February-15- 2023

JMMB INVESTMENT & SOVEREIGN RESEARCH

Wisynco Group Limited (Wisynco)

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

EXECUTIVE SUMMARY

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.

WISYNCO's PRICE MOVEMENT

WISYNCO's Statistics		
Financial Year End		June
Stock Price (24/01/2023)	$	16.66
EPS	$	1.08
Book Value per share	$	4.75
P/E		18.38x
P/B		4.18x
Net Profit FY2022 (millions)	$	4,054
Price Target	$	21.99
Dividend Yield		2.01%

Using relative value valuation models, our average estimate of the fair price is $21.99, with a range of $17.03 to $23.98. As such, we recommend Wisynco as **OUTPERFORM/BUY**, as we believe the stock is trading below 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.

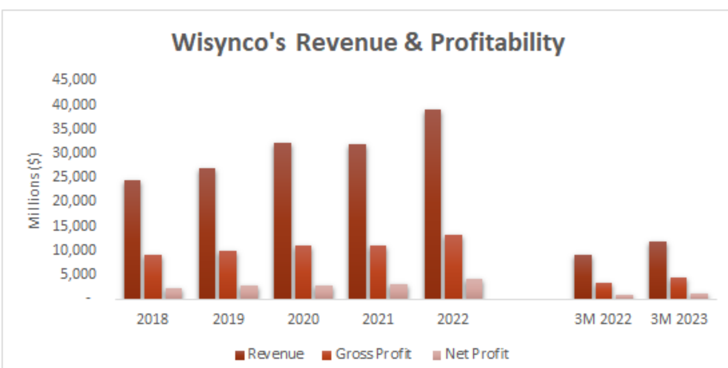
Company Overview

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 in 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 in St. Catherine and a 26,000 sq. ft. warehouse facility at Hague, Trelawny. Also, the company commands a fleet of over 90-owned and 400 contracted trucks. Wisynco distributes approximately 140 brands with over 4,000 different products and has a direct customer base of over 12,000 customers. This is made up primarily of supermarkets, retail and wholesale channels, schools, hotels, and food service outlets.

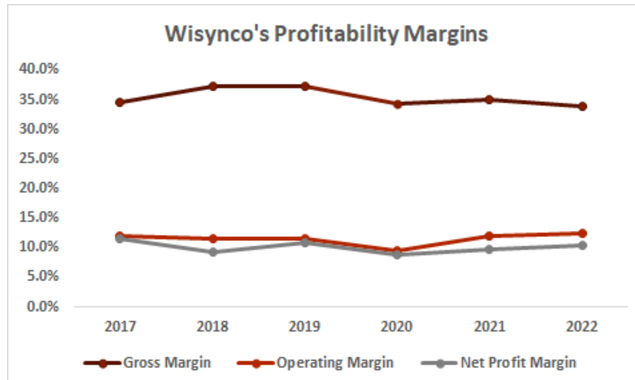
Financial Overview

Profitability



Revenue improved at a compound average growth rate (CAGR) of 13.2% to $39.1B for the period FY2019 – FY2022. Wisynco reported revenues of $39.1B for the year ended June 2022, an improvement of 22.7% or $7.2B, as demand for the group's products continue to improve. More recent, the company reported a robust performance in the September 2022 quarter, revenues of $11.9B, a 29.8% increase over the $9.2B achieved in the corresponding quarter the prior year. Management noted revenues were driven by strong demand in all product categories and channels, including exports which were up 10% over the same quarter of the prior year.

Cost of goods sold outpaced revenue growth for the 2022FY, which rose by 24.6% year over year to $25.8B, which resulted in a decline in gross profit margin to 33.9% from 34.9%. Notably, gross margin was impacted by inflationary pressures on inputs and the increase in commodity prices including the cost of oil. Wisynco highlighted that sugar prices and shipping rates also rose, so there was a corresponding impact, though partially mitigated through price increases. Gross profits amounted to $13.2B, up 19.2% year over year. Management highlighted that higher input cost on certain raw materials 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. Subsequently, for Q1 2023 gross profit of $4.3B was reported, which represents a 31.8% increase above the $3.3B reported the prior comparable period last year.



Operating expenses for the 2022FY rose 12.8% to $8.5B. However, the operating expenses margin fell from 23.8% in the 2021FY to 21.9% in the 2022FY. This is as a result of the company's strategy to continue exercising control over their expenses. Selling & Distribution expenses rose 15.4% to $7.1B and there was an uptick in administrative expenses by 1.5% to $1.4B. As such, operating profit margin improved to 12.5% from 11.9% the prior year. Wisynco reported operating profit of $4.9B for the 2022FY, an increase of 28.5% from $3.8B the prior year. Notably, operating profit has improved by 38.6% year over year for the September 2022 period, from $1.3B to $1.8B.

Finance costs fell 3% to $149M while finance income surged to $301.3M. The increase in finance income was due to higher rates earned on deposits. This led to pre-tax profits of $5.0B, up 31.3% or $1.2B.

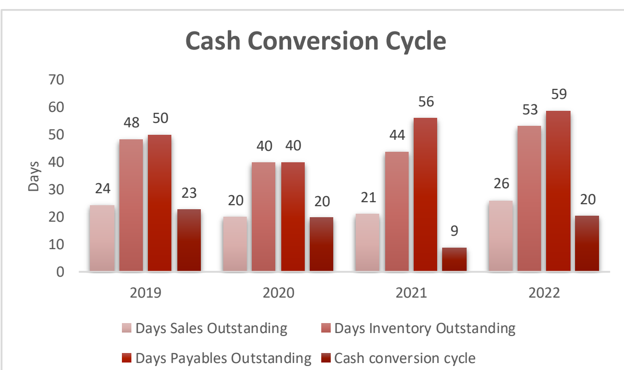
Net Income for year ended June 2022 amounted to $4.1B. This represents an improvement in profit of $981.4M over the $3.1B recorded for the same period last year. Moreover, the net profit margin improved from 9.7% a year ago to 10.4%. The return of assets stood at 16.8%, compared to 14.8% a year prior, while the return on equity stood at 24.6%, relative to 21.9% in 2021. More recent, net income increased to $1.3B for the 3M period ending September 2022, up from $967M for the corresponding 3M period in 2021.

Earnings per share (EPS) for the 2022FY came in at $1.08, up from $0.82 from the previous financial year. EPS recorded for the three-month period amounted to $0.35, up 34.1% year-over-year. The trailing twelve month (TTM) EPS for Wisynco stands at $1.17 which when compared to the 2022FY represents an increase of 8.1%. 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 $25.9B as at the end of June 2022, which represents a growth of 15.8% year over year, as total assets stood at $22.4B for the same period last year. Non-current assets are relatively stable booked at $8.1B, an uptick of 0.8%, while current assets amounted to $17.8B, up 24.2% from the prior year's balance. The increase in current assets was driven by 50.8% rise in inventories to $5.4B and 52.5% rise in receivables and prepayments to $4.1B. Additionally, there was an uptick in cash and short-term deposits, increasing to $7.8B and investment securities booked rose by 59.3%, booked at $641.5M as at June 2022. Wisynco highlighted that the increase in current assets is due to excess inventories being held to minimize disruptions from possible supply chain delays as well as approximately $600M of deposits placed for new equipment as the company move to expand production capacity during financial year ending 2023.

Total liabilities amounted to $8.1B, up 10.2% or $743.8M year-over-year. Driving this growth was a 30.7% or $1.4B surge in trade and other payables to $6.0B. Notably, Non-current liabilities deteriorated by 44.8%, driven by a fall in deferred tax liabilities and borrowing by 66.1% and 51.0% respectively.



The company's current ratio for the period under review was 2.44x, in line with prior year ratio of 2.42x in 2021. Moreover, the quick ratio and cash ratio fell to 1.70x and 0.43x respectively. The cash conversion cycle increased year over year, moving from 9 days to 20 days. This result was largely due to an increase in days inventories outstanding from 44 days to 53 days. Furthermore, days sales outstanding increase to 26 days from 21 days, while days payables outstanding rose to 59 days, compared to 56 days in the prior year.

The equity of Wisynco has increased over the past 3 years at a CAGR of 17.2%. Shareholders' equity amounted to $17.8B, up 18.5% from the prior year, as retained earnings rose 19.0% to $16.0B. This has resulted in a book value per share of $4.75 which is $0.74 greater than the $4.01 book value per share as at June 2021. Total debt amounted to $1.4B, down 32.5% or

$675.4M year-over-year. Wisynco's leverage, as measured by the debt-to-equity ratio, stood at 0.09x, down from 0.1x a year prior. Wisynco's ability to service its debt obligations improved during the year, as the interest coverage ratio moved from 26.0x in the 2021 to 44.8x as at June 2022.

Cash Flow Statement Overview

Cash from operating activities (CFO) represented inflows of $3.1B for the twelve-month period 2022, relative to inflows of $4.7B in 2021. The year over year downturn in CFO was mainly driven by the increase cash spent on inventories and increase in receivables. Notably, the changes in working capital moved from an inflow of $459.1M in 2021 to an outflow of $1.8B for the 2022FY. The main driver to the lower working capital is the increased spending on inventories from $274.4M to $1.8B. Additionally, a significant decrease in receivables and prepayments from an outflow of $106.7M to an outflow of $1.4B, further contributed to the downturn in the company's changes in working capital for the period under review.

Cash from investing activities represented an outflow of $376.4M for the 2022FY, relative to an inflow of $44.1M 2021. The purchase of PPE and investments were the primary outflow from investing activities, amounting to $424.3M and $640.4M respectively. Cash from financing activities represented an outflow of $2.36B for the period, relative to an outflow of $1.1B in FY2021. This was mainly due to an increase in dividend payments, which amounted to $1.5B. As such, the company experienced an increase of $370.6M to its cash and cash equivalents (not accounting for currency translation gains) for the 2022FY relative to an increase of $3.6B to its cash balance the prior financial year. Subsequently, net operating cash flow for the three-month period ended September 2022 has amounted to an inflow of $800M relative to an inflow of $1.2B the prior comparable period.

Outlook & Valuation

The Bank of Jamaica (BOJ) highlighted 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 (JTB), with an increase in tourist arrivals in 2023 bodes increase in demand for the company's products.

Wisynco enjoyed favourable results during the 2022 financial year and made moves to continue this growth in the current financial year. The company spent approximately $600M on capital expenditure, for equipment that is to be shipped to Jamaica by June 2023, the end of its financial year. Management highlighted that all the company's four beverage lines are running at maximum capacity, and are working overtime to keep up with demand. 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 center in Trelawny. Furthermore, the company is expected to add two new beverage lines, which is expected to cost approximately $1.8B. Therefore, Wisynco's plan to increase capacity, should provide the opportunity to meet growing demand from local and export markets and improve the company's operational efficiency with the operation of the new distribution center.

In addition, the company will be installing a new energy-generation plant, aiming to reap even more savings following on the cogeneration plant it installed in 2019. That installation uses LNG to supply 2 mega-watt of power, along with heat, to run some manufacturing processes. It is expected that this further investment in LNG plants is likely to reduce the company's operational cost and bolster earnings.

Notably, as majority of manufacturing and distribution companies continues to face uncertainty arising from the invasion of Ukraine by Russia and the influence the war contributes to the fluctuation in international commodity prices and ongoing supply chain challenges. The impact of inflationary pressures, increase in commodity prices and rise in shipping rates, caused some price increases to consumers to offset those costs. However, Wisynco highlighted that though supply chain issues hindered their efficiency in the supply of finished products, methods are being put in place to match supply and demand, and simultaneously increasing peak capacity, while reducing overall labour cost per case. This is likely to improve the company's profitability margins and augurs well for the company's future earnings.

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.

Overall, the company is expected to invest approximately $5B into these major projects to improve efficiency, position the Company to enter new channels of business, and reduced costs as a result of these initiatives.

Based on these assumptions, we are projecting a 17.1% increase in revenues for the 2023 financial year to $45.7B and net profits attributable to shareholders of $4.8B, a 18.3% increase on the 2022FY, which corresponds to an EPS (earnings per share) of $1.28. Wisynco has shown signs of recovery with record improvement in quarterly revenue results for the 2023FY.

We are forecasting a forward book value of $21.5B as at June 30, 2023, which translates to a book value per share of $5.74. 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 18.78x, which when applied to the forward EPS of $1.28 resulted in a target price of $23.98, while the P/B for the peer group of 2.95x yields a price of $17.03.

The 1-yr historical average for the P/B ratio is 4.03x, which when applied to the forward BVPS yields a price of $23.10. The 1-year historical average for the P/E ratio is 18.68x, which when applied to the forward EPS yields a price of $23.86. **The average of our price forecasts, $21.99 is 32% higher than the closing price of $16.66 on January 24, 2023.**

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Payout	Dividend Yield
CCC	59,460,402,247	13.70x	3.77x	27.5%	15.8%	0.0%	0.0%
JBG	34,035,464,232	11.06x	1.61x	14.5%	9.3%	15.1%	1.4%
SALF	4,456,593,141	25.41x	4.24x	16.7%	13.0%	65.1%	2.6%
SEP	47,504,494,330	23.83x	2.03x	8.5%	5.7%	47.8%	2.0%
BRG	2,456,249,224	19.91x	1.89x	9.5%	5.4%	0.1%	0.0%
Sector Average	29,582,640,635	18.78x	2.95x	16.2%	11.7%	25.6%	1.2%
WISYNCO	**74,524,000,000**	**18.38x**	**4.18x**	**24.6%**	**16.8%**	**37.0%**	**2.0%**

Recommendation

We assign an OUTPERFORM/BUY recommendation to Wisynco at this time, given that it is currently trading below our fair price estimate of $21.99. Wisynco has $7.7B of cash and short-term deposits, which is 30% of total assets, while having $1.4B 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 0.19x for the five years ended 2022. Furthermore, Wisynco has produced strong operating cash flow since FY 2018, reaching a high of $4.7B in FY2021 and $3.1B in FY2022. 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 earning for the period under review, with earnings surging 31.9% for the 2022 financial year. Earnings growth was due to revenue growth, improved profitability margins and cost containment measures. In addition, the 2022FY 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. 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 $'000							THREE MONTHS		
	2018	2019	2020	2021	2022	Change	Sep-21	Sep-22	Change
Revenue	24,544,049	26,939,227	32,170,426	31,816,430	39,045,880	22.7%	9,205,902	11,947,427	29.78%
Cost of Sales	(15,421,144)	(16,867,965)	(21,103,363)	(20,700,100)	(25,794,948)	24.6%	(5,924,959)	(7,622,029)	28.6%
Gross Profit	9,122,905	10,071,262	11,067,063	11,116,330	13,250,932	19.2%	3,280,943	4,325,398	31.8%
Operating Profit	2,845,778	3,137,083	3,054,597	3,790,873	4,870,377	28.5%	1,301,291	1,803,743	38.6%
Net Profit	2,292,925	2,929,322	2,802,403	3,072,300	4,053,683	31.9%	967,012	1,297,167	34.1%
Total Assets	15,731,058	17,778,979	19,275,249	22,365,854	25,891,812	15.8%	22,474,057	26,190,594	16.5%
Total Liabilities	7,040,897	6,693,398	6,300,476	7,311,547	8,055,343	10.2%	6,447,702	7,069,136	9.6%
Total Shareholder's Equity	8,690,161	11,085,581	12,974,773	15,054,307	17,836,469	18.5%	16,026,355	19,121,458	19.3%
EPS ($)	0.62	0.78	0.76	0.82	1.08		0.26	0.35	
Book Value per share ($)	2.31	2.95	3.45	4.01	4.75		3.97	4.64	
Key Ratios									
Gross Profit margin	37.2%	37.4%	34.4%	34.9%	33.9%		35.6%	36.2%	
Operating Profit Margin	11.6%	11.6%	9.5%	11.9%	12.5%		14.1%	15.1%	
Net Profit margin	9.3%	10.9%	8.7%	9.7%	10.4%		10.5%	10.9%	
Return on Average Assets	15.6%	17.5%	15.1%	14.8%	16.8%		4.3%	5.3%	
Return on Average Equity	28.2%	29.6%	23.3%	21.9%	24.6%		6.0%	7.4%	
Current ratio (x)	1.89	2.32	2.47	2.42	2.44		2.77	2.82	
Quick ratio (x)	1.42	1.57	1.74	1.81	1.70		2.21	1.96	
Cash ratio (x)	0.45	0.40	0.44	0.54	0.43		0.53	0.42	
Debt/Equity (x)	0.29	0.24	0.17	0.14	0.08		0.12	0.08	

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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