Honey Bun (1982) Limited

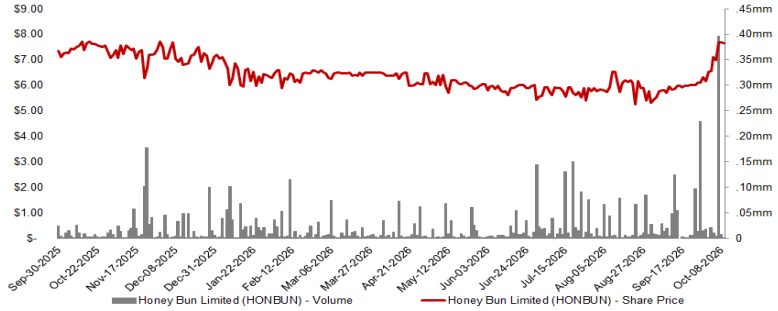
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Executive Summary

Honey Bun (1982) Limited (HONBUN) is a limited liability company incorporated under the laws of Jamaica and headquartered at 26 Retirement Crescent, Kingston 5. The company was listed on the Junior Market of the **Jamaica Stock Exchange (JSE)** on June 3, 2011. **Next Incorporated**, a company registered under the Belize IBC Act 2000, holds a 56.5% controlling stake in HONBUN. The company's principal activities comprise the manufacture and distribution of baked products for both domestic and export markets.

HONBUN has demonstrated a strong long-term growth trajectory, recording a compound annual growth rate (CAGR) of **18.2%** over the period FY2021 to FY2025. For FY2025, the company reported revenue of **$4.18 billion**, representing year-over-year growth of **8.7%**. However, net profit declined by **52.5%** to **$109.22 million**, highlighting ongoing challenges in translating top-line expansion into sustainable earnings growth amid a rising cost environment.

HONBUN's PRICE MOVEMENT



For the nine months ended June 2026, revenue increased by **13.7%** to **$3.55 billion**, while net profit declined by **58.2%** to **$62.89 million**, reflecting continued pressure on profitability. Despite these challenges, the standalone June 2026 quarter showed encouraging signs of recovery, with revenue increasing by **22.5%** and net profit rising by **62.5%** year over year. This improvement supports a more constructive near-term operating outlook. Nevertheless, a sustained earnings recovery will likely depend on increased utilization of the Angels production facility, continued productivity enhancements, and disciplined cost management initiatives.

We assign a **MARKET PERFORM/HOLD** recommendation to the shares of **Honey Bun (1982) Limited (HONBUN)**, as the stock appears to be trading close to its estimated fair value. Our blended valuation methodology produced an intrinsic value estimate of **$6.86 per share**, representing a potential upside of **10.0%** relative to the closing price of **$6.24** as of **October 13, 2026**. We expect revenue growth and gradual improvements in operating efficiency to support earnings recovery over the medium term. However, elevated input costs, higher operating expenses, increased depreciation charges, and financing costs could constrain the pace of profitability improvement and limit valuation upside.

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Financial Performance

Income Statement Review

For the financial year ended September 2025, Honey Bun (1982) Limited (HONBUN) reported revenue of $4.18 billion, representing an 8.7% year-over-year increase from $3.84 billion in FY2024. Revenue growth was driven by wider distribution, strategic pricing initiatives, and stronger market penetration across key sales channels. Gross profit increased at a slightly faster rate, rising 10.2% to $1.93 billion from $1.75 billion, resulting in an improvement in the gross profit margin to 46.2% from 45.6% in the prior year and above the five-year average of 44.5%. Management attributed the stronger margin performance to production efficiencies, lower waste levels, improved management of returned goods, and procurement-related economies of scale.

Despite the improvement in gross profitability, the benefits were more than offset by higher operating costs associated with the company's expanded scale of operations and the commissioning of the Angels manufacturing facility. Administrative expenses increased 32.4% to $1.07 billion, reflecting higher staff costs, insurance, utilities, repairs and maintenance, and depreciation expenses. Selling and distribution expenses rose 14.3% to $720.8 million, primarily due to higher fuel, motor vehicle repair, and personnel-related costs. Consequently, total operating expenses increased 24.4% to $1.79 billion, representing approximately 42.8% of revenue, compared with 37.4% in FY2024. As a result, operating profit declined 56.7% to $128.6 million, with the operating profit margin contracting to 3.1% from 7.7% in the prior year.

Finance costs decreased significantly to $13.3 million from $41.9 million in FY2024. Management disclosed that approximately $64.4 million in lease and loan interest associated with the Angels facility fit-out was capitalized during the construction phase, reducing the interest expense recognized in the income statement. Consequently, profit before taxation declined 57.4% to $116.4 million, while net profit fell 52.5% to $109.2 million. The net profit margin contracted to 2.6% from 6.0%, and earnings per share declined to $0.23 from $0.49. Similarly, return on average assets decreased to 3.9% from 10.6%, while return on average equity fell to 7.5% from 16.9%.

Overall, the decline in FY2025 earnings primarily reflects the near-term costs associated with capacity expansion and the commissioning of the Angels manufacturing facility, rather than any material deterioration in revenue generation or underlying market demand. Management expects the facility to support improved operating leverage and profitability over the medium term as utilization rates increase and production efficiencies are realized.

Nine Months Ended June 2026 Performance

For the nine months ended June 2026, HONBUN recorded stronger top-line growth, with revenue increasing 13.7% to $3.55 billion from $3.12 billion in the corresponding period of the prior year.

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Management attributed the growth to sustained consumer demand, product innovation, additional production capacity, and deeper market penetration. Gross profit increased 11.3% to $1.61 billion; however, the gross profit margin declined to 45.4% from 46.4%, reflecting continued inflationary pressures across raw materials, labour, utilities, and other production inputs.

Operating expenses continued to rise as the company expanded its operations. Administrative expenses increased 22.3% to $858.3 million, while selling and distribution expenses grew 10.4% to $595.9 million. Consequently, operating profit declined 22.9% to $161.4 million, and the operating profit margin contracted to 4.5% from 6.7% in the prior-year period.

Finance costs increased sharply to $78.6 million from $11.6 million, reflecting higher borrowings utilized to fund the company's capital expansion programme. As a result, profit before taxation declined 57.8% to $84.7 million, while net profit fell 58.2% to $62.9 million. The net profit margin consequently declined to 1.8% from 4.8%, and earnings per share decreased to $0.13 from $0.32.

Notwithstanding the weaker year-to-date profitability metrics, the standalone third quarter delivered encouraging results. Revenue increased 22.5% year over year, while net profit rose 62.5%, suggesting that the earnings contribution from the expanded production platform may be gaining traction. While this development supports a more constructive near-term outlook, sustained improvement in margins and profitability will be required to confirm that the company is transitioning from its investment and commissioning phase to a period of enhanced operating leverage and earnings growth.

Balance Sheet Overview

Cash Flow Overview

Cash flow from operating activities improved substantially in FY2025, increasing to $639.2M from $111.8M in FY2024 despite the decline in net profit. Cash generated before working-capital movements increased more modestly to $478.7M from $458.2M. The main improvement came from changes in working capital, with receivables generating an inflow of $132.9M compared with an outflow of $242.0M in FY2024, while payables contributed $96.1M compared with an outflow of $23.3M. This indicates that the stronger operating cash flow reflected both better collections and the timing of supplier payments. Moreover, cash used for inventories decreased significantly to an outflow of $2.6M from an outflow of $34.0M a year ago.

Investing activities used $889.5M in FY2025 compared with $72.6M in FY2024, almost entirely due to $893.8M of additions to property, plant and equipment for the Angels facility. Financing activities generated a net inflow of $61.3M, supported by $324.6M in long-term loan proceeds. These proceeds were partly offset by $142.7M in lease payments, $64.0M in interest paid and $56.6M in dividends. HONBUN therefore recorded a net cash reduction of $189.0M and ended FY2025 with cash of $193.4M.

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For the nine months ended June 2026, net cash provided by operating activities rose to $214.1M from $46.9M in the corresponding period. Cash generated before working capital increased by 11.3% to $359.2M, supported by higher depreciation and other non-cash charges on the expanded asset base. Changes in working capital represented an outflow of $145.1M, with inventories and receivables using $67.8M and $133.1M, respectively, partly offset by a $55.8M increase in payables.

Cash used in investing activities declined to $153.9M from $437.9M, as additions to PP&E fell to $143.6M from $440.2M following the major phase of the Angels build-out. Financing activities provided $30.2M, reflecting inflows of $121.3M from long-term loans, partly offset by lease payments of $52.1M, interest payments of $26.7M and dividends of $12.3M. Cash increased by $90.4M during the nine months.

Outlook

HONBUN's near- to medium-term outlook will depend largely on its ability to convert the additional production capacity at the Angels manufacturing facility into stronger earnings and operating cash flows. The facility has eliminated the production constraints that previously limited domestic growth, export expansion, and new product development. Commissioned in September 2025, the facility was designed to materially increase production capacity and improve operational scalability. Encouragingly, the standalone June 2026 quarter demonstrated early signs of operating leverage, with revenue increasing 22.5% and net profit rising 62.5% year over year. While these results suggest that the expanded platform is beginning to contribute positively to earnings, a sustained recovery in margins and profitability has yet to be firmly established.

We expect revenue growth to remain positive over the short to medium term, supported by higher production volumes, product innovation, and continued expansion of the company's distribution network. Management has indicated that an additional US$2.0 million in capital expenditure may be required to further automate the Angels facility and move it closer to optimal output levels. Such investments could enhance throughput, reduce manual processes, improve labour productivity, and minimize production waste. However, the additional expenditure would extend HONBUN's investment cycle and could delay meaningful improvements in net profit and free cash flow as the company continues to absorb higher depreciation, financing, and operating costs associated with the expansion.

The expanded production platform also enhances HONBUN's export potential and reduces its reliance on Jamaica's relatively small domestic market. The company's Safe Quality Food (SQF) certification, established distributor relationships, and growing presence in key diaspora markets, including Canada, Florida, and New York, provide a solid foundation for regional growth. Management has indicated that exports currently account for approximately 5% of revenue but could increase to 10%-15% of sales over the medium term. This represents a meaningful opportunity given the established demand for products such as spice bun, penny bun, and Buccaneer fruitcake within diaspora communities. Nevertheless, the ultimate financial benefit will depend on whether higher sales volumes can sufficiently offset freight costs,

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distributor incentives, promotional expenditures, and regulatory-compliance costs associated with serving international markets. Accordingly, export performance should be evaluated based on contribution margins and cash conversion rather than revenue growth alone.

In addition to export opportunities, the Swirls acquisition and the introduction of new product lines provide further avenues for growth. However, these initiatives are expected to remain modest contributors to consolidated earnings in the near term relative to the company's core bakery operations.

The domestic macroeconomic environment may moderate the pace of HONBUN's earnings recovery. Jamaica's economy contracted by 2.9% during the April-to-June 2026 quarter as the lingering effects of Hurricane Melissa continued to weigh on employment, consumer confidence, and economic activity. While rebuilding efforts should support growth over time, weaker consumer purchasing power may increase price sensitivity in the near term. Although HONBUN benefits from offering affordable and frequently purchased consumer products, there remains a risk that further price increases aimed at protecting margins could negatively affect demand or encourage product substitution toward lower-priced alternatives.

Cost and financing conditions have also become increasingly challenging. Jamaica's inflation rate reached 7.9% in August 2026, exceeding the Bank of Jamaica's target range of 4%-6% and prompting a 50-basis-point increase in the policy rate to 6.0% effective September 2026. Rising agricultural commodity, fuel, and international raw-material prices continue to place pressure on input costs, while higher utility expenses and increases in the national minimum wage are contributing to elevated operating costs. Although relative stability in the Jamaican dollar and robust international reserves provide some insulation against imported inflation, the combination of higher borrowing costs and persistent cost pressures could delay margin recovery and increase the required return on future capital investments.

Management must also balance future growth investments against financial discipline. HONBUN has already incurred substantial increases in PP&E, bank borrowings, and lease obligations as a result of the Angels project. Any additional automation-related capital expenditure will need to be weighed against debt reduction objectives, working-capital requirements, and dividend distributions. While operating cash flow improved during the nine months ended June 2026, the full value of the expansion will only be realized if the company can consistently generate positive free cash flow after both maintenance and growth-related capital expenditures.

From a governance perspective, the transition from Michelle Chong to Daniel Chong introduces a degree of execution risk but also provides continuity. Daniel Chong was actively involved in the development of the Angels facility, the implementation of the company's enterprise resource planning (ERP) system, and the automation of core operations prior to assuming the role of Chief Executive Officer in October 2025. Investors should closely monitor whether the new management team can translate strategic investments into measurable improvements in profitability, free cash flow, and returns on invested capital.

Key positive catalysts include:

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- Sustained recovery in operating margins.
- Profitable export growth and market expansion.
- Successful commissioning of additional automation equipment.
- Continued improvement in free cash flow generation.
- Reduction in net debt levels.
- Expansion of the Swirls brand with attractive store-level economics.

Key downside risks include:

- Slower-than-expected utilization of the Angels facility.
- Additional debt-funded capital expenditure.
- Persistent inflation in raw materials, utilities, and labour costs.
- Higher interest rates and financing expenses.
- Weak domestic economic conditions.
- Elevated export logistics and distribution costs.
- Adverse weather-related disruptions.

Importantly, continued revenue growth without corresponding improvements in profitability and cash generation would suggest that the expansion has increased the scale of the business without generating an adequate return on invested capital.

Valuation

We employed a blended valuation methodology incorporating the Discounted Cash Flow (DCF) model and relative valuation techniques to estimate HONBUN's fair value.

Our DCF analysis produced a target price of **$6.10 per share**. Using HONBUN's **three-year historical average P/E multiple of 18.6x applied** to forward earnings, we derived an implied value of approximately **$6.14 per share**. **The price-to-book (P/B)** methodology generated the highest valuation, with the historical average P/B multiple of 2.3x applied to forecast book value per share yielding a value of $8.34 per share.

Assigning equal weight to each methodology results in a blended fair value estimate of **$6.86 per share**, **representing a potential upside of 10.0% relative to the closing market price of $6.24** on October 13, 2026.

Recommendation

We assign a **MARKET PERFORM/HOLD** recommendation on the shares of Honey Bun (1982) Limited (HONBUN). While the company possesses attractive long-term growth opportunities stemming from its

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expanded production capacity, export potential, and operational-improvement initiatives, our estimated fair value remains broadly aligned with the current market valuation.

Our investment thesis reflects the balance between HONBUN's revenue growth prospects and the challenges associated with increased financial obligations, elevated operating costs, and the need to demonstrate a satisfactory return on the significant capital invested in the Angels facility.

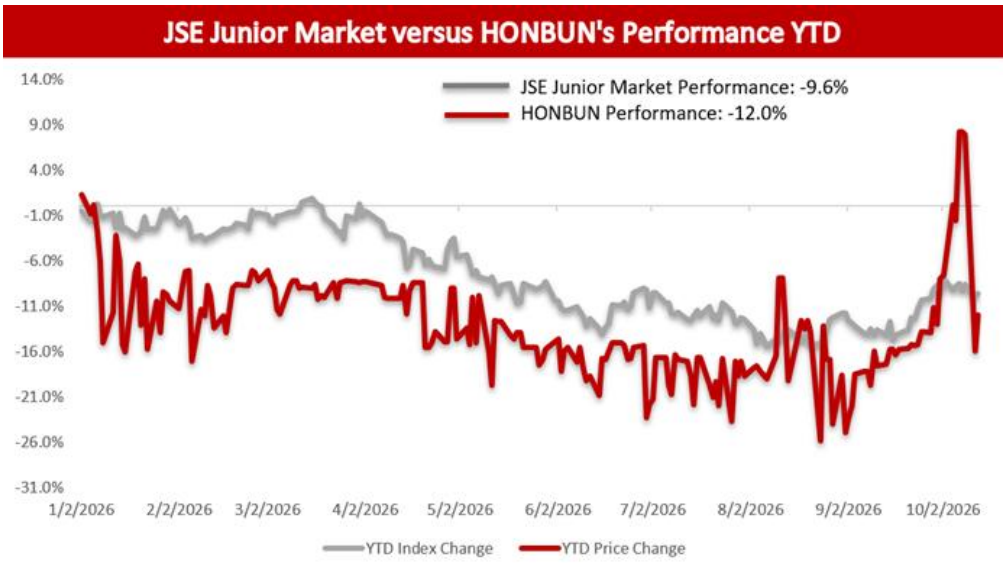
The expansion provides a strong platform for increasing both domestic and export sales. As facility utilization improves and automation initiatives are implemented, management should benefit from operating leverage and improved productivity. While the improvement in operating cash flow during the first nine months of FY2026 is encouraging, additional capital requirements, debt servicing obligations, and working-capital needs are likely to continue competing for cash resources in the near term.

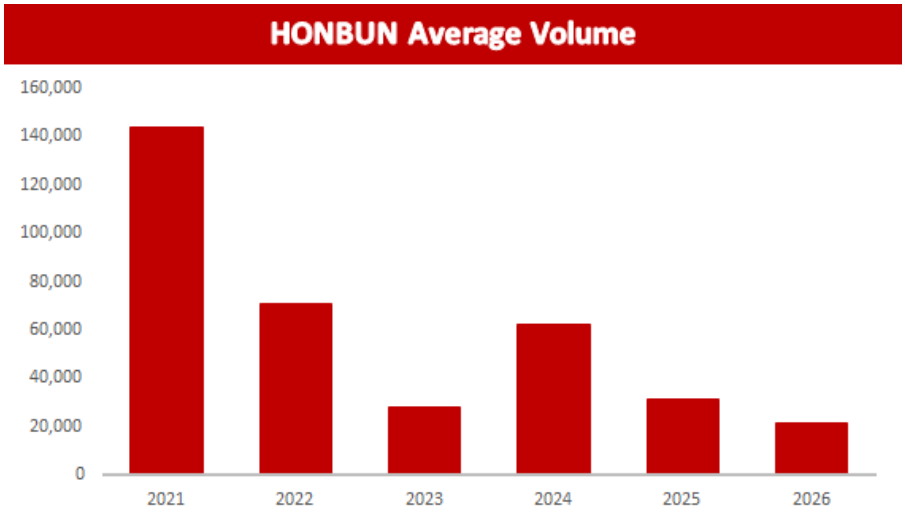
Accordingly, we expect revenue growth and gradual operating-efficiency improvements to support a recovery in earnings over the medium term. However, elevated input costs, depreciation charges, and financing expenses may continue to moderate the pace and magnitude of that recovery.

HONBUN's share price performance has also been relatively weak. Year-to-date, the stock has declined approximately 12.0%, underperforming the Jamaica Stock Exchange Junior Market Index, which declined approximately 9.6% over the same period. Liquidity has similarly deteriorated, with average daily trading volume falling to approximately 31.48 thousand units during FY2025 compared with 62.47 thousand units in FY2024. Lower trading activity may limit investor participation and contribute to reduced price discovery in the near term.

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Honey Bun (1982) Limited

Abridged Financial Statements and Ratios

	YE 2021	YE 2022	YE 2023	YE 2024	YE 2025	CAGR	Q3 2025	Q3 2026	%▲
Per Share Data									
Share Price	8.33	8.21	6.77	8.07	7.35	-3.09%	7.39	5.44	-26.39%
BVPS	2.18	2.46	2.79	2.98	3.23	10.31%	3.32	3.34	0.59%
EPS	0.46	0.43	0.49	0.49	0.23	-15.93%	0.06	0.11	69.32%
Dividend Per Share	0.13	0.16	0.16	0.16	0.12	-1.21%	0.12	0.03	-78.33%
JSE Junior Market Index	3,296.4	4,229.5	3,959.3	3,829.1	3,428.9	0.99%	3,476.2	3,088.6	-11.15%
Abridged Income Statement (In Millions)									
Revenue	2,145.4	2,953.3	3,412.8	3,844.7	4,180.7	18.15%	3,124.4	3,552.1	13.69%
Gross Profit	1,022.2	1,175.8	1,476.2	1,753.4	1,932.2	17.26%	1,449.7	1,613.3	11.28%
Operating Profit	285.1	246.8	276.9	297.2	128.6	-18.05%	209.2	161.4	-22.86%
Pre-tax Profit	290.2	254.4	284.5	273.1	116.4	-20.42%	200.6	86.7	-56.80%
Profits	218.7	203.5	232.1	230.1	109.2	-15.93%	150.6	62.9	-58.25%
Abridged Balance Sheet (In Millions)									
PP&E	583.9	665.7	735.8	772.7	1,594.8	28.56%	1,111.9	1,570.0	41.20%
Non-Current Assets	688.0	827.6	913.5	1,622.9	2,265.7	34.71%	1,938.8	2,171.7	12.01%
Current Assets	637.4	699.4	824.8	995.9	693.4	2.13%	1,063.8	963.0	-9.48%
Cash and Cash Equivalents	404.3	346.9	464.8	382.2	193.4	-16.84%	211.3	283.8	34.32%
Total Assets	1,325.5	1,527.0	1,738.3	2,618.8	2,959.1	22.24%	3,002.6	3,134.7	4.40%
Non-Current Liabilities	66.7	111.5	103.0	788.1	986.3	96.06%	1,073.3	1,041.3	-2.98%
Current Liabilities	229.8	256.2	319.3	360.0	449.5	18.26%	364.6	519.5	42.48%
Total Liabilities	296.6	367.7	422.3	1,148.2	1,435.8	48.33%	1,437.9	1,560.8	8.55%
Debt	21.8	71.9	68.2	817.2	1,034.3	162.45%	1,093.9	1,103.5	0.88%
Equity	1,028.9	1,159.3	1,316.0	1,406.2	1,523.3	10.31%	1,564.8	1,574.0	0.59%
Abridged Cash Flow Statement (In Millions)									
Operating Cash Flow/(Outflow)	304.4	184.6	393.5	111.8	639.2	20.37%	46.9	214.1	356.53%
Financing Cash Flow/(Outflow)	(66.3)	(86.5)	(104.1)	(124.1)	61.3	N/A	220.1	30.2	-86.26%
Investing Cash Flow/(Outflow)	(133.7)	(156.7)	(176.2)	(72.5)	(889.5)	60.60%	(437.9)	(153.9)	-64.86%
Ratios						Average			
Gross Margin	47.6%	39.8%	43.3%	45.6%	46.2%	44.5%	46.4%	45.4%	-2.1%
Operating Margin	13.3%	8.4%	8.1%	7.7%	3.1%	8.1%	6.7%	4.5%	-32.2%
Net Profit Margin	10.2%	6.9%	6.8%	6.0%	2.6%	6.5%	4.8%	1.8%	-63.3%
Current Ratio	2.77	2.73	2.58	2.77	1.54	2.48	2.92	1.85	-36.47%
Days Inventory on Hand	31.3	30.9	36.0	38.3	38.6	35.00	41.9	24.2	-42.3%
Days Sales Outstanding	15.4	16.9	16.8	24.3	25.1	19.70	41.6	22.3	-46.5%
Days Payable Outstanding	50.7	41.9	47.0	45.9	49.2	46.93	44.7	29.3	-34.4%
Debt-to Equity	0.02	0.06	0.05	0.58	0.68	0.28	0.70	0.70	0.29%
ROE	23.0%	18.6%	18.8%	16.9%	7.5%	17.0%	9.2%	7.6%	-17.1%
ROA	18.3%	14.3%	14.2%	10.6%	3.9%	12.2%	5.7%	3.9%	-31.4%
P/E	17.96	19.01	13.75	16.53	31.71	19.79	118.51	51.52	-56.52%
P/B	3.82	3.34	2.42	2.70	2.27	2.91	2.23	1.63	-26.82%
Dividend Payout Ratio	27.2%	35.9%	32.5%	32.8%	51.8%	36.0%	40.5%	10.3%	-74.6%
Dividend Yield	2.07%	1.72%	2.35%	2.20%	1.50%	2.0%	1.50%	0.43%	-71.43%

Source: http://www.Jamstockex.com, Jamaica Observer, Jamaica Gleaner, BOJ, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.

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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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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/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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