INVESTMENT AND SOVEREIGN RESEARCH *January 17, 2024*

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Express Catering Limited

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Executive Summary

The principal operation of ECL involves the management of recognised sports bars and eateries located at Sangster International Airport (SIA). The firm is a subsidiary of Margaritaville St. Lucia Inc, with the ultimate parent entity being Margaritaville Caribbean Group Limited. In July 2017, ECL entered the Junior Market at a price point of J$1.50. Established in 2001, ECL has been serving millions of individuals with its food and beverage services at the SIA every year. Since 2011, it has become the principal partner for food and beverage services to MBJ Airports Limited, following a successful negotiation of a long-term contract to oversee and provide a substantial proportion of the food and beverage offerings at the SIA. ECL holds a substantial stake in the pre-security food and beverage offerings, whilst enjoying exclusive rights for the post-security sections. At present, ECL manages numerous international franchises, including household names such as Starbucks, Quiznos, Wendy's, and Domino's.

Revenue demonstrated considerable instability throughout the review period (FYE May 2019 to FYE May 2023), primarily due to the COVID-19 pandemic's adverse effects on airline travel. Nonetheless, revenue experienced a rebound, reaching a period high of USD $21.2 million in FYE May 2023. Simultaneously, profits observed a significant uptick of 146.4% in FYE May 2023, albeit not reaching the peak profit of USD 3.7 million recorded in FYE May 2019. Cash flow from operating activities remained predominantly positive throughout the review period with an exception in FYE May 2021 when an outflow of USD 3.6 million was observed.

At present, ECL is trading at a trailing twelve-month (TTM) EPS ratio of 13.7x, which is below the Junior Market's average figure of roughly 17.4x. The company's shares are relatively illiquidity with an average daily value traded over the last year being $232.9 thousand. In addition, the company has registered an average bid-ask spread of 5.7% in the previous month, suggesting a moderate implicit cost linked to trading its shares.

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Abridged Financials (in US$ Millions)

	YE 2019	YE 2020	YE 2021	YE 2022	YE 2023	CAGR	Q1 2023	Q1 2024	Chg. %
Share Price	7.50	4.45	5.00	5.93	4.88	-10.19%	5.75	5.00	-13.04%
BVPS (JMD)	0.26	0.35	0.20	0.32	0.57	21.86%	0.37	0.65	76.82%
EPS (JMD)	0.30	0.13	(0.16)	0.10	0.25	-4.18%	0.06	0.08	31.39%
Dividend Per Share (JMD)	0.58	0.07	-	-	-	-100.00%	-	-	N/A
JSE Junior Market	3,077	2,633	3,325	4,203	3,785	5.31%	4,168	3,920	-5.96%
Abridged Income Statement (in USD Millions)									
Revenue	17.32	14.00	4.41	14.24	21.20	5.19%	4.91	6.40	30.36%
Gross Profit	12.25	9.68	2.89	9.24	13.77	2.96%	3.17	4.30	35.88%
Operating Profit	4.02	2.84	(1.54)	2.43	5.16	6.41%	1.19	1.40	17.70%
Profit	3.73	1.56	(1.73)	1.10	2.70	-7.75%	0.65	0.84	29.15%
Abridged Balance Sheet (in USD Millions)									
PP&E	4.39	27.13	30.15	28.16	28.03	58.91%	27.88	27.68	-0.71%
Non-Current Assets	5.41	28.13	31.09	28.95	28.67	51.70%	28.63	28.30	-1.16%
Cash & Cash Equivalents	0.26	0.18	0.42	0.28	0.14	-13.65%	0.11	0.08	-31.68%
Current Assets	3.12	4.33	8.72	11.55	13.52	44.31%	12.59	15.29	21.45%
Total Assets	8.53	32.47	39.81	40.49	42.19	49.13%	41.22	43.59	5.74%
Non-Current Liabilities	3.62	26.53	32.75	31.10	30.15	69.90%	30.76	29.74	-3.30%
Current Liabilities	1.70	1.96	4.81	6.05	6.00	37.08%	6.47	6.96	7.57%
Total Liabilities	5.32	28.49	37.57	37.16	36.15	61.48%	37.23	36.71	-1.41%
Debt	3.73	26.95	34.66	33.19	32.17	71.34%	32.65	31.73	-2.82%
Debt (ex-lease obligation)	3.69	3.51	8.10	8.55	9.47	26.59%	8.45	9.53	12.79%
Equity	**3.21**	**3.98**	**2.24**	**3.34**	**6.04**	**17.09%**	**3.99**	**6.88**	**72.48%**
Abridged Cash Flow Statement (in USD Millions)									
CFO/(Outflow)	7.58	2.94	(3.57)	1.57	3.29	-18.80%	0.80	0.71	-11.10%
CFF/(Outflow)	(7.31)	(2.45)	4.01	(1.20)	(0.86)	-41.51%	(0.48)	(0.45)	-4.86%
CFI(Outflow)	(0.41)	(0.39)	(0.26)	(0.63)	(2.44)	55.79%	(0.30)	(0.30)	-0.96%
FCFE	7.37	2.69	0.75	0.93	1.93	-28.42%	0.50	0.42	-17.21%
Ratios						**Average**			
Gross Margin	70.75%	69.10%	65.41%	64.88%	64.94%	67.01%	64.49%	67.22%	4.23%
Operating Margin	23.23%	20.25%	-35.00%	17.10%	24.33%	9.98%	24.23%	21.88%	-9.71%
Net Profit Margin	21.55%	11.17%	-39.31%	7.70%	12.75%	2.77%	13.29%	13.17%	-0.93%
Current Ratio	1.84	2.21	1.81	1.91	2.25	2.16	1.94	2.20	12.91%
Cash Ratio	0.15	0.09	0.09	0.05	0.02	0.10	0.02	0.01	-36.49%
Debt-to-Equity	1.16	6.78	15.46	9.94	5.33	6.54	8.18	4.61	-43.65%
Debt-to-Equity (ex-lease obligation)	1.15	0.88	3.62	2.56	1.57	1.72	2.12	1.38	-34.61%
ROE	76.96%	43.51%	-55.80%	39.32%	57.63%	32.32%	34.85%	53.20%	52.63%
ROA	35.64%	7.63%	-4.80%	2.73%	6.54%	9.55%	2.90%	6.82%	135.28%
P/E	24.96	34.83	(32.75)	57.22	19.24	20.70	51.44	18.33	-64.37%
P/B	28.77	12.77	24.46	18.80	8.49	18.66	15.56	7.65	-50.82%
Div. Payout Ratio	187.60%	51.29%	0.00%	0.00%	0.00%	47.78%	0.00%	0.00%	N/A
Div. Yield	7.45%	1.19%	0.00%	0.00%	0.00%	1.73%	0.00%	0.00%	N/A

Financial Overview

Income Statement Review

Revenue fluctuations were observed throughout the examination period (FYE May 2019 to FYE May 2023), primarily attributed to the COVID-19 pandemic, which led to a revenue decrease reaching a nadir of USD 4.4 million in FYE May 2021. Nevertheless, revenue surged to a peak of USD 21.2 million during the review period in FYE May 2023, representing an impressive rise of 48.9% compared to the preceding financial year. Remarkably, this figure is 22.4% greater than the USD 17.3 million revenue reported in FYE May 2019, suggesting a comprehensive recovery from the detrimental effects of COVID-19 on company earnings. The revenue expansion in FYE May 2023 was facilitated by a significant leap of 36% in outgoing passengers, totalling 2.4 million and an uplift in average spend rate by 9.4% to $8.69.

During the period under review, the gross profit margin saw a compounded annual growth rate (CAGR) of 3%, rising to USD 13.8 million. Nevertheless, just as with revenue, it experienced a significant drop in the financial year ending (FYE) May 2019, hitting a review period low of USD 2.9 million. Subsequent to this, there was an impressive upswing of 49% in the gross profit in FYE May 2023, reaching a peak for the review period.

Operating profit was considerably affected, registering a loss of USD 1.5 million in the FYE May 2021. However, a significant improvement was seen reaching a record high of USD 5.2 million in the FYE May 2023. This performance is particularly noteworthy when compared with the FYE May 2019 figure which stood at USD 4 million.

Profits similarly demonstrated a "V" shape trajectory, plummeting to a loss of USD 1.7 million in the financial year ending (FYE) May 2021 before rebounding to a profit of USD 2.7 million by the close of FYE May 2023. Despite this recovery, profits have not surpassed the peak of USD 3.7 million achieved in FYE May 2019. The failure to reach this previous high can be attributed to an increase in finance costs amounting to USD 1.9 million during FYE May 2023 versus FYE May 2019. This increase was due to higher debt levels and the adoption of IFRS 16 on leases in FYE May 2020 which resulted in the finance costs associated with lease obligation being included in finance costs.

In the three-month period concluding in August 2023, there was a notable 30.4% surge in revenue, reaching a total of USD 6.4 million. This substantial increase can be attributed to two primary factors. Firstly, an amplified number of passengers utilising the post-security departure lounge at the Sangster International Airport, which saw a rise of 16.4% compared to the same duration in the previous financial year. Secondly, a 9.5% increase was observed in passenger spending, which amounted to USD 8.69.

The surge in gross profit, reaching 35.9% at USD 4.3 million, outstripped the growth in revenue. This rise in gross profit can be attributed partly to a drop in direct costs associated with sales. The firm has recommenced forward purchasing agreements, which are anticipated to sustain price stability over an extended duration, thus facilitating the expansion of gross profit margin.

In the 3M period concluding in August 2023, ECL saw an enhancement of its earnings by 29.2%, amounting to USD 843.1 thousand. Although this recent escalation in profits is worthy of note, it falls short when compared to the USD 1 million recorded in the same period ended August 2019. The reason for this underperformance can be attributed to an increase in financing costs, which rose to USD 536 thousand in the 3M period ending August 2023 compared to a mere USD 83.7 thousand during the same interval concluded in August 2019.

Balance Sheet Review

Throughout the period under review, total assets have observed a steady growth trajectory, with a compound annual growth rate (CAGR) of 49.1%. This significant rise can be primarily attributed to an extraordinary increase of 280.6% in the financial year ending (FYE) May 2020, taking the asset value to USD 32.5 million. The substantial jump was a result of implementing IFRS 16, which led to the creation of a right-of-use asset worth USD 22.9 million. Consequently, non-current assets saw an increase of 419.7% in FYE May 2020, amounting to USD 28.1 million due to a massive surge in property, plant and equipment (PP&E) by 517.3%, bringing its value up to USD 27.1 million.

Throughout the period under review, there has been a consistent surge in current assets, with a CAGR of 44.3%. The main element of these current assets is attributable to dues from related companies, which saw an increase of 17% in FYE May 2023. This amounted to USD 12.5 million, making up 29.6% of all assets. These dues are largely comprised of sums owed by Margaritaville Limited, a related entity. This debt is unsecured and does not have any predetermined repayment terms.

Over the review period, the company's cash and bank balances have remained fairly low, hitting a high of 3% of total assets in the FYE May 2019. By FYE May 2023, these balances make up a mere 0.3% of total assets. The firm's inventory levels are also modest, equating to just 1% of total assets as at FYE May 2023.

The indebtedness, inclusive of lease obligations, witnessed a sharp increase in the FYE May 2020 due to the application of IFRS 16. The debt level reached its zenith in FYE May 2021 at USD 34.7 million and experienced a slight decrease to USD 32.2 million by FYE May 2023. Concurrently, debt excluding lease obligations has been on an upward trajectory since FYE May 2020, culminating at a review period high of USD 9.5 million by FYE May 2023. The outstanding debt comprises a loan of USD 8 million bearing an interest rate of 8% cash and deferred rate of 4% on a quarterly basis and is due for repayment upon maturity in five years' time in December 2025.

Equity experienced a significant uplift of 81% to USD 6 million in the financial year ending May 2023, primarily attributed to the pronounced rise in earnings. This demonstrates a substantial recovery from the low point of USD 2.2 million noted in the financial year ending May 2020.

Total assets witnessed a growth of 3.3%, amounting to USD 43.6 million, in the three months concluding in August 2023. This rise was mainly attributable to an increase in current assets, which ascended by 13.1% to reach USD 15.3 million. The escalation in current assets was primarily due to liabilities owed to related parties, which experienced an improvement of 12.4%, equating to USD 14 million.

Total liabilities experienced a modest increase of 1.5%, totalling USD 36.7 million. This growth was predominantly driven by a surge in current liabilities, which rose by 16.1% to reach USD 7 million. The primary factor behind this increase was a substantial rise in trade and other payables, escalating by 25.6% to stand at USD 4.8 million.

In the three months concluding August 2023, there was a 14% elevation in equity, culminating in a total of USD 6.9 million. This surge in equity is attributable to the robust profitability observed during this latest 3M span.

Cash Flow Statement Review

During the period under review, cash flow from operating activities demonstrated considerable fluctuation, reaching a high in FYE May 2019 at USD 7.6 million and descending to a nadir of an outgoing amount of USD 3.6 million in FYE May 2021. In the most recent financial year, there was a significant rise in cash flow from operating activities by 110.4%, amounting to USD 3.3 million. The principal contributors to this enhancement were an upturn in profitability and a decelerating rate of increase in the amounts due from associated enterprises.

During the period under review, the company's financial records indicate it predominantly used cash in financing activities. The most significant outflow was recorded in FYE May 2019 to the tune of USD 7.3 million, largely attributed to a dividend payout worth USD 7 million. However, there was also a recorded cash inflow from financing activities amounting to USD 4 million in FYE May 2021, resulting from an USD 8 million loan income, reduced by a preference shares payment of USD 3.5 million. In more recent times, specifically FYE May 2023, there was a notable decrease by 28.7% in cash utilised for financing activities to USD 855.3 thousand. This decrease mainly stemmed from loan proceeds valued at USD 1.1 million

During the review period, the firm persistently reported cash flow utilised in investing activities, reaching a zenith in FYE May 2023. There was a substantial escalation of 285.3% in cash flow applied to investment activities in FYE May 2023, amounting to USD 2.4 million. The principal cause of this outflow was the acquisition of Property, Plant and Equipment (PP&E) worth USD 2.4 million

Operating activities witnessed a decrease in cash flow by 11.1%, settling at USD 711.2 thousand in the 3M ended August 2023. This dip could be attributed to the afore-mentioned escalation in dues from connected firms. Nonetheless, a surge in trade and other payables contributed positively, thus mitigating some of the fall.

Ratios Review

ECL's gross profit margin has shown a downward trend since peaking in the financial year ending May 2019 at 70.8%. The gross profit margin has largely followed a declining path throughout the review period, falling to 64.9% by the financial year ending May 2023. The ratio experienced a notable decrease during the pandemic as a result of adverse effects on logistics, with further deterioration brought about by the Ukraine war.

ECL's operating margin demonstrated a 'V' shaped recovery, plummeting to a nadir of -35% in the financial year end May 2021, primarily due to the detrimental impacts of the COVID-19 pandemic on travel. However, it has bounced back robustly, reaching a review period zenith of 24.3% in the financial year ending May 2023. Concurrently, net profit also exhibited a recovery, but unfortunately, it fell short of achieving the review period pinnacle of 21.6%, which was achieved in the financial year ending May 2019. This was attributable to an escalation in finance costs.

During the evaluation period, ECL's current ratio consistently held above 1x, concluding at 2.3x at the completion of FYE May 2023. However, the substantial proportion of current assets is linked to amounts due from related parties, potentially exaggerating the perceived strength of the current ratio. The large scale of amounts due from related parties introduces a significant concentration risk to the company's liquidity.

The ratio of debt-to-equity, excluding lease obligation, for ECL has seen a substantial decrease of 38.8% to 1.6x, primarily due to a significant increase in the company's equity. This particular ratio has been on a downward trajectory since the financial year end in May 2021 where it reached the peak at 3.6x, suggesting an enhancement in the company's solvency position. In a parallel manner, the debt-to-equity ratio including lease obligations has demonstrated a similar trend of improvement by plunging 46.4% in FYE May 2023 to 5.3x.

Excluding FYE May 2021, ECL has exhibited a comparatively superior Return on Equity (ROE) of around 11.7%, a figure above average when compared to most entities on the Junior Market. This enhanced ROE prior to FYE May 2019 was due to an increase in net profit and total asset turnover. However, for FYE May 2022 - 2023, the primary factor contributing to the ROE's rise was financial leverage, owing largely to the adoption of IFRS 16. The betterment in ROE for FYE May 2023 can be attributed to a rise in net profit margin as well as total asset turnover.

The gross profit margin experienced a significant rise in the 3M period ending August 2023, reaching 67.2%, a jump of roughly 2.3 percentage points. This marked the most substantial Q1 result since Q1 FYE May 2020, which posted a figure of 72.9%. The resurgence of forward purchase agreements was partially responsible for this uptick.

Forecast and Valuation

We employed the Discounted Free Cash Flow to Equity Model to ascertain our price target of $4.96. We established our upper and lower price targets of $4.30 and $5.86 respectively, by applying this model under two different scenarios. For our baseline target, we predicted revenue growth for the rest of FYE May 2024 to be in line with the 3M concluded in August 2023, then advancing in accordance with the long-term revenue growth rate from FYE May 2025 onwards. Concurrently, we anticipate enhancements in gross and operating margins as the organisation boosts revenue and enforces cost regulation measures previously mentioned.

The key distinctions between our higher and lower forecasts are based upon varying suppositions about revenue growth and operational margins. In the optimistic scenario, we anticipate a less vigorous revenue growth by the conclusion of May 2024, alongside suppressed margins beyond that time frame. However, for our higher price target projection, our assumptions regarding both revenue and profit are more ambitious.

	Price Target	Implied Upside/(Downside)
Upper	5.86	▲ 56.3%
Base	4.96	▲ 32.2%
Lower	4.30	▲ 14.6%

Our price target is primarily at risk if revenue growth does not meet our projections, resulting in a significant shortfall in free cash flow to equity shareholders, relative to our forecasts. Furthermore, the ongoing deterioration of investor sentiment towards publicly traded companies, owing to the comparatively high interest rate climate, could necessitate lower price multiples for investors willing to assume equity risk.

Chart 1 shows the historical P/B ratio of ECL, which has typically been high. The latest peak, recorded in May 2021, during the period from calendar year 2020 to present, is around 38.6x. The historically high P/B of ECL could be due to its substantial ROE. Nevertheless, recently the P/B ratio has predominantly trended lower and currently stands at roughly 5.7x. This current level is significantly below the three and five-year averages of 17.5x and 19.8x respectively. Meanwhile, the company has demonstrated a significant increase in earnings for FYE May 2023 and the 3M ending August 2023. However, current ROE levels significantly trail those recorded in FYE May 2019. Moreover, the overall downturn in market multiples coupled with ECL suspending dividends since FYE May 2020 may have dampened investor interest in the stock.

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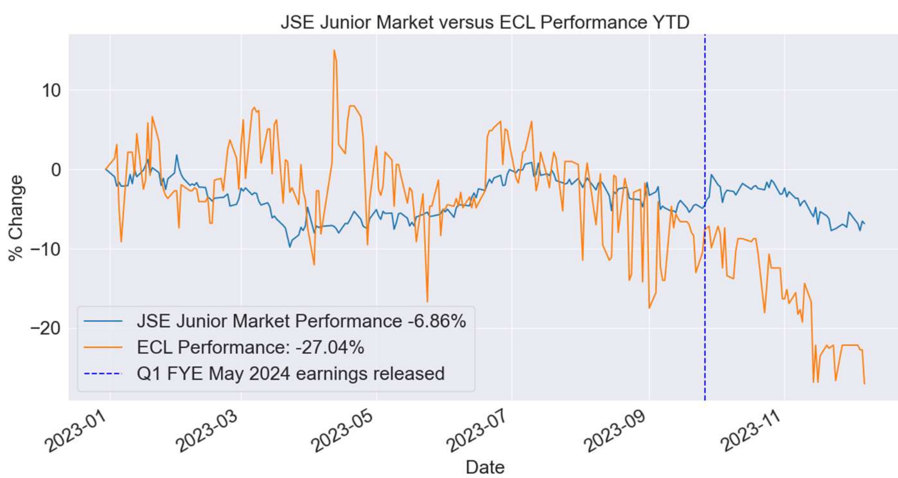
As per **Chart 2**, it is evident that the highest P/B ratio for the Junior Market was witnessed in the calendar year 2017, recording approximately 4.4x. There has been a consistent decline in the P/B of the Junior Market post-May 2022. The descending trend in average P/B ratios over periods of 1, 3 and 5 years marks a decrease in these ratios over time, currently standing close to about a modest 1.8x. The upsurge in policy rates beginning from October 2021 has been instrumental in reducing multiples across the entire market. Notably, this slump in P/B ratios commenced significantly before both the interest rate hikes and detrimental impacts of COVID-19 were felt. This suggests that there was an existing sense of unfounded optimism within the market which had started undergoing rectification even before these major incidents took place.



As depicted in **Chart 3**, ECL's stock, on a year-to-date (YTD) basis, has significantly underperformed compared to the Junior Market. ECL's stock has seen a decrease of 27%, which is a stark contrast to the 6.9% decrease observed in the Junior Market over the identical period. Post the publication of Q1 earnings report for FYE May 2024, this disparity between ECL's stock and Junior market performance has considerably broadened. This is not aligned with expectations, as there was a noteworthy increase in earnings by 29.1%. This discrepancy could potentially present an opportunity as we anticipate continual improvement in earnings leading up to FYE May 2024 and beyond.

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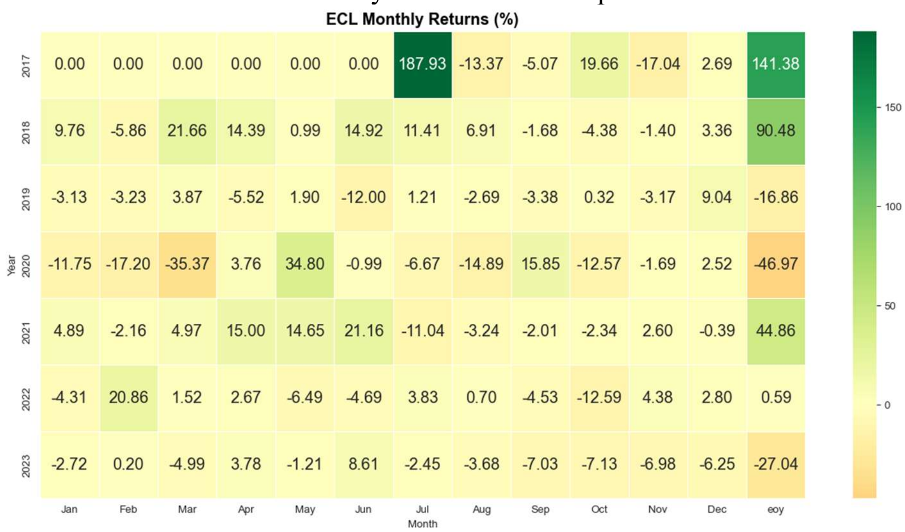

Chart 4 delineates the monthly and annual stock performance of ECL since its initial public offering. The stock experienced its most substantial monthly surge in July 2017, with an increase of 187.9%, while its finest annual performance was also witnessed in the same year, registering gains of 141.4%. Conversely, the least favourable annual performance was observed in calendar year 2020 when the equity plummeted by nearly 47%. This decrease during 2020 can be primarily associated with the first quarter sell off due to anticipation of adverse effects of COVID-19 on the company's profits. The chart suggests that significant fluctuations can be anticipated in the stock price within a year. Nevertheless, over an extended period, we envisage an upward trend in the stock price owing to enhanced profitability and dividend disbursements.

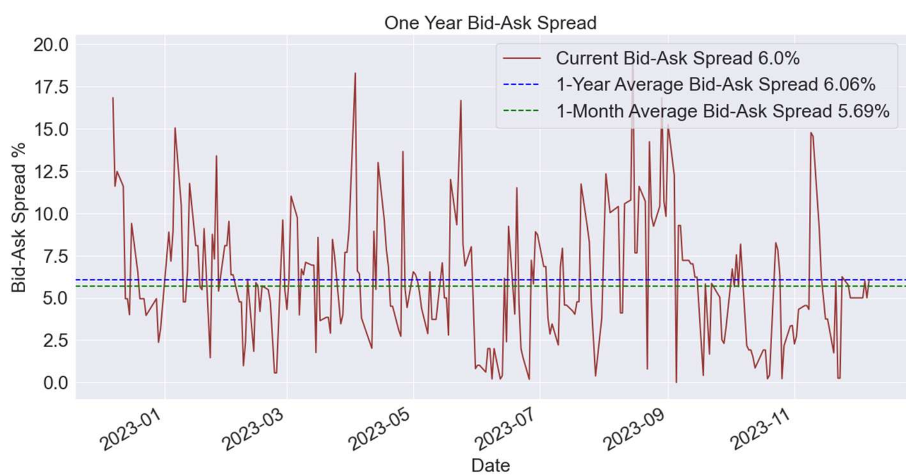

Chart 5 unveils that the ongoing bid ask spread of approximately 6% is generally in accordance with the average from the previous year. This divergence suggests a moderate implicit expense involved in purchasing shares. The spread, on average, has slightly dwindled in the past month to 5.7%. Importantly, there have been instances where the bid-ask spread at closing has escalated to over 15%. This reflects a high intrinsic cost of share trading which may influence trading activity on the stock.

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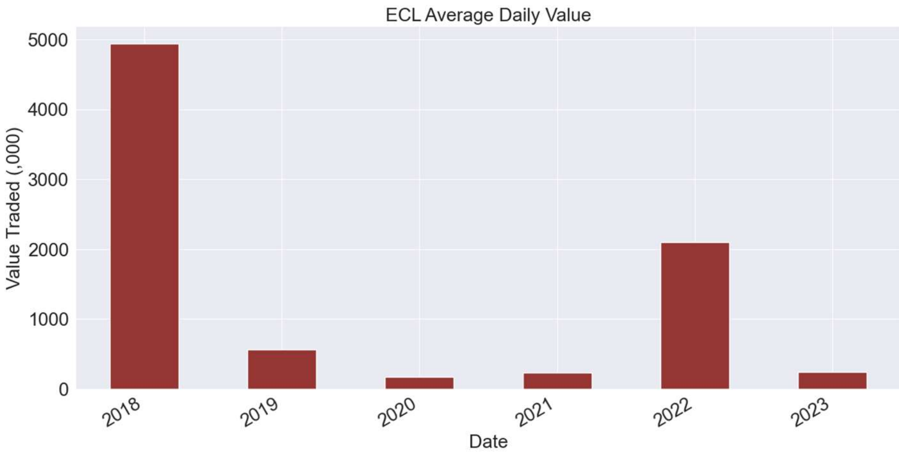

The average daily value of shares traded during each calendar year, is displayed in **Chart 6**, commencing from the year 2018. In that year, the average daily value of stocks traded stood at approximately $4.9 million. Following that, there was a significant moderation in stock activity with a transient surge in 2022 to roughly $2.1 million. As of present, the year-to-date average daily trading value is $241 thousand; this is a staggering 88.5% below that of the calendar year 2022. This reduction in trading activity is considerably more pronounced compared to the overall Junior Market which witnessed a trade volume between January and November of 2023 reaching $8.7 billion, reflecting a decrease of 43.8% compared to the same span last year.

Outlook

The anticipated uptick in tourism to Jamaica, including arrivals via SIA, is projected to buoy earnings for Express Catering Limited in the long-term. Data over the last two decades, from 2002 to 2022, shows a consistent yearly rise in stop-over visitors to Jamaica, save for 2020 when the pandemic was declared. This reflects an annual compound growth rate of 3.41% throughout that period. This data underpins a sustained pattern of accelerating travel to Jamaica. In addition, there is an expectation of more hotel rooms being made available within the next two calendar years, which should further boost stop-over visits. In the short-term, projections suggest a roughly 13% increase in travel from the US to Jamaica for the winter tourist season.

ECL has consistently managed to garner a higher dollar value from each customer, potentially contributing to the firm's long-term revenue expansion. Also, with about 2.4 million departing passengers, ECL has surpassed its previous high of 2.3 million in FYE May 2019, signalling that it has moved past the COVID-19 era. Moreover, ECL initiated an increment in sticker prices in FYE May 2023 which will have a longer duration to impact income in FYE May 2024. Additionally, the company anticipates launching two new food and beverage brands - Freshens and Bento Sushi - in FYE May 2024.

Meanwhile, the business has put into action plans to manage expenses, including pre-purchasing agreements which are anticipated to assist the company in cost management. The firm is energetically broadening its supplier agreements, an action that is projected to aid in cost containment. Although we do not anticipate the company will achieve the gross profit margins seen in FYE May 2019 which were over 70%, we do project a rise in gross margins from their current levels.

While there has been a significant improvement in the company's revenue, surpassing pre-COVID levels, there is yet a considerable lag in profits. This delay is primarily due to an increased finance expense incurred by the company as a consequence of its elevated debt (ex-lease) levels. In addition, the company has been subject to tax expense upon entering its 5–10 year listing period, during which the company will be taxed at a rate that is half of the standard applicable rate.

The company's improved position, seen in the decrease of its debt-to-equity ratio (excluding lease commitments) along with the rise in its current ratio, suggests a potential resumption of dividend payouts. Yet, caution is warranted as it may face restrictions on dividends due to a debt amounting to approximately $9.5 million at 3M ended August 2023, which encompasses deferred interest. It should be noted that despite the high current ratio, it is largely constituted by dues from a related entity. This creates a significant concentration risk to the company's liquidity.

Recommendation

We are upgrading our recommendation on ECL to MARKETWEIGHT. This recommendation takes into account the substantial and anticipated enduring enhancement in profitability, along with the firm's balance sheet and robust operating cash flows. Nonetheless, our optimism is tempered by the significant concentration risk present in the company's balance sheet due to related party owing and drivers of revenue.

Revenues have shown considerable instability due to the adverse effects of COVID-19 on travel to Jamaica, which has directly influenced ECL. Nonetheless, the subsequent surge in revenue to record levels by the financial year ending (FYE) May 2023 signifies a positive future outlook for the company. Additionally, the three months (3M) ended August 2023 further indicated substantial improvements, setting a solid foundation for FYE May 2024. Despite this, the company's profit has not yet reached its peak of USD 3.7 million achieved in FYE May 2019, due to high financing costs. Yet, the uptick in profits for the 3M ended August 2023 could potentially result in record profits by FYE May 2024 if this upward trend continues.

The firm has experienced unstable cash flow from operating activities throughout the period of review, reaching a peak at USD 7.6 million in the FYE May 2019. It's worth noting that the operating cash flow has remained in the green throughout this period, with the exception of FYE May 2021. Adding to this, there was a significant improvement in cash flow from operating activities at FYE May 2023. As earnings are projected to rise in FYE May 2024 and subsequent years, we anticipate a continued upward trajectory for cash flow from operating activities.

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In our foundational scenario, we anticipate a surge in earnings to 80.7% by FYE May 2024, equating to earnings of USD 4.9 million. The pivotal cause of this surge is an enlargement in both revenue and gross profit margin. This escalation in earnings would lead to a forward P/E of 8x, given the current prices, which is considerably beneath the present P/E levels on the stock.

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Express Catering Annual Reports

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.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM / STRONGLY UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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