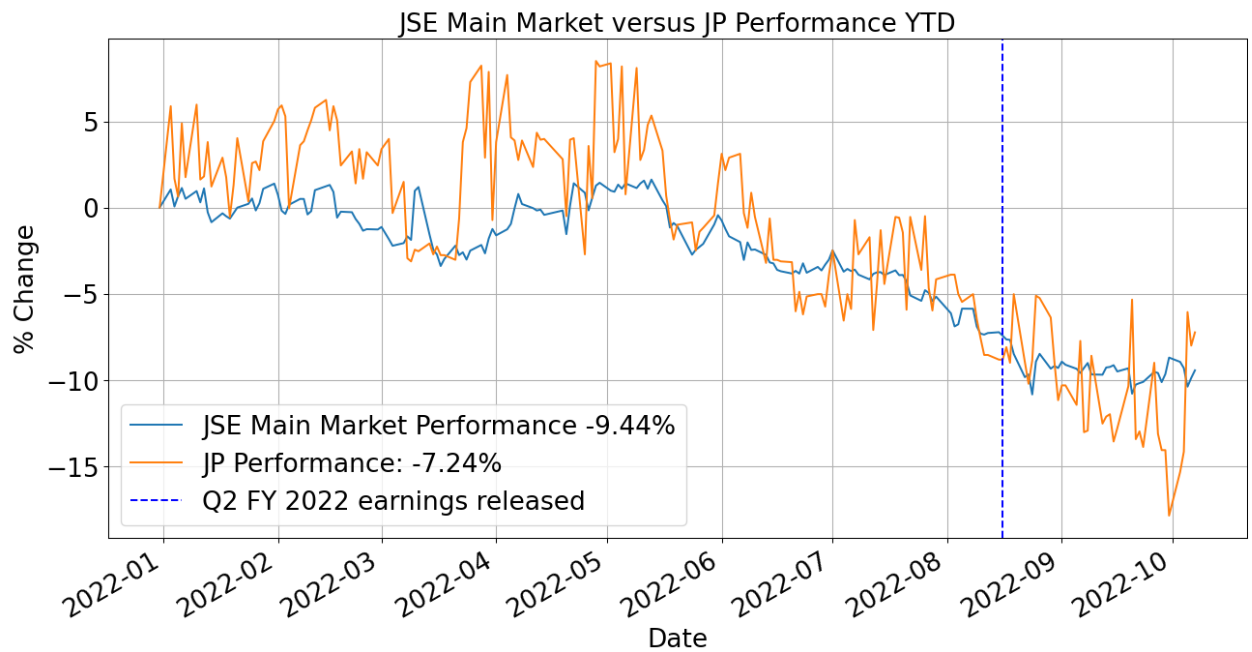
We expect steady core earnings growth in FY 22 and beyond. We anticipate recent and future acquisitions to help drive long-term revenue and profits. Furthermore, the current balance sheet liquidity may facilitate further investments, as evident in the current asset ratio. Additionally, the Company can sustain higher debt levels if required due to its low debt-to-equity levels and strong operating cash flows.

JP has declined 7.4% YTD, outperforming the JSE Main Market decline of about 9.4% for the same period. Finally, JP's stock has modest but declining liquidity, trading an average daily value of approximately $1.2 million or 56.5 thousand units over the last year. **See the charts below for more information on JP's historical data on price and volume.**



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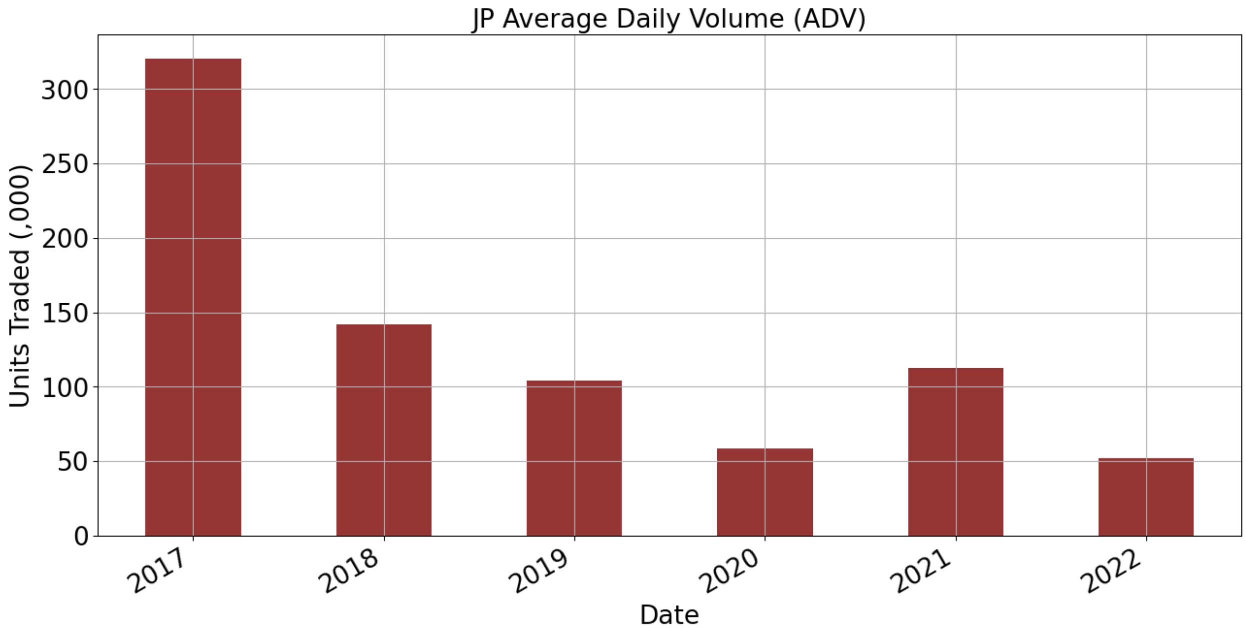

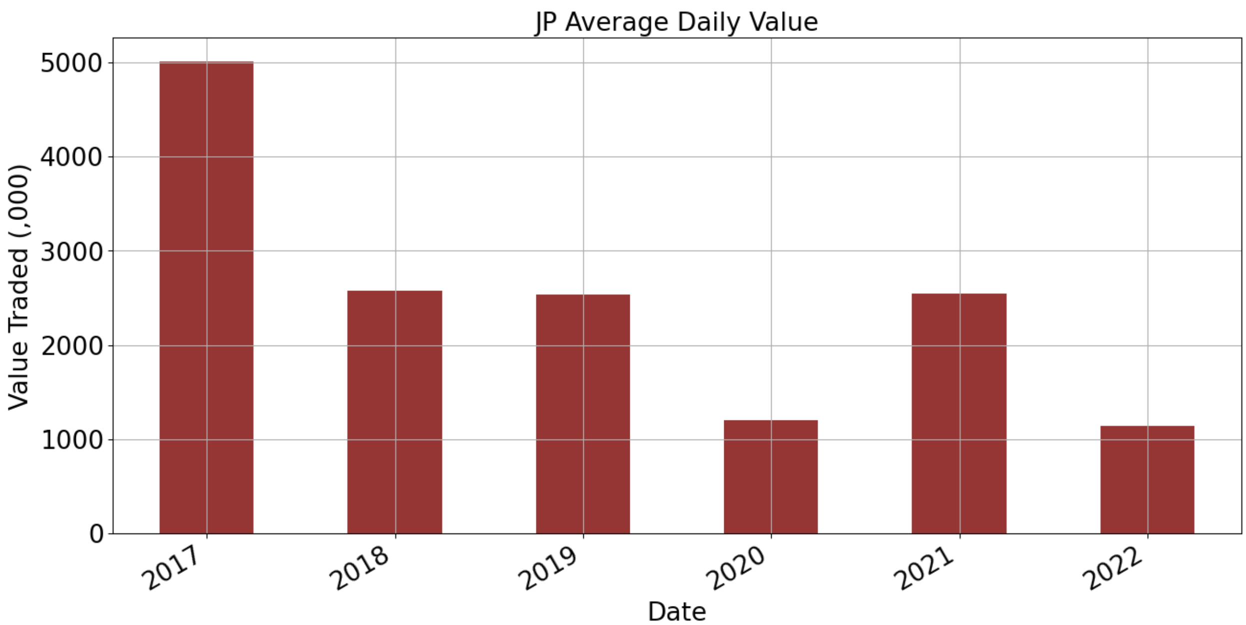

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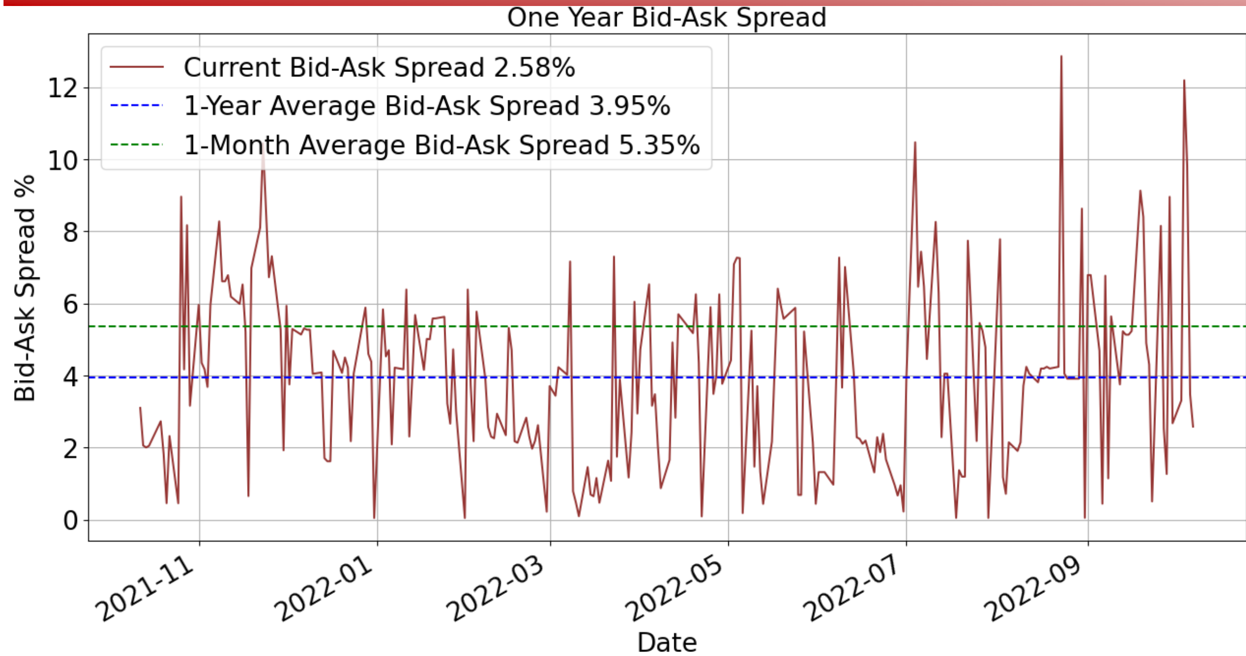

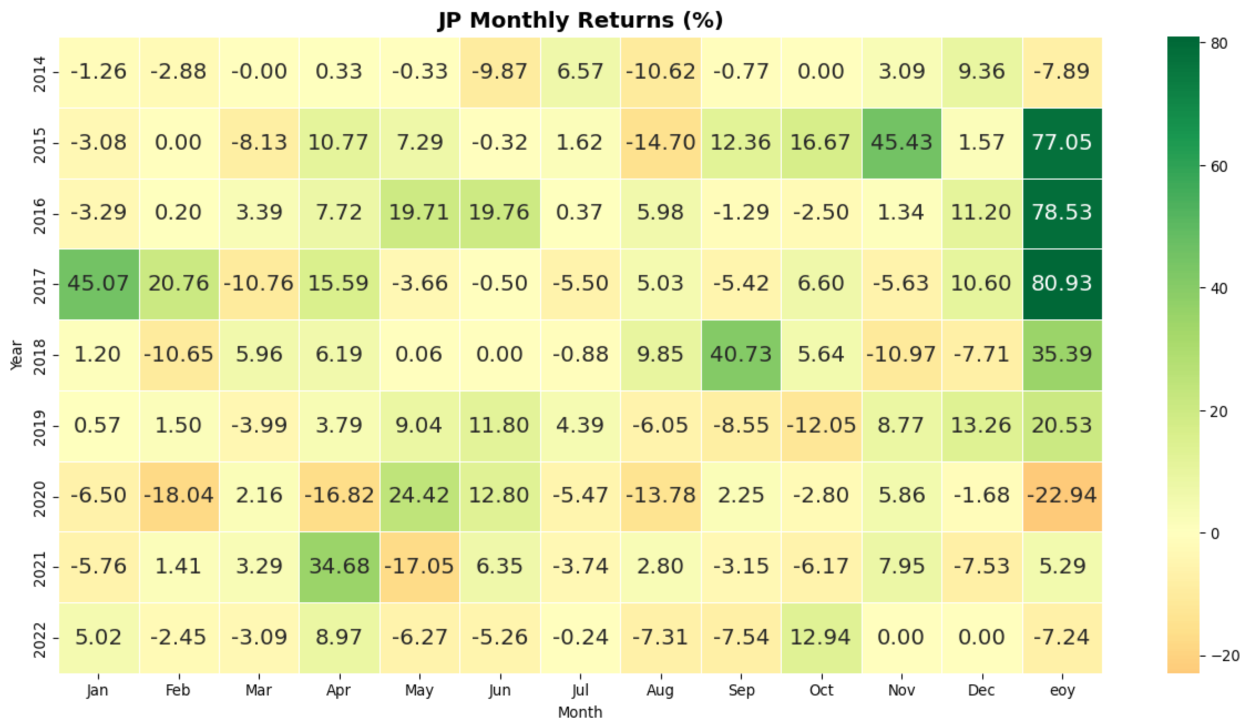

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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%).

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