

## GWest Coporation Limited

### Company Background

GWest Corporation Limited (GWest) is a limited liability company which is incorporated in Jamaica. Its main activities are to undertake the development of commercial and residential properties and the management of health care facilities (namely; GWest centre). The GWEST Centre will provide a full range of services to complement such medical specialties as internal medicine and subspecialties, general surgery, cardiology, oncology, neurosurgery, orthopaedics, gynaecology, and mental health services. The company which was incorporated on December 3, 2007 has completed its major project of development of a medical and dental complex on lands at Fairview, Montego Bay and began trading in the current year. The registered office of the company is 34 Market Street, Montego Bay.

### SWOT Analysis:

<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>• Technical expertise (Established medical and business professionals)</li> <li>• Diversified revenue streams- various medical services offered</li> <li>• Great Location –Fairview Corridor</li> </ul>	<p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>• Unproven track record</li> <li>• Revenues so far is driven by sale of units</li> <li>• Shareholders' loan should have been converted to ordinary shares to reduce interest cost and boost overall financial performance</li> </ul>
<p><b>Opportunity:</b></p> <ul style="list-style-type: none"> <li>• The region is largely under served. GWest will meet this gap with the wide array of services offered</li> <li>• Use of referral system and discounts initiative could help create awareness and boost revenue streams</li> <li>• Improved technologies to enhance efficiency</li> </ul>	<p><b>Threat:</b></p> <ul style="list-style-type: none"> <li>• Elevated criminal activities in the area of operation</li> <li>• There is a need for proper expense management</li> <li>• Adverse movements in macroeconomic variables, such as depreciation of the local currency.</li> <li>• Improvement in the delivery of healthcare at public and other private facilities</li> </ul>

The Company will earn revenue from two main sources:

- medical services; and
- lease rental from owned spaces.

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### Investment Thesis:

The Company intends to use the anticipated proceeds of the Invitation for expansion and working capital purposes including, but not limited to, the following:

- Complete the build-out and outfitting of GWest Outpatient Surgery Centre (sometimes referred to herein as the “Gwest Surgery Centre” or the “Surgery Centre” and the Gwest Inpatient Unit;
- Working capital support and repayment of short- term obligations to contractors and customers; and
- Payment of the expenses of the Invitation, which the Company estimates will not exceed J\$30.0M (inclusive of brokerage and financial advisory fees; legal fees; auditors’ fees; Companies Registrar’s fees; initial listing fees; and applicable stamp duties, exclusive of GCT).

Project	Cost (\$M)	Expected Completion Date
Gwest In-patient	\$90	Sep-18
Gwest Outpatient Surgery Centre 4 room ambulatory surgical facility	\$180	Sep-18
Repayment of Short Term Debt	\$70	Nov-17
Working Capital	\$30	
Pay costs of IPO	\$30	
<b>Total</b>	<b>\$400</b>	

### Share Capital:

Table 1: Initial Public Offering

Number of Shares	Purpose	Price (\$)	Amount(\$)
36,000,000	JMMBSL Reserved	2.50	90,000,000
64,000,000	JMMB Investment Mgt. Reserved	2.50	160,000,000
19,400,000	Key Partner Reserved	2.50	48,500,000
600,000	Company Reserved	2.50	1,500,000
49,689,500	General Public	2.50	124,223,750
	<b>Total Consideration</b>		<b>424,223,750</b>

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**Table 2: Share Capital Structure prior to Initial Public Offering**

Name of Shareholder	Number of Shares before Opening Date of Invitation	% of Issued Shares before Opening Date of Invitation
Konrad Kirlew	62,210,449	19.15%
Karlene McDonnough	6,152,064	1.89%
Bull Investments	35,374,366	10.89%
Wayne Gentles	1,538,016	0.47%
Elva Williams-Richards	30,760,319	9.47%
Cornwall Medical & Dental	92,280,955	28.41%
Leyford Doonquah	61,520,637	18.94%
Northcoast Imaging	30,760,319	9.47%
Witold Radomski	4,251,360	1.31%
<b>Total Issued Share Capital</b>	<b>324,848,485</b>	<b>100%</b>

**Table 3: Share Capital Structure post Initial Public Offering**

Name of Shareholder	Number of Shares after Opening Date of Invitation	% of Issued Shares after Opening Date of Invitation
Konrad Kirlew	62,210,449	12.83%
Karlene McDonnough	6,152,064	1.27%
Bull Investments	35,374,366	7.30%
Wayne Gentles	1,538,016	0.32%
Elva Williams-Richards	30,760,319	6.34%
Cornwall Medical & Dental	82,591,455	17.03%
Leyford Doonquah	61,520,637	12.69%
Northcoast Imaging	30,760,319	6.34%
Witold Radomski	4,251,360	0.88%
Public	169,689,500	35.00%
<b>Total Issued Share Capital Following Invitation</b>	<b>484,848,485</b>	<b>100%</b>

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**Abridged Financials: GWest Coporation Limited**

J\$M	Year-End March		6-Months Ended September		
	2016	2017	2016	2017	%chg
<b>Revenue</b>		<b>1,008.83</b>	<b>346.28</b>	<b>40.97</b>	-88%
Cost of Sales		838.10	272.35	25.32	-91%
<b>Gross Profit</b>		<b>170.74</b>	<b>73.94</b>	<b>15.65</b>	-79%
Interest Income	0.82	0.43	0.26	0.01	-98%
Other gains or losses	0.33	192.24	(10.12)	1.04	-110%
	1.15	363.41	64.07	16.70	-74%
Administrative Expenses		15.50	7.64	10.26	34%
Other operating Expenses	1.12	36.88	2.92	12.95	344%
Finance Costs		134.70	74.21	22.57	-70%
<b>Profit before tax</b>	<b>0.03</b>	<b>176.33</b>	<b>(20.69)</b>	<b>(29.08)</b>	
tax	(0.06)	4.25			
<b>Net Profit</b>	<b>(0.03)</b>	<b>180.58</b>	<b>(20.69)</b>	<b>(29.08)</b>	
Total Assets	1,773.07	1,439.61	1,522.88	1,435.69	-6%
Total Liabilities	1,743.24	1,124.00	1,510.82	1,149.16	-24%
Total Equity	29.82	315.61	12.06	286.52	2276%
Cash provided by operating activities	80.94	518.70	149.403	146.61	
Cash provided by Investing activities	(499.81)	(77.97)	(190.68)	(111.01)	
Cash flows from financing activities	438.69	(451.28)	17.434	(274.96)	

Source: [www.Jamstockex.com](http://www.Jamstockex.com), JMMBIR

### Financial overview

GWest reported net earnings of \$180.58M for the period ended March 2017. This year performance marks a significant improvement from \$0.03M net loss registered in 2016. At year end March 2017; total income earned was \$1.2B comprising sale of owned space and lease income. Space sold for \$950M realised a gain of J\$132.4M. Lease rental income for the year was \$58.7M. Cost of sales \$817.6M is the construction cost for the units sold. Total operating expenses for the year was influenced by movements in administration and other operating expense. Administration expenses of \$15.5M include salaries and wages, directors' fees, utilities, security and general overhead. Other operating expenses of \$36.9M include property expenses and accounting and professional fees. Finance cost of \$134.6M is comprised of interest charges of \$84.2M, related to construction loan from NCB in the amount of \$860M, and shareholders loan interest of \$50.4M. For the 6-months ending September 2017, the company recorded a loss of \$29.08M compared to a loss of \$20.69M for the corresponding period in 2016. The loss was due primarily to the slowdown in sales of units, as the Company focused its attention on building out its medical services businesses and leasing the remaining units that it owns.

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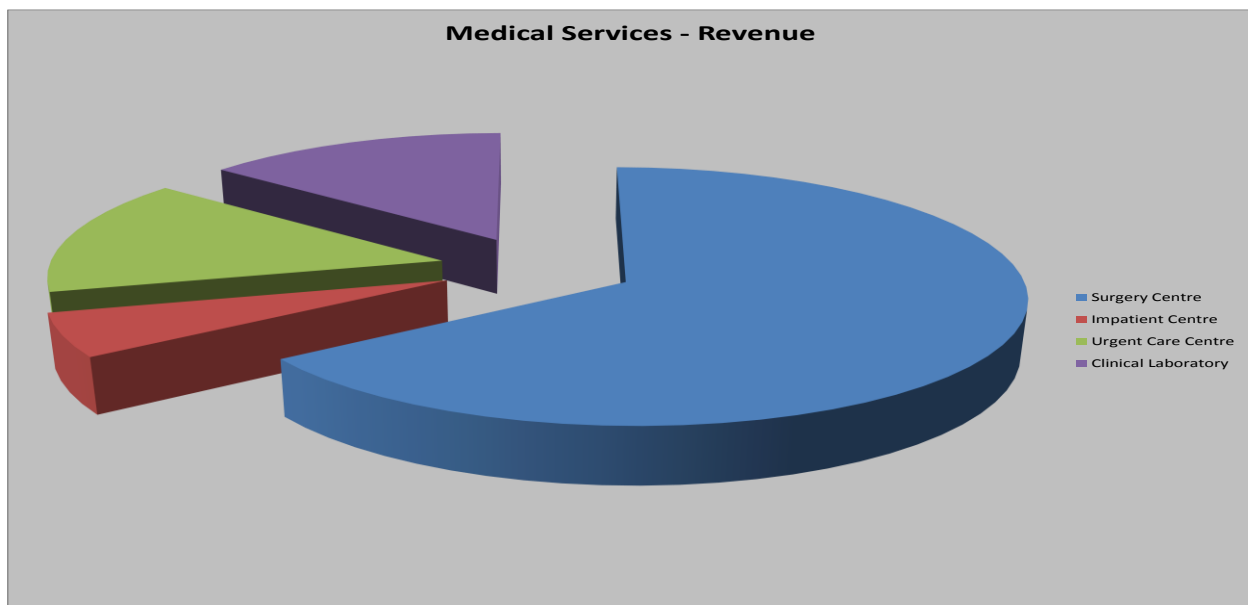
Total assets as at March 31, 2017 of \$1.47B comprise non-current assets of \$1.26B and current assets of \$180M. The asset base showed a net reduction of \$301.34M when compared to \$1.77B at March 31, 2016. Meanwhile, total liabilities were \$1.44B for the same period comprising of non-current liabilities of \$867M and current liabilities of \$257M. Shareholders' equity stood at \$316M. Total liabilities include \$350M loan from NCB, Security bond payment due to the main project contractor ZDA of \$95M and taxation payable of \$4.4M. There is also a shareholders loan of \$516M. Shareholders loans are subordinated to the NCB loan and other third party payments.

The asset base of GWest was \$1.44B as at September 2017, while total liabilities were \$1.15B. To this end, the shareholders' equity stood at \$286.52M.

### Forecast and Valuation

GWest is expected to benefit from net gain on units and lease income (in US dollar) from unused units in 2018. Thereafter, lease income is expected to increase by 0.5% as per lease agreement. The company will improve its profitability through the extension of its medical services. These medical services include: 1) In-patient Centre, 2) Urgent Care Centre, 3) Clinical Laboratory, 4) Surgery Centre, and 5) General Practice.

Graph 1: Medical Services Segment 2018 Estimated Revenue



Lion share of 2018 revenue is expected to emanated from Surgical Segment (65%) flowed by Clinical Laboratory (15%), Urgent Care Centre (15%) and Inpatient Centre (5%).

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Montego Bay is the premier tourist destination in Jamaica with 7,576 hotel rooms as at the end of 2016. Montego Bay is also Jamaica's only other officially incorporated city, the fourth largest urban area in Jamaica and the business centre to approximately half a million people including the adjacent parishes of Hanover, Westmoreland, Trelawny and St Elizabeth.

GWest's financial performance is expected to improve on the completion of the remaining operating units. The GWest Urgent Care unit commenced operations during the first week of November 2017 and the GWest Laboratory is expected to commence operations during the first week of January 2018. There is also projected increase in the occupancy of units in the GWest centre, which will generate an increase in lease income.

The trailing price-to-earnings (P/E) for GWest March 2017 numbers is 6.87 times at listing price of \$2.50. The current P/E average for the Junior Market is 22.83 times, while the average P/E for main market is 14.16 times. Net earnings for the year ended March 2019 are expected to reach \$143M (or EPS of \$0.30) adjusted for "in-house" assumptions. Based on this projected earnings, the forecasted P/E is 8.47 times. The capital base of the company is currently \$315.51M or a book value per share of \$0.65. From this perspective the current P/BV using March 2017 financial statement is 3.84 times (Average P/BV for the Junior Market's is 5.08 times), which indicates that the stock is fairly priced. Post-IPO equity balance could improve to \$610.75M or a book value per share of \$1.26, which translates into a P/BV of 1.98 times. The comparative price multiples indicate that the company is priced fairly with a discount applied for newness and lack of geographical reach across the Island.

### **Recommendation:**

Based on the valuations above, GWest Corporation Limited is fairly priced at \$2.50. GWest will earn revenue from two main sources: medical services and lease rental from owned spaces. The company will offer discounts to private insurance companies and employers. The company is pursuing accreditation with Joint Commission International and the UK National Health Service to be able to accept medical health insurance from of the US, UK and Canada which bodes well for health tourism. The financial and valuation projections are based on the proper execution of strategies and projects stated. The company's management may be challenged to attract and maintain "world renown" experts to solidify the profile of the company going forward. From this point of view, the company faces execution risks in the near to medium term. Notwithstanding, GWest will benefit from the tax break associated with listing on the Junior Stock Exchange and aims to distribute 20% of net earnings to potential shareholders. Within the context of the aforementioned issues and analysis, GWest is a recommended as market weight at this time.

**Source:** <http://www.Jamstockex.com>, *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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**SELL**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

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

**OVERWEIGHT/BUY**—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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