INVESTMENT AND SOVEREIGN RESEARCH May-20-2022

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Wigton Windfarm Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Wigton owns and operates a 62.7MW wind energy generation facility situated in Rose Hill, Manchester that supplies electricity to the Jamaica Public Service Company Limited. The facility is comprised of three wind energy generation plants. We recommend Wigton Windfarm Limited as MARKETWEIGHT as we believe the Shares are currently trading below our estimate of its fair value. This offer is suitable for investors seeking portfolio diversification and capital appreciation.

Ticker	WIG
Current price	$0.64
Dividend Yield	-
52 Week High/Low	$0.80/$0.40
Current P/E ratio	14.71x
Current P/B ratio	1.64x
Fair Value	$0.69
Potential Total Return	(6.9%)
Recommendation	MARKETWEIGHT
As at May 5, 2021	

Company Overview

WIG was incorporated in April 2000 as a subsidiary of the Petroleum Corporation of Jamaica with the objective of developing and operating wind-powered renewable energy systems in Jamaica and to supply electricity produced by such systems to the Jamaica Public Service Company Limited (JPSCo) System. The Company operates a wind farm in Rose Hill, Manchester consisting of 44 wind turbines. This wind farm was built out in three phases: Wigton I, Wigton II and Wigton III.

Phase	Commercial Operations Date	# of Turbines	Rated Generating Capacity per Turbine	Total Generating Capacity	Termination date of PPA
Wigton I	April 2004	23	900kW	20.7MW	April 2024
Wigton II	December 2010	9	2MW	18MW	Dec. 2030

Wigton III	May 2016	12	2MW	24MW	March 2036

The electricity generated by Wigton is sold to JPS under three Power Purchase Agreements. (PPA). Payment for energy supplied to JPS is determined by a formula fixed by the relevant PPA and is different in each PPA. The Company views this pricing formula as highly confidential and thus has not made this information public as they believe such disclosures may be potentially detrimental to its competitive interest in bidding for future generating capacity.

WIG has exclusively invested in wind energy generation to date, but its Articles of Incorporation allow it to engage in the production of energy from any and all renewable energy sources.

Financial Performance

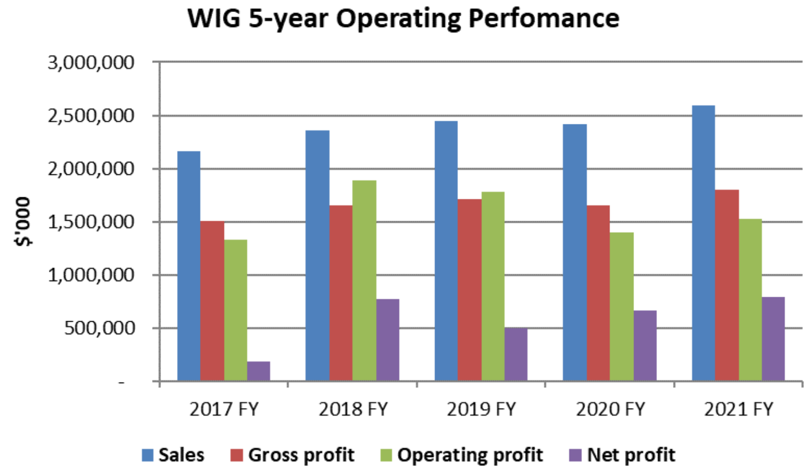
Profitability

WIG reported revenues of $1.58B for the nine months ended December 31, 2021, an 18.8% or $365.7M decline year-over-year. Plant availability was on average 88.9% during the period, versus the projected target of 94.3%, due to the wind turbines being out of operation to facilitate major maintenance activities. The company undertook the maintenance of five wind turbines at one time due to delays caused by the COVID-19 pandemic, which hindered the supply of critical spare parts and services of overseas suppliers. The La Niña phenomenon also had the effect of reducing pressure differences across the region, lowering the wind speed experienced, which translated into lower production from the wind turbines

Additionally, the final rate adjustments for Wigton Phase II was applied at the end of March 2021, which translated to a 50% reduction in the revenue from that plant. While Wigton Phase II saw a 50% reduction in USD revenues, the overall impact on sales revenues in JMD was partially offset by the depreciation versus the USD.

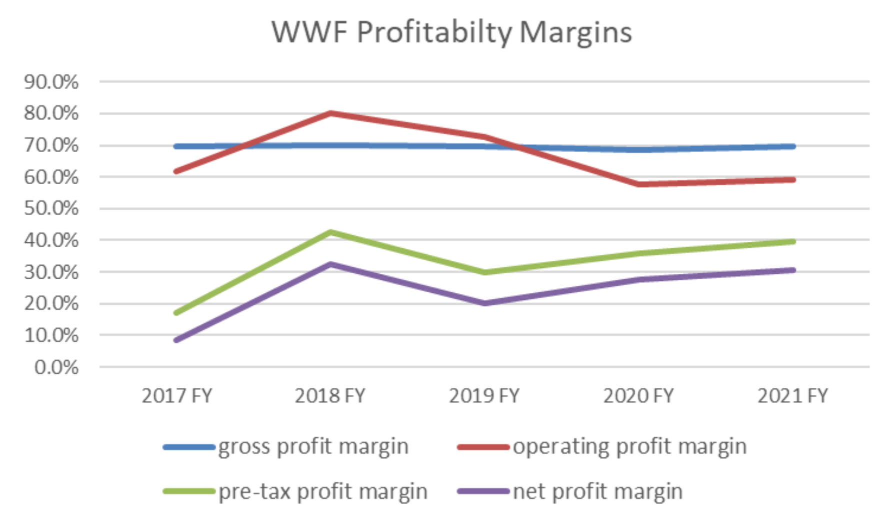
Cost of sales amounted to $631.1M, a 2.8% increase, which resulted in gross profits of $945.6M, a 28.8% decrease from the prior year period. As such, the gross profit margin fell from 68.4% in the prior year period to 60.0%. Other income amounted to $213.97M, up 62.7% year-over-year.

Wigton Windfarm Limited



General and administrative expenses totalled $443.1M for the period, up 49.6%, resulting in operating profits of $715.4M, which was down 38.5%. EBITDA amounted to $1.22B, down 26.4%. The operating margin stood at 45.4% while the EBITDA margin was 77.2%, relative to 59.9% and 85.2% for the 9M21 period, respectively.

Finance costs fell 8.9% to $350.3M, however, WIGTON's ability to service debt, as measured by its interest coverage ratio, declined from 3.15x to 2.13x due to the deterioration in operating income. Net income fell 53.1% to $277.5M, even as the taxation expense also fell 53.1% to $87.6M. The net profit margin slid to 17.6%, down from 30.5% a year prior.



Liquidity & Solvency

As at Dec. 31, 2021, WIG's total assets amounted to $11.2B, up 5.4% or $576.2M y-o-y. This increase was driven by a 27.9% or $882.9M increase in cash and cash equivalents to $4.05B. Partially offsetting the increase in cash was a 6.0% decline in property, plant & equipment to $6.61B, stemming from depreciation of $516.6M. Accounts receivable amounted to $264.04M, up 32.6% while right-of-use assets stood at $132.8M, down 13.6% year-over-year. Inventory rose 269.5% to $29.7M.

Assets were funded by $6.9B in total liabilities and $4.3B in shareholders' equity. Liabilities rose 4.6% or $301.1M, as accounts payable rose 45.4% to $413.7M while deferred tax liabilities stood at $640.3M, up 38.8% year-over-year. Total debt was relatively unchanged at $5.77B, up only 0.2% from a year prior. Long-term liabilities rose 0.3% to $5.6B while non-current lease liabilities was down 7.1% to $137.0M. Wigton's debt-to-equity ratio stood at 1.34x, down from 1.43x a year prior. Total equity amounted to $4.3B, up 6.8% or $275.0M, as retained earnings rose 7.2%.

Net cash provided by operating activities amounting to $1.03B, down 37.9% year-over-year. Net cash used in financing activities fell 68.7% to $349.2M, as $710M in loans were repaid in the prior year period. Net cash provided by investing activities amounted to $26.7M, versus cash used of $99.5M a year prior, as purchases of property, plant and equipment fell 61.3% to $61.1M.

WIG's major capital expenditures are related to plant maintenance and as such enjoys strong liquidity. Its cash ratio stood at 8.95x, down from 9.83x a year prior. The current ratio stood at 9.83x, down from 10.71x as at Dec. 31, 2020.

Recent Developments

- On February 18, 2022, WIG entered into Financial Advisory Services Agreement with Mayberry Investment Limited (the parent of a top 10 shareholder). Mayberry will provide financial advisory services for business development and expansion opportunities for WIG within Jamaica and the Caribbean.

- On March 11, 2022, WIG entered into an agreement to acquire a twenty-one (21%) shareholding in Flash Holdings Limited (FHL). FHL is a pure equity holding company incorporated in St. Lucia. The Company is the sole shareholder of Flash Motors Company Limited, a Jamaican company that was incorporated to distribute and sell electric vehicles.

The move represents a part of WIG's diversification strategy and its involvement in projects that "seek to reduce the negative effects of climate change and sustain a healthy environment."

- On April 11, 2022, WIG entered into two joint venture agreements with IEC SPEI Limited (IEC). IEC and Derillion Energy Jamaica Limited (Derillion) were jointly awarded a contract by PAC Kingston Airport Limited (PACKAL), the operators of the NMIA, to design, supply, install, test and commission a 2MW photovoltaic system at NMIA. Following the award of the contract, IEC and Wigton entered into a single-project joint venture agreement where IEC partnered with WIG in regards to IEC's stake in the project. WIG's project contribution will be primarily focused on the provision of project management and oversight services along with a contribution towards working capital

  WIG and IEC have also agreed to cooperate in the design, installation, operation, and maintenance of "green energy solutions" for the benefit of third parties who intend to generate green energy for their own consumption or to sell power to JPSCo. The release noted that IEC currently has an active pipeline of green energy projects in Jamaica and WIG is expected to participate on some of these projects. IEC is an engineering and construction firm in the green energy field and is the authorized representative of Capstone Green Energy Microturbines.

  Wigton stated its intention to undertake renewable energy projects as consultants and contractors to third parties and partnering with experienced firms, such as IEC, is viewed an ideal entry into these business lines.

Investment Positives and Negatives

Positives	Negatives
WIG offers portfolio diversification opportunities for investors by providing exposure to the burgeoning alternative energy sector	WIG has only one customer in JPS and as such faces significant concentration risk
WIG is one of the most liquid stocks on the JSE Main Market.	WIG cannot on its own accord expand its energy-generation business as it must wait on the Government to make calls for tender for

	new generating capacity and then successfully bid to fill this new capacity demand.
The Company has long-term Power Purchase Agreements with JPS which provide a relative high level of certainty around future revenue flows	Competition has grown since the Company started operations in 2004. In 2015, WIG was unsuccessful in its bid to win the contract for 37MW in new generation capacity, losing to more cost-effective means of alternative energy generation at the time
Local energy costs have soared since WIG's IPO, increasing the demand for alternative energy solutions. This growing shift has created more opportunities for WIG to explore	For the first five years post-listing on the JSE no single shareholder and its affliates or concert parties may hold in aggregate more than 10% of the outstanding shares at any one time. Fragmented ownership may create difficulties in strategy execution where consensus is not achieved.
	WIG Phase I has two years left on its PPA with JPS and WIG Phase II saw a 50% reduction in its revenues for the remainder of the contract life. As such, WIG's revenues will continue the deterioration seen in the 9M22 period unless it is able to realize its diversification strategies.

Outlook

Despite the advent of the COVID-19 pandemic, WIG was able to report a 6.5% increase in revenues and 19.6% increase in net profit for the 2021FY, driven by greater wind energy output as well as an increase in foreign exchange gains and interest income. However, as reported above, the 9M22 period has been challenging for the company. Following the rate adjustment for Phase II, the relatively low wind regime and challenges in executing planned maintenance, we anticipate the 2022FY will close with performance in line with what WIG has reported for the nine month period. We forecast revenues of $2.1B and net income of $373.83M for the 2022FY.

We anticipate normalized performance for the year ended March 2023, with revenues rising 3% year-over-year to $2.17B and a 29.5% increase in net profit to $484.14M, which corresponds to an earnings per share of $0.04. We forecasted a book value of $0.46, driven by shareholders' equity of $5.06B. We estimated production in line with the historical trends, with revenue increasing year-over-year due to continued depreciation in the JMD.

We note the Company's recently announced initiatives to diverse its revenue streams with the investment in Flash Holdings Limited and partnerships with IEC SPEI Limited. However, with limited information, we did not factor these developments into our projections.

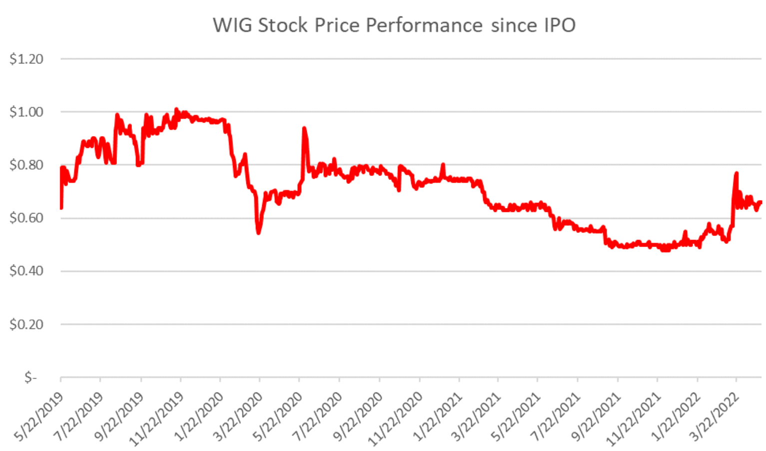
Valuation

Applying WIG's 3-year historical P/E and P/B averages to our forward EPS and BVPS yielded prices of $0.51 and $0.82. We also utilized a Free Cash Flow to Equity valuation, which yielded a price of $0.73. ***Averaging these estimates gives us a forecasted fair value of $069 per share, which is 7.4% above the close price of $0.64 as at May 5, 2022.***

Recommendation

We recommend Wigton Windfarm Limited as **MARKETWEIGHT** as we believe the Shares are currently trading in line with our estimate of its fair value. This offer is suitable for investors seeking portfolio diversification via exposure to the alternative energy space and given its relatively low Beta, investors may utilize it as a hedge against volatility amongst their investments.

The outlook for the growth was muted prior to 2022, however, the Company has recently announced several initiatives to diversify its revenue streams as it nears the expiration of the Power Purchase Agreement with JPSCo for Phase I of its wind generation facility. However, further details are required from the company as to the depth of these arrangements and the potential financial benefit to the company.



Wigton Windfarm Limited

Abridged Financials

J'000	Year ended March 31					%	9M ended Dec. 31		%
	2017 FY	2018 FY	2019 FY	2019 FY	2019 FY	Change	2021 FY	2022 FY	Change
Sales	**2,162,412**	**2,356,766**	**2,447,595**	**2,416,753**	**2,592,054**	**9.0%**	**1,942,336**	**1,576,646**	**-18.8%**
Cost of Sales	658,005	704,416	740,162	763,852	789,097	7.1%	613,958	631,076	2.8%
Gross Profit	**1,504,407**	**1,652,350**	**1,707,433**	**1,652,901**	**1,802,957**	**9.8%**	**1,328,378**	**945,570**	**-28.8%**
Operating Expenses	339,658	404,121	433,539	478,577	490,708	19.0%	296,202	443,135	49.6%
Operating Profit	**1,334,961**	**1,885,149**	**1,776,888**	**1,395,213**	**1,530,095**	**41.2%**	**1,163,079**	**715,400**	**-38.5%**
Profit Before Taxation	370,769	1,007,793	727,362	868,570	1,027,006	171.8%	778,488	365,128	-53.1%
Profit for the year	**186,205**	**767,538**	**493,594**	**662,748**	**792,701**	**312.2%**	**591,651**	**277,497**	**-53.1%**
Total Assets	**10,623,513**	**9,356,641**	**9,650,915**	**10,597,935**	**10,798,011**	**-11.9%**	**10,624,735**	**11,200,894**	**5.4%**
Total Liabilities	**9,050,672**	**7,076,263**	**6,857,840**	**7,140,840**	**6,579,038**	**-21.8%**	**6,603,489**	**6,904,624**	**4.6%**
Shareholder's Equity	**1,572,841**	**2,280,378**	**2,793,075**	**3,457,095**	**4,218,973**	**45.0%**	**4,021,246**	**4,296,270**	**6.8%**
Key Ratios									
Gross profit margin	69.6%	70.1%	69.8%	68.4%	69.6%		68.4%	60.0%	
Operating profit margin	61.7%	80.0%	72.6%	57.7%	59.0%		59.9%	45.4%	
Net Margin	8.6%	32.6%	20.2%	27.4%	30.6%		30.5%	17.6%	
Current Ratio (x)	1.23	1.03	9.73	3.54	31.95		10.71	9.83	
Debt/Equity (x)	5.52	2.96	2.25	1.88	1.37		1.43	1.34	

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

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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