

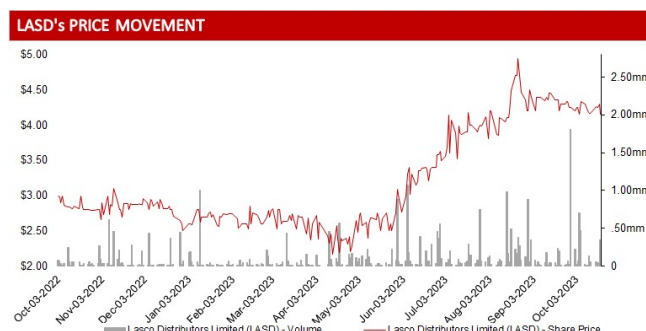


PLEASE SEE **IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT** IN THE **APPENDIX EXECUTIVE SUMMARY**

Founded in 1988, **LASCO Distributors Limited (LASD)** is a market leading distribution company in Jamaica. LASD is comprised of two divisions: Consumer and Pharmaceutical. The company is well known for several innovations and product introductions: namely its flagship product LASCO Food Drink and LaSoy - a range of soy beverage products, curves sanitary napkins, and the iCool range of water, flavoured water and juice drinks.

Over the past 4 years, LASD has grown revenues by a Compound Annual Growth Rate (CAGR) of 10.0% while growing net income by a CAGR of 22.7%. Over the 12-month period ended March 2023, LASD has grown revenues to \$26.56B, a 13.8% increase over the 2022YE revenues of \$23.34B. LASD has also grown profits to \$1.35B for the period ended March 2023FY, compared to profits of \$1.02B for the 2022FY.

We recommend a **MARKETPERFORM/HOLD** position in LASCO Distributors Limited, as we believe the stock is currently trading near its fair value. We maintain our favourable opinion of the company and its moves to improve its distribution capacity, widen its sales network and improve margins.



LASD's Statistics

Financial Year End	March
Stock Price (27/10/2023)	\$ 4.20
Trailing EPS	\$ 0.42
Book Value per share	\$ 2.53
Trailing P/E	9.99x
P/B	1.66x
Net Profit FY2023 (millions)	\$ 1,354
Price Target	\$ 4.92
Dividend Yield	3.46%

Company Overview

Founded in 1988, LASCO Distributors Limited is a major distribution company in Jamaica. Market positioning and a focus on satisfying consumer needs has helped LASD to become a market leader

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in several major categories in the industry. LASCO Distributors Limited markets, sells and distributes branded consumer goods in the Nutrition, Hygiene and Healthcare Categories in Jamaica and across several international markets. The company is well known for several innovations, namely its flagship product LASCO Food Drink and LaSoy a range of soy beverage products, Curves Sanitary Napkins, the iCool range of water, flavoured water, and juice drinks.

The company comprises of two divisions - the Consumer Division and the Pharmaceutical Division. The Consumer Division's major segments are food, beverage, personal care, baby care, adult incontinence and home care products. On the Pharmaceutical side, the supply network includes the distribution of ethical and over the counter (OTC) pharmaceutical products, animal health and equipment for major international brands, as well as the LASCO brand of generics - LASMED.

LASD distributes Unilever's home and personal care portfolio, with brands such as Breeze, Dove, St. Ives, Mistolin and Axe. LASD also distributes Salada's Jamaica Mountain Peak and Mountain Bliss 876 coffee as well as their range of teas. LASD's route to market covers all core channels which include supermarkets; wholesalers; small shops; schools; pharmacies; government institutions and health care facilities across Jamaica.

Financial Overview

Profitability

Revenue improved at a compound average growth rate (CAGR) of 10.0% for the period FY2019 – FY2023. LASD reported revenues of \$26.56B for the year ended March 2023, an improvement of 13.8% or \$3.22B. The consumer division accounts for 82% of revenue at \$21.78B, while pharmaceutical division accounts for the remaining 18% at \$4.8B. More recent, the company reported an increase in revenue for the first quarter June FY2024 to \$7.31B, a 16.9% increase over the \$6.26B achieved in the 3M period FY2023.



Cost of sales for the year ended March 2022, was up 12.9% or \$2.51B to \$21.97B. Gross profits grew by 18.2% or \$707.17M to \$4.58B. As such, LASD's gross profit margin improved to 17.3%, relative to 16.6% in the 2022FY, driven by volume growth, price increases and changes to the

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product and channel mix. Other income amounted to \$211.56M, down 14.3% or \$35.22M from the prior year period. Subsequently, for the 3M period FY2024 gross profit rose by 24.9% year over year to \$1.34B relative to \$1.07B for the 3M period in FY2023. Notably, LASD's gross margin improved to 18.3% from 17.1% the prior comparable period FY2023.

Administrative expenses for the 2023FY totaled \$2.53B. This reflects a 15% increase when compared to 2022's administrative expenses of \$2.20B, driven by staff related costs. However, selling and promotional expenses was down 2.2% from \$651.18M to \$636.67M for FY2023. As such, operating profit margin improved to 6.1% from 5.4% the prior year. LASD reported operating profit of \$1.62B for the 2023FY, an increase of 28.1% from \$1.27B the prior year. Notably, finance cost rose to \$4.26M from \$1.93M the prior year. For the 3M period FY2024 operating profit rose by 57.4% year over year to \$601.98M from \$382.36M the prior comparable period. LASD's operating margin improved to 8.2% from 6.1% in the 3M period FY2024.

LASD's Net Income for the financial year ended March 31, 2023 amounted to \$1.35B. This represents an improvement in profit of \$337.15M over the \$1.02B recorded for the same period last year. Moreover, net profit margin improved from 4.4% a year ago to 5.1%. The return on average assets stood at 10.5% compared to 8.7% a year prior, while the return on average equity stood at 17.2%, relative to 14.8% in 2022. Subsequently, for the 3M period, net profit amounted to \$447.58M, up 37.8% from the \$324.89M reported for the same period in 2022. The net profit margin stood at 6.1% for the 3M period, up from 5.2% for the previous comparable period.

EPS recorded for the 2023FY amounted to \$0.39, up from \$0.29 a year ago. The trailing twelve month (TTM) EPS for LASD stands at \$0.42 which when compared to the 2023FY represents an increase of 9.1%.

Liquidity & Solvency

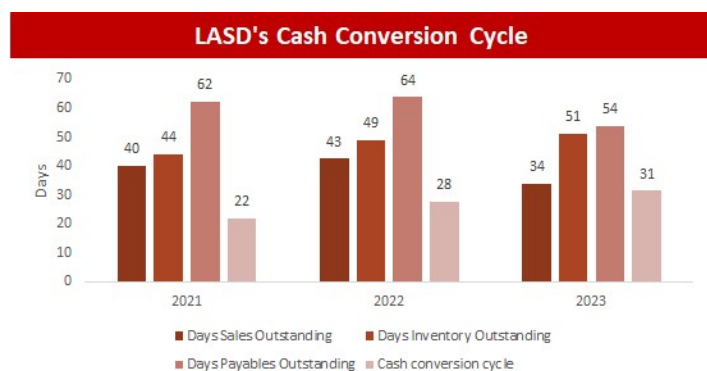
LASD reported total assets of \$13.38B as at the end of March, which represents a growth of 7.5% year over year, as total assets stood at \$12.45B for the same period last year. Non-current assets increased by 6.0%, booked at \$2.45B, while current assets amounted to \$10.93B, up 7.8% from the prior year's balance. The increase in current assets was driven by 18% rise in inventories to \$4.47B and 15% rise in cash and short term deposit to \$2.25B. This increase in current assets was offset by a 9.3% downturn in receivables booked at \$3.58B.

Furthermore, there was an uptick in total assets to \$13.53B at the end of Q1 FY2024, a year over year increase of 0.7%. Notably, non-current assets increased by 6.4%, driven by property, plant and equipment which rose by 8.9%, booked at \$1.95B. There was a slight downturn in current assets by 0.5% booked at \$11.05B. Accounts receivable and Cash and short term

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deposits decreased by 3.2% and 4.5% respectively. Meanwhile, there was a 0.3% uptick in inventories booked at \$3.76B.

For the FY2023, total liabilities amounted to \$4.96B, down \$197.77M or 3.8% year-over-year. Current liabilities amounted to \$4.92B, down 2.9% year-over-year, as payables fell 4.9% to \$4.69B. Non-current liabilities decreased 52.8% to \$47.17M, driven by a 51.1% decrease in deferred tax liability. LASD currently has no long-term loans on their books. Shareholders' equity amounted to \$8.41B, up 15.4% from the prior year, as retained earnings rose 15.6% to \$7.76B. This has resulted in a book value per share of \$2.40, which is \$0.32 greater than the \$2.08 book value per share as at March 2022. Subsequently, shareholders' equity now stands at \$8.87B, up from the \$7.35B as at June 30, 2022. The increase of \$1.52B arose primarily as a result of retained earnings of \$8.87B.



The company's current ratio for the period under review was 2.22x, an increase from a ratio of 2.00x in 2022. The quick ratio and cash ratio followed a similar trend, increased to 1.31x and 0.46x respectively. The cash conversion cycle deteriorated, moving from 28 days to 31 days. This result was largely due to an increase in days inventory outstanding from 49 days to 51 days and payables days outstanding

decreasing from 64 days to 54 days. Days sales outstanding decrease to 34 days from 43 days the prior year.

Cash Flow Statement Overview

LASD's cash flow from operations has grown at a CAGR of 35.6% for the 2019-2023 period. Cash from operating activities (CFO) represented inflows of \$1.01B for the twelve-month period, relative to inflows of \$367.11M in 2022. The improvement in CFO was mainly driven by the increase in profits and increase in cash from receivables. Notably, the changes in working capital moved from an outflow of \$762.77M in FY2022 to an outflow of \$606.40M in FY2023. Notably, the company's receivables moved from an outflow of \$688.83M to an inflow of \$329.07M. Furthermore, payables reported an outflow of \$235.46M relative to an inflow \$824.36M the prior year.

Cash from investing activities represented an outflow of \$372.33M for FY2023, relative to an outflow of \$188.92M in FY2022. PPE and Short term investments were the primary outflow from investing activities, amounting to \$247.38M and \$159.81M respectively.

Cash from financing activities represented an outflow of \$282.94M for the period, relative to an outflow of \$246.48M in 2022. This was mainly driven by the increase in dividends paid, which amounted to \$315.96M.

In FY2023, the company experienced a gain of \$357.05M to its cash balance (not accounting for currency translation gains). To date, the working capital positioning of the Company has deteriorated. Specifically, operating cash flow before working capital amounted to \$418M relative to \$396.44M in the prior year, a 5.4% increase. The change in working capital for the period has amounted to an inflow of \$298.89M, from an inflow of \$1.12B the prior comparable period. Consequently, net operating cash flow for the 3M 2024FY has amounted to an inflow of \$814.02M relative to an inflow of \$1.53B the prior comparable period.

Outlook & Valuation

The Jamaica economy is expected to have a positive recovery based on the projected upward trends of various indicators such as, real GP growth, which is expected to trend upwards within the range of 1.0% to 3.0% for FY2023/24. The expected improvement reflects employment growth in various industries, including, manufacturing, distribution, finance & insurance and business process outsourcing. We expect income level to remain buoyant as the domestic labour market is likely to remain solid over the next 12 to 18 months.

The Jamaican market accounts for majority of LASD revenues and as such, the company's prospects rely heavily on the performance of the local economy and its impact on employment and consumer disposable incomes. Moreover, with the continued moderation of the Jamaican economy and the downward trajectory of the unemployment rate, declining to 4.5% as at July 2023, employment rates are expected to increase, which will likely help to provide more disposable income to citizens and stimulate private consumption, both of which augurs well for LASD's sales.

The World Bank anticipates that shipping and input prices will further notice a decline in 2023, as supply chain pressures continue to ease and are returning to historical averages amid rising inventories and falling shipping costs, while supplier delivery times are increasing at a slower pace. Furthermore, for the remainder of the 2023 year, commodity prices are forecast to remain

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broadly unchanged. However, prices are still expected to remain above pre-pandemic levels. This bodes well for LASD profitability margins, as cost of sales is likely to subside and improve earnings.

Over a four-year period (2019-2023), there has been a consistent improvement in LASD's revenue generation, growing at CAGR of 10.0%. Notably, LASD has seen resilience in the demand for its goods as it sells many products that fall under the "Consumer Staples" category. Consumer staples are essential products that include typical products such as food & beverage, household goods, pharmaceutical drugs and hygiene products. Consumer staples are viewed as non-cyclical as they represent goods that consumers are unable, or unwilling to cut from their budgets regardless of their financial situation. This attribute makes consumer staples least affected by changes in business cycles as consumers demand these goods at a relatively constant price.

We are forecasting revenues of \$32.35B for the year ended March 2025, and net profits of \$1.55B, which corresponds to earnings per share (EPS) of \$0.44. We are forecasting a forward book value of \$10.30B as at March 31, 2025, which translates to a book value per share of \$2.93.

Based on these assumptions, we arrived at our price target of \$4.65 using the Discounted Cash Flow (DCF) model. Utilizing LASD's 3-year P/E average of 11.43x and the \$0.44 EPS estimate produces a price of \$5.16. With the 3-year P/B average of 1.69x and the \$2.93 BVPS estimate yields a price of \$4.96. **The average of our price forecasts, \$4.92 is 17.2% higher than the closing price of \$4.20 on November 14, 2023.**

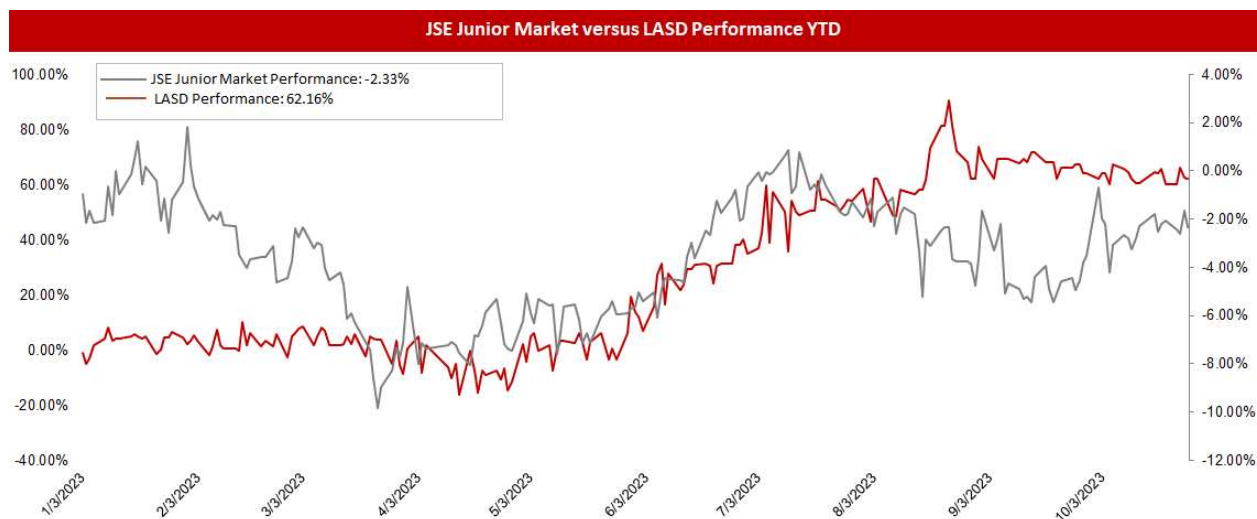
RECOMMENDATION

We recommend LASCO Distributors Limited at MARKETPERFORM/HOLD, as we believe the stock is currently trading in line with our estimation of its fair value. The company's major market segment, Jamaica, should perform well as the economy improves. We anticipate an improvement in employment rate, disposable incomes and consumption are expected to increase and the company is likely to see an increase in demand for its products. This is expected to improve revenue and earnings. We positively view the company's efforts to continually improve its distribution capacity, widen its sales network and innovate its product line. Shares of LASD is most suitable for the medium to long-term investor with a medium to high-risk appetite, as the distribution sector remains highly competitive.

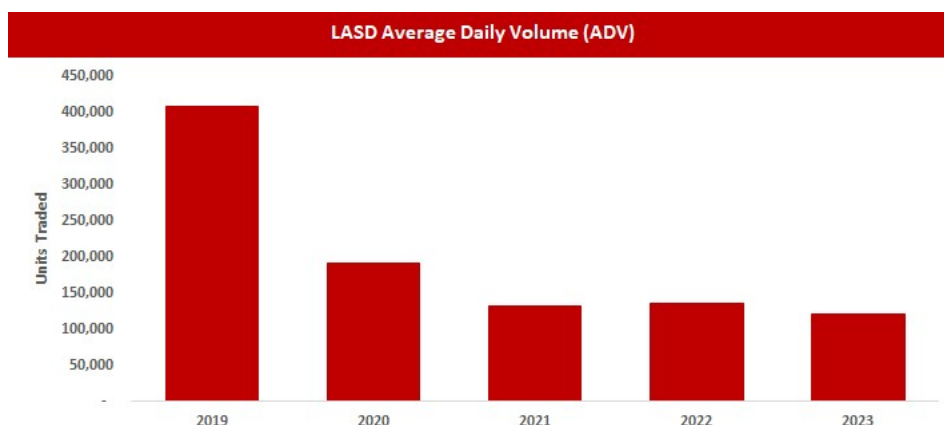
LASD's YTD stock performance appreciated by 62.16%, while the JSE Junior market declined by 2.33%. LASD's liquidity has been on a declining trend, however the average daily volume stood at 135.5K units traded for 2022YE in comparison to 131.5K units traded the 2021YE. **The following charts illustrate several key data points on LASD's trading history.**

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Abridged Financials \$'000							THREE MONTHS		
	2019	2020	2021	2022	2023	Change	Jun-22	Jun-23	Change
Revenue	18,130,689	19,496,216	20,286,028	23,337,292	26,559,286	13.8%	6,256,496	7,314,771	16.91%
Cost of Sales	(14,581,800)	(15,719,779)	(16,638,825)	(19,459,686)	(21,974,511)	12.9%	(5,184,253)	(5,975,136)	15.3%
Gross Profit	3,548,889	3,776,437	3,647,203	3,877,606	4,584,775	18.2%	1,072,243	1,339,635	24.9%
Operating Profit	705,859	833,469	1,120,849	1,269,161	1,625,285	28.1%	382,565	602,098	57.4%
Net Profit	597,781	725,756	909,480	1,016,428	1,353,576	33.2%	324,888	447,580	37.8%
Total Assets	8,639,662	9,158,627	10,811,553	12,449,982	13,377,858	7.5%	13,429,110	13,526,979	0.7%
Total Liabilities	3,450,675	3,450,278	4,339,125	5,161,737	4,963,970	-3.8%	6,073,710	4,652,841	-23.4%
Total Shareholder's Equity	5,188,987	5,708,349	6,472,428	7,288,245	8,413,888	15.4%	7,355,400	8,874,137	20.6%
EPS (\$)	0.18	0.21	0.26	0.29	0.39		0.09	0.13	
Book Value per share (\$)	1.48	1.63	1.84	2.08	2.40		2.10	2.53	
Key Ratios									
Gross Profit margin	19.6%	19.4%	18.0%	16.6%	17.3%		17.1%	18.3%	
Operating Profit Margin	3.9%	4.3%	5.5%	5.4%	6.1%		6.1%	8.2%	
Net Profit margin	3.3%	3.7%	4.5%	4.4%	5.1%		5.2%	6.1%	
Return on Average Assets	7.0%	8.2%	9.1%	8.7%	10.5%		2.6%	3.3%	
Return on Average Equity	12.3%	13.3%	14.9%	14.8%	17.2%		4.6%	5.5%	
Current ratio (x)	1.99	2.03	1.97	2.00	2.22		1.86	2.42	
Quick ratio (x)	1.25	1.32	1.29	1.26	1.31		1.23	1.59	
Cash ratio (x)	0.39	0.43	0.48	0.39	0.46		0.53	0.66	
Debt/Equity (x)	0.10	0.02	0.01	0.00	0.00		0.00	0.00	



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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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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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