

## TransJamaican Highway Limited

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#### Executive Summary

TransJamaican Highway Limited is the current holder of concession rights to operate and maintain a tolled road network known as Highway 2000 East-West. TJH was granted the rights to operate the Highway in 2001 with the agreement lasting for 35 years.

We recommend both the USD and JMD shares of TJH at **MARKETWEIGHT/MARKETPERFORM**. We believe the offer is suitable for income-seeking investors with a long-term investment horizon. We believe the potential for capital appreciation is limited in the current business model but may improve if TJH is successful in its plans to diversify its revenue streams

Company <sup>1</sup>	TransJamaican Highway	
Ticker	TJH	
	J\$ share	US\$ share
Close Price	J\$1.36	US\$0.0100
P/E Ratio	17.40x	19.66x
P/B Ratio	2.17x	2.44x
Valuation	J\$1.59	US\$0.0106
Potential Upside	16.7%	5.9%
Recommendation	MARKETPERFORM/MARKETWEIGHT	

#### Company Overview

Formed in 2001, TJH is in the business of the development, operation and maintenance of a tolled road network in Jamaica known as the “Highway 2000 East-West”. Highway 2000 East-West is a 49.9km tolled motorway with two sections: T1 – 43.5km between Kingston and May Pen, and T2 – 6.5k between Portmore and Kingston. TJH operates Highway 2000 East-West under a concession agreement dated 21 November 2001 granted by National Road Operating and Construction Company (NROCC). The concession is for a period of 35 years, with 14 years remaining.

The Company was owned jointly by Bouygues Travaux Publics, Vinci Construction, IFC, and Proparco. The Government of Jamaica, through NROCC, purchased 100% of the ordinary shares in TJH on 23 December 2019 and then went on to sell 80% of the Company in an Offer for Sale executed in February 2020.

<sup>1</sup> As at November 18, 2022

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Under the 2020 Amended & Restated Concession Agreement TJH: was granted an option to renew the concession for a further 35 years (subject to the payment of a renewal concession fee), and first right of refusal to secure a similar concession to maintain, operate and/or own, once completed, the leg of Highway 2000 that will extend from May Pen to Williamsfield. This new leg will extend the length of the Toll Road by 50%.

TJH operates four toll plazas located at: May Pen; Vineyards (Old Harbour); Spanish Town; and Portmore. Annual vehicle volume was approximately 24 million for the year ended December 31, 2019, up from 19 million in 2014. The operation and maintenance of the Toll Road has been outsourced to JIO (a joint venture between Vinci and Bouygues – two of the former shareholders in TJH). The Operating & Maintenance Agreement has been in place since September 2003 and was amended and restated in 2019. This agreement remains in effect and is renewable at 5-year intervals. JIO employs over 200 individuals who are responsible for road maintenance, toll collection, patrolling, security and surveillance among other activities.

### Board of Directors

Name	Bio
<b>Charles Paradis - Chairman</b>	Mr Paradis has over 20 years' experience in civil engineering and management of shareholdings with Specific focus on road, tunnel and bridge projects across the globe. He was made Senior Vice President, Concessions prior to his appointment as Chief Executive Officer of Bouygues Construction Concessions in February 2003. Charles Paradis graduated from Massachusetts Institute of Technology, the Ecole Polytechnique and the Ecole Nationale des Ponts et Chaussées. He has a master's degree in sciences- Civil Engineering, option Mechanics of Fluids as well as Engineer degrees.
<b>Julie Thompson-James – Non-Executive Independent Director</b>	Julie Thompson-James is an Attorney at Law and founder of Cube Corporate Support Limited, a corporate governance advisory firm. Her legal experience spans over 19 years in both the private and public sector and includes: Complex Commercial & Civil Litigation; Banking, Insurance and Securities law; Company Law, Corporate Governance and Shareholder engagement. Julie holds a Bachelor of Laws (LLB), (Hons.) from the London School of Economics, Certificate of Legal Education from the Norman Manley Law School, and a Bachelor of Arts degree in Economics & Business Administration (Hons.) from Howard University.
<b>Alok Jain – Non-Executive Director</b>	Alok Jain is a former partner of PricewaterhouseCoopers (PwC) where he held a number of leadership roles, most recently as leader of PwC's Advisory practice in the Caribbean. Alok is a Chartered Accountant, Certified Information Systems Auditor as well as a CFA Charterholder. He

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	has extensive experience in accounting, auditing as well as in corporate finance
<b>Ian Dear – Non-Executive Independent Director</b>	Ian Dear is the founder and current Chairman and CEO of Margaritaville Caribbean Group (MCG), a hospitality company that has two subsidiaries publicly traded on the Jamaica Stock Exchange. Ian has served as a member and board member for several organizations to include the Jamaica Hotel and Tourist Association, the Private Sector Organization of Jamaica, Young President's Association, the Montego Bay Chamber of Commerce, the Jamaica Cruise Council and the Attractions Association of Jamaica.
<b>Hon. Patrick Hylton – Non-Executive Director</b>	Mr Hylton has more than three decades of experience in Banking and Finance and currently serves as the Chairman of National Commercial Bank Jamaica Limited, NCB Capital Markets Limited, Guardian Holdings Limited and Clarien Bank Limited, and sits on the board of directors for NCB Financial Group, Massy Holdings (Trinidad), and several others.
<b>Steven Gooden – Non-Executive Director</b>	Steven Gooden is the head of the wealth, asset management and investment banking division of the NCB Financial Group as well as Chief Executive Officer of NCB Capital Markets Limited. Steven is a holder of the Chartered Financial Analyst (CFA) designation, has a Master's Degree in Finance and Economics, and a Bachelor's degree in Economics and Accounting, and has received many accolades in the areas of research and portfolio management. Steven sits on the board of directors of the Jamaica Stock Exchange Ltd and several companies within the NCB Financial Group. Additionally, he is the Chairman of Limners & Bards Ltd and Elite Diagnostics Ltd, both companies listed on the Jamaica Stock Exchange; as well as President of the Jamaica Securities Dealers Association.
<b>Stephen Edwards – Non-Executive Director</b>	Stephen Edwards is the Managing Director of the National Road Operating and Constructing Company Limited (NROCC). He is a Civil Engineer and former Lecturer in the Faculty of Engineering and Computing at the University of Technology (UTECH), in Kingston Jamaica. In addition to his experience in the private sector through teaching and construction management, his other public sector service includes senior roles at the Housing Agency of Jamaica (HAJ) and the Tourism Product Development Company (TPDCo). Stephen is a graduate of Florida International University (FIU) in Miami, Florida, where he earned a Master of Science degree in Construction Management. He also holds a Bachelor of Science Degree in Physics from Boston College (BC) and a Bachelor of Science Degree in Civil Engineering from FIU
<b>Dr. Ventley Brown – Non-Executive Director</b>	Dr. Ventley Brown is an educator who currently serves as the Principal of the Spanish Town High School in St. Catherine. He holds a PhD. in Educational Leadership and Management and is currently pursuing a

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second PhD. in Higher Education with the Delaware State University in the United States of America. He is a member of the Board of the National Road Operating and Constructing Co. Ltd. (NROCC) where he serves as Chairman of the Audit Committee. He is a graduate of the GC Foster College of Physical Education and Sport and, completed a Master of Science Degree in Sports Management at the University of Technology.

### TJH Financial Performance (USD) – Nine Months ended September 30, 2022

#### Profitability

TJH reported revenues of \$47.0M for the nine months period, which represented a 25.5% or \$9.6M year-over-year increase. Driving this improved was continued improvement in traffic flows from the lifting of the measures instituted to contain the spread of the COVID-19 virus as well as an increase in toll rates instituted in July 2022. Traffic in the nine months period was up 7% when compared to the comparable period of 2019 and 16% for the 9M21FY period.

“Other gains and losses” fell 90.1% from the prior year period to \$157K, driven by foreign exchange losses on the revaluation of TJH’s 8.0% (JMD) Cumulative Redeemable Preference Shares. This line item is primarily comprised of gains produced by financial market operations and financial income on investment instruments and the change in value of equity investments. Per the Concession Agreement, TJH has the right to collect revenues generated from commercial exploitation of the areas surrounding the Toll Road, including gas stations and related ancillary services, electricity and telecommunication cables and fibre optics.

Operating expenses rose 16.65 to \$29.1M while administrative expenses surged 32.0% to \$1.0M. Operating expenses consists of operation and maintenance costs for the Toll Road, including the monthly fixed and variable fees payable to the Toll Road Operator, Jamaican Infrastructure Operator Limited and the amortization of intangible assets. The year-over-year increase was due to higher amortization of intangibles associated with traffic recovery, higher Operator’s fee due to the movement of the exchange rate and Consumer Price Index and additions to spares and equipment purchased to improve the services offered in the Tag lanes. The amortization of intangible assets accounts for the decrease in the value of TJH’s concession rights as it draws closure to the end of its 35-year term.

Administrative expenses, which consists of staff costs, depreciation of plant & equipment and other office expenses, rose due to increases in staff costs related to a job reclassification exercise

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and the resumption of training and other staff initiatives with the lifting of COVID-19 curtailment measures. Finance costs fell 2.9% to \$11.2M reflecting lower interest payments on TJH's Secured Notes as principal amortizes quarterly. TJH's ability to service its debt obligations improved during the year as its interest coverage ratio moved from 1.96x a year ago to 2.48x.

EBITDA amounted to \$27.7M, up 22.4% year-over-year, while EBIT amounted to \$17.0M, up 28.2% from the prior year period. The EBIT and EBITDA margins stood at 36.2% and 58.9%, which compares to 35.4% and 60.3%, respectively, in the previous year period. Pre-tax earnings more than tripled the pre-tax result from a year prior, amounting to \$5.8M. Net profits amounted to \$4.1M, which more than doubled the result from a year earlier (up 133.7%). TJH reported a tax expense of \$1.7M, which compares to no such expense in the nine months period of 2021. The net profit margin stood at 8.8%, which compares to 4.7% in the previous year.

### Liquidity & Solvency

TJH's total assets amounted to \$309.2M as at September 30, 2022, down 2.3% year-over-year. TJH's assets consist mainly of non-current assets, which fell 3.0% to \$300.8M, while current assets stood at \$8.4M, up 37.4%. TJH's primary asset is its intangible assets (69.6% of total assets), which amounted to \$215.2M, down 6.0% year-over-year. Intangible assets represent the economic value of TJH's rights to operate the Toll Road and the decline represented the amortization of these rights based on projected usage of the highway. Restricted cash amounted to \$65.2M, up 11.2% while cash and bank balances rose 45.9% to \$7.3M. Restricted cash represents monies held in reserved accounted for debt servicing, major maintenance, operational costs and approved distributions.

Total liabilities amounted to \$257.9M, which was down 2.8% year-over-year. Current liabilities rose 79.4% or \$10.2M to \$23.2M, driven by the booking of \$7.0M in dividends payable and a \$1.5M increase in trade payables to \$3.5M. Short-term borrowings rose 9.0% to \$9.7M. Non-current liabilities fell 4.0% to \$234.8M, driven by a 3.3% fall in long-term borrowings to \$202M while provisions fell 23.2% to \$8.2M. Cumulative redeemable preference shares fell 2.2% to \$24.6M.

Shareholders' equity fell 12.8% to \$51.3M as accumulated profits declined 23.7% to \$24.3M. Despite the booking of \$4.2M in net profits, accumulated profits fell due to the booking of the dividend payable of \$7.0M.



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Net cash provided by operating activities amounted to \$15.4M, up 105.6% year-over-year, which was sufficient to cover net cash used in investing activities of \$10.6M and net cash used in financing activities of \$4.7M. The increase in net operating cash flows was due greater profits during the period and an increase in amortization of intangible assets. Net cash used in investing activities rose 46.0% to \$10.1M due to a \$10.6M increase restricted cash. Net cash used in financing activities rose 95.7% to \$4.7M representing long-term loans repaid during the period.

TJH's cash ratio stood at 0.32x, down from 0.39x a year prior while the current ratio also declined from 0.47x to 0.36x. TJH's debt-to-equity ratio was 4.13x, up from 3.70x a year prior.

### Outlook

The company entered the market with its IPO in 1Q20 as an established business with a value proposition that included the potential for significant dividend growth and its experience in the creation and administration of expansive infrastructure projects, both of which it could apply to new projects. To this end, the company has submitted its proposal to operate the future section of Highway 2000 East-West (Phase 1C). The section would increase TJH's road network by more than 50% and is expected to be completed in 2023.

The Company also noted in its 2021 Annual Report that design work was underway to open up new interchanges along the Highway and negotiations were being finalized to lease lands adjacent to the Portmore Toll Plaza for the construction of a second gas station by Total. However, we do not have a clear timeline or guidance from the company as to the potential economic impact of these initiatives at this time.

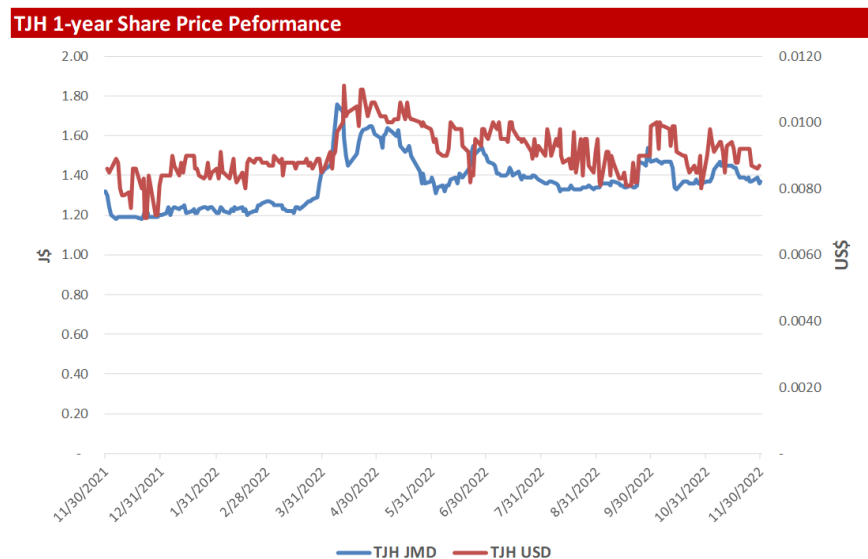
After seeing revenues fall 14.8% in 2020 and booking a net loss of \$1.M, TJH revenues rose 16.2% in 2021, while a net profit of \$4.0M was reported. This recovery continued into the 2022FY as revenues are on pace to eclipse the outturn for 2021 while the \$4.1M reported in net profit for the 9M22 period is 4% greater than the full year profits of the 2021FY. We anticipate this pace of recovery to continue for the fourth quarter and have forecasted full year revenues of \$62.7M and net profits of \$5.7M, increases of 18.8% and 41.6%, respectively. Driving this estimate is the return to pre-COVID traffic levels as well as the year-over-year impact of the increase in toll rates instituted in July 2022.



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### Valuation

We employed the Price Multiples approach to determine a fair value for the TJH J\$ and US\$ shares. Applying the 1-year average P/E and P/B ratios to our forward estimates of EPS and BVPS of US\$0.0005 and US\$0.0042 yield prices of J\$1.59 per share and US\$0.0087 per share. These estimates represented potential upsides of 16.7% and 5.9% above the close prices of J\$1.36 and US\$0.0100 on the J\$ and US\$ shares of TJH, respectively.



TJH JMD closed at \$1.36 on December 6, 2022, up 15.3% from a year prior and 13.3% year-to-date. The US\$ shares of TJH closed at \$0.0100, up 28.2% from a year earlier and 19.0% year-to-date. The average daily volume of the JMD shares over the past year was just over 2 million while trading in the USD shares were much more subdued, averaging a daily volume of 295,228 shares over the same time period.

TJH has maintained an aggressive dividend policy in the last two years, distributing more in dividends than it has generated in profits. The Company paid out US\$6.9M in dividends in 2021 and paid a further \$7.0M in October 2022. This in comparison to net earnings of \$4.0M in the 2021FY and \$4.1M for the 9M2022 period. The J\$0.0855 per share dividend paid in October 2022, corresponds to a dividend yield of 7.1%, while the J\$0.0865 per share dividend paid in 2021, corresponds to a yield of 6.5%.

To maintain this high pay-out ratio, the company has had to tap into its retained earnings. We do not believe the company will be able to maintain this high pay-out ratio into perpetuity as

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while working capital needs may be minimal in the current environment, this may change as the Company seeks to engage in new ventures.

### Recommendation

**We recommend both the USD and JMD shares of TJH at MARKETWEIGHT/MARKETPERFORM. We believe the offer is suitable for income-seeking investors with a long-term investment horizon.** We believe the potential for capital appreciation is limited in the current business model but may improve if TJH is successful in its plans to diversify its revenue streams. The dividend yield is expected to increase as the Company's debt is amortized over time, which could lead to greater cash flows being available for distribution to shareholders.

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



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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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**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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