Your Best Interest At Hea

November 7,2023

JMMB INVESTMENT & SOVEREIGN RESEARCH

Wisynco Group Limited (Wisynco)

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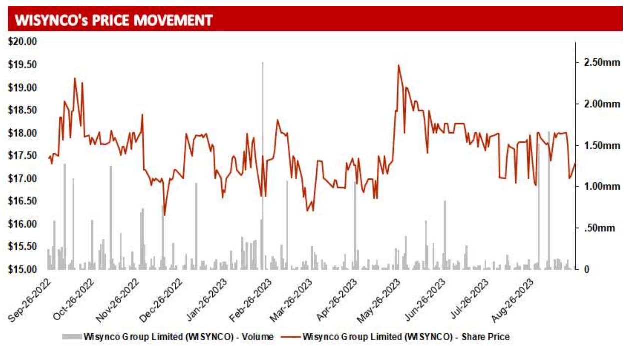
EXECUTIVE SUMMARY



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 Statistics		
Financial Year End		June
Stock Price (27/09/2023)	$	17.45
EPS	$	1.31
Book Value per share	$	5.62
P/E		13.08x
P/B		3.05x
Net Profit FY2023 (millions)	$	4,923
Price Target	$	22.62
Dividend Yield		2.33%

Using relative value valuation models, our average estimate of the fair price is $22.62. 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 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 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.

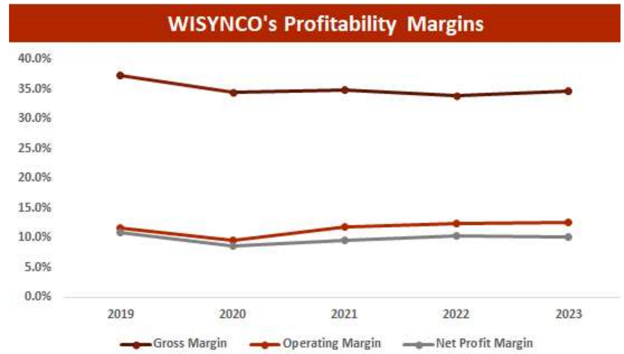
Financial Overview

Profitability

Revenue improved at a compound average growth rate (CAGR) of 14.8% for the period FY2020–FY2023.Wisynco reported revenues of $48.7B for the year ended June 2023, an improvement of 24.7% or $9.6B, as demand for the group's products continues to improve.

Cost of goods rose by 23.5% year over year to $31.8B, resulting in a 27.2% increase in gross profits to $16.8B. The gross profit margin improved to 34.6% for the 2023FY, up from 33.9% in the previous year.

Operating expenses for the 2023FY rose by 28.3% to $10.9B. Operating expenses margin increased from 21.9% in the 2022FY to 22.5% in the 2023FY. Selling & Distribution expenses rose by 29.1% to $9.2B, while administrative expenses rose 24.5% to $1.8B. Wisynco's management highlighted that the increase in expenses can be attributed to additional marketing and promotional costs and inflationary increases in other variable expenses. As such, there was an uptick in operating profit margin to 12.6% from 12.5% the prior year. Wisynco reported operating profit of $6.2B for the 2023FY, an increase of 26.4% from $4.9B the prior year.



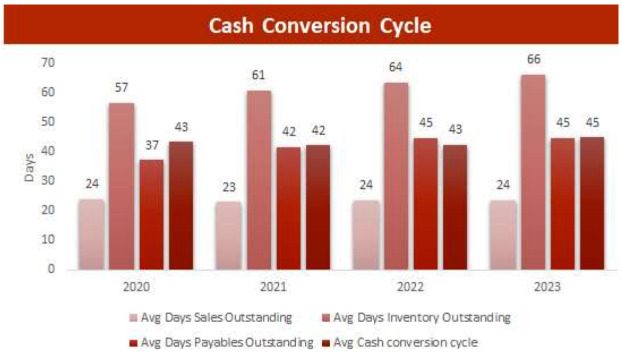
Finance costs fell 11.9% to $131.3M, while finance income rose to $444.5M. This led to pre-tax profits of $6.3B, up 26.4% or $1.3B. Net Income for year ended June 2023 amounted to $4.9B. This represents an improvement in profit of $868.9M over the $4.1B recorded for the same period last year. Moreover, there was a downturn in net profit margin from 10.4% a year ago to 10.1%. The return of assets stood at 16.9%, compared to 16.8% a year prior, while the return on equity stood at 25.3%, relative to 24.6% in 2022.

Earnings per share (EPS) for the 2023FY came in at $1.31, up from $1.08 from the previous financial year. 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 $32.4B as at the end of June 2023, which represents a growth of 25.1% year over year, as total assets stood at $25.9B for the same period last year. Non-current assets grew to $9.5B, an increase of 17.4%, while current assets amounted to $22.8B, up 28.6% from the prior year's balance. Notably, the growth in non-current assets was mainly driven by the 20.5% increase in property, plant and equipment (PPE) booked at $7.6B. The increase in current assets was driven by 31.9% rise in cash and short term deposits to $10.1B and 13.6% rise in inventories to $6.2B. Additionally, there was an increase in receivables and prepayments to $5.5B and investment securities rose by 72.4%, booked at $1.1B as at June 2023. Wisynco highlighted that the increase in current assets is due to excess inventories being held to minimize disruptions from possible supply chain delays and production lagging behind production forecasts.

Total liabilities amounted to $11.3B, up 39.9% or $3.2B year-over-year. Driving this growth was a $2.3B rise in long term borrowings to $2.9B, while short term borrowing rose by 33.7%, booked at $1.0B as at June 2023. Trade and other payables amounted to $6.3B, increasing by 5.5% or $332M. Notably, Non-current liabilities surged by 285.3%, driven by the increase in long term borrowings.

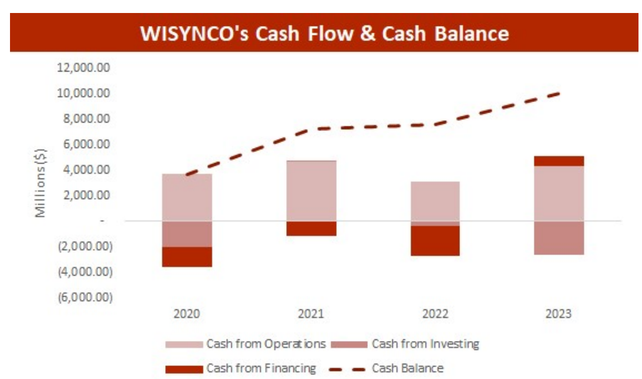


The company's current ratio for the period under review was 2.7x, an improvement from 2.4x the prior year in the 2022FY. Moreover, the quick ratio rose to 2.0x, and a relative stable cash ratio of 0.4x. The average cash conversion cycle increased year over year, moving from 43 days to 45 days. This result was due to an increase in average days inventories outstanding from 64 days to 66 days.

Shareholders' equity has increased over the past 3 years at a CAGR of 17.6%. Wisynco's equity for the 2023FY amounted to $21.1B, up 18.4% from the prior year, as retained earnings rose 20.2% to $19.2B. This has resulted in a book value per share of $5.52 which is $0.88 greater than the $4.75 book value per share as at June 2022. Total debt amounted to $3.9B, up 181.2% or $2.5B year-over-year. Wisynco's leverage, as measured by the debt-to-equity ratio, stood at 0.19x, up from 0.08x a year prior. Wisynco's ability to service its debt obligations improved during the year, as the interest coverage ratio moved from 44.8x in the 2022 to 83.1x as at June 2023.

Cash Flow Statement Overview

Wisynco's cash flow from operations has remained positive over the last four years, growing from $3.67B in FY2020 to $4.32B in FY2023. Operating cash flow before working capital amounted to $7.18B relative to $5.91B in the prior year, an increase of $1.27B (21.5%). The year over year improvement in CFO was mainly driven by the increase in net profit. Notably, the changes in working capital moved from an outflow of $1.80B in 2022 to an outflow of $1.84B for the 2023FY.



Notably, there was a decrease in spending on inventories from $1.8B to $735.8M for the

2022FY. Moreover, change in receivables and prepayments rose by 3.7% year over year, resulting in an outflow of $1.4B, while trade and other payables represented an inflow of $332.1M relative to $1.41B a year prior. Consequently, net operating cash flow for the period has amounted to $4.32B, a year over year increase of $1.21B (39.0%).

Cash from investing activities represented an outflow of $2.67B for the 2023FY, relative to an outflow of $376.41M 2022. Purchase of PPE and investments were the primary outflow from investing activities, amounting to $2.37B and $1.17B respectively. This is as a result of Wisynco's expansion plans to meet growing demand and improve operating efficiency.

Cash from financing activities represented an inflow of $743.82M for the period, relative to an outflow of $2.36B in FY2022. This was mainly due to the $3.2B loan received for the period. Notably, Wisynco made a dividend payment which amounted to $1.58B.

IN FY2023, the company experienced an increase of $2.39B to its cash and cash equivalents (not accounting for currency translation gains) for the 2023FY relative to an increase of $370.63M to its cash balance the prior financial year.

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, bodes increase in demand for the company's products.

In order to maintain robust growth, companies operating within the manufacturing and distribution sector, such as Wisynco, are strategically employing digital technologies and making strategic investments aimed at reducing cost and enhancing operation efficiency. This includes the optimization of local production capabilities, as well as the implementation of advanced inventory management systems. The main goal is to support supply chains, ensuring resilience and heightened efficiency.

Wisynco enjoyed favourable results during the 2023 financial year and made moves to continue this growth in the current financial year. The company spent $2.37B on capital expenditure for its 2023 financial year, with $1.43B related to work in progress for additional warehouse and factory space for new production. Management highlighted that the expansion will be critical to meet any gaps that exist in its domestic and international markets, as the company's 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 set to become the exclusive local distributor of the Caribbean Dreams and Tetley tea portfolios, along with select grocery items under the Caribbean Dreams brand, effective November 1st, 2023. Furthermore, 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.

In addition, the company installed 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, which accounted for only 2.3% of revenue and grew by 5.8% year over year for the 2023FY. 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 15.1% increase in revenues for the 2024 financial year to $56.1B and net profits attributable to shareholders of $5.86B, a 19.1% increase on the 2023FY, which corresponds to an EPS (earnings per share) of $1.56. Wisynco has shown signs of recovery with record improvement in quarterly revenue results for the 2023FY.

We are forecasting a forward book value of $25.7B as at June 30, 2024, which translates to a book value per share of $6.84. 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 14.11x, which when applied to the forward EPS of $1.56 resulted in a target price of $22.02, while the P/B for the peer group of 2.28x yields a price of $15.72.

The 2-yr historical average for the P/B ratio is 3.76x, which when applied to the forward BVPS yields a price of $25.72. The 2-year historical average for the P/E ratio is 17.30x, which when applied to the forward EPS yields a price of $27.01. **The average of our price forecasts, $22.62 is 29.6% higher than the closing price of $17.45 in early October, 2023.**

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Payout	Dividend Yield
JBG	37,717,242,780	8.79x	1.49x	16.9%	5.5%	18.3%	2.1%
SALF	2,908,732,120	16.58x	2.77x	16.7%	13.0%	65.1%	3.9%
SEP	50,519,371,904	17.31x	1.83x	10.6%	3.1%	46.2%	2.7%
Sector Average	30,381,782,268	14.11x	2.28x	16.2%	11.7%	30.6%	2.3%
WISYNCO	**64,382,125,000**	**13.74x**	**3.05x**	**24.6%**	**16.8%**	**32.0%**	**2.3%**

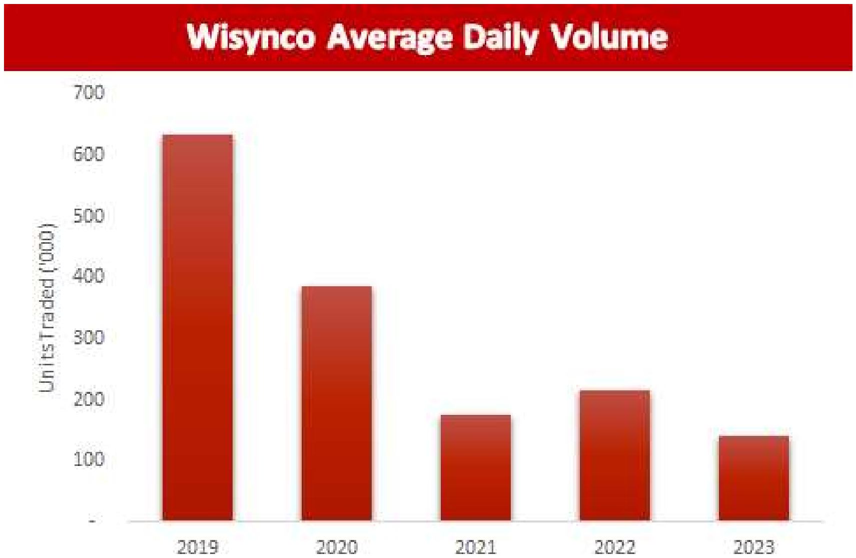
Recommendation

We assign an OUTERPERFORM/BUY recommendation to Wisynco at this time, given that it is currently trading below our fair price estimate of $22.62. Wisynco has $10.1B of cash and short-term deposits, which is 31.3% of total assets, while having $3.9B 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 0.16x for the five years ended 2023. Furthermore, Wisynco has produced strong operating cash flow since FY 2019, reaching a high of $4.7B in FY2021 and $4.3B in FY2023. 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.

Wisynco has shown robust growth in earning for the period under review, with earnings surging 21.4% for the 2023 financial year. Earnings growth was due to revenue growth, improved profitability margins and cost containment measures. In addition, the 2023FY period growth allowed the Company to reward shareholders with dividend payments of $1.6B ($0.42 per share), higher than FY2022'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.

Wisynco's stock performance year to date (YTD), depreciated by 4.7%, which is above the YTD performance of the Jamaica Stock Exchange (JSE) Main Market. Moreover, Wisynco's liquidity has improved year over for the 2022YE, the average daily volume stood at 217.1K units traded in comparison to 175.6K units traded the 2021YE.



Abridged Financials $'000						
	2019	2020	2021	2022	2023	Change
Revenue	26,939,227	32,170,426	31,816,430	39,045,880	48,705,454	24.7%
Cost of Sales	(16,867,965)	(21,103,363)	(20,700,100)	(25,794,948)	(31,850,418)	23.5%
Gross Profit	10,071,262	11,067,063	11,116,330	13,250,932	16,855,036	27.2%
Operating Profit	3,137,083	3,054,597	3,790,873	4,870,377	6,157,385	26.4%
Net Profit	2,929,322	2,802,403	3,072,300	4,053,683	4,922,575	21.4%
Total Assets	17,778,979	19,275,249	22,365,854	25,891,812	32,392,807	25.1%
Total Liabilities	6,693,398	6,300,476	7,311,547	8,055,343	11,266,790	39.9%
Total Shareholder's Equity	11,085,581	12,974,773	15,054,307	17,836,469	21,126,017	18.4%
EPS ($)	0.78	0.76	0.82	1.08	1.31	
Book Value per share ($)	2.95	3.45	4.01	4.75	5.62	
Key Ratios						
Gross Profit margin	37.4%	34.4%	34.9%	33.9%	34.6%	
Operating Profit Margin	11.6%	9.5%	11.9%	12.5%	12.6%	
Net Profit margin	10.9%	8.7%	9.7%	10.4%	10.1%	
Return on Average Assets	17.5%	15.1%	14.8%	16.8%	16.9%	
Return on Average Equity	29.6%	23.3%	21.9%	24.6%	25.3%	
Current ratio (x)	2.32	2.47	2.42	2.44	2.77	
Quick ratio (x)	1.57	1.74	1.81	1.70	2.02	
Cash ratio (x)	0.40	0.44	0.54	0.43	0.44	
Debt/Equity (x)	0.24	0.17	0.14	0.08	0.19	

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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