Wisynco Group Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Wisynco Group Limited in its current form was established in 2005 as an amalgamation of several, multi-generational family business created by the four Mahfood brothers: Ferdinand, Sam (Jnr.), Joe and Robin; the first of which was established in 1965. The current iteration is a well-known manufacturer and distributor of beverages, food and packaging products in Jamaica. Wisynco is aiming to raise $6.1B through the sale of 784,500,000 shares with $1.2B representing new capital while the remaining $4.9B represents proceeds to be remitted to the Selling Shareholder.

Using relative value valuation models our average estimate of the fair price is $8.96, with a range of $7.80 to $9.94. As such, we recommend Wisynco as a BUY as we believe the stock is priced below its intrinsic value and hold a favourable view of the Company's short to medium term outlook.

Offer Details

Issuer	Wisynco Group Limited
Issue	784,500,000 shares (inclusive of 314,700,000 reserved shares) for subscription which consists of: 149,414,576 newly issued shares and the sale of 635,085,424 shares by the Selling Shareholder
Subscription Price	J$7.87 per share for all applicants, except staff who are being offered 150,000,000 shares at the discounted price of $7.08 per share
Use of Proceeds	• Expansion of its manufacturing capacity to facilitate growth in all current markets for existing and future products • Investment in more efficient modern internal power generation and utilization • Potential strategic acquisitions – locally, regionally and internationally • New distribution partnerships • Expansion of the Company's distribution fleet and infrastructure • The establishment of a western distribution centre • Increase working capital to expand distribution arrangements The Selling Shareholders intend to use the sale proceeds for their own purposes.
Dividend Policy	The Directors intend to pursue a dividend policy of an annual dividend of at least 20% of net profits after tax, subject to the need for reinvestment
Listing	The Company intends to apply to the JSE for the listing on the Main Market
Timetable of Key Dates	Opening Date: 9:00 A.M. 6 December 2017 Closing Date: 4:00 P.M. 15 December 2017

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Consideration

Description	J$ Amount
Full subscription/purchase of Reserved Shares as set out below:	
• 112, 500,000 of the Employees shares at a Discount Price of J$7.08 per Share	796,500,000
• 150,000,000 of the Strategic Investors at the Subscription Price of J$7.87 per Share	1,180,500,000
• 52,200,000 of the Broker at the Subscription Price of J$7.87 per Share	410,814,000
Full subscription/purchase of 469,800,000 Shares by the general public at the Subscription Price of J$7.87 per Share	3,697,326,000
Total Consideration 784,500,000 shares before transaction expenses	6,085,140,000
Amount raised by the Company (149,414,576 Ordinary Shares)	1,158,965,727
Proceeds to the Selling Shareholders (635,085,424 Ordinary Shares)	4,926,174,273

Post-IPO Shareholdings

Shareholder	Issued Share Capital	Percentage Ownership
Wisynco Group (Caribbean) Limited	2,887,906,774	77.011%
Devon Reynolds	35,646,280	0.951%
Francois & Michele Chalifour	35,646,280	0.951%
George Shammas	6,300,666	0.167%
Employees	112,500,000	3.000%
Strategic Investors	150,000,000	4.000%
Broker	52,200,000	1.392%
General Public	469,800,000	12.528%
Total	**3,750,000,000**	**100.000%**

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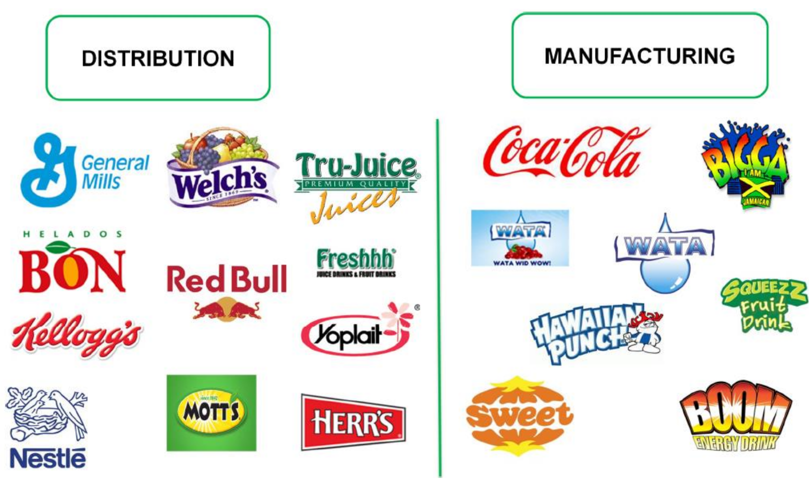
Company Overview

Wisynco Group Limited in its current form was established in 2005 as an amalgamation of several, multi-generational family business created by the four Mahfood brothers: Ferdinand, Sam (Jnr.), Joe and Robin; the first of which was established in 1965. The current iteration is a well-known manufacturer and distributor of beverages, food and packaging products in Jamaica. The parent company is Wisynco Group (Caribbean) Limited, a Barbadian International Business Company (IBC) while the ultimate controlling party is Evesam Investment Holdings Limited, a company incorporated in and resident of the Cayman Islands.

The Company affected a Scheme of Reconstruction on October 30, 2016 which resulted in the retention of its core businesses by transferring three non-core entities to the ultimate parent company. The interests transferred were Wisynco Foods (the company which controls the Wendy's and Domino's brands), Seville Development Corp (a land holding company with no other operations) and Fusion Holdings Limited (parent company of Trade Winds Citrus and United Estates Limited).

Wisynco owns, manufactures and distributes a portfolio of beverage brands which include: *WATA*, *cranberry-flavoured WATA*, *BOOM Energy Drink* and *BIGGA Soft Drink.* The Company also owns and manufactures the *SWEET* brand range of plastic and foam disposable lunch boxes, plates and cups. Additionally, Wisynco is the exclusive bottler for the Coca-Cola Company in Jamaica, as well as third-party beverage brands *SqueezZ* and *Hawaiian Punch*. The Company also distributes *Red Bull*, *Tru-Juice Freshhh, Welch's, Mott's* and *Snapple.*



Wisynco associate brands per Prospectus

The beverage portfolio is complimented by a range of grocery products from international brands such as *Kellogg's, General Mills, Hershey Company, Butterball, Herr's*, and *Nestlé*, as well as local brands such as *Kremi*. The Company operates from a modern 350,000 square foot warehouse facility with a fleet of over 60 owned and 300 contracted trucks. It has a sales team of more than 700 personnel that deliver products to over 10,000 customers.

Product Categories

Manufactured – Owned – this is the Company's owned manufactured products such as the beverages *WATA*, cranberry flavoured *WATA*, *BOOM*, and *BIGGA* as well as *SWEET* branded disposable packaging products.

Manufactured – Third Party – This includes branded products such as *Coca-Cola*, *Hawaiian Punch* and *SqueezZ* juices that the Company makes through agreements with third parties.

Distributed – Imported Third Party – this is the portfolio of products arising from the Company's distribution agreements with foreign entities such as *Red Bull, Kellogg's, General Mills* and *Nestle*.

Distributed – Local Third Party – this is the portfolio of products arising from the Company's distribution agreements with local entities. Main brands include *Tru-Juice* and *Freshhh*.

Export – These are all products that the company sells to foreign customers.

The company estimates that it possesses market share by product category as described: ***Carbonated soft drinks – 42%; Bottled water – 60%; Non-carbonated beverage – 40%; Juices – 50%; Energy drinks – 85%***

SWOT Analysis

Strengths:
- Long history in manufacturing and distribution which has led to the company's strong brand equity today.
- Exclusive manufacturer and distributor of household consumer product brands.
- Strong management with expertise in manufacturing & distribution, as evidenced by the positive response to the fire of 2016 and minimal impact on operating performance.

Weaknesses:
- Concentration risk stemming from the fact that almost 100% of revenues are generated in Jamaica.
- Wisynco specializes in homogoneous goods with many substitutes which translates to little or no switching costs for consumers.

Opportunities:
- Expansion into new export markets which should lead to foreign currency generation and regional diversification of revenue sources.
- New distribution agreements, widening its portfolio of products.
- Reduced energy costs with further expansion into alternative energy sources.

Threats:
- Increased competition from new market entrants or existing players.
- New government regulations to curtail sugar consumption and plastic usage.
- Increases in the costs of raw materials and fuel in a competitive market space where it may be challenging to pass on the full rise in prices to consumers.
- Non-renewal of distirbution contracts

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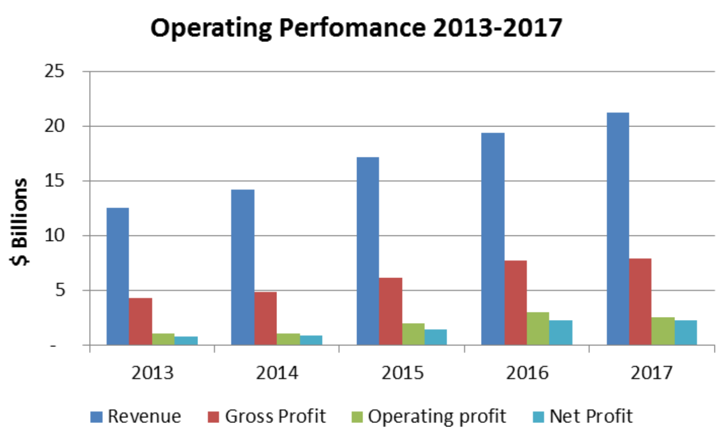
Financial Overview – Year ended June 30, 2017

Profitability

Wisynco reported revenues of $21.25B for the year ended June 2017, a 9.4% increase on the previous year's result. Revenues have increased every year since 2013, expanding at a compound average growth rate of 14.0% per annum. The growth in the 2017FY was negatively impacted by a fire in May 2016, which destroyed the Company's main distribution facility and affected the efficiency of goods distribution.

The growth in sales over the review period was attributed to: increases in sales volumes for owned brand products, particularly the BOOM energy drink and WATA; distribution of local third party products (in the 2015FY the Company began the distribution of products manufactured by Trade Winds Citrus); investments in additional production capacity as well as the continued refinement and deepening of distribution and demand generating strategies; and general price increases of most product prices due to local inflation.



Gross profits closed the year at $7.93B, a 2.5% increase from the previous year as cost of sales grew by 14.1% to $13.32B. This resulted in a fall in the gross profit margin from 39.9% to 37.3% in 2016FY due to abnormal levels of inventory adjustments and damages due to "inherent risks associated with multiple temporary locations and increased handling of products." Gross profits grew at an average rate of 16.2% between 2013 and 2017.

Operating expenses have been fairly stable as a percentage of revenues for the 2013-2016 period with an average of 25.9%. However, in the 2017FY operating expenses rose 24.4% to $6.13B, as selling & distribution expense climbed 26.3% to $5.24B while administration expenses rose 14.4% to $885.90M. Costs associated with staffing increased by 13.4% to $2.84B in the 2017FY due to transitional costs related to the fire such as incremental labour. Delivery expenses rose due to additional distribution channels and increased travel between newly-leased properties and warehouses subsequent to the 2016 fire.

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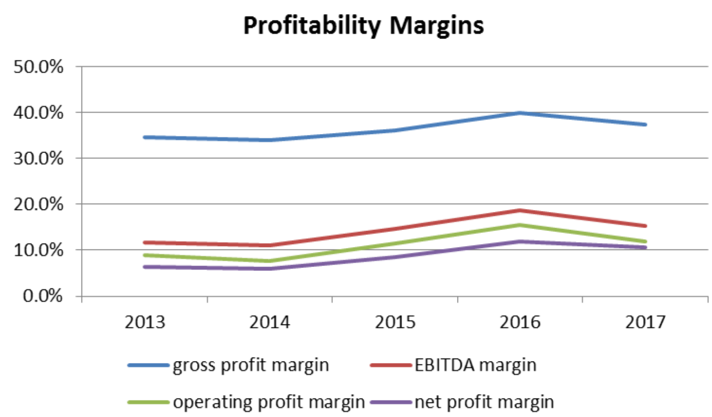
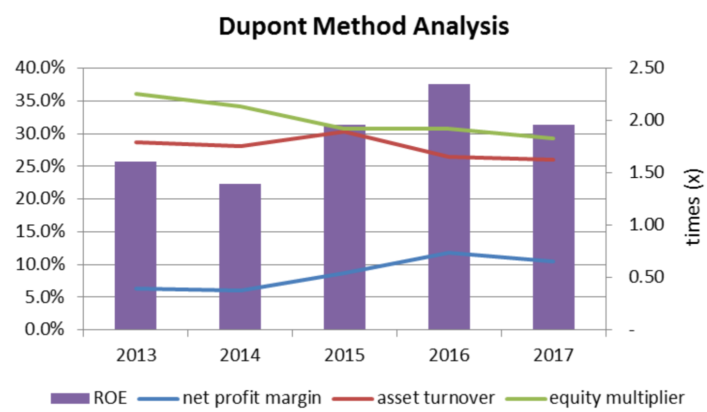
As such operating profits fell 16.2% to $2.53B in 2017 and the operating profit margin fell to 11.9% from 15.6% in the prior year. Operating profits have grown at an average annual rate of 22.7% from 2013. Earnings before interest, taxes, depreciation & amortisation (EBITDA) amounted to $3.23B for the last financial year, down 10.7% year-over-year. The EBITDA margin fell to 15.2% for the year, in comparison to 18.6% in the previous year.



Net profit for the 2017FY amounted to $2.24B, a 2.6% decline from 2016FY. The fall in operating profit was partially offset by a 59.2% decline in taxation which stood at $286.31M, leading to a fall in the effective tax rate to 11.3%, from 23.4% in the previous year. Net earnings have grown at an average annual rate of 29.3% since 2013 and the 2017FY result produced a net profit margin of 10.5%, down from 11.8% in 2016FY.

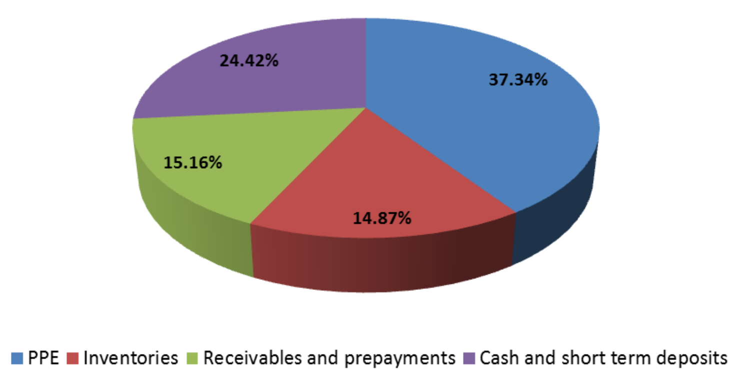


The return on average assets was 18.0% for the year while the return on average equity stood at 38.8%, relative to average of 22.1% and 46.0%, respectively in the 2016FY. Over the last three years the return on average assets has averaged 19.1% while the return on average equity has averaged 39.7%. An analysis of the return on equity using the Dupont Method revealed that improvement in ROAE was driven by improvements in profit margins as the asset turnover and equity multiplier have declined over the past 4 years.

Solvency & Liquidity

Wisynco reported total assets of $13.05B for the year ended June 2017, an 11.1% increase over the previous year. Assets have grown at an average annual rate of 16.8% since the 2013FY. Property, plant & equipment represented the largest share of assets at 37.3% and closed the year at $4.87B, a 54.9% increase year-over-year. This increase was driven by Wisynco's investment in a new distribution centre and solar plant. Investments in subsidiaries and associates amounted to $593.93M and represented the carrying value of non-core businesses that were transferred as a part of Wisynco's corporate reconstruction subsequent to the yearend.

Asset Distribution as at June 30, 2017



Current assets consisted of $1.94B in inventories which grew 23.0% from the previous year and has grown at average annual rate of 4.5% since 2013. Receivables and prepayments were down 19.4% to $1.98B with a CAGR of 9.5% over the review period. The growth in receivables has trailed that of revenues, a positive signal that the company has not had to utilize more lenient credit terms to drive growth. Working capital stood at $3.38B, down 4.5% year-over-year.

Cash and short term deposits amounted to $3.19B, down 14.8% from a year prior and represented 24.4% of total assets. The cash ratio stood at 0.81x, down from 0.88x a year prior, while the current ratio was 1.86x, up from 1.83x as at June 2016. Over the past three years, liquidity as measured by the cash and current ratios, has remained fairly stable. The cash conversion cycle for 2017 was -2 days, down from 0 days in 2016 and 21 days in 2015. The cash conversion cycle represents the length of time, in days, needed to sell inventory, collect receivables and the length of time afforded to the company to pay its creditors. A negative cash conversion cycle suggests that Wisynco is able to sell inventory and collect on receivables in a short time span relative to what is required to pay creditors.

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Cash Conversion Cycle

DIO	66	53	47	48
DSO	39	36	39	38
DPO	75	68	86	88
CCC	30	21	(0)	(2)

Wisynco's total liabilities amounted to \$5.90B, an increase of 5.0% from the previous year. Of these liabilities, total debt amounted to \$2.42B, a 64.0% increase year-over-year. Trade and other payables amounted to \$3.09B, down 8.0% from a year earlier. Short-term debt rose 88.3% to \$642.21M while long-term debt rose 56.7% to \$1.77B. This increase was driven by loans taken out to fund warehouse expansion and the purchase of machinery and equipment.

As such, leverage as represented by the debt-to-equity ratio rose to 0.34x, up from 0.24x a year prior. The three-year average debt-to-equity ratio is 0.31x. Despite the increase in leverage, Wisynco's ability to services its debt remains strong with an interest coverage ratio of 15.97x, down from 21.23x in the previous financial year. Amounts due to related parties of \$259.75M were reclassified from long-term liabilities to current in the 2017FY. This balance was settled prior to the Opening Date.

Outlook & Valuation

The Company plans to use the \$1.1B raised in the IPO (net of fees) to fund investments in manufacturing capacity for both the local and export markets and increase working capital to support the expansion of distribution arrangements with additional key third party brands not currently served by the Company. Wisynco also stated the intent to further investments in energy diversification, in particular, liquefied natural gas (LNG) and solar, "within the foreseeable future.".

Of note to potential investors is the recent discussions in the public domain around the topics of plastic & styrofoam useage and disposal and their impact on the environment. This is in addition to a current media campaign to promote lower sugar consumption as a step to curb heavy sugar diet-related medical conditions such as diabetes. While Wisynco as a mass producer of bottled water may see a netting out or improved sales performance from a increase in demand for water and decline for sugary beverages, a clampdown by the government on plastic and styrofoam use could have a material impact on the Company's finances.

Also of concern is Wisynco's agreement with Coca-Cola to bottle and distribute its products in Jamaica. The orginal 3-year contract was agreed upon in 2010 and was executed in May 2012. The Prospectus noted that the contract is currently under negotiation for renewal and until a formal renewal is executed

Wisynco has been granted rolling quarterly extensions. The fact that since 2012 a new contract has yet to be agreed upon is concerning as Coca-Cola products represents approximately 12% of Company revenues and loss of such would have a material impact on the Company's finances.

Valuation

The Company has gotten off to a strong start to the 2018FY with revenues climbing 16.7% year-over-year to $6.13B for 1Q18 while net profits rose 11.0% to $655.80M. Gross profits amounted to $2.36B, a 16.3% increase from the prior year's result with marginal variance in the gross profit margin which came in at 38.5% (1Q17: 38.6%). The net profit margin was 10.7%, in comparison to 11.2% in 1Q17. Wisynco noted that it did not return to its central warehouse until the end of June 2017, one month into the first quarter, and is still in the process of regaining efficiencies. The company noted that 1Q18 saw an improvement in operating margins over the last 9 months and the expectation is for operating metrics to return to pre-fire level in the short-term.

As such, we are forecasting revenues of $24.31B for the year ended June 30, 2018, a 14.4% increase year-over-year. Net profits are expected to improve by 26.0% to $2.82B ,which represents earnings per share of $0.75 (assuming shares outstanding of 3,750,000,000) and a price-to-earnings ratio of 10.47x based on the $7.87 IPO offer price.

The company noted that subsequent to the 2017 FY year-end, amounts owing to related parties were settled and a dividend of US$8.0M, which represented surplus cash, was paid out in addition to the group reconstructuion exercise which saw the transferring of non-core assets off Wisynco's balance sheet. Pro-forma results for 1Q18 showed a $1.6B decline retained earnings for Wisynco as a result. As such, ***we are forecasting a forward book value of $8.98B as at June 30, 2018 which translates to a book value per share of $2.40*** and a forward price-to-book value of 3.29x

We employed a price-multiples and enterprise value-to-EBITDA approach to determine the fair price for Wisynco. ***The peer group average for the P/E ratio is 13.24x which when applied to the forward EPS of $0.75 yields a price of $9.94. The peer group average for the P/B ratio is 2.15x; applied to the forward BVPS yields a price of $5.15.***

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets
BRG	3,450,590,527	10.54	3.64	40.0%	24.1%
CCC	27,244,882,278	12.72	2.83	25.2%	18.6%
JBG	20,987,337,000	10.34	1.43	14.8%	7.9%
SALF	1,038,832,900	11.50	1.32	11.8%	9.8%
SEP	15,600,381,103	21.12	1.50	6.8%	4.1%
Sector Average	**13,664,404,762**	**13.24**	**2.15**	**19.7%**	**12.9%**
Wisynco	**29,512,500,000**	**13.19**	**4.13**	**38.8%**	**18.0%**

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It is important to note that the average ROE for the peer group is 19.7% which compares to Wisynco's return on equity of 38.8% for the 2017FY and an average of 41.5% over the last 3 years and 35.9% over the last five years. As such, the argument could be made that while the TTM P/B ratio of 4.13x is much higher than the peer group average of 2.15x, potential investors are being compensated for this premium by a ROE that is double that of the average ROE for the peer group. ***Adjusting the peer group for Wisynco's average ROE over the past five years yields a P/B ratio of 3.80x. Applying this result to the forward BVPS yields a price of $9.11.***

The enterprise value-to-EBITDA (EV/EVITDA) multiple for the peer group is 8.43x, when applied to Wisynco's trailing twelve month EBITDA of $3.38B yields a price of $7.80. Averaging these three estimates yields a price of $8.96, 13.8% higher than the offer price of $7.87.

Recommendation

We recommend Wisynco as a BUY as we believe the stock is priced below its intrinsic value and hold a favourable view of the Company's short to medium term outlook. This stock is suitable for investors who are seeking exposure to the manufacturing sector. The sector is likely to benefit from domestic economic stability - subdued a foreign exchange rate and low inflationary pressures - and reduction in the rate of unemployment. The Company stated its intent to pay a dividend of at least 20% of net earnings where possible which based our estimates for the 2018FY would result in a yield of 2.38%. ***This translates to a potential total return of 16.2%.***

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Abridged Financials

J$000	Year Ended June 30					
	2013	2014	2015	2016	2017	Change %
Turnover	**12,573,537**	**14,229,683**	**17,150,482**	**19,413,691**	**21,247,767**	**9.4%**
Cost of Goods Sold	8,225,039	9,384,206	10,945,181	11,676,741	13,319,888	14.1%
Gross Profit	**4,348,498**	**4,845,477**	**6,205,301**	**7,736,950**	**7,927,879**	**2.5%**
Operating Expenses	3,325,715	3,803,501	4,296,752	4,926,400	6,130,705	24.4%
Operating Profit	**1,119,298**	**1,104,585**	**1,965,957**	**3,023,205**	**2,533,970**	**-16.2%**
Profit Before Taxation	1,097,988	1,002,416	1,857,574	3,000,784	2,524,189	-15.9%
Profit for the year	**801,660**	**848,898**	**1,477,023**	**2,298,701**	**2,237,877**	**-2.6%**
Total Assets	**7,022,720**	**8,102,099**	**9,078,704**	**11,743,742**	**13,052,714**	**11.1%**
Total Liabilities	**3,903,231**	**4,300,812**	**4,362,101**	**5,621,411**	**5,901,071**	**5.0%**
Shareholder's Equity	**3,119,489**	**3,801,287**	**4,716,603**	**6,122,331**	**7,151,643**	**16.8%**
EPS ($)	0.21	0.23	0.39	0.61	0.60	
Book Value per Share ($)	0.83	1.01	1.26	1.63	1.91	
Key Ratios						
Gross profit margin	34.6%	34.1%	36.2%	39.9%	37.3%	
Operating profit margin	8.9%	7.8%	11.5%	15.6%	11.9%	
Net Margin	6.4%	6.0%	8.6%	11.8%	10.5%	
Return on Average Equity	-	20.7%	34.1%	46.0%	38.8%	
Return on Average Assets	-	20.7%	34.1%	46.0%	38.8%	
Debt/Equity (x)	0.45	0.50	0.35	0.24	0.34	

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, IPO Prospectus Document

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.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

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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