

## Kingston Wharves Limited (KW)

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### Executive Summary

Kingston Wharves Limited is the region's leading multipurpose port terminal operator, connecting Jamaica's importers and exporters to over 30 international ports in the Caribbean, Latin and North America. The port terminal provides full-range cargo handling and logistics services 24 hours per day, 7 days per week.

Company <sup>1</sup>	Kingston Wharves Limited
<b>Ticker</b>	KW
<b>Close Price</b>	\$39.33
<b>Market Capitalization</b>	J\$56.25B
<b>P/E Ratio</b>	17.29x
<b>P/B Ratio</b>	1.57x
<b>Valuation</b>	\$41.32
<b>Potential Upside</b>	(4.8%)
<b>Recommendation</b>	HOLD/MARKETWEIGHT

Our estimation of KW's fair value is \$41.32, which is 5.0% above the close price of \$39.33 as at September 3, 2022. We recommend KW at **HOLD/MARKETWEIGHT** for investors with a medium risk appetite and a medium to long-term investment horizon.

### Company Background

Kingston Wharves Limited is the region's leading multipurpose port terminal operator, connecting Jamaica's importers and exporters to over 30 international ports in the Caribbean, Latin and North America. The port terminal provides full-range cargo handling and logistics services 24 hours per day, 7 days per week, including: multi-cargo handling services for break-bulk cargo, dry and liquid bulk cargo; mooring and unmooring of vessels; stevedoring; equipment rental; container stripping, stuffing and reconsolidation; multi-storage and warehousing; transshipment; refrigerated container management and support; third and fourth party logistics services; labour services; and port and industrial security.

<sup>1</sup> As at September 3, 2022

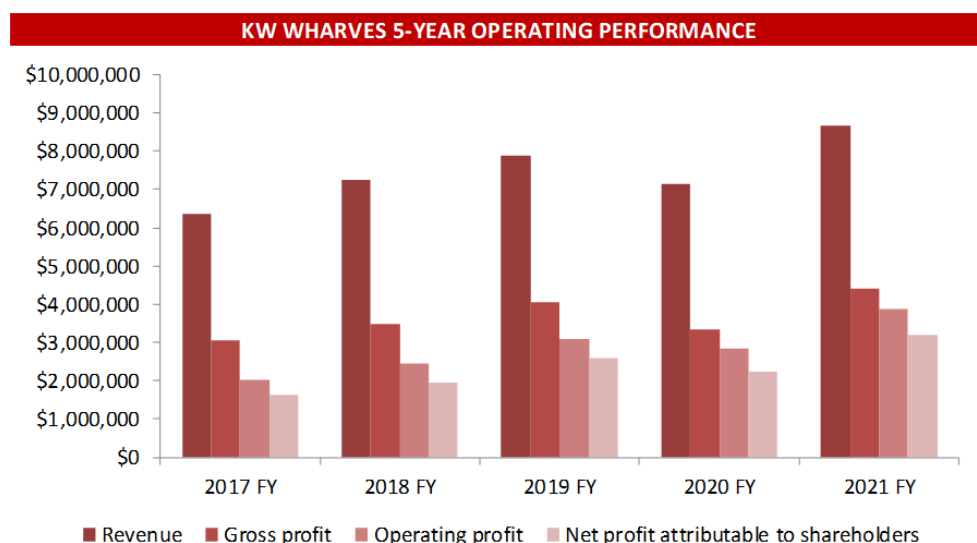
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### Financial Performance – 6M ended June 30, 2022

#### Profitability

KW produced net profits attributable to shareholders of \$1.21B for the period ended June 30 2022, a 5.0% or \$63.97M decline year-over-year. Despite revenue growth in the Terminal Operations and Logistics Services divisions, profits were down due to a foreign exchange translation loss. Revenues for the period amounted to \$4.56B, up 16.5% or \$645.4M year-over-year. Terminal Operations reported external revenues of \$3.26B, up 19.8% year-over-year while the Logistics Services segment booked revenues of \$1.3B, an 8.9% increase on the comparable period of the previous year. Terminal Operations contributed 72% of the Group's revenues.



In its Second Quarter 2022 report, KW's management stated that the Terminal Operations' performance was driven by the continued increase in the company's container business and highlighted the segments competitiveness for shipping lines and cargo owners that operate in the region. The Segment reported operating profits of \$1.21B, up 22.2% year-over-year.

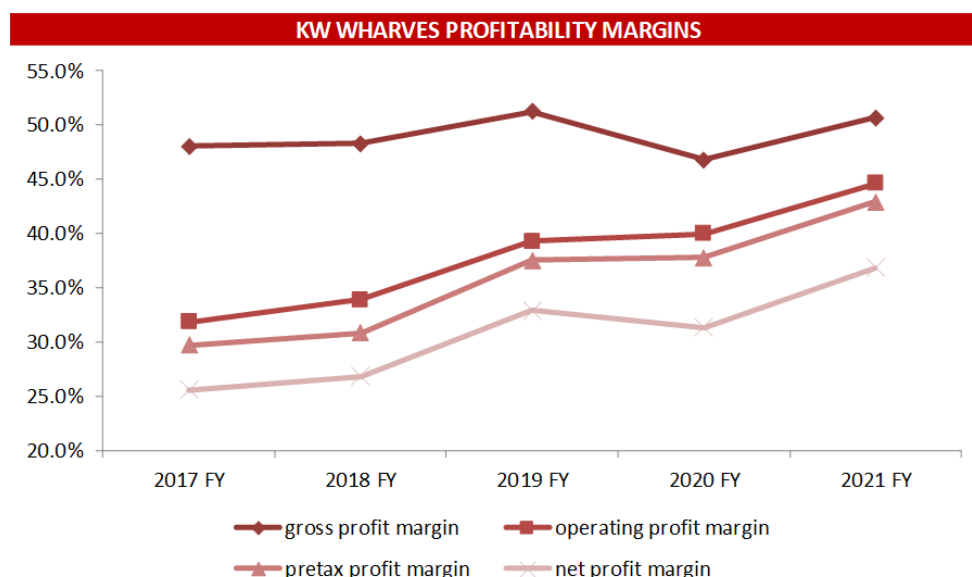
KW's Logistics segment provides customised services such as receipt, warehousing, and delivery to customers in a range of sectors spanning, telecommunications, automotive trade, manufacturing and retail. Despite an 8.9% increase segment revenues, Logistics Services reported a 2.7% decline in operating profits to \$426.6M. This outcome was attributed to inflationary increases in operating costs and higher administrative expenses stemming from business development activities.

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Direct costs amounted to \$2.35B, up 18.5% year-over-year, resulting in gross profits of \$2.21B, a 14.4% improvement on the prior year period. The gross profit margin stood at 48.4%, up from 49.3% for the prior year. Other operating income slid 92.4% or \$244.6M to \$20.25M driving by the booking of foreign exchange loss. KW's cash position is primarily denominated in USD which depreciated against JMD. Administrative expenses amounted to \$757.7M, up 24.4% year-over-year, resulting in operating profits of \$1.47B, which was down 7.3% from the prior year period. The decline in other operating income and increase in admin expenses resulted led to a fall in operating profit margin from 40.5% to 32.2%.

EBITDA amounted to \$1.95B, down 4.5% year-over-year, while the EBITDA margin fell from 521.1% to 42.7%. Finance costs fell 18.5% to \$56.76M. KW's ability to service its debt remained robust as the interest coverage ratio stood at 14.69x, down from 15.84x a year prior.



Pre-tax profits amounted to \$1.41B, a 6.7% or \$102.1M decline from the prior year period, while net profit amounted to \$1.23B, down 5.6% year-over-year. The pre-tax profit margin stood at 31.0%, down from 38.7% for the previous year, while the net profit margin stood at 26.6%, relative to 32.6% for the prior year period. Income tax expense fell 13.4% to \$186.4M, corresponding to an effective tax rate of 13.2%, down from 14.2% for the 6M21 period.

### Solvency & Liquidity

As at June 30, 2022, total assets for KW amounted to \$41.55B, a 4.9% or \$1.94B increase from its balance a year ago, driven by a 22.5% or \$1.6B increase in short-term investments to \$8.82B.

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Current assets amounted to \$10.9B, up 22.0% year-over-year, driven the increase in short-term investments. Trade and other receivables rose 23.5% to \$1.04B, while inventories rose 10.3% to \$495.0M. Cash & bank stood at \$498.36M, up 13.5% year-over-year.

Non-current assets were relatively unchanged at \$30.64B. Property, plant & equipment rose 0.1% to \$27.82B while retirement benefit asset rose 9.6% to \$1.7B. Investment property amounted to \$548.82M, down 1.4%, while financial assets at fair value fell 16.3% to \$449.62M.

Total liabilities amounted to \$5.42B, down 5.4% or \$307.87M year-over-year. Non-current liabilities amounted to \$3.33B, up 4.7%, driven by a 10.8% increase in long-term debt to \$1.24B. Deferred income tax liabilities rose 2.2% to \$1.66B. Current liabilities amounted to \$2.09B, down 17.9% year-over-year as trade and other payables fell 24.1% to \$1.51B. Short-term borrowings amounted to \$527.24M, up 24.1%.

Total debt amounted to \$1.84B, an 8.8% or \$149.49M increase year-over-year. We have minimum concern around KW's solvency as cash and short-term investments outweighed total debt, with net debt standing at negative \$7.48B. Shareholders' equity rose 6.6% or \$2.21B to \$35.84B as retained earnings rose 19.0% to \$14.7B. Leverage as measured by the debt-to-equity ratio improved to 0.05x, unchanged from a year prior. Book value per share stood at \$25.06 at the close of the period.

KW continues to enjoy strong liquidity as evidenced by a cash ratio of 4.45x, up from 3.00x year-over-year. The current ratio stood at 5.21x, versus 3.51x a year prior. Net cash provided by operating activities amounted to \$1.40B, relative to \$2.09B in the 6M21 period.

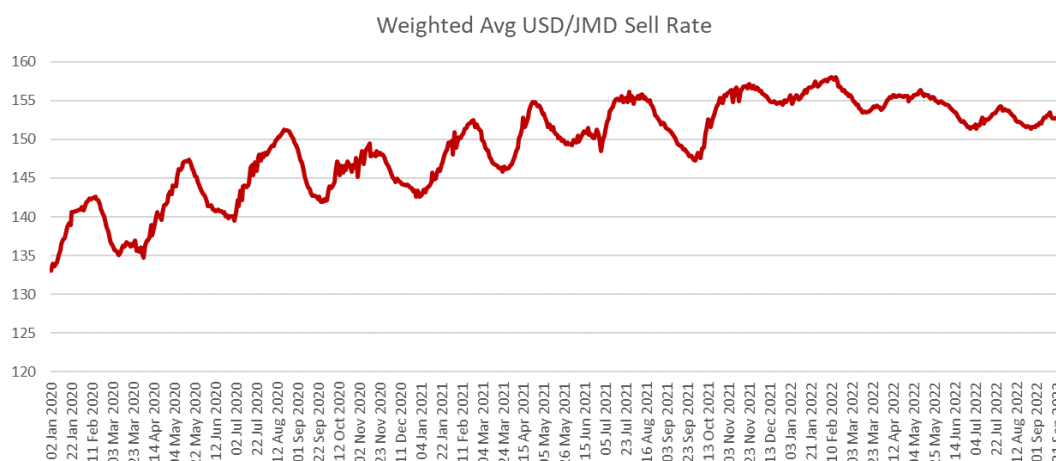
### Outlook & Valuation

KW made the decision to press along with strategic capital investments in terminal infrastructure, warehousing, human resources and digital technology capacity in the heights of the COVID-19 pandemic to exploit the shifts in the global supply chain. KW plans to spend US\$60M between 2021 and 2025 on infrastructure development. Global supply chain disruptions due to the pandemic have pushed cargo owners to diversify their supply chains and Kingston Wharves has positioned itself as a nearshoring alternative due to the integrated terminal and logistics services it provides. Nearshoring is a strategy where organisations transfer business to companies that are geographically closer and typically less expensive.

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These investments have proven to be lucrative for the company, as evidenced by the double-digit growth in both revenues and profits for the 2021FY. KW's top-line growth continued into the 2022FY as the Company reported a 16.5% increase in revenues. However, bottom-line growth has been negatively impacted by the non-recurrence of the foreign exchange gains of the the previous year. As explained above, KW holds a predominantly USD-denominated cash position. The graph below displays the performance of the JMD versus the USD since January 2020 and we can see how the JMD has stabilized year-to-date, relative to the depreciation observed over the 2020 and 2021 calendar years. The Jamaican Dollar has strengthened against the US dollar since the start of the year, moving from an average selling rate of \$155.09 as at Dec. 31, 2021 to \$152.82 as at Sept. 30, 2022, a 1.46% decline.



We observed that the JMD has traded with a band of J\$150:US\$1 to J\$155:US\$1 since May 2022. We anticipate continued stability for the rest of the year as the Bank of Jamaica has expressed its intention to continue to pursue measures to contain “Jamaican dollar liquidity expansion and maintain relative stability in the foreign exchange market.” Accordingly, other operating income is unlikely to yield the results seen in prior years. Foreign exchange gains amounted to \$432.2M and \$270.7M for the 2021 and 2020 financial years, which represented 64% and 47% of other operating income, respectively.

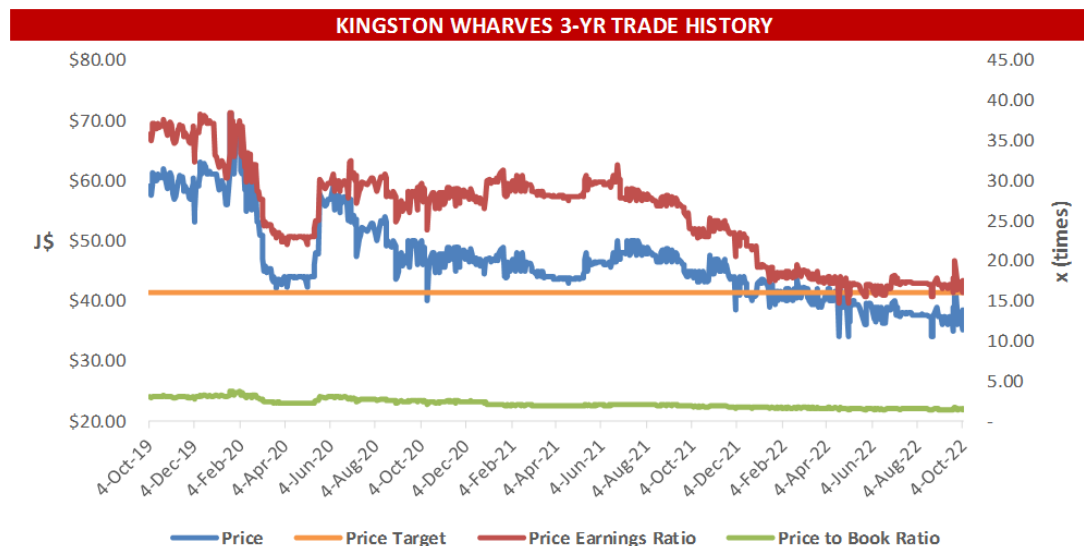
We anticipate continued growth in the medium-term Company as it continues to emphasise infrastructure readiness, supported by KW's recent acquisition of an eco-efficient mobile harbour crane, the reconstruction and expansion of Berth 7 and the development of the Asenheim Road Warehouse Complex. KW plans to construct over 3,000 square feet of warehouse and cold storage space on the 12-acre property.

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Based on these assumptions, we are projecting a 13.8% increase in revenues for the 2022 financial year to \$9.88B and net profits attributable to shareholders of \$3.02B, a 5.4% decline on the 2021FY, which corresponds to an EPS (earnings per share) of \$2.11 (2020FY: \$2.23). KW's performance in 2021 partially reflected recovery from the impact of the COVID-19 pandemic and as such, we anticipate slower growth in 2022 compounded by lower gains on foreign exchange year-over-year. Shareholders' equity is forecasted to increase by 6.2% year-over-year to \$37.15B, which corresponds to a BVPS (book value per share) of \$25.97.

Applying the 1-year average P/E ratio of 18.9x to the forward EPS of \$2.11 yields a price of \$39.99 while the forward BVPS of \$25.97 and the 1-year average P/B ratio of 1.64x yields a price of \$42.64. ***These estimates yielded an average fair value of \$41.32, which is 5.0% above the close price of \$39.33 as at September 3, 2022.***



The chart above displays KW's three-year stock performance; the share price has depreciated 3.3% since the start of the year and 23.2% over the last twelve months. Despite KW's strong financial performance over the last 12 months, the stock price has not performed in an equivalent manner.

### Recommendation

***We continue to recommend KW at HOLD/MARKETPERFORM/MARKETWEIGHT for investors with a medium risk appetite and a medium to long-term investment horizon as the stock***

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**currently trades below our estimate of its intrinsic value.** JMMB believes the expansion work done to transform the company into a Global Logistics Centre will continue to support the company's revenue diversification efforts and boost profitability over the medium term. The Company's investment in infrastructure, staff and technology has already begun to bear fruit and we anticipate continued growth in the medium-term for the Company as it continues its US\$60M, 5-year development plan.

Investors should be mindful that the Company is exposed to economic and geo-political headwinds which affect international trade, which in turn may have a negative impact on the company's earnings. We believe this risk is mitigated by KW's diversification of its suite of products and services.

### Abridged Financials

J\$000	Audited Year Ended December 31					Unaudited		
	2017	2018	2019	2020	2021	6M21	6M22	Change %
<b>Revenues</b>	<b>6,369,238</b>	<b>7,253,571</b>	<b>7,898,207</b>	<b>7,138,338</b>	<b>8,674,001</b>	<b>3,914,824</b>	<b>4,560,232</b>	<b>16.5%</b>
Direct Costs	3,310,521	3,753,080	3,853,904	3,798,582	4,278,883	1,986,004	2,353,249	18.5%
<b>Gross Profit</b>	<b>3,058,717</b>	<b>3,500,491</b>	<b>4,044,303</b>	<b>3,339,756</b>	<b>4,395,118</b>	<b>1,928,820</b>	<b>2,206,983</b>	<b>14.4%</b>
Operating Expenses	1,063,061	1,199,841	1,203,379	1,067,495	1,206,161	609,160	757,731	24.4%
<b>Operating Profit</b>	<b>2,026,685</b>	<b>2,460,166</b>	<b>3,102,944</b>	<b>2,852,760</b>	<b>3,868,736</b>	<b>1,584,527</b>	<b>1,469,497</b>	<b>-7.3%</b>
Profit Before Taxation	1,891,762	2,239,217	2,963,638	2,697,884	3,719,346	1,514,838	1,412,733	-6.7%
<b>Profit for the year</b>	<b>1,628,538</b>	<b>1,945,450</b>	<b>2,600,817</b>	<b>2,237,719</b>	<b>3,195,882</b>	<b>1,275,795</b>	<b>1,211,823</b>	<b>-5.0%</b>
<b>Total Assets</b>	<b>29,475,959</b>	<b>31,456,820</b>	<b>32,580,694</b>	<b>38,233,506</b>	<b>41,307,043</b>	<b>39,608,206</b>	<b>41,551,099</b>	<b>4.9%</b>
<b>Total Liabilities</b>	<b>6,378,642</b>	<b>6,549,688</b>	<b>5,809,321</b>	<b>5,435,083</b>	<b>6,067,710</b>	<b>5,730,503</b>	<b>5,422,636</b>	<b>-5.4%</b>
<b>Shareholder's Equity</b>	<b>22,981,794</b>	<b>24,765,896</b>	<b>26,593,460</b>	<b>32,582,332</b>	<b>34,968,279</b>	<b>33,637,847</b>	<b>35,842,922</b>	<b>6.6%</b>
EPS (\$)	1.14	1.36	1.82	1.56	2.23	0.89	0.85	
Book Value per Share (\$)	16.07	17.32	18.59	22.78	24.45	23.52	25.06	
<b>Key Ratios</b>								
Gross profit margin	48.0%	48.3%	51.2%	46.8%	50.7%	49.3%	48.4%	
Operating profit margin	31.8%	33.9%	39.3%	40.0%	44.6%	40.5%	32.2%	
Interest Coverage ratio	14.43	11.43	17.44	18.42	25.90	15.84	14.69	
Net Margin	25.6%	26.8%	32.9%	31.3%	36.8%	32.6%	26.6%	
Return on Average Equity	7.8%	8.1%	10.1%	7.6%	9.5%			
Return on Average Assets	6.1%	6.4%	8.1%	6.3%	8.0%			
Debt/Equity (x)	0.13	0.11	0.09	0.06	0.06	0.05	0.05	

**Source:** <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials; Consent Waiver Letter, Information Memorandum

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APPENDIXIMPORTANT 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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