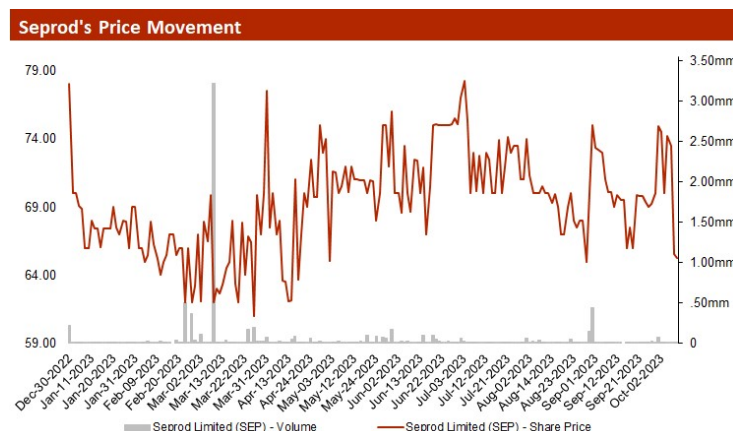




PLEASE SEE **IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT** IN THE **APPENDIX**

EXECUTIVE SUMMARY

Seprod Limited (SEP) is a leading Jamaican manufacturing, agribusiness and distribution company. The Company maintains large positions in the Jamaican market for several products including edible oils and fats, milk and sweetened condensed milk. In addition, it owns many consumer brands such as Betty, Butterkist, Chef, Chiffon, Cool Fruit, Gold Seal, Golden Grove, Lider, Miracle, Serge, Supligen and Swizzle. Seprod was found in 1944 and was listed on the Jamaica Stock Exchange in 1985.



Over the past four (4) years, SEP has grown revenues by a Compound Annual Growth Rate (CAGR) of 51.6% while growing total net income by a CAGR of 40.1%. Over the 12-month period ended December 2021, SEP has grown revenues to \$78.43B, a 78.7% increase over the 2021YE revenues of \$43.88B. SEP has also grown total net income to \$2.92B for the 2022FY. More recent, Seprod reported an increase in total net profits to \$2.54B for the six-month period ended June 2023, compared to net profits of \$1.58B for the corresponding six-month period in 2022.

SEP's Statistics

Financial Year End	December
Stock Price (10/10/2023)	\$ 69.30
Trailing EPS	\$ 3.72
Book Value per share	\$ 40.82
Trailing P/E	18.62x
P/B	1.70x
Net Profit 6M FY2023 (millions)	\$ 2,542
Price Target	\$ 84.96
Dividend Yield	2.6%

We have placed a **OUTERPERFORM/BUY** recommendation on the shares of SEP, as we believe the stock is trading below its fair value. Over the past few years, Seprod has made several moves, which have begun to bear fruit and has taken the decision to discontinue its failed venture in sugar manufacturing, which generated billions in losses over the years. The entity is susceptible to adverse economic conditions, this includes rising inflation driven by higher global commodity

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and freight costs. Nevertheless, SEP'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 Background

Seprod Limited was incorporated in Jamaica in July 1940 and became a publicly-listed company in 1985. Seprod now operates with three business lines: Ingredients, Dairy and Distribution. The Ingredients division consists of Seprod's joint venture with Seaboard Corporation, Jamaica Grain and Cereals Limited, which commenced flour production in December 2017. The operation also produces cornmeal and grits in bulk as well as consumer-size packages. In 2019, the company divested its sugar manufacturing operation after racking up significant losses over the years after acknowledging the sectors significant structural inefficiencies.

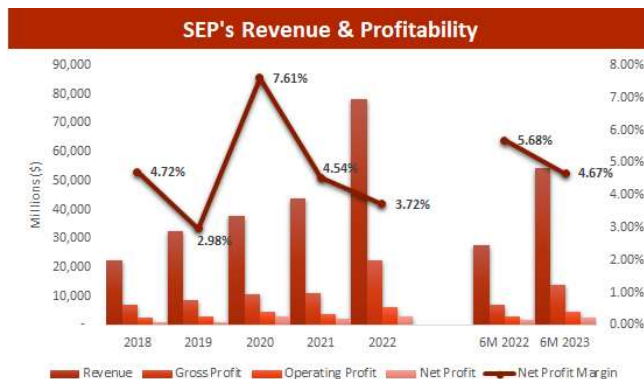
The Dairy line has been expanded with the integration of the dairy operation formerly owned and operated by the Nestle Group. The operation includes the physical assets based in Bog Walk, St. Catherine and the "Betty" and "Supligen" brands. The acquisition of Facey Consumer forms the foundation of the Distribution arm of Seprod.

Seprod acquired A.S. Bryden & Sons Holdings ("A.S. Bryden") in 2022, a 100 year-old Trinidad & Tobago company. A.S. Bryden distributes food, pharmaceuticals, hardware, houseware and industrial equipment.

Financial Overview

Profitability

For the period FY2018 - FY2022, the compound average growth rate (CAGR) of Seprod's revenues was 51.6%. Revenues totalled \$78.43B for the 2022FY, up 78.7% or \$34.5B, from the year prior. This surge in revenue was driven by the acquisition of the Bryden Group in June 2022, 22% increase in export sales and addition of new product lines. Moreover, Seprod highlighted that there was also the effect of pandemic-induced price increases, which the company has begun to reverse as lower commodities and shipping cost begins to work their way into inventory replacement cost. Notably, for the 6M period, Seprod reported revenue at \$54.45B, up 95.8% year over year. Management highlighted that this growth represents the continued growth in the



business post A.S. Bryden Group (ASB) acquisition, a 45% increase in exports and the activation of the company's new logistics centre, which reduced warehousing cost.

For the 2022FY, direct expenses were up 70.2% to \$56.12B. However, there was a downturn in the company's direct expenses margin to 71.6% from 75.1%

due to a reduction in global shipping costs and a reduction in prices of key commodities. As such, gross margin rose to 28.4% from 24.9%, as gross profits amounted to \$22.31B from \$10.91B the prior year. More recently, for the six month's period gross profit rose by 96.6% year over year, reported at \$13.82B. Gross margin for the six months, was relatively stable at 25.4%.

Finance and other operating income rose by 15.7% to \$1.76B, driven by foreign exchange gains. Total operating expenses increased by 104.8% to \$18.05B from \$8.81B the prior year. This is attributable to the significant warehousing and logistics cost from the use of third party warehouses due to the destruction of their main logistics centre in 2021. As a result, there was a downturn in operating profit to 7.6% from 8.2%. Nevertheless, operating profit was reported at \$5.97B, up 66.0% year over year. Finance costs totaled \$1.84B for 2022 compared to \$1.20B in 2021. The increase in the finance costs is primarily driven by the rise in interest on long term borrowings totaled \$1.64B versus \$869.03M in 2021, due to an increase in the company's debt. More recent, for the 6M period, operating profit rose to \$4.53B from \$2.83B the previous comparable period in 2022. Notably, operating margin for the 6M period fell from 10.2% to 8.3%, as the company's operating expenses margin rose to 18.0%

For the FY2022, profit before taxation amounted to \$4.24B, up 83.6% year-over-year. Seprod reported tax expense of \$1.15B resulting in an effective tax rate of 27.0%. Total net profit amounted to \$2.92B, up 46.4% year-over-year. However, pre-tax profit margin improved to 5.4% from 5.3% year-over-year, while the net profit margin experienced a downturn to 3.7%, from 4.5% for the prior year. Notably, net profit attributable to shareholders is reported at \$2.32B with earnings per share (EPS) of \$3.17. As at December 31st 2022, the return on average asset stood at 4.1%, compared to 4.7% a year prior, while the return on equity stood at 10.4%, relative to 9.9% in 2021.

Subsequently, for the 6M period, total net profit amounted to \$2.54B, up 60.9% from the \$1.58B reported for the same period in 2022. EPS recorded for the six-month period FY2023 amounted to \$2.57 down from \$2.02 the previous comparable period. The trailing twelve month (TTM) EPS for SEP stands at \$3.72, which when compared to the 2022FY represents an increase of 17.5%.

Liquidity & Solvency

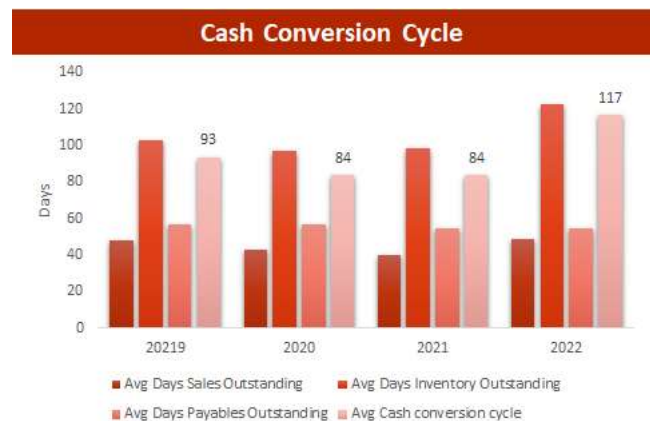
As at December 31, 2022, Seprod's total assets amounted to \$94.50B, a 101.4% or \$56.42B increase, year-over-year. Non-current assets amounted to \$42.30B, a 52.5% increase year-over-year while current assets amounted to \$52.20B, up 172.2% or \$35.16B from the prior year's balance. The increase in non-current assets was driven by the booking of \$20.79B in Property Plant and Equipment (PP&E); and a 47.9% increase in intangible assets to \$13.21B. Additionally, right use of assets rose from \$143.48M the prior year to \$1.86B as at the 2022FY.

The increase in current assets was driven by a 169% or \$19.9B rise in inventories to \$27.46B and a 199.84% or \$13.40B rise in trade and other receivables to \$19.41B. Moreover, there was an increase in cash and bank balances by 170.9% or \$1.68B, booked at \$4.47B. Seprod also booked \$285.76M in "non-current assets held for sale" which represents the carrying value of assets associated with the discontinued sugar manufacturing operations that are currently for sale. Notably, the discontinued sugar operations continue to depress Seprod's earnings with a \$178.69M loss booked for the 2022FY.

Furthermore, total assets climbed to \$91.27B at the end of Q2 FY2023, a year over year (yoy) increase of 16.9%. The company's fixed assets grew by 4.9% year over year, driven by an increase in PP&E by 3.8% to \$20.89B as June 2023. Notably, current assets rose by 29.1% yoy for the Q2 2023 period, moving from \$38.83B to \$50.11B. Inventories and trade and other receivables increases are the primary drivers of the higher current assets. Inventories increased by 36.6% to \$24.39B at the end of Q2 FY2023 (Q2 FY2022: \$17.85B). Meanwhile, trade and other receivables rose to \$19.40B from \$15.84B the prior comparable period. Notably, there was an increase in cash and bank balances for the 6M period to \$5.80B from \$4.49B.

For the 2022FY, total liabilities amounted to \$61.60B, a 162.5% or \$40.42B increase year-over-year. Non-current liabilities rose by 185.6% to \$33.09B, while current liabilities grew by 140.1% to \$28.52B. The increase in non-current liabilities was mainly driven by 190.7% increase in long term liabilities to \$26.98B. The increase in current liabilities was driven by 151.5% increase in payables to \$21.24B.

The company's liquidity position improved for the FY2022, as current assets increased at a faster pace than current liabilities. The company's current ratio for the period under review was 1.83x, an increase from 1.61x in 2021. Moreover, the quick ratio and cash ratio rose to 0.87x and 0.16x respectively. The average cash conversion cycle increased year over year, moving from 84 days to 117 days. This result was due to an increase in average days inventories outstanding from 98 days to 123 days.



Total debt amounted to \$33.01B, up 164.2% year-over-year. Seprod's leverage as measured by the debt-to-equity ratio stood at 1.00x, up from 0.53x. Seprod's ability to service its debt obligations, as represented by the interest coverage ratio, deteriorated for the period under review. The interest coverage ratio moved from 4.51x to 3.84x for the 2022FY. Shareholders' equity amounted to \$32.89B, up 40.3% year-over-year, as preference shares was booked at \$3.19B, while retained earnings rose 5.06% to \$11.5B.

Cash Flow Overview



Cash from operating activities (CFO) represented an outflow of \$119.44M for the twelve-month period, relative to inflows of \$2.67B in 2021. The deterioration in CFO was mainly driven by the increase in cash used for the increase in inventories. Notably, the changes in working capital moved from an outflow of \$852.07M in FY2021 to an outflow of \$6.31B in FY2022, a main driver to the lower working capital is the increase in

inventories from an outflow of \$2.65B to an outflow of \$8.51B. Moreover, the company's payables moved from an inflow of \$2.75B to an inflow of \$5.78B, indicating the company is taking longer to pay suppliers. Trade and other receivables reported an outflow of cash of \$3.09B, relative to an outflow of \$956.59M the prior year.

Cash from investing activities represented an inflow of \$4.32B for FY2022, relative to an outflow of \$1.07B in FY2021. The cash received from the acquisition of subsidiaries was the main driver for the increase in cash provided from investing activities, reported at \$6.1B.

Cash from financing activities represented an outflow of \$1.37B for the period, relative to an outflow of \$2.88B in 2021. Seprod received loan in the amount of \$5.55B, while making a repayment on loans of \$3.45B. Moreover, interest paid and dividends paid further contributed to the outflow of cash, in the amount of \$1.77B and \$1.35B respectively.

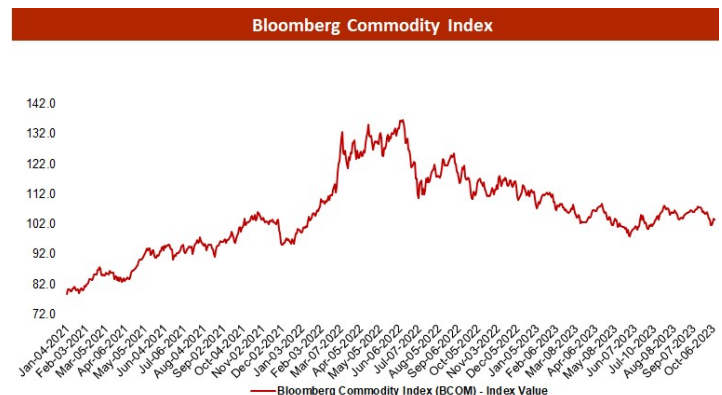
In FY2022, the company experienced a gain of \$2.82B to its cash balance (not accounting for currency translation gains). To date, the working capital positioning of the Company has improved. Specifically, operating cash flow before working capital amounted to \$5.18B relative to \$3.12B in the prior year, a 65.8% increase. However, the change in working capital for the period has amounted to an outflow of \$1.16B, less than the prior year's outflow of \$3.21B. Consequently, net operating cash flow for the 6M period has amounted to an inflow of \$3.25B relative to an outflow of \$679.68M the prior year.

Outlook & Valuation

Over a four-year period (2018-2022), there has been a consistent improvement in SEP's revenue generation, growing at CAGR of 51.6%. Notably, Seprod 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.

Global commodity prices fell 10% in the six months of 2023. Since the end of June 2023, the World Bank commodity price index declined by 25.7% from its historic peak in June 2022. According to the world bank, the surge in prices after Russia's invasion of Ukraine has largely been relaxed on a combination of slowing economic activity, and a global reallocation of commodity trade flows. As such, for the remainder of the 2023 year, commodity prices are forecast to remain broadly unchanged. However, prices are still expected to remain above pre-pandemic levels. Seprod highlighted that as it experienced lower input costs, as is evident with

the relative lower commodity index, the group continues to pass on price reductions to retail and business customers. Nevertheless, due to inflationary pressures and expenses associated with Seprod's new subsidiary, A.S Bryden, there has been a surge in operating expenses. This resulted in a downturn in operating margins, as was evident in the company's operating and net profit margin down to 8.44% and 5.04% respectively.



Over the past few years, Seprod has made several moves, which have begun to bear fruit. In addition to the acquisition of Facey Consumer in 2018, Seprod formerly acquired direct ownership of dairy assets from its largest shareholder – Musson Jamaica, which acquired it from Nestle Jamaica in 2016. Seprod also formed a joint venture company, Jamaica Grain and Cereals Limited, with Seaboard Corporation and commenced flour production in December 2017. More recent, Seprod acquired A.S. Bryden & Sons Holdings ("A.S. Bryden") in 2022, a 100 year-old Trinidad & Tobago company. A.S. Bryden distributes food, pharmaceuticals, hardware, houseware and industrial equipment. Notably, Seprod's acquisition of the Trinidad based A.S. Bryden, provides gateways to both the Guyana and Barbados markets. One of the A.S. Bryden subsidiaries, Bryden pi through its wholly owned subsidiary Genethics, operates in Guyana through its subsidiary BPI Guyana and in Barbados through its joint venture Armstrong Healthcare Inc. Limited. Therefore, this acquisition is expected to develop Seprod's regional footprint throughout the Caribbean and is likely to expand and diversify Seprod's distribution reach and drive export sales.

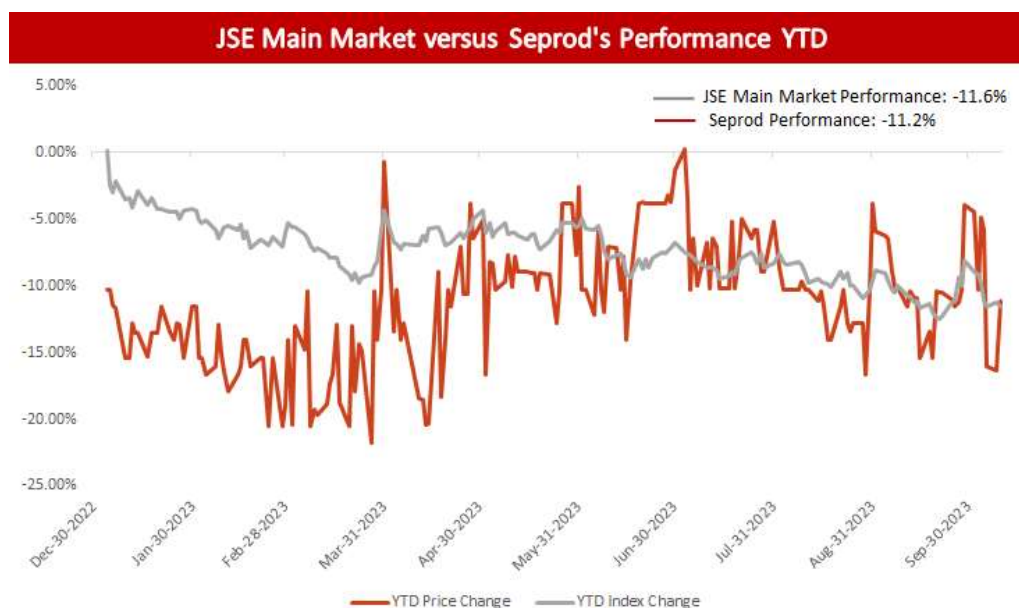
We are forecasting revenues of \$120.0B for the year ended December 2024, and net profits attributable to shareholders of \$3.39B, which corresponds to earnings per share (EPS) of \$4.62. We are forecasting a forward book value of \$31.0B as at December 31, 2024, which translates to a book value per share of \$39.7. We employed the price-multiples approach to determine the fair price for Fosrich. We utilized the average P/E of comparable listed companies to arrive at a market multiple of 13.0x, which when applied to the forward EPS resulted in a target price of \$60.17, while the P/B for the peer group of 2.5x yields a price of \$107.05. Additionally, we applied our forward EPS to the 2-year historical average PE ratio of 18.17x, which provide an intrinsic value of \$83.89. The 2-yr historical average for the P/B ratio is 2.1x, which when applied to the

forward BVPS yields a price of \$88.74. **Averaging these forecasts gives us a price target of \$84.96, which is 22.6% higher than the closing price \$69.30 on October 10, 2023.**

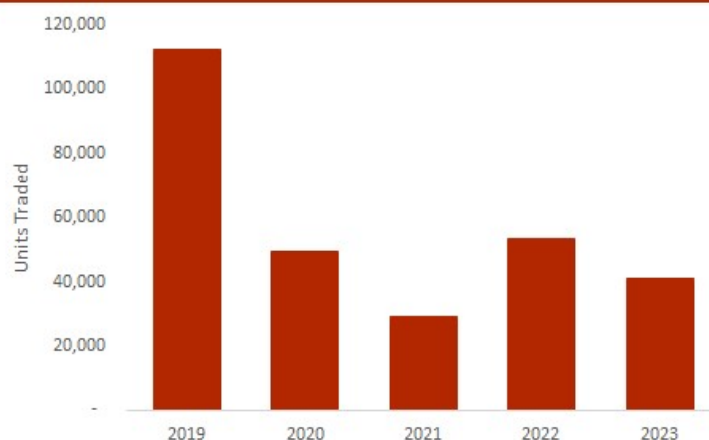
Recommendation

We recommend Seprod Limited as OUTERPERFORM/BUY at this time, given that it is currently trading below our fair price estimate of \$84.96. The stock is suitable for investors with a long-term investment horizon and a low to medium risk appetite given Seprod's position as market leader in manufacturing and distribution and proven ability to withstand economic cycles.

Seprod's stock performance year to date (YTD), depreciated by 11.2%, which is closely trending with the YTD performance of the Jamaica Stock Exchange (JSE) Main Market down 11.6%. Moreover, Seprod's liquidity has improved year over for the 2022YE, the average daily volume stood at 53.3K units traded in comparison to 29.1K units traded the 2021YE.



Seprod Average Volume



Abridged Financials \$'000							SIXMONTHS		
	2018	2019	2020	2021	2022	Change	Jun-22	Jun-23	Change
Revenue	22,499,784	32,694,821	37,737,080	43,883,405	78,433,836	78.7%	27,805,506	54,455,062	95.84%
Cost of Sales	(15,585,707)	(23,894,709)	(27,252,457)	(32,972,098)	(56,123,964)	70.2%	(20,778,679)	(40,636,882)	95.6%
Gross Profit	6,914,077	8,800,112	10,484,623	10,911,307	22,309,872	104.5%	7,026,827	13,818,180	96.6%
Operating Profit	2,482,280	2,802,635	4,681,143	3,599,483	5,974,539	66.0%	2,830,159	4,534,106	60.2%
Net Profit	1,062,055	973,334	2,871,916	1,993,421	2,917,992	46.4%	1,579,582	2,542,193	60.9%
Total Assets	35,298,364	36,498,540	38,079,974	46,911,644	94,497,037	101.4%	78,065,634	91,271,121	16.9%
Total Liabilities	20,552,742	21,528,303	21,186,947	23,462,740	61,602,422	162.6%	47,881,900	56,230,460	17.4%
Total Shareholder's Equity	14,745,622	14,970,237	16,893,027	23,448,904	32,894,615	40.3%	30,183,734	35,040,661	16.1%
EPS (\$)	2.06	1.46	3.92	2.72	3.17		2.02	2.57	
Book Value per share (\$)	21.46	20.41	23.03	31.97	37.56		37.50	40.82	
Key Ratios									
Gross Profit margin	30.7%	26.9%	27.8%	24.9%	28.4%		25.3%	25.4%	
Operating Profit Margin	11.0%	8.6%	12.4%	8.2%	7.6%		10.2%	8.3%	
Net Profit margin	4.7%	3.0%	7.6%	4.5%	3.7%		5.7%	4.7%	
Return on Assets	3.8%	2.7%	7.7%	4.7%	4.1%		2.0%	2.8%	
Return on Equity	8.9%	6.6%	18.0%	9.9%	10.4%		5.2%	7.3%	
Current ratio (x)	1.71	1.94	1.72	1.61	1.83		1.97	1.82	
Quick ratio (x)	0.94	1.01	0.96	0.75	0.87		1.07	0.93	
Cash ratio (x)	0.24	0.20	0.28	0.14	0.16		0.23	0.21	
Debt/Equity (x)	0.84	0.82	0.77	0.53	1.00		1.04	0.97	

Source: www.jamstockex.com, www.worldbank.org, 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**.

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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.

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