Radio Jamaica Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Company Background

Radio Jamaica Limited (RJR) and its subsidiaries, which are collectively referred to as "the Group", consist of: 'free-to-air' television station; cable television stations; publication of news in print and digital media; and radio stations. All subsidiaries are wholly owned. The company's subsidiaries are as follows: Television Jamaica Limited; Multi-Media Jamaica Limited; Media Plus Limited, and The Gleaner Company (Media) Limited (GCML).

On March 24, 2017, RJR acquired the GCML and its subsidiaries for the Gleaner Company Limited. The principal activities of the GCML are the publication of news in print and digital media as well as broadcasting. The GCML Group was established in June 2015 when the Gleaner Company Limited conducted a restructuring exercise to offload its media businesses.

Financial Performance – Year ended March 31, 2017

Profitability

RJR generated a net profit of $145.23M for the 2016/17 financial year, a $370.03M increase on the net loss of $224.8M reported for the previous year. This performance was driven by the amalgamation of the RJR group to the GCML, which contributed $95M to net profit, and an improvement in the pre-amalgamated RJR Group profits on higher revenues and lower operating costs.

Group revenues amounted to $5.23B, up 126.7% or $2.92B year-over-year, driven by the addition of GCML's revenues and a 2% increase in pre-merger RJR's revenues. Direct expenses rose by 151.3% or $1.54B, resulting in a gross profit of $2.67B, doubling the prior year's result. The gross profit margin slid to 51.1%, down from 55.9% in the previous year. Other operating income surged 112.5% to $218.41M as result of greater interest income from the Group's expanded investment balances and sundry income.

Total operating expenses amounted to $2.63B, up $1.01B or 61.9% year-over-year, which is to be expected following the merger of RJR and the Gleaner's media business. Selling expenses doubled to $773.48M while the administrative expenses rose 20.1% to $1.11B. Other operating expenses rose 135.4% to $752.92M. RJR faced unplanned extraordinary costs related to protecting its broadcast copyright and an increase in the cost of repairs to transmitters but was able to achieve the turnaround in performance following the non-recurrence of one-off costs in the previous year.

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Segment Reporting	Audio Visual	Audio	Print & Others	Sub-total	Eliminations	Total
2017				$'000		
Revenues	1,868,606	711,048	2,813,959	5,393,613	-164,882	5,228,731
Operating Profit	71,880	238,348	173,391	483,619	-224,186	259,433
Assets	1,522,678	3,447,899	1,210,020	6,180,597	-2,326,813	3,853,784
Liabilities	737,145	825	501,623	2,064,189	-808,484	12,255,705
Capital Expenditure	142,041	421	48,920	199,814	-	199,814
Depreciation & Amortisati	108,702	8,853	37,889	183,975	-	183,975
Finance Costs	-6,722	37,384	-24,018	-39,637	-	-39,637
2016						
Revenues	1,803,612	566,978	77,699	2,448,289	-141,462	2,306,827
Operating Profit	157,244	-111,594	-189,802	-144,152	-88,788	-232,940
Assets	1,287,755	2,767,863	1,702,548	5,758,166	-1,713,460	4,044,706
Liabilities	575,721	463,590	837,775	1,877,086	-256,077	1,621,009
Capital Expenditure	135,369	19,485	7,552	162,406	-	162,406
Depreciation & Amortisati	116,759	28,781	1,369	146,908	-	146,908
Finance Costs	8,268	10,386	10	18,664	-	18,644

An operating profit of $259.43M was reported for the year, which compares to an operating loss of $233.94M for the previous year. Finance costs rose to $39.34M, doubling the previous year's amount. Profit before taxation for the year was $219.8M, up from a loss of $251.6M the year prior. A taxation expense of $74.57M was reported, which contrasts a credit of $26.8M in the 2015/16 financial year.

Solvency & Liquidity

Total assets amounted to $3.85B as at March 31, 2017, down 4.7% or $190.92M year-over-year. Non-current assets rose 4.1% to $2.52B driven by an 82.2% increase in retirement benefit assets to $322.77M. Fixed assets were relatively unchanged with a balance of $1.13B while intangible assets were down 0.9% to $531.57M. Investment securities were down 2.2%, amounting to $486.52M at the end of the year.

Current assets amounted to $1.34B, down 17.8% or $288.96M from a year prior due to a 46.1% or $251.96M decline in cash and short-term investments to $294.78M. Receivables also declined year-over-year, falling 3.5% to $849.62M. Inventories rose 21.8% to $177.43M.

RJR also reported a decline in liabilities, down 22.7% or $368.06M to $1.25B. Current liabilities were down $246.56M or 22.2%, due to a 20.4% decline in payables to $837.75M. Non-current liabilities fell 23.8% to $389.49M, driven by a 75.4% decline in finance lease obligations to $23M and a 47.3% fall in long-term loans to $59.04M. Deferred tax liabilities rose 2.1% to $145.38M while retirement benefit obligations were down 0.5% to $162.07M.

Total debt stood at $86.09M, down 62.2% year-over-year due to the fall in finance lease obligations and long-term loans. Shareholders equity rose 7.3% to $2.6B due to a 49% increase in retained earnings to $569.77M. The book value per share rose to $1.07, up from $1.00 a year prior. RJR's leverage, as measured by the debt-to-equity ratio, improved during the year to 0.03x, down from 0.09x as at March 31, 2016.

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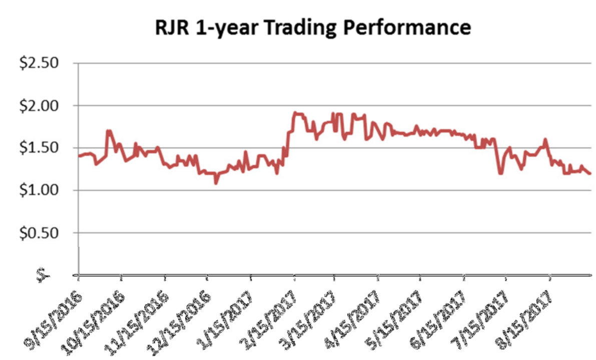
Outlook

Since merging with the GCML, RJR reported three straight quarters of growth in net profits, leading to the performance for the full year. However, the increase in profits were attributed to earnings generated by the GCML and not the performance of the pre-amalgamated RJR Group. Also, the pre-amalgamated RJR revenues expanded just 2%, a continuation of the struggles RJR has had to meaningfully grow its business.

With historically weak economic growth and new cheaper avenues to reach consumers, businesses' advertising spend has declined over the years. This trend continued in the first quarter of the 2017/18 financial year where RJR reported an after tax loss of $47M, which compares to a net profit of $54M for the same period of the previous year. RJR aattributed this performance to a "significant downturn in revenues across all segments in the broader sector." According to RJR, major players in the financial, beverage, foods, telecommunications and the retail sectors cut back spending in amounts larger than the growth in spending by the insurance, banking, distributive trade and social sectors. As such, revenues were down 7% year-over-year to $1.22B.

RJR's management team has acknowledged the shifts in the media industry and has made steps to move with the tide. Television Jamaica introduced the region's first Over the Top Technology (OTT) branded as 1spotmedia, creating a platform on which consumers can play live and delayed radio and television content accessible anywhere in the world by anyone with internet access. Content can be streamed free of cost in Jamaica while overseas consumers must pay a subscription fee, creating an avenue for the company to generate hard currency from subscriptions and advertising revenues.

Recommendation



Given these factors, we anticipate revenue growth of 1.5% for the 2017/18 financial year in the amount of $5.31B with a net loss of $14.69M. This corresponds to a loss per share of $0.01. Shareholders' equity is expected to decline 0.5% to $2.41B, or a book value per share (BVPS) of $1.00. We applied the 3-year price-to-book average of 1.19x to our forward book value per share, which yielded a forward price of $1.19 which is 13% higher than the last traded price as at September, 15, 2017. Due to the volatility of earnings and or forecast for a loss for the current year, the price-to-earnings multiple or discounted dividend model would not be suitable for valuing RJR.

While the valuation would suggest a market-weight recommendation, we maintain our **UNDERWEIGHT** recommendation for RJR given the headwinds that the sector faces given negative trends in advertising spend by businesses. Our opinion would change if we were RJR were able to forge a path for sustainable revenue growth and increased profitability.

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financials

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

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