March-14-2024

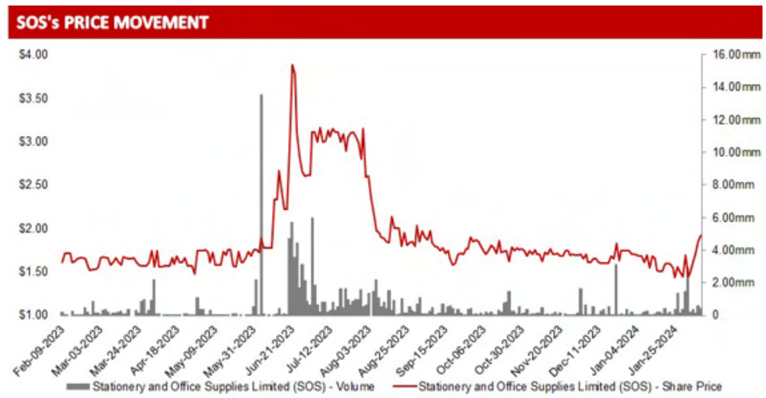
JMMB INVESTMENT & SOVEREIGN RESEARCH

Stationery and Office Supplies Limited (SOS)

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

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 (08/02/2024)	$	1.87
Trailing EPS	$	0.13
Book Value per share	$	0.60
Trailing P/E		14.11x
P/B		3.12x
Net Profit 9M FY2023 (millions)	$	294
Price Target	$	2.28
Dividend Yield		1.06%

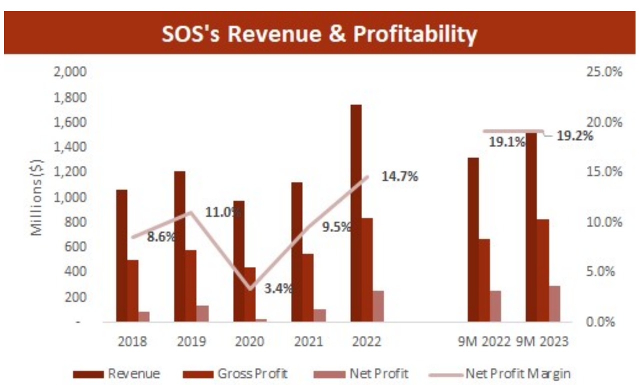
SOS has grown revenues to $1.75B, a 55.4% increase over the 2021YE revenues of $1.12B. This improvement in revenue is an indication of the positive recovery in demand for the company's product offerings. Subsequently, SOS reported revenue at $1.53B for the nine-month FY2023, a 16.0% increase year over 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 $294.34M for the nine-month period ended September 2023, compared to profits of $252.54M for the corresponding nine-month period in 2022.

We have placed an ***OUTPERFORM/BUY recommendation on the shares of Stationery and Office Supplies***, as we believe the stock is currently trading below 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 for the year ending December 31, 2022, amounting to $1.75B, marking an impressive 55.4% increase compared to the previous financial year. This surge in revenue was primarily driven by robust growth across all lines of business, with SEEK leading the way with a remarkable 73% year-over-year increase. The acquisition of D&K's Printing and Office Supplies played a crucial role in expanding SEEK's offerings. Additionally, the Montego Bay branch saw a substantial 70% increase in revenue, attributed to the reopening of the tourism sector and the resurgence of BPO call centers, providing opportunities for SOS to supply office supplies and furniture.

Furthermore, the launch of the newest furniture line, EVOLVE, contributed $28M in revenue, showcasing SOS' commitment to innovation and diversification of product offerings. Subsequently, during the nine-month period, revenue continued to climb, increasing by 16.0% to $1.53B, fueled by strong performances from SEEK and the EVOLVE furniture line, along with strategic partnerships with distributors such as, The Apex Group and The Office Authority which resulted in containers of office furniture being shipped to Cayman and Trinidad respectively.

However, despite the revenue growth, cost of sales outpaced revenue growth for the 2022FY, increasing by 59% year over year to $911.9M, primarily due to inventory expansion and increased material costs. As a result, gross margin for the year decreased slightly to 47.8%, although it remained marginally above the four-year average. Nevertheless, gross profit surged by 51.7% to $836.2M for the year. More recent, SOS reported a 23.0% growth in gross profit for the 9M period to $829.80M. As such, there was an improvement in gross margin to 54.2% from 51.1% for the 9M 2022 period.

Administrative expenses for the 2022 financial year totaled $399.1M, reflecting a 24.9% increase compared to the previous year, driven by rising staff-related costs. Additionally, selling and promotional expenses surged to $131.8M from $80.3M a year ago. Despite the increase in expenses, operating profit soared by 113.5% to $263.6M, with the operating margin peaking at 15.1%, surpassing pre-COVID levels.

Moreover, EBITDA increased significantly by 95.4% year over year to $293.7M, contributing to a notable improvement in EBITDA margin 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. Consequently, net income for the financial year amounted to $256.5M, representing a substantial growth of $149.4M over the previous year. Furthermore, net margin significantly improved from 9.5% to 14.7%, indicating SOS's effective management of costs and operations. The return on average assets and return on average equity also saw substantial improvements to 22.2% and 28.8% respectively, reflecting the company's strong financial performance and efficient asset utilization.

Subsequently, for the nine-month period of 2023, net profit continued to grow, reaching $294.34M, with a relatively stable net profit margin. Earnings per share for the 2022 financial year increased to $0.11 (adjusted for stock split), with a trailing twelve-month EPS of $0.13, representing a 16.3% increase compared to the previous financial year. Overall, SOS's financial performance underscores its resilience, strategic initiatives, and ability to capitalize on growth opportunities in the market.

Liquidity & Solvency

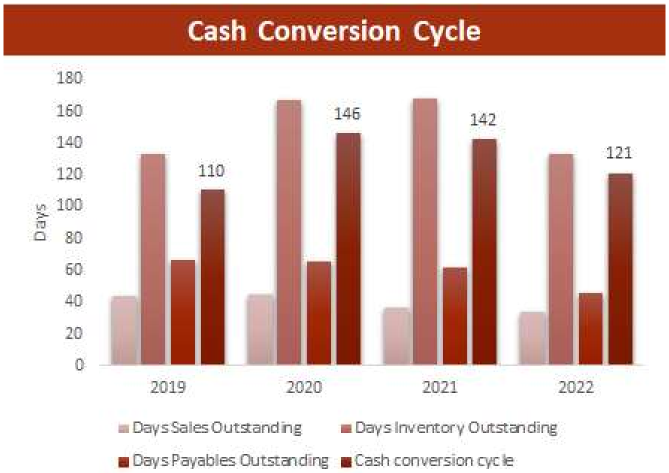
SOS reported significant growth in total assets, which surged to $1.38B by December 2022, marking a robust 49.3% increase year over year. This expansion was driven by a notable increase in both fixed assets and current assets. Fixed assets grew substantially from $404.1M to $648.0M, primarily due to the revaluation of properties owned. Inventories and trade and other receivables also witnessed significant growth, rising by 24.5% and 61.7% respectively. SOS strategically increased inventories to $368.6M in anticipation of supply chain issues and rising costs. Additionally, cash and cash equivalents improved significantly to $131.9M, mainly attributed to the increase in cash provided by operating activities.

Subsequently, for the third quarter of financial year 2023, total assets continued to climb, reaching $1.73B, representing a 54.0% year-over-year increase. This growth was predominantly driven by a substantial increase in property, plant, and equipment (PPE), which rose by 69.1% year over year to $669.23M. Current assets also saw a significant growth, increasing by 45.3%, with notable increases in trade and other receivables, and bank and cash balances.

Shareholders' equity experienced significant growth, totaling $1.1B at the end of the 2022 financial year, compared to $676.8M in 2021. This increase can be attributed to the rise in retained earnings and capital reserves, primarily due to gains from the revaluation of SOS' land and building.

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.

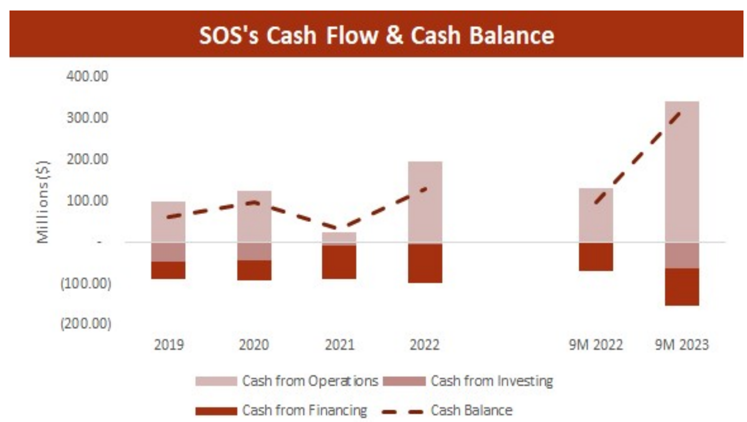
The company's current ratio for the period under review was 4.1x, an increase from a ratio of 3.6x in 2021. Moreover, the company's quick ratio rose to 2.0x from 1.6x in 2021, and the cash ratio followed a similar trend which stood at 0.7x, an increase from 0.2x in 2021. Subsequently, the most recent nine-month period saw the Company's total liabilities rose to $380.47M (Q3FY2022: $238.04M). As such, the company's liquidity position deteriorated year over year, as current ratio stood at 3.4x, down from 4.8x and quick ratio fell to 2.2x from 2.4x. Conversely, cash ratio improved to 0.7x from 0.2x for the nine-month period.



Additionally, the company's cash conversion cycle has decreased to 121 days from 142 days, indicating improved efficiency in inventory management and cash recovery. The main contributor to the decrease in the cash conversion cycle is the decrease in the average Days Inventory Outstanding (DIO) from 168 days during the 2021FY to 133 days during the 2022FY. Moreover, Days Payables Outstanding (DPO) decreasing from 142 days to 121 days, while Days Sales Outstanding (DSO) decrease to 34 days from 36 days the prior year.

Cash Flow Statement Overview

SOS' cash from operating activities (CFO) witnessed a significant increase, reaching $196.7M for the twelve-month period ending in 2022, compared to just $26M in the previous year. This improvement primarily stemmed from the rise in net profit. Notably, changes in working capital showed a favorable trend, with the outflow decreasing from $115.8M in FY2021 to $93.3M in FY2022. This was attributed to reduced cash used for prepayments and trade and other payables. However, there were increases in cash used for inventory purchases and accounts receivable, to an outflow of cash to $72.6M and $76.4M respectively.



Cash from investing activities, there was an outflow of $4.3M in FY2022, down from $8.7M in FY2021. This outflow was mainly due to investments in property, plant, and equipment (PPE), offset by cash received from the disposal of PPE.

Cash from financing activities resulted in an outflow of $94.9M in FY2022, compared to $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.

Overall, the company experienced a net increase in cash balance of $97.5M in FY2022. To date, the nine-month period ending in September 2023, SOS continued to show positive trends in its working capital positioning. The operating cash flow before working capital increased to $361.3M, a 36.3% year-over-year increase from the prior period. Importantly, the change in working capital improved significantly, resulting in a net inflow of $2.0M compared to a substantial outflow of $125.5M in the previous year. Consequently, the net operating cash flow for the nine-month period amounted to an inflow of $343.6M, representing a substantial improvement from the prior year. These developments indicate the company's ongoing efforts to enhance operational efficiency and strengthen its financial position.

Outlook & Valuation

The projected upward trends in various economic indicators, such as real GDP growth, suggest a promising outlook for the Jamaican economy. The World Bank estimates Jamaica's real GDP growth for 2024 and 2025 at 2.0% and 1.4%, respectively. Additionally, the domestic labor market is expected to remain solid over the next 12 to 18 months, contributing to buoyant income levels. This anticipated improvement is fueled by employment growth across diverse industries, including manufacturing, tourism, distribution, finance & insurance, and business process outsourcing (BPO), reflecting a normalization of economic activity.

As the office supplies industry typically mirrors overall economic trends, SOS is poised to benefit from the favorable projections for the Jamaican economy. The company foresees growth opportunities, particularly through plans for warehouse expansion to increase storage capacity. These expansion initiatives are likely to enable SOS' ability to enter into new partnerships and drive further growth. Additionally, strategic partnerships with office supply providers such as AIS Incorporation, The Office Authority, and the Apex group, among others, are expected to boost sales, diversify revenues, and enhance long-term profitability. Moreover, SOS intends to venture into e-commerce and invest in technological expansion, aiming to streamline operations, contain costs, and improve profitability.

Furthermore, SOS plays a significant role in supporting fast-growing sectors such as tourism and BPO. In 2022, the recovery of Jamaica's tourism sector led to a notable resurgence in SOS's Montego Bay branch, with many hotels and resorts reopening and utilizing SOS products and services. The revival of Business Process Outsourcing (BPO) call centers in the Western region also presented opportunities for SOS to supply office supplies and furniture, further contributing to its growth trajectory.

SOS reported record profits for the 2022 fiscal year, marking a significant milestone in its 58-year history. All lines of business experienced double-digit percentage increases, with net profits surpassing the previous year by 139% and exceeding the 2020 fiscal year by $223.4M. This remarkable performance indicates more than just a recovery from the impact of the COVID-19 pandemic. Anticipated growth is expected to persist throughout the remainder of the financial year, supported by expanded warehouse space to improve inventory turnover and the launch of printed products through SEEK following the acquisition of D&K's Printing and Office Supplies. Additionally, the introduction of the new furniture line, "EVOLVE," and industrial racks to SOS' product lineup, coupled with the company's expansion aims throughout the Caribbean, are poised to further diversify and enhance revenue and profitability margins. These initiatives have already yielded positive results, with SOS's nine-month net profit for September 2023 surpassing the net profit reported for the entire financial year ended December 2022 by 14.7%.

Based on these assumptions, we are forecasting revenues of $2.3B for the year ended December 2024, and net profits of $312.4M, which corresponds to earnings per share (EPS) of $0.14. We are forecasting a forward book value of $1.6B as at December 31, 2024, which translates to a book value per share of $0.73. 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 17.2x, which when applied to the forward EPS resulted in a target price of $2.39, while the P/B for the peer group of 2.6x yields a price of $1.90.

The 3-yr historical average for the P/B ratio is 3.3x, which when applied to the forward BVPS yields a price of $2.41. The 3-year historical average for the P/E ratio is 21.4x, which when applied to the forward EPS yields a price of $2.42. **The average of our price forecasts, $2.28 is 21.9% higher than the closing price of $1.87 on February 15, 2024.**

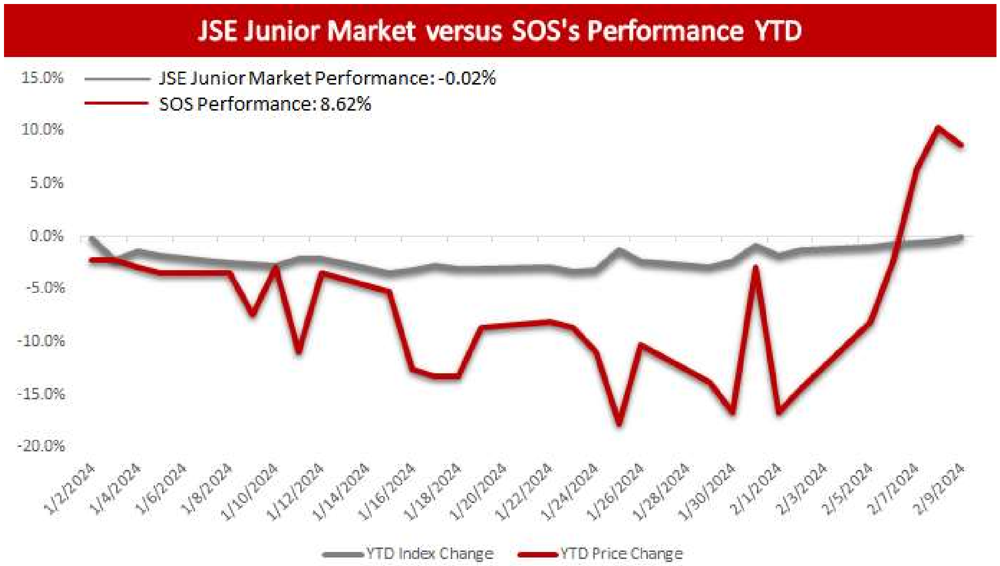
Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Payout	Dividend Yield
CAC	92,006,287	28.5x	1.3x	4.6%	1.6%	22.1%	0.8%
DTL	1,185,847,680	14.1x	1.4x	9.7%	4.0%	0.0%	0.0%
EFRESH	72,234,000	24.3x	3.2x	13.3%	3.8%	0.0%	0.0%
FOSRICH	720,861,175	34.3x	6.2x	18.2%	6.4%	18.6%	0.5%
FTNA	6,755,133,641	19.7x	5.3x	26.8%	12.8%	19.1%	1.0%
INDIES	574,369,057	17.3x	3.0x	17.3%	9.5%	71.8%	4.2%
JETCON	12,800,389	31.4x	0.9x	2.8%	2.1%	0.0%	0.0%
LASD	5,549,661,600	10.6x	1.7x	16.1%	10.1%	23.3%	2.2%
MDS	217,337,772	8.9x	0.6x	6.7%	2.6%	29.5%	3.3%
Sector Average	1,686,694,622	17.2x	2.6x	12.8%	5.9%	30.7%	2.0%
SOS	**467,725,335**	**16.4x**	**3.8x**	**23.3%**	**18.5%**	**158.0%**	**1.1%**

Recommendation

We recommend Stationery & Office Supplies (SOS) at OUTPERFORM/BUY, as we believe the stock is currently trading below 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 moderation of the economy and the improvement in unemployment rate, there is likely to be an increase in demand of SOS's products in the short to medium term. However, SOS still faces headwinds with the possibility global supply chain issues due to geo-political risk and adverse economic conditions, such as high inflation and interest rate hikes. 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 expands. This stock is most suitable for retail investors with a medium to high risk appetite.

SOS's stock performance year to date (YTD), appreciated by 8.62%, which is above the YTD performance of the Jamaica Stock Exchange (JSE) Junior Market. Moreover, SOS's liquidity has improved year over for the 2023YE, the average daily volume stood at 440.8K units traded in comparison to 43.5K units traded the 2022YE. Notably, SOS' shareholders approved the increase of the maximum number of shares authorized to be issued from 500-million to 500-billion and subdivided the existing ordinary shares into nine (9) ordinary shares (stock-split), resulting in an increase in total shares issued from 250,120,500 to 2,251,084,500. Since the stock split, there has been a noticeable increase in the liquidity of the shares.


JSE Junior Market versus SOS's Performance YTD
JSE Junior Market Performance: -0.02%
SOS Performance: 8.62%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
1/2/2024
1/4/2024
1/6/2024
1/8/2024
1/10/2024
1/12/2024
1/14/2024
1/16/2024
1/18/2024
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1/24/2024
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1/28/2024
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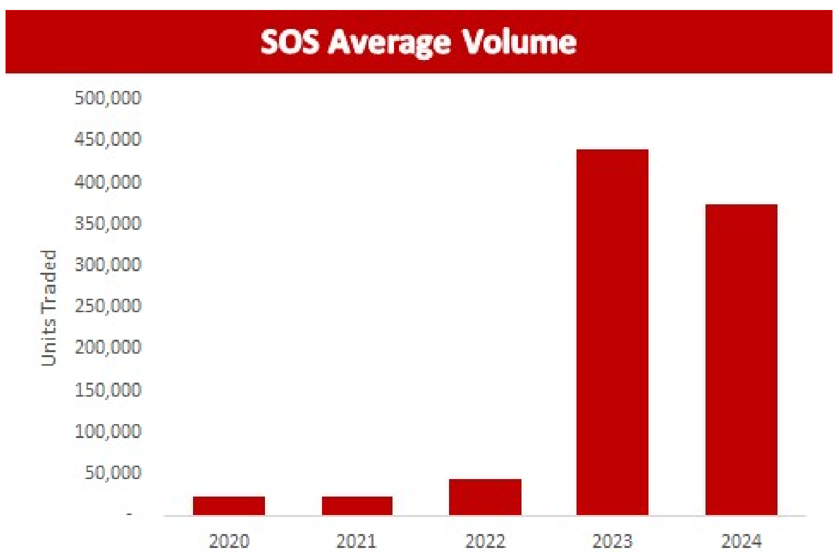
YTD Index Change
YTD Price Change


SOS Average Volume
Units Traded
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
2020
2021
2022
2023
2024

Abridged Financials			YEAR END				NINE MONTHS		
	YE2018	YE2019	YE2020	YE2021	YE2022	Change	Sep-22	Sep-23	Change
Revenue	$ 1,064,360,671	$ 1,217,983,130	$ 972,318,382	$ 1,124,846,375	$ 1,748,142,622	55.4%	$ 1,320,810,385	$ 1,532,319,748	16.0%
COGS	$ (559,850,241)	$ (635,366,957)	$ (526,892,239)	$ (573,699,215)	$ (911,916,644)	59.0%	$ (646,348,175)	$ (702,518,307)	8.7%
Gross Profit	$ 504,510,430	$ 582,616,173	$ 445,426,143	$ 551,147,160	$ 836,225,978	51.7%	$ 674,462,210	$ 829,801,441	23.0%
Operating Profit	$ 98,252,564	$ 155,957,851	$ 54,580,079	$ 123,460,753	$ 263,648,251	113.5%	$ 237,559,182	$ 327,901,588	38.0%
Profit for the year	$ 91,673,074	$ 134,564,989	$ 33,091,492	$ 107,119,804	$ 256,507,647	139.5%	$ 252,541,888	$ 294,337,757	16.6%
Total Assets	$ 853,335,321	$ 907,044,937	$ 888,015,577	$ 928,019,172	$ 1,385,148,994	49.3%	$ 1,122,386,808	$ 1,728,005,122	54.0%
Total liabilties	$ 358,736,055	$ 310,396,347	$ 278,285,135	$ 251,188,206	$ 281,924,616	12.2%	$ 238,035,644	$ 380,467,088	59.8%
Total Shareholder's Equity	$ 494,599,266	$ 596,648,590	$ 609,730,442	$ 676,830,966	$ 1,103,224,378	63.0%	$ 884,351,164	$ 1,347,538,034	52.4%
EPS ($)	0.37	0.54	0.13	0.05	0.11		0.11	0.13	
Book Value per share ($)	1.98	2.39	2.44	2.71	4.41		3.13	4.79	
Key Ratios									
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	12.2%	15.3%	3.7%	11.8%	22.2%		10.2%	6.2%	
Return on Equity	20.2%	24.7%	5.5%	16.7%	28.8%		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)	0.31	0.48	0.72	0.24	0.73		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, boj.org.jm, pioj.gov.jm, www.worldbank.org, 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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