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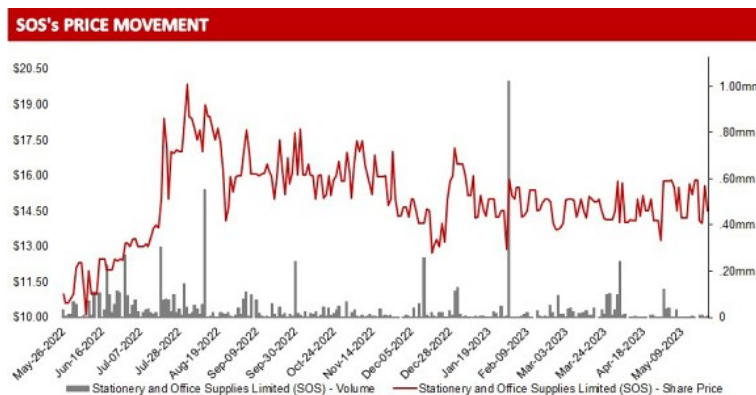
**Stationery and Office Supplies Limited (SOS)**



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**EXECUTIVE SUMMARY**

**Stationery and Office Supplies Ltd. (SOS)**, started operations in 1965. The company's shares were listed on the Junior Market of the Jamaica Stock Exchange on August 10, 2017. SOS specialized in the selling of stationery items and office supplies but since then has expanded its product offerings to office furniture, shelves, partitions and fittings needed for an office space and industrial racks. The company is the sole local distributor for the Fursys and Boss brands of office furniture. Pre-pandemic, SOS was in acquisition and expansion mode, as they entered into the manufacturing space, with an \$80M acquisition of the SEEK brand of notebooks during the 2018FY. This acquisition started bearing fruit for SOS in the 2019FY as the business line became marginally profitable during this period. However, the pandemic has been a major setback to this business arm. Since then in 2022FY, SOS has made significant recovery in its revenue and profitability. Moreover, the acquisition of SOS's former competitor, D&K's Printing and Office Supplies, contributed to the growth in the company's revenue.



**SOS's Statistics**

Financial Year End	December	
Stock Price (31/05/2023)	\$	15.54
Trailing EPS	\$	0.98
Book Value per share	\$	4.41
Trailing P/E		15.81x
P/B		3.25x
Net Profit FY2022 (millions)	\$	257
Price Target	\$	17.70
Dividend Yield		1.06%

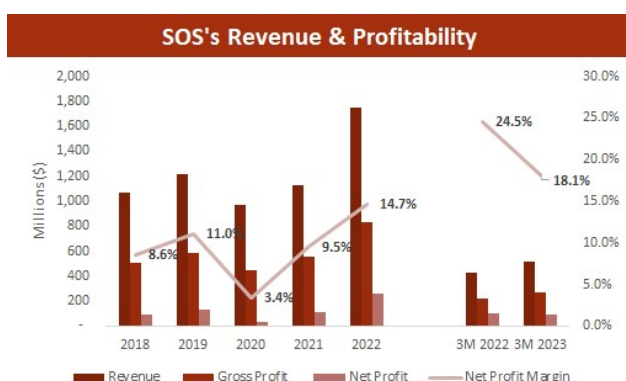
SOS has grown revenues to \$1.75B, a 55.4% increase over the 2021YE revenues of \$1.12B. This improvement in revenue is an indication of the positive recovery of demand of the company's product offerings. Subsequently, SOS reported revenue at \$519.2M for the three-month FY2023, a 21.4% increase year over year.

SOS has grown profits to \$256.5M for the 2022FY, compared to profits of \$107.1M for the 2021FY. More recent, SOS reported profits of \$94.1M for the three-month period ended March 2023, compared to profits of \$104.9M for the corresponding three-month period in 2022.

We have placed an **MARKETPERFORM/HOLD** recommendation on the shares of Stationery and Office Supplies, as we believe the stock is currently trading in line with our estimation of its fair value. Due to the cyclical nature of SOS's business, a favorable economic environment encourages increased business activity and expansion; which SOS relies on to drive demand for its suite of office supplies.

## Financial Performance

### Profitability



SOS reported revenues of \$1.75B for the year ended December 31, 2022. This represents a 55.4% increase when compared to revenues of \$1.12B for the 2021 financial year. SOS highlighted that all lines of business increased, with SEEK leading the way with revenues up 73% year over year, which was partially due to an acquisition of a former competitor, D&K's Printing and Office Supplies, which allowed

SEEK to expand its offerings. Moreover, SOS Montego Bay branch also had a successful year, with a 70% increase in revenue, due to the reopening of the tourism sector, as well as the return to normalcy of Business Process Outsourcing (BPO) call centres, which provided the opportunity for SOS to supply their office supplies and furniture needs. Furthermore, the company was able to launch its newest furniture line, EVOLVE, which contributed \$28M in revenue, after being introduced in the last two quarters of the 2022FY.

Subsequently, revenue increased by 21.4% to a Q1 record of \$519.2M from \$427.6M the corresponding quarter in 2022, as all business divisions revenue improved. Notably, this is attributable to SOS's SEEK brand which generated revenue of \$24.6M, up 60% year over year.

Meanwhile, SOS's newest furniture line increased 30% year over year and the Montego Bay branch sales rose to \$66M, up 50%.

Cost of sales outpaced the growth in revenue, increasing by 59% year over year to \$911.9M from \$573.7M in the 2021FY. Management highlighted that the company increased inventory and expanded product range based on the uncertainty of the ongoing supply chain issues, and the increase in cost of materials such as steel, paper and the fluctuating shipping costs. As such, gross margin for the year was down to 47.8% from 49% the prior comparable period, but marginally above the 4-year average of 47.6%. SOS's gross profit of \$836.2M, represents a 51.7% rise from \$551.1M reported for the 2021FY.

Administrative expenses for the 2022FY totaled \$399.1M. This reflects a 24.9% increase when compared to 2021's administrative expenses of \$319.5M. In 2022FY, there were increases in staff related costs, increased motor vehicle expenses, repair and maintenance, utilities, and rent. Additionally, selling and promotional expenses surged to \$131.8M from \$80.3M for FY2021.

Operating profit for the period under review amounted to \$263.6M, which is an increase of 113.5%. SOS's operating margin peaked at 15.1% for the 2022FY, surpassing pre-covid operating margin of 12.8% in the 2019FY. More recent, for the 3M 2023FY period, operating profit surged to \$111.4M from \$84.2M the previous comparable period in 2022. This is due to the reduction in company's cost of sales margin and operating expenses margin. Notably, operating margin for the 3M period rose from 19.7% to 21.5%.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for the 2022FY, increased by 95.4%, year over year, as it rose from \$150M to \$293.7M. The EBITDA margin also improved from 13.3% to 16.8%. Finance costs totaled \$8.7M for 2022 compared to \$11.1M in 2021. A repayment of debt totaling \$64.2M was a major contributor to finance costs deteriorating. Notably, SOS realized a capital gain of \$30M based on the sale of its Collins Green property. As such, profit before tax surged to \$283.8M from \$105.5M the prior comparable period. The company is now in its sixth year since listing on the Jamaica Stock Exchange (JSE) Junior Market and is now subject to 50% tax remission. SOS reported tax expense \$27.3M resulting in net income amounting to \$256.5M for the financial year ended December 31, 2022. This represents a growth of \$149.4M over the \$107.1M recorded for the same period last year.

Moreover, net margin significantly improved from 9.5% a year ago to 14.7%, above the 4-year average margin of 9.7%, which is an indication of SOS's operating above pre-pandemic levels. Subsequently, for the 3M period 2023FY, net profit amounted to \$94.1M, down 10.3% from the

\$104.9M reported for the same period in 2022. This due to the gain on the one-time sale of the Collins Green property amounting to \$23.4M in the prior comparable period in the 2022FY. The net profit margin stood at 18.1% for the 3M period, down from 24.5% for the previous comparable period.

Earnings per share (EPS) for the 2022FY came in at \$1.03, up from \$0.43 from the previous financial year. The trailing twelve month (TTM) EPS for SOS stands at \$0.98 which when compared to the 2022FY represents a decrease of 4.2%.

### **Liquidity & Solvency**

SOS's total assets grew to \$1.39B as at December 2022, which represents a 49.3% increase year over year. Of this, fixed assets improved from \$404.1M to \$648.1M, while current assets grew by 40.7%. The rise fixed assets was driven by the revaluation of properties owned, which increased property to \$623M from \$389M the prior year. Inventories and Trade and other receivables increased by 24.5% and 61.7% respectively. SOS continues to increase inventories, closing the 2022FY at \$368.6M from \$296M the prior year, in anticipation of shortage of inputs available for sale as a result of the ongoing supply chain issues and increasing cost. Cash and cash equivalents improved to \$131.9M from \$34.5M. This improvement in cash and cash equivalents is mainly attributable to the increase in cash provided by operating activities to \$196.7M (2021: \$26M).

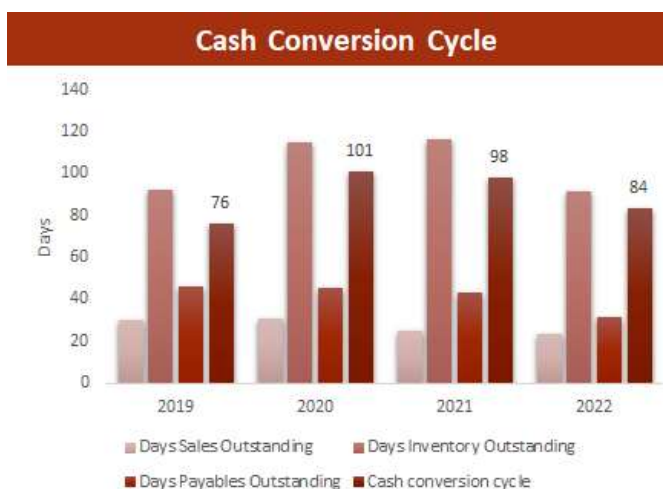
Furthermore, Total assets climbed to \$1.5B at the end of Q1 FY2023, a yoy increase of 48.7%. This increase is driven by the 65% yoy increase in PPE booked at \$627.4M. Current assets rose by 38.5%, driven by an increase in 'trade and other receivables' and 'cash and cash equivalents' to \$175.5M and \$296.1M respectively. Notably, for the first quart of 2023FY, inventories fell by 8.7% yoy to \$308.9M.

Shareholders' equity totalled \$1.1B as at the end of the 2022FY while it stood at \$676.8M at the end of the 2021FY. This increase in shareholders' equity is attributable to the increase in retained earnings to \$687.7M from \$476.2M booked in FY2021. Furthermore, there was an increase in capital reserves to \$327.3M from \$112.4M, due to the gain arising from the revaluation of SOS's land and building. The return on equity for the company improved to 23.3% from 15.8% in FY2021.

SOS' total liabilities for the 2022FY rose to \$281.9M from \$251.2M, an increase of 12.2% year over year. This increase was mainly due to the rise in trade and other payables to \$125.9M

from \$102.4M a year ago, which contributed to the overall 23.7% rise in current liabilities. However, SOS's interest bearing debt declined by 27.6% booked at \$99.4M for the 2022FY. This has had a direct impact on the company's finance costs as well as its debt to equity ratio, which fell to 0.09x from 0.20x.

The company's current ratio for the period under review was 4.07x, an increase from a ratio of 3.57x in 2021. Moreover, the company's quick ratio rose to 2.03x from 1.56x in 2021, and the cash ratio followed a similar trend which stood at 0.18x, an increase from 0.07x in 2021.



Additionally, the company's cash conversion cycle has decreased to 84 days from 98 days. This indicates that the company is taking a relatively shorter time to sell inventories and recovering cash from these sales while paying suppliers. The main contributor to the decrease in the cash conversion cycle is the decrease in the average Days Inventory Outstanding (DIO) from 116 days during the 2021FY to 92 days during the 2022FY.

### Cash Flow Statement Overview



SOS's cash from operating activities (CFO) represented inflows of \$196.7M for the twelve-month period, relative to inflows of \$26M in 2021. The improvement in CFO was mainly driven by the increase in net profit. Notably, the changes in working capital moved from an outflow of \$115.8M in FY2021 to an outflow of \$93.3M in FY2022, due to the decrease in cash used for



prepayments and trade and other payables to \$32.2M and \$23.5M respectively. However, there was an increase in cash used to purchase inventories and an increase in accounts receivable, which rose to outflow of cash to \$72.6M and \$76.4M respectively.

Cash from investing activities represented an outflow of \$4.3M for FY2022, relative to an outflow of \$8.7M in FY2021. Purchase of PPE was the primary outflow from investing activities, amounted to \$50.1M, while the company received cash amounting to \$45.6M from the disposal of PPE.

Cash from financing activities represented an outflow of \$94.9M for the period, relative to an outflow of \$79.7M in 2021. This was mainly driven by the increase in dividends paid and the repayment of borrowings, which amounted to \$45M and \$40.6M respectively. Furthermore, SOS repaid other loans during the 2022FY amounting to \$23.7M

In FY2022, the company experienced a gain of \$97.5M to its cash balance. To date, for the 3M 2023 period, the working capital positioning of the Company has improved year over year. The operating cash flow before working capital amounted to \$119.4M relative to \$91.4M in the prior year, a 30.6% yoy increase for the quarter. The change in working capital for the period has amounted to an inflow of \$86M from an outflow of \$30.2M the prior comparable period. Consequently, net operating cash flow for the 3M period ended March 2023 has amounted to an inflow of \$189.5M relative to an inflow of \$58.5M the prior year.

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## 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. According to the Bank of Jamaica (BOJ), the anticipated continued moderation in the unemployment rate over the medium term, is projected to decline to 5.9% over the September to June 2024 quarters. The expected improvement reflects employment growth in various industries, including, manufacturing, tourism, distribution, finance & insurance and business process outsourcing (BPO). The projected growth in the economy is largely reflective of a normalization of economic activity.

As the office supplies industry mirrors the economy as a whole, with the favorable projections of the Jamaican economy, SOS is projected to generate positive returns. SOS anticipates growth within the business, as plans are in place for further warehouse expansion which will increase

storage capacity and an agreement with a manufacturer who supplies companies in the United States. For the 2023FY, SOS expects to receive its first batch of supplies from the American office supply provider, AIS Incorporation, which would allow for the provision of a wider range of high-quality products within a shorter delivery time. Also, the company plans to move into e-commerce and invest in technological expansion by mid-year 2023.

Furthermore, SOS assist fast-growth sectors such tourism and BPO. This was evident with the strong recovery of Jamaica's tourism sector in 2022, SOS' Montego Bay branch experienced a major comeback as many hotels and resorts reopened their doors and tapped into SOS' products and services. The return to normalcy also led to a rise in Business Process Outsourcing (BPO) call centres in the Western region, which provided the opportunity for SOS to supply their office supplies and furniture needs.

SOS reported a record profit for the 2022FY, in its 58-year history as all lines of businesses increased by double digit percentages, with net profits 139% greater than the previous year and \$223.4M higher than the 2020FY, indicating more than just a recovery from the impact of the COVID-19 pandemic. We anticipate growth to continue in the remainder of the financial year as the company has expanded warehouse space, which should improve inventory turnover and launched printed products through SEEK after the acquisition of D&K's Printing and Office Supplies. Moreover, with the addition of the company new furniture line, "EVOLVE" and industrial racks to SOS's product line, and the company's aim distribute throughout the Caribbean, this is likely to further diversify and improve revenue and profitability margins.

Based on these assumptions, we are forecasting revenues of \$2.03B for the year ended December 2023, and net profits of \$251.4M, which corresponds to earnings per share (EPS) of \$1.00. We are forecasting a forward book value of \$1.3B as at December 31, 2023, which translates to a book value per share of \$5.24. We employed the price-multiples approach to determine the fair price for SOS. We utilized the average P/E of comparable listed companies to arrive at a market multiple of 18.41x, which when applied to the forward EPS of 1.00x resulted in a target price of \$18.50, while the P/B for the peer group of 2.79x yields a price of \$14.63.

The 3-yr historical average for the P/B ratio is 2.98x, which when applied to the forward BVPS yields a price of \$15.60. The 3-year historical average for the P/E ratio is 21.97x, which when applied to the forward EPS yields a price of \$22.08. **The average of our price forecasts, \$17.70 is 13.9% higher than the closing price of \$15.54 on May 31, 2023.**

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Payout	Dividend Yield
CAC	163,204,056	50.60x	2.32x	4.59%	1.61%	22.14%	0.44%
DTL	1,284,668,320	15.27x	1.48x	9.69%	4.02%		
EFRESH	45,748,200	15.39x	2.04x	13.27%	3.82%		
FOSRICH	821,521,970	39.13x	7.12x	18.19%	6.40%	18.56%	0.47%
FTNA	5,243,618,807	17.83x	5.00x	28.04%	13.32%	41.22%	2.31%
INDIES	664,581,708	18.17x	3.47x	19.08%	10.78%	66.39%	3.65%
JETCON	14,342,605	35.19x	0.98x	2.77%	2.06%		
LASD	2,744,355,600	9.33x	1.30x	13.95%	8.16%	22.45%	2.41%
MDS	637,868,125	15.10x	1.44x	9.5%	3.9%	17.5%	1.2%
<b>Sector Average</b>	<b>1,291,101,043</b>	<b>18.41x</b>	<b>2.79x</b>	<b>13.24%</b>	<b>6.01%</b>	<b>31.37%</b>	<b>1.74%</b>
<b>SOS</b>	<b>3,791,826,780</b>	<b>21.20x</b>	<b>3.44x</b>	<b>23.3%</b>	<b>18.5%</b>	<b>17.6%</b>	<b>1.1%</b>

## Recommendation

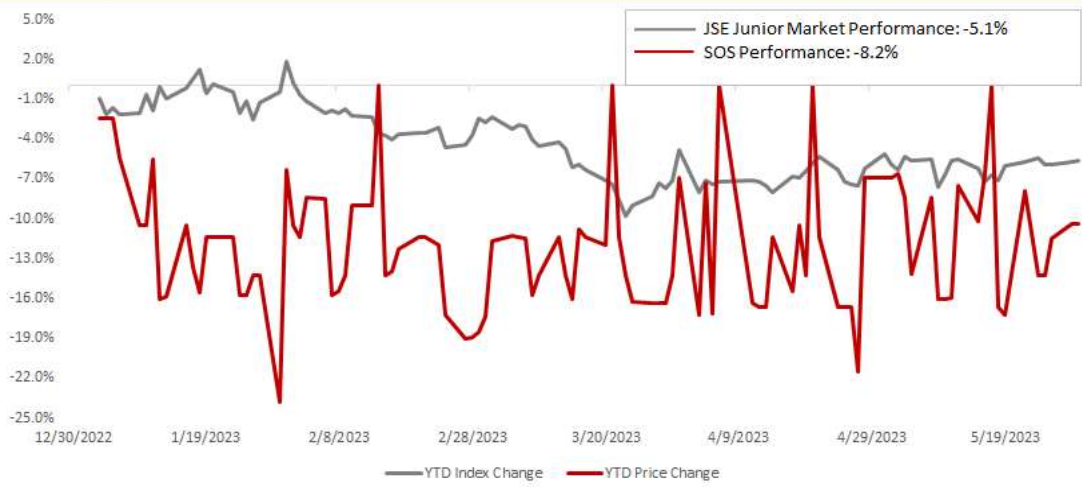
***We recommend Stationery & Office Supplies (SOS) at MARKETPERFORM/HOLD, as we believe the stock is currently trading in line with our estimation of its fair value. In addition, our recommendation considers the stability of SOS's earnings, operating cash flow, balance sheet strength and shares liquidity.***

Furthermore, with the recovery of the economy and the improvement in unemployment rate, there is likely to be an increase in demand of SOS's products in the 2022FY. However, SOS still faces headwinds with the possibility of another wave of the coronavirus which is likely to impact business operations. Nevertheless, we anticipate a growth in SOS's revenue stream and profitably margins with the ongoing cost containment measures, expansion projects in the pipeline and as the economy recovers. This stock is most suitable for retail investors with a medium to high risk appetite.

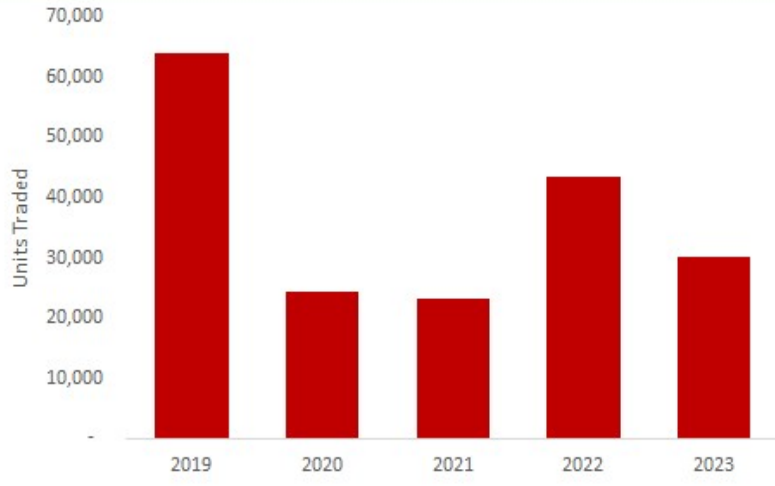
SOS's stock performance year to date (YTD), depreciated by 8.2%, which is below the YTD performance of the Jamaica Stock Exchange (JSE) Junior Market. Moreover, SOS's liquidity has improved year over for the 2022YE, the average daily volume stood at 43.5K units traded in comparison to 23.3K units traded the 2021YE.



### JSE Junior Market versus SOS's Performance YTD



### SOS Average Volume



Abridged Financials	YEAR END						THREE MONTHS		
	YE2018	YE2019	YE2020	YE2021	YE2022	Change	Mar-22	Mar-23	Change
Revenue	\$ 1,064,360,671	\$ 1,217,983,130	\$ 972,318,382	\$ 1,124,846,375	\$ 1,748,142,622	55.4%	\$ 427,623,937	\$ 519,184,395	21.4%
COGS	\$ (559,850,241)	\$ (635,366,957)	\$ (526,892,239)	\$ (573,699,215)	\$ (911,916,644)	59.0%	\$ (209,816,678)	\$ (248,718,750)	18.5%
Gross Profit	\$ 504,510,430	\$ 582,616,173	\$ 445,426,143	\$ 551,147,160	\$ 836,225,978	51.7%	\$ 217,807,259	\$ 270,465,645	24.2%
Operating Profit	\$ 98,252,564	\$ 155,957,851	\$ 54,580,079	\$ 123,460,753	\$ 263,648,251	113.5%	\$ 84,169,153	\$ 111,403,813	32.4%
Profit for the year	\$ 91,673,074	\$ 134,564,989	\$ 33,091,492	\$ 107,119,804	\$ 256,507,647	139.5%	\$ 104,885,731	\$ 94,124,773	-10.3%
Total Assets	\$ 853,335,321	\$ 907,044,937	\$ 888,015,577	\$ 928,019,172	\$ 1,385,148,994	49.3%	\$ 1,023,684,562	\$ 1,522,403,860	48.7%
Total liabilities	\$ 358,736,055	\$ 310,396,347	\$ 278,285,135	\$ 251,188,206	\$ 281,924,616	12.2%	\$ 241,967,865	\$ 325,054,709	34.3%
Total Shareholder's Equity	\$ 494,599,266	\$ 596,648,590	\$ 609,730,442	\$ 676,830,966	\$ 1,103,224,378	63.0%	\$ 781,716,697	\$ 1,197,349,151	53.2%
EPS (\$)	0.37	0.54	0.13	0.43	1.03		0.42	0.38	
Book Value per share (\$)	1.98	2.39	2.44	2.71	4.41		3.13	4.79	
<b>Key Ratios</b>									
Gross Profit margin	47.4%	47.8%	45.8%	49.0%	47.8%		50.9%	52.1%	
Operating Margin	9.2%	12.8%	5.6%	11.0%	15.1%		19.7%	21.5%	
Net Profit margin	8.6%	11.0%	3.4%	9.5%	14.7%		24.5%	18.1%	
Return on Assets	10.7%	14.8%	3.7%	11.5%	18.5%		10.2%	6.2%	
Return on Equity	18.5%	22.6%	5.4%	15.8%	23.3%		13.4%	7.9%	
Current ratio (x)	2.64	3.75	3.45	3.57	4.07		4.73	3.71	
Quick ratio (x)	1.37	1.84	1.71	1.56	2.03		2.18	2.39	
Cash ratio (x)	0.12	0.13	0.21	0.07	0.18		0.90	1.26	
Debt/Equity (x)	0.43	0.34	0.28	0.20	0.09		0.18	0.06	

Source: [www.jamstockex.com](http://www.jamstockex.com), [boj.org.jm](http://boj.org.jm), [pioj.gov.jm](http://pioj.gov.jm), 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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