September-8-2022

JMMB INVESTMENT & SOVEREIGN RESEARCH

Wisynco Group Limited (Wisynco)

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

EXECUTIVE SUMMARY

WISYNCO's PRICE MOVEMENT

WISYNCO's Statistics		
Financial Year End		June
Stock Price (14/07/2022)	$	20.01
EPS	$	0.79
Book Value per share	$	4.64
P/E		25.19x
P/B		4.28x
Net Profit 9M 2022 (millions)	$	2,957
Price Target	$	21.57
Dividend Yield		2.01%

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. Wisynco owns, manufactures and distributes a portfolio of beverage brands that include WATA and BIGGA Soft Drinks. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands Squeezz and Hawaiian Punch. The Company also distributes Red Bull, Tru Juice, Freshhh, Welch's, Mott's and Snapple. The beverage portfolio is complimented by a range of grocery products from international brands such as Kellogg's, General Mills, Hershey Company, Butterball, Herr's, and Nestlé, as well as local brands such as Kremi. The Company is also the exclusive distributor for Worthy Park Estate spirits and sugar. Using relative value valuation models, our average estimate of the fair price is $21.57, with a range of $16.43 to $25.64. As such, we recommend Wisynco as MARKETPERFORM / HOLD, as we believe the stock is trading close to its fair value. Wisynco's future earnings should improve, on the basis that strategies continue to be implemented by management to expand and diversify distribution reach to improve revenue, contain cost and improve profitability margins.

Company Overview

Wisynco Group Limited is a major manufacturer and distributor of beverages, food and packaging products in Jamaica. The parent company is Wisynco Group (Caribbean) Limited, a Barbadian International Business Company (IBC) while the ultimate controlling party is Evesam Investment Holdings Limited, a company incorporated in and resident of the Cayman Islands. Wisynco owns, manufactures and distributes a portfolio of beverage brands that include WATA, cranberry-flavoured WATA, BOOM Energy Drink and BIGGA Soft Drink. The Company also owns and manufactures the SWEET brand range of plastic and foam disposable lunch boxes, plates and cups. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica as well third-party beverage brands Squeezz and Hawaiian Punch and is the exclusive distributor for Worthy Park Estate Limited spirts and sugar,

The Company also distributes Red Bull, Tru Juice Freshhh, Welch's, Mott's and Snapple. The beverage portfolio is complimented by a range of grocery products from international brands such as Kellogg's, General Mills, Hershey Company, Butterball, Herr's, and Nestlé, as well as local brands such as Kremi. The Company operates from a modern centralized 36,000 sq. ft. warehouse space and commands a fleet of over 60-owned and 300 contracted trucks. Wisynco distributes 126 brands with over 4,000 different products and has a direct customer base of over 12,000 customers.

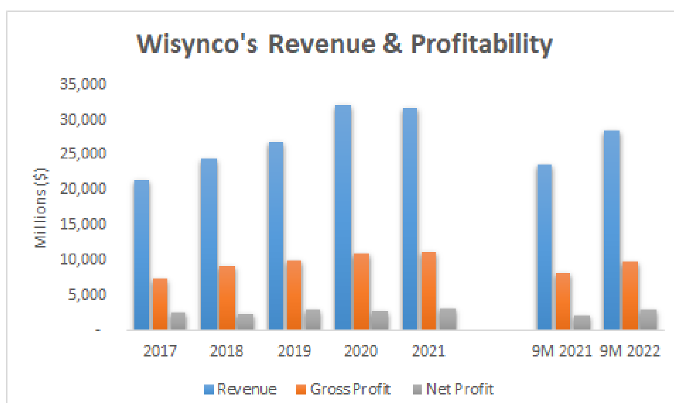
Recent Developments

On April 1, 2022 a fire occurred at Wisynco's distribution centre at the Lakes Pen Complex, St. Catherine. Management highlighted the fire occurred near the vicinity of the pallet yard and was contained swiftly by the team and the fire authorities. Preliminary investigations revealed that the fire was caused by scrap wooden pallets, which ignited and caused plastic pallets nearby to be ignited as well. The company noted that the fire did not cause any disruptions in service and suffered minimal losses. Therefore, it is expected that the fire is likely to have a marginal effect on the company's earnings.

Financial Overview

Profitability

Revenue improved at a compound average growth rate (CAGR) of 9% to $31.8B for the period FY2018 – FY2021. Wisynco reported revenues of $31.8B for the year ended June 2021, a slight downturn of 1.1% or $354M. Management highlighted the closure of hotels, restaurants, bars and schools contributed to this slight decline in revenue. More recent, the company reported a robust performance in the March 2022 quarter, revenues of $9.7B, a 27.8%



increase over the $7.6B achieved in Q3 2021. Notably, Wisynco reported revenues of $28.4B, a 20.2% increase for the nine months period 2022. Management noted revenues were driven by strong demand in all product categories and channels, as the economy re-opens and the relaxation of the Covid measures continue.

Cost of goods sold slightly outpaced revenue growth for the nine months period, which rose by 20.5% year over year to $18.7B, which resulted in a decline in gross profit margin to 34.2% from 34.4%. Gross profits amounted to $9.7B, up 19.5% year over year. Management highlighted that higher input cost and production downtime led to higher cost of production, as well as disruption in energy supply experienced by the company's LNG plant resulted in additional cost to purchase electricity.

Operating expenses for the nine months period 2022 rose 10.4% to $6.2B. However, the operating expenses margin fell from 23.7% in the 2021 to 21.8% in the 9M period 2022. Selling & Distribution expenses rose 12.8% to $5.2B while administrative expenses fell slightly by 0.5% to $1B. This is as a result of the company's strategy to continue exercising control over their expenses. As such, operating profit margin improved to 12.8% from 11.1% the prior year. Wisynco reported operating profit of $3.6B for the 9M period 2022, an increase of 37.7% from $2.6B the prior year.

Finance costs fell 17.6% to $88.2M while finance income more than doubled (117.8%) to $402.9M. The increase in finance income was attributed to an increase in foreign exchange gains of $184.7M. This led to pre-tax profits of $3.9B, up 46.4% or $1.2B.

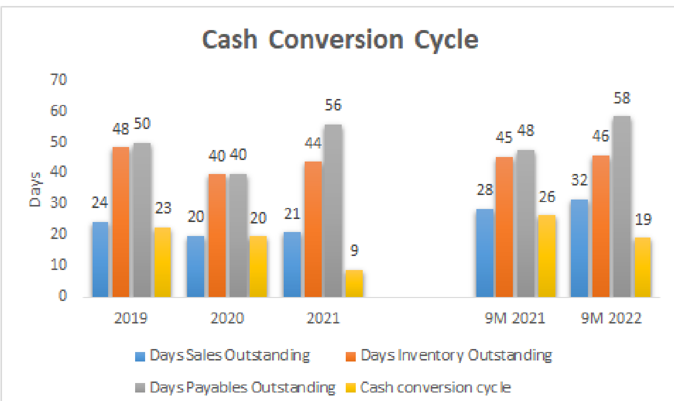
Net Income for Wisynco for the nine-month period March 2022 amounted to $2.9B. This represents an improvement in profit of $742.6M over the $2.2B recorded for the same period last year. Moreover, net profit margin improved from 9.4% a year ago to 10.4%. The return of assets stood at 13.1%, compared to 10.7% a year prior, while the return on equity stood at 18.3%, relative to 14.9% in 2021.

Earnings per share (EPS) for the 2021FY came in at $0.82, up from $0.76 from the previous financial year. EPS recorded for the nine-month period under review amounted to $0.79, up 33.9% year-over-year. The trailing twelve month (TTM) EPS for Wisynco stands at $1.05 which when compared to the 2021FY represents an increase of 26.8%. The company's profitability continues to improve as revenue remains robust while cost containment measures begin to bear fruit.

Liquidity & Solvency

Wisynco reported total assets of $24.3B as at the end of March, which represents a growth of 17.8% year over year, as total assets stood at $20.7B for the same period last year. Non-current assets is relatively stable booked at $8.1B, an uptick of 0.8%, while current assets amounted to $16.2B, up 28.7% from the prior year's balance. The increase in current assets was driven by 21.4% rise in inventories to $3.4B and 32.8% rise in receivables and prepayments to $3.6B. Additionally, cash and short-term deposits rose by 24.6% to $8.6B as at March 2022.

Total liabilities amounted to $6.9B, up 20.1% or $1.2B year-over-year. Driving this growth was a 47.8% or $1.4B surge in trade and other payables to $4.3B. Moreover, taxation payable rose to $711.2M from $329.2M the prior year, while lease liabilities rose by 33%. Notably, Non-current liabilities deteriorated by 36.5%, driven by a fall in deferred tax liabilities and borrowing by 35.8% and 44.8% respectively.



The company's liquidity position deteriorated as of March 2022, due to the increase in current liabilities. The company's current ratio for the period under review was 2.78x, a decrease from a ratio of 3.11x in 2021. Moreover, the quick ratio and cash ratio fell to 2.20x and 0.53x respectively. The cash conversion cycle improved, moving from 26 days to 19 days. This result was largely due to an increase in days payables outstanding from 48 days to 58 days, which offset the longer days of sales outstanding. Days sales outstanding increase to 32 days from 28 days, while days inventory outstanding was relative stable with an increase to 46 days, compared to 45 days in the prior year.

The equity of Wisynco has increased over the past 3 years at a CAGR of 20%. . Shareholders' equity amounted to $17.4B, up 16.9% from the prior year, as retained earnings rose 17.4% to $15.6B. This has resulted in a book value per share of $4.64, which is $0.67 greater than the $3.97 book value per share as at March 2021. Total debt amounted to $1.6B, down 30% or $668.4M year-over-year. Wisynco's leverage, as measured by the debt-to-equity ratio, stood at 0.09x, down from 0.15x a year prior. Wisynco's ability to service its debt obligations improved during the year, as the interest coverage ratio moved from 23.2x in the 2021 to 42.8x as at March 2022.

Cash Flow Adequacy

Cash from operating activities (CFO) represented inflows of $3.35B for the nine-month period, relative to inflows of $3.24B in 2021. The improvement in CFO was mainly driven by the increase in net profits but offset by the changes in the company's working capital. Notably, the changes in working capital moved from an inflow of $300M in 2021 to an outflow of $237.4M for the 2022 period. The main driver to the lower working capital is the 61.6% decline in spending on inventories from $523.1M to $199.8M. Additionally, a significant decrease in receivables and prepayments from an outflow of $145M to an outflow of $916M, further contributed to the company's changes in working capital for the period under review. Cash from investing activities represented an outflow of $152.3M for the period, relative to an inflow of $609.5M in 2021.

The purchase of PPE represented the primary outflow from investing activities, amounting to $288M. Cash from financing activities represented an outflow of $2.15B for the period, relative to an outflow of $836.4M in 2021. This was mainly due to an increase in dividend payments, which amounted to $1.5B. As such, the company experienced a gain of $1.05B to its cash and cash equivalents (not accounting for currency translation gains).

Outlook & Valuation

The Bank of Jamaica (BOJ) highlighted that the growth of the Manufacturing industry is largely predicated on increased food and beverage production, reflecting the anticipated further improvement in education, entertainment and tourism, relative to the previous year. Wisynco is a major supplier to the hotel industry, therefore the signs of recovery as indicated by the Jamaica Tourist Board Jamaica Tourist Board (JTB), with an increase in tourist arrivals in 2022 bodes well for an increase in demand for the company's products.

Wisynco has benefitted from the reopening of the economy, aided by the resumption of international travel and the reopening of the hotel industry. In addition, the re-opening of schools is likely to improve the demand for Wisynco's products, given the low COVID-19 positivity rate. The company's revenue has begun to show signs of recovery with double-digit growth in quarterly revenue since the start of the 2022 fiscal year.

Wisynco continues to make strides to broaden product offerings and deepen distribution channels. This is evident with the company's expansion into Western Jamaica by investing in a new distribution centre in Trelawny. We anticipate improvement in the company's operational efficiency with the commencement of operation of the new distribution center. The facility was acquired under a five-year lease with the Factories Corporation of Jamaica (FCJ) and is currently at its final testing and adjustment phase. The operation of this new distribution center is likely to improve Wisynco's bottom line and thus future earnings.

Furthermore, Wisynco's expansion into co-generation generated some 35% to 40% recorded energy savings since the July 2020 implementation of the two-megawatt liquefied natural gas (LNG) and solar plants. This sizeable savings will support efforts to improve the company's bottom line in the face of rising fuel costs. Management highlighted that, as at the 2021FY, the LNG Plant combined with the solar plant saw total electricity costs reduce by approximately 30%. Therefore, it is expected that this investment in the LNG and solar plants is likely to reduce the company's operational cost and bolster earnings.

Notably, as majority of manufacturing and distribution companies continue to face uncertainty arising from the invasion of Ukraine by Russia and the influence the war contributes to rising international commodity prices and ongoing supply chain challenges. Wisynco highlighted that although there was upward movement in prices of certain materials, the company was not significantly exposed to those as other companies in the market, due to the high local value-added components in their processes. However, the movement of the Jamaican dollar caused some price increases to consumers to offset those costs.

Wisynco highlighted that exports will remain a key pillar of growth. The company continues to recognize growth in export revenue from the US, UK and Caribbean regions. As such, the company will continue on its growth initiative to expand in the overseas market, which includes continuous investment in the export business.

Based on these assumptions, we are projecting a 13.9% increase in revenues for the 2022 financial year to $36.2B and net profits attributable to shareholders of $3.8B, a 22.6% increase on the 2021FY, which corresponds to an EPS (earnings per share) of $1.00. Wisynco has shown signs of recovery with record improvement in quarterly revenue results for the 2022FY. Furthermore, we expect the beverage sector in Jamaica to return to normalcy throughout the rest of the year, leading to an increase in demand by consumers.

We are forecasting a forward book value of $17.9B, which translates to a book value per share of $4.79. We employed the price-multiples approach to determine the fair price for Wisynco. We utilized the average P/E of comparable listed companies to arrive at a market multiple of 23.20x, which when applied to the forward EPS of 1.00x resulted in a target price of $23.27, while the P/B for the peer group of 3.43x yields a price of $16.43.

		Price Target	Implied Upside/Downside
Upper	$	25.64	28%
Base	$	21.57	7.8%
Lower	$	16.43	-18%

The 1-yr historical average for the P/B ratio is 4.38x, which when applied to the forward BVPS yields a price of $20.95. The 1-year historical average for the P/E ratio is 25.56x, which when applied to the forward EPS yields a price of $25.64. **The average of our price forecasts, $21.57.**

Recommendation

We recommend Wisynco as MARKETPERFORM/HOLD as our estimate of the fair value is in line with the current market value. Wisynco has $8.6B of cash and short-term deposits, which is 35% of total assets, while having $1.8B of debt. Therefore, the company's ability to meet debt obligations is reasonably high. Meanwhile, the company has maintained a debt-to-equity ratio that has been relatively stable, averaging 0.23x for the five years ended 2021. Furthermore, Wisynco has produced strong operating cash flow since FY 2018, reaching a high of $4.7B in FY 2021. As such, we believe the company is sufficiently capitalized with high liquidity and relatively low leverage, which provides a cushion for shocks the company may face as the country continues to face the uncertainty of the pandemic and the Russian-Ukraine war.

Meanwhile, Wisynco has shown robust growth in earnings for the period under review, with earnings surging 33.5% for the nine months period 2022. Earnings growth was due to revenue growth, improved profitability margins and cost containment measures. In addition, the 9M2022 period growth allowed the Company to reward shareholders with dividend payments of $1.5B ($0.40 per share), higher than FY2021's payment.

This asset is most suitable for equity investors with a medium to high-risk tolerance. This stock currently trades below our best-case scenario. The strategic initiative to diversify income streams through regional expansion and cost containment measures in place to achieve optimal operation efficiency should enhance the financial performance of the company.

Abridged Financials $'000							NINE MONTHS		
	2017	2018	2019	2020	2021	Change	Mar-21	Mar-22	Change
Revenue	21,381,665	24,544,049	26,939,227	32,170,426	31,816,430	-1.1%	23,639,470	28,403,120	20.15%
Cost of Sales	(13,973,617)	(15,421,144)	(16,867,965)	(21,103,363)	(20,700,100)	-1.9%	(15,507,489)	(18,683,860)	20.5%
Gross Profit	7,408,048	9,122,905	10,071,262	11,067,063	11,116,330	0.4%	8,131,981	9,719,260	19.5%
Operating Profit	2,551,720	2,845,778	3,137,083	3,054,597	3,790,873	24.1%	2,629,319	3,621,790	37.7%
Net Profit	2,446,472	2,292,925	2,929,322	2,802,403	3,072,300	9.6%	2,214,369	2,956,983	33.5%
Total Assets	13,694,692	15,731,058	17,778,979	19,275,249	22,365,854	16.0%	20,662,990	24,330,893	17.8%
Total Liabilities	6,134,392	7,040,897	6,693,398	6,300,476	7,311,547	16.0%	5,759,058	6,914,094	20.1%
Total Shareholder's Equity	7,560,300	8,690,161	11,085,581	12,974,773	15,054,307	16.0%	14,903,932	17,416,799	16.9%
EPS ($)	0.65	0.62	0.78	0.76	0.82		0.59	0.79	
Book Value per share ($)	2.01	2.31	2.95	3.45	4.01		3.97	4.64	
Key Ratios									
Gross Profit margin	34.6%	37.2%	37.4%	34.4%	34.9%		34.4%	34.2%	
Operating Profit Margin	11.9%	11.6%	11.6%	9.5%	11.9%		11.1%	12.8%	
Net Profit margin	11.4%	9.3%	10.9%	8.7%	9.7%		9.4%	10.4%	
Return on Average Assets	19.2%	15.6%	17.5%	15.1%	14.8%		10.7%	13.1%	
Return on Average Equity	35.8%	28.2%	29.6%	23.3%	21.9%		14.9%	18.3%	
Current ratio (x)	1.83	1.89	2.32	2.47	2.42		3.11	2.78	
Quick ratio (x)	1.35	1.42	1.57	1.74	1.81		2.42	2.20	
Cash ratio (x)	0.46	0.45	0.40	0.44	0.54		0.55	0.53	
Debt/Equity (x)	0.30	0.29	0.24	0.17	0.14		0.15	0.09	

Source: www.jamstockex.com, Bloomberg, Company Financials, Company Prospectus, JMMB Investment Research.

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.

STRONGLY UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 2.5% FOR THIS PARTICULAR ASSET

UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO 2.5% - 4.9% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETPERFORM—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OUTPERFORM/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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