

JMMB INVESTMENT & SOVEREIGN RESEARCH

Knutsford Express Limited (KEX)



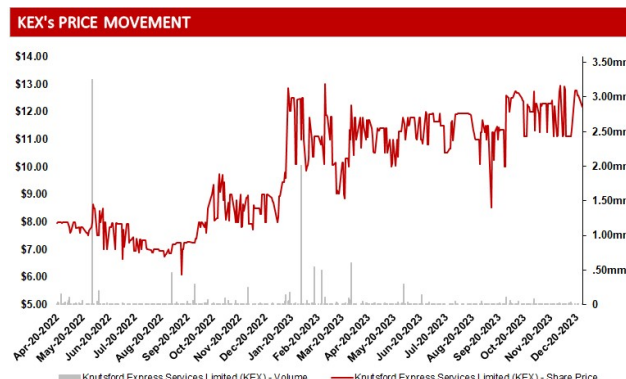
PLEASE SEE **IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT** IN THE **APPENDIX**

EXECUTIVE SUMMARY

Knutsford Express Services Limited (KEX) is incorporated in Jamaica, and its registered office is located at 1222 Providence Drive, Montego Bay, St. James. The company's wholly-owned subsidiaries provide transportation services, courier services and undertake property development and other investments. KEX became a publicly listed company on January 14, 2014 and effected a five for one stock split in May 2017.

KEX has produced revenue growth at a CAGR of 9.5% for FY2019 to FY2023. Furthermore, profits have improved at a CAGR of 12.7% for the same period. Over the 12-month period ended May 2023, KEX has grown revenues to \$1.65B, a 48.0% surge over the 2022FY revenues of \$1.11B. KEX has also grown profits to \$304.36M for the twelve-months period ended May 2023, compared to profits of \$77.82M for the corresponding period in 2022.

We recommend a **MARKETPERFORM/HOLD** position in Knutsford Express Limited, as we believe the stock is currently trading near its fair value. We anticipate further growth in the company's major market segment, Jamaica, which augurs well for KEX's revenue growth. We positively view the company's efforts to diversify revenue streams, contain operational cost and improve profitability margins.



KEX's Statistics

Financial Year End	May
Stock Price (28/12/2023)	\$ 12.18
Trailing EPS	\$ 0.61
Book Value per share	\$ 2.28
Trailing P/E	19.9x
P/B	5.3x
Net Profit FY2023 (millions)	\$ 304
Price Target	\$ 14.70
Dividend Yield	0.0%

Company Overview

Knutsford Express Services Limited (KEX) is incorporated in Jamaica, and its registered office is located at 1222 Providence Drive, Montego Bay, St. James. KEX, together with its subsidiaries, provides premium passenger transportation services and courier services in Jamaica. The

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Company has three wholly owned subsidiaries: KE Connect Limited, KE Connect US LLC and Knutsford Express Investments Limited. KE Connect Limited and Knutsford Express Investments Limited, and are both registered and domiciled in Jamaica with their registered offices at 1310 Providence Drive, Montego Bay, St. James, respectively. KE Connect Limited provides convenient connections to the island's international airports while Knutsford Express Investments Limited undertakes property development and other investments initiatives.

KE Connect US LLC is incorporated in the state of Florida and is domiciled in Florida with its registered office located at 500 SW Third Ave, Fort Lauderdale FL 33315. The subsidiary which provided premium bus/coach charter services ceased operations on May 31, 2022.

Financial Overview

Profitability

Revenue improved at a compound average growth rate (CAGR) of 9.5% for the period FY2019 – FY2023. KEX reported revenues of \$1.65B for the year ended May 2023, an improvement of 48% or \$534.60M. Management highlighted this is due to increased demand, driven by improvements across all business lines such as rental income, courier services and passenger transport. More recent, the

company reported an increase in revenue for the first quarter of \$491.79M, an 18.5% increase over the \$415.09M achieved in August 2023. **KEX highlighted this is due to increased passenger travel, which was supported by increased arrivals at airports as reported by the Ministry of Tourism and increased demand for courier services island wide.**

Operating expenses grew by 35.6% to \$1.33B from \$978.89M the previous FY2022, driven by salary expenses and fuel cost, which rose to \$488.11M and \$217.64M respectively. As such, operating profit surge to \$407.86M from \$156.14M the previous financial year. Notably, operating profit margin improved to 24.7% in comparison to 14.0% reported the previous financial year. Furthermore, KEX's operating profit margin is now above pre-pandemic levels, with a gross margin of 18.5% in FY2019. Subsequently, for the first quarter, operating profit was down slightly to \$111.45M from \$112.15M the prior comparable period. This is due to an increase in operating expenses margin to 77.3% from 73.0% the prior corresponding period in 2022.



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KEX reported a jump in finance cost to \$70.23M from \$36.61M reported the corresponding period for 2022FY. This increase is as a result of additional debt and increase in bank charges and commissions. Nevertheless, KEX reported an improvement in their bottom line, with a surge in profit before tax to \$346.51M from \$127.64M reported the prior 2022FY.

KEX has decided to discontinue the operation of its subsidiary, KE Connect US LLC, due to the impact of COVID-19 which has prevented the subsidiary from operating since March 2020. This led to uncertainties as to whether the subsidiary would be able to continue its operation going forward. As such, KEX made the decision to cease its operation as at May 31, 2022. The loss for the prior year (FY2022) from discontinued operation was \$32.84M. Notably, no loss was reported for the 2023FY.

The company's net income for the financial year ended May 31, 2023 amounted to \$304.36M. This represent an improvement in profit of \$226.54M over the \$77.82M recorded for the same period last year. Moreover, net profit margin improved from 7.0% a year ago to 18.5%. The return on average assets stood at 19.3%, compared to 5.9% a year prior, while the return on average equity stood at 33.7%, relative to 11.0% in 2022. More recent, net income increased to \$86.18M for the three months period ending August 2023, up from \$84.23M for the corresponding three months period in 2022. The trailing twelve month (TTM) EPS for KEX stands at \$0.61.

Liquidity & Solvency

KEX reported total assets of \$1.75B as at the end of May 2023, which represents a growth of 24.7% year over year, as total assets stood at \$1.41B for the same period last year. Non-current assets slightly decreased by 0.6%, booked at \$1.17B, while current assets amounted to \$580.86M, up 157% from the prior year's balance. The downturn in non-current assets was driven by a 39.1% decrease in Property, plant and equipment (PPE) to \$523.95M. However, KEX reported a surge in investment property to \$499.58M from \$161.62M a year ago. The increase in current assets was driven by a surge in short term investment to \$349.16M relative to \$73.13M the prior 2022FY. Notably, cash and bank balances fell by 17.4% year over year, booked at \$87.37M.

Subsequently, total assets climbed to \$1.85B as at the end of Q1 FY2024, a year over year increase of 21.7%. This was driven by a 9.4% increase in PPE to \$573.74M, and an increase in investment property and short term investment to \$524.59M and \$306.22M respectively. Notably, cash and bank balances improved by 27.4% year over year to \$121M.

For the 2023FY, total liabilities amounted to \$697.14M, up \$43.20M or 6.6% year-over-year. Current liabilities amounted to \$217.14M, up 43.5% year-over-year, as accounts payable

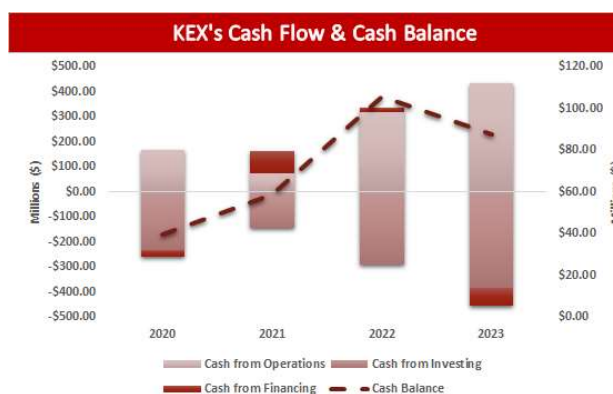
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payables and taxation payable rose to \$148.74M and \$40.99M respectively. Non-current liabilities fell 4.5% to \$480M, driven by an 89.6% decrease in bond payable to \$35M. Notably, the Company's debt decreased 8.8%, booked at \$347.1M in FY2023 primarily due to a \$35M bond payable, which attracts an interest rate of 7.15% per annum and an additional loan of \$300M at an interest rate of 7.5% per annum. KEX's leverage as measured by the debt-to-equity ratio stood at 0.33x, down from 0.51x.

The company's liquidity position improved for the FY2023, with the exception of the cash ratio. The company's current ratio for the period under review was 2.7x, an improvement from 1.5x, while the quick ratio rose to 2.5x from 1.4x in 2022. However, the cash ratio deteriorated to 0.4x from 0.7x the previous financial year.

Shareholders' equity amounted to \$1.05B, up 40.5% from the prior year, as accumulated surplus rose 43.5% to \$1.0B. This has resulted in a book value per share of \$2.11, which is \$0.61 greater than the \$1.50 book value per share as at May 2022.

Cash Flow Statement Overview



KEX's Cash Flow from Operations (CFO) improved from \$316.13M to \$435.07M in FY2023. The main contributor is the improvement in the company's profit. The changes in working capital moved from an inflow of \$37.24M in FY2022 to an outflow of \$60.20M in FY2023. The main driver to the lower working capital is the increase cash flow for inventories and accounts receivables at \$12.29M and \$84.79M

respectively. Additionally, accounts payables and accrued charges represented an inflow of \$36.98M. For the three-month period August 2023, net operating cash flow amounted to an inflow of \$143.4M relative to an inflow of \$124.46M the prior comparable period.

Cash from investing activities represented an outflow of \$380.92M for FY2023, relative to an outflow of \$288.56M in FY2022, driven by cash used in the "placement of investment" which amounted to \$256.72M. In the most recent three-month period, the Company's cash from investing activities represented an outflow \$62.96M relative to an outflow \$126.84M in FY2022/23.

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For the 2023FY, KEX's financing activities reported an outflow of \$72.55M, primarily due to the repayment of notes payable and loan interest paid, amounting to \$33.63M and \$28.71M. Subsequently, for the 3M period, the company's cash from financing activities experienced an outflow of \$46.81M, as the company made a repayment on bond amounting to \$35M. For the FY2023, the company experienced a loss of \$18.40M to its cash balance.

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 moderate to the range of 1.0% to 3.0% for FY2023/24. The anticipated continued moderation in the unemployment rate over the medium term remains broadly in line with the previous projection. The expected improvement reflects employment growth in various industries, including manufacturing, finance & insurance and business process outsourcing. We expect income level to remain buoyant as the domestic labour market is likely to remain solid over the next 12 to 18 months. The projected growth in the economy is largely reflective of a normalization of economic activity. The Jamaican market accounts for majority of KEX revenues and as such, the company's prospects rely heavily on the performance of the local economy and its impact on employment and consumer disposable incomes. Moreover, with the continued recovery of the Jamaican economy and the downward trajectory of the unemployment rate, declining to 4.5% as at July 2023, employment rates are expected to increase, which will likely help to provide more disposable income to citizens, which augurs well for KEX's sales.

Since the reopening of the tourism sector and the lifting of travel restrictions, the tourism industry is driving the country's post-COVID-19 economic resurgence. According to the Planning Institute of Jamaica (PIOJ), for January–December 2022, real-value added (RVA) for the Hotels & Restaurants industry was estimated to have grown by 48.9% relative to the corresponding period of 2021. The expansion in RVA for the industry was linked to increased demand for the island's tourism offerings, as well as the gradual easing and subsequent lifting of measures implemented to limit the spread of COVID-19. Total visitor arrivals saw an increase of 127.1% relative to the corresponding period of 2021, due to a growth in the number of stopover arrivals by 77.8%. 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. Therefore, with the increase tourism activity, KEX is likely to benefit from increased passenger traffic, by providing transportation services from the major airports in Jamaica, Norman Manley International airport and Donald Sangster International Airport. This is evident in KEX's earnings, as there has been a significant

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improvement in the company's 2023FY revenue and net profit, surpassing pre-COVID levels. Notably, KEX's revenue and net profit rose by 43.7% and 61.5% respectively, relative to the 2019FY pre-COVID level.

Furthermore, as employment levels and consumer disposable income increases, demand for courier services is likely to improve. Moreover, KEX highlighted their intentions to enhance its level of efficiency, improve client experience in its courier service offerings and to expand international courier services. This initiative is likely to grow KEX's customer base and improve the company's revenue.

The Knutsford Express Business Centre, the company's real estate commercial development, is expected to aid long-term growth and diversify the Company's revenue stream, by providing lease revenues and additional benefits to KEX's core transportation and courier services from the company's tenants and their customers. This business segment is anticipated to further improve KEX's revenue growth.

We are forecasting revenues of \$1.98B for the year ended May 2024, and net profits of \$387.8M, which corresponds to earnings per share (EPS) of \$0.78. We are forecasting a forward book value of \$1.4B as at May 31, 2024, which translates to a book value per share of \$2.82.

Based on these assumptions, we arrived at our price target of \$11.85 using the Discounted Cash Flow (DCF) model. Additionally, we employed the price-multiples approach to determine the fair price for KEX. The 1-year historical P/B ratio is 5.70x, which when applied to the forward BVPS yields a price of \$16.05. The 1-year historical P/E ratio is 20.87x, which when applied to the forward EPS yields a price of \$16.19. **The average of our price forecasts, \$14.70 is 20.7% higher than the closing price of \$12.18 on December 28, 2023.**

Key Risks to Our Price Target

KEX primary revenue is highly dependent on domestic and tourist travel across the island. Therefore, any surge in COVID-19 cases and new variants would impact the operation of the business and revenue growth. Furthermore, the company is susceptible to a surge in fuel costs which is the second-highest expense for the company, accounting for 16.4% of FY2023 expenditures.

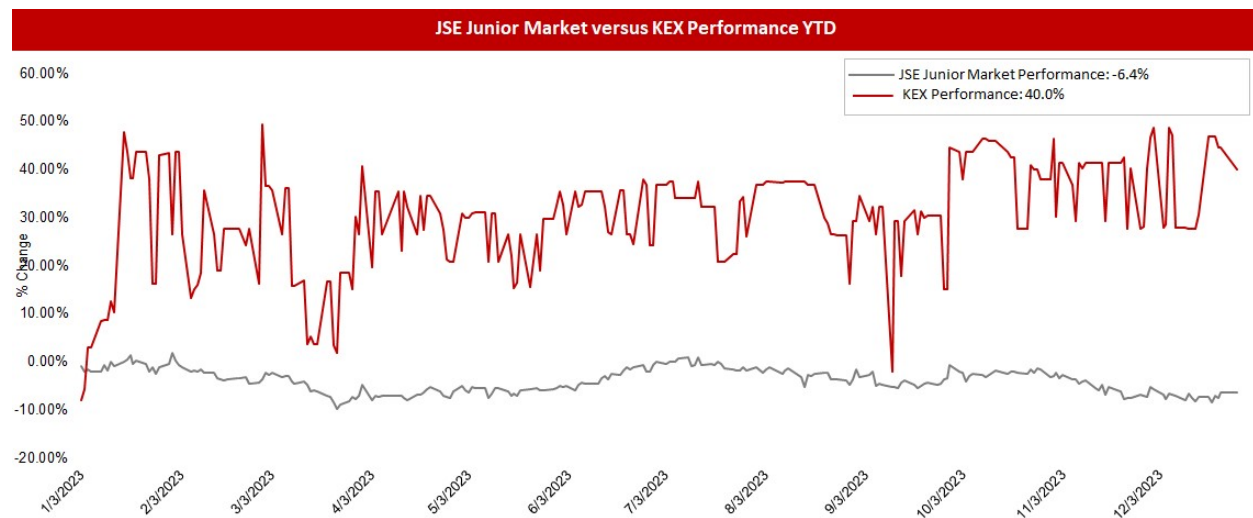
Recommendation

We recommend Knutsford Express Limited at MARKETPERFORM/HOLD, as we believe the stock is currently trading in line with our estimation of its fair value. In addition, our recommendation

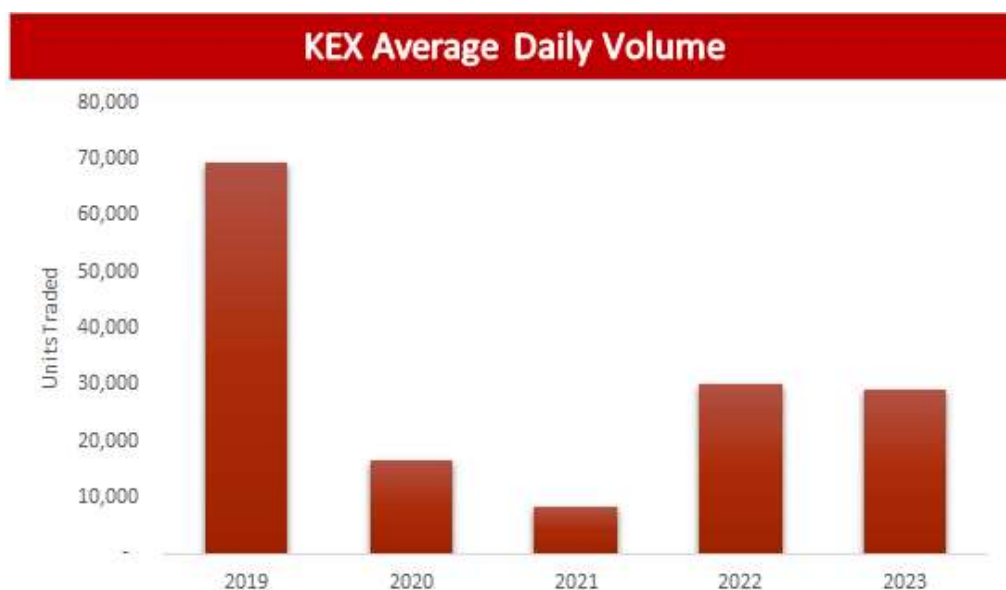
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considers the stability of KEX's earnings, operating cash flow, balance sheet strength and shares liquidity. The company's major market segment, Jamaica, should perform well as the economy improves, especially with the anticipated increased demand and continued expansion of the tourism industry. We anticipate further improvement in employment levels, which is likely to support the strengthening in domestic demand. As such, disposable incomes and consumption are expected to increase and the company is likely to see an increase in demand for its services offer. This is expected to improve revenue and earnings. We positively view the company's efforts to diversify revenue streams, contain operational cost and improve profitability margins. Shares of KEX is most suitable for the medium to long-term investor with a medium to high-risk appetite, as the travel industry remains highly competitive.

Furthermore, KEX's stock performance for calendar year 2023, appreciated by approximately 40.0%, which is above the calendar year performance of the Jamaica Stock Exchange' (JSE's) Junior Market. Moreover, KEX's liquidity has been on a declining trend, however, the average daily volume stood at 30.1K units traded for 2022YE in comparison to 8.2K units traded the 2021YE. As of present (mid-December), the YTD average daily volume is 29K units, just 3.7% below the 2022 calendar year.



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Abridged Financials	Year Ended May						THREE MONTHS		
	2019	2020	2021	2022	2023	Change	Aug-22	Aug-23	Change
Revenue	1,146,606,736	1,021,678,892	629,366,202	1,113,565,335	1,648,164,886	48.0%	415,087,805	491,790,900	18.48%
Operating Expenses	(936,249,723)	(974,847,339)	(698,496,347)	(978,890,643)	(1,327,501,004)	35.6%	(302,938,635)	(380,343,129)	25.6%
Operating Profit	212,044,776	46,841,164	(69,079,327)	156,142,662	407,861,319	161.2%	112,149,170	111,447,771	-0.6%
Net Profit	188,471,685	33,558,667	(95,982,020)	77,825,250	304,362,878	291%	84,225,620	86,180,908	2.3%
Total Assets	1,063,168,994	1,092,545,348	1,231,780,749	1,405,048,729	1,752,607,640	24.7%	1,523,424,703	1,853,332,134	21.7%
Total Liabilities	283,522,678	327,136,627	565,992,315	653,948,968	697,145,001	6.6%	688,099,372	711,688,587	3.4%
Total Shareholder's Equity	779,646,316	765,408,721	665,788,434	751,099,761	1,055,462,639	40.5%	835,325,331	1,141,643,547	36.7%
EPS (\$)	0.38	0.07	(0.19)	0.16	0.61		0.17	0.17	
Book Value per share (\$)	1.56	1.53	1.33	1.50	2.11		1.67	2.28	
Key Ratios									
Operating Profit Margin	18.5%	4.6%	-11.0%	14.0%	24.7%		27.0%	22.7%	
Net Profit margin	16.4%	3.3%	-15.3%	7.0%	18.5%		20.3%	17.5%	
Return on Average Assets	20.8%	3.1%	-8.3%	5.9%	19.3%		5.9%	5.1%	
Return on Average Equity	26.8%	4.3%	-13.4%	11.0%	33.7%		11.1%	8.7%	
Current ratio (x)	3.92	2.61	2.04	1.49	2.68		1.86	2.19	
Quick ratio (x)	3.63	2.31	1.87	1.38	2.54		1.77	2.04	
Cash ratio (x)	1.66	0.48	0.60	0.70	0.40		0.49	0.43	
Debt/Equity (x)	0.28	0.31	0.52	0.51	0.33		0.45	0.27	

Source: www.jamstockex.com, boj.org.jm, pioj.gov.jm, Bloomberg, Company Financials, Company Prospectus, JMMB Investment Research.

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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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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