INVESTMENT AND SOVEREIGN RESEARCH *March-24-2017*

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Grupo Unicomer (GU)

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Company Background

Grupo Unicomer Co. Ltd. (GU) is a leading retailer of durable consumer goods such as home appliances, consumer electronics, furniture, motorcycles, mobile devices, computer equipment and optical wear in its Latin American and Caribbean markets. Grupo Unicomer is owned 50% by Infotech of the Caribbean and Central Corp. (which is 100% controlled by Milady Associates Ltd.) and 50% by Gromeron, SLU (which is 100% controlled by El Puerto de Liverpool S.A.B. de C.V.). The company's current structure was achieved through four large-scale acquisitions, in addition to organic expansion, throughout its 17 year history.

The Group runs an integrated business model which includes sales of goods, consumer finance, extended warranties, credit protection insurance and post-sale repair services. The Group has achieved a market share of 20% or more in each of the countries in which it operates, except in Ecuador, Paraguay, Dominican Republic, Curaçao, Bonaire, St. Maarten and the United States. The target market is the middle- and lower-middle-income segments of the Latin American and Caribbean populations in the countries where Grupo Unicomer operates, and the Hispanic and Caribbean population in Texas and New York. As at December 31, 2016, Grupo Unicomer served customers in 24 countries and operated 1,061 stores with more than 4.2 million square feet of retail space.

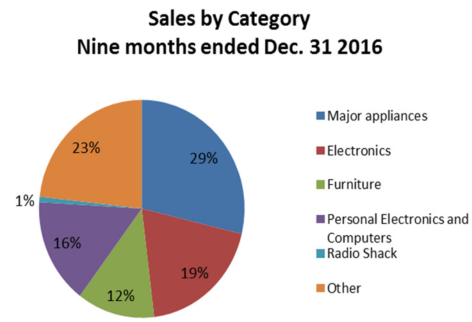
Offer Details

Issuer	**Grupo Unicomer Co. Ltd.**
Coupon and Payment Frequency	**Fixed at 7.875%. Semi-annual interest payment**
Offer Amount	**US$350,000,000.00**
Maturity Date	**April 01, 2024**
Bond Rating	**Fitch: BB-**
Optional Redemption	**Callable on and any time after dates below:** **April 1, 2021 @ $103.938** **April 1, 2022 @ 101.969** **April 1, 2023 @ $100.00**
Use of proceeds	**The Notes will be used to repay short- and long-term loans, and the remainder, if any, for general corporate purposes.**

Grupo Unicomer (GU)

Financial Performance

Profitability



Sales are generated from GU's retail operations through the sale of durable consumer goods, financing customer sales, cash loans, sale of extended warranty contracts and other insurance products. The Group offers customers the option to pay in monthly instalments rather than in cash at the time of purchase. As of December 31, 2016, sales under the credit sales programme accounted for 57.1% of total sales. Instalment payment plans are typically calculated using 12-, 24-, and 36-month terms, with other credit plans available for customers with unique circumstances, within the Group's credit policy.

GU had 873 stores in Latin America as at Dec. 31, 2016, 183 in the Caribbean and 5 in the United States. Latin America accounted for 65.7% of total sales for the nine months ended Dec. 31, 2016 while the Caribbean represented 33.8% and the United States 0.5%. The distribution of revenues by region was relatively unchanged from the previous financial year. Latin American sales per sq. ft. stood at $181, while Caribbean sales per sq. ft. were $302 and United States sales per sq. ft. was $129.

Company Stats

	As of and for the fiscal year ended March 31			*As of and for the nine months ended Dec. 31*	
	2014	***2015***	***2016***	***2015***	***2016***
Stores in Latin America	696	753	829	817	873
Stores in Caribbean	140	144	159	156	183
Stores in United States	4	4	4	4	5
Total Number of stores	840	901	992	977	1,061
Latin American sales per sq. ft.	261	246	229	178	181
Caribbean sales per sq. ft.	361	345	354	290	302
United States sales per sq. ft.	233	143	151	118	129
Latin American growth in same-store sales	3.9%	-5.6%	-2.3%	-1.5%	-0.8%
Caribbean growth in same-store sales	-0.2%	-1.3%	1.4%	1.2%	0.9%
Unites States growth in same-store sales	-0.9%	-7.0%	4.9%	5.7%	8.6%

Sales for the nine months ended December 31, 2016 amounted to $943.96M, a 5.3% or $47.65M increase on the comparable period of 2015. This performance was driven by GU's acquisition of Electrofacil in Paraguay in December 2015 and OMNI in Curacao, St. Maarten and Bonaire in April 2016, as well growth from existing operations. Since 2016, sales have grown at a compounded average growth rate of 14.7%. Sales for the year ended March 31, 2016 stood at $1.12B, compared to $648.46M in the 2012 financial year. Gross profits for the nine months ended Dec. 2016 stood at $279.54M, up 10.5% from the prior year period, mainly due to acquisitions mentioned above. Gross profit margins improved to 29.6% for the period which is slightly above the fairly consistent 5-year average of 28.1%. Gross profits have appreciated at an annual average rate of 12.8% since 2012.

GU also reported premium income of $13.3M for the nine months ended Dec. 2016, up 0.7% from a year prior and finance income earned on credit sales of $287.12M, a 5.5% increase from the previous year period. The increase in finance income on credit sales reflected increases in credit sales and cash loans, relative to the previous year. Operating profits rose 11.6% period-over-period, despite a 3.8% increase in distribution & selling expenses to $368.26M and a 17.8% increase in administrative expenses to $81.27M. The operating profit margin improved to 14.2%, from 13.4% a year earlier. The increase in operating expenses was attributed to increased personnel expenses and operating leasing stemming from the new acquisitions and store network growth.

Financial expenses grew 14.6% to $40.96M due to an increase in borrowings that was utilized for the Group's acquisitions of Electrofacil and OMNI. Pre-tax profits grew 9.9% to $88.63M, due to the factors outlined prior while net profits grew 10.5% to $64.44M. The effective tax rate was down to 27.3%, from 27.7% in 2015.

Solvency & Liquidity

Grupo Unicomer's total assets as at Dec. 31, 2016 amounted to $1.81B, up 11.5% or $186.4M from the balance as at Mar. 31, 2016. Current assets rose 14.2% to $1.09B, due to: a 37.4% increase in cash & cash equivalents to $53.2M; a 9% increase in net accounts receivable to $640.49M; a 45.7% increase in 'other receivables & prepayments' to $69.24M; and a 21.7% increase in inventories which closed the period at $282.15M. Noncurrent assets rose 7.5% or $50.5M to $722.47M. Driving this increase was a 14.5% increase in net accounts receivable to $284.58M and a 5.3% increase in property, plant & equipment to $161.74M.

Total liabilities stood at $1.23B, up 14.3% or $154.59M year-over-year. Current liabilities rose 20.1% or $117.01M to $699.06M. This increase was attributed to a 66.8% increase in short-term borrowings to $178.42M and a 32.9% increase in accounts payable to $184.82M. Noncurrent liabilities rose 7.6% or $37.58M to $534.6M as long-term borrowings rose 7.1% to $448.17M. Total debt amounted to $781.76M, an increase of 13.7% year-over-year, which was used to finance the OMNI and Electrofacil acquisitions.

The increase in debt prompted an increase in leverage as total debt-to-shareholders' equity stood at 1.35x as at Dec. 31, 2016, compared to 1.26x as at Mar. 31, 2016. Shareholders' equity amounted to $579.52M, up 5.8% or $31.81M from Mar. 31, 2016. Net debt-to-TTM EBITDA stood at 3.7x, up slightly from 3.6x as at Dec. 31, 2016. Leverage has been fairly consistent over the last 3 financial years ending March 31 at 3.5x. The Group generates earnings which are more than able to cover interest expense as evidence by an interest coverage ratio of 3.3x for the nine months ended Dec. 31, 2016, which compares to 3.4x for the period ended Dec. 31, 2015, and 3.1x for the 2015 financial year ended Mar. 31, 2016.

Grupo Unicomer Debt Distribution

	As of December 31		*As of March 31*	
	2016	***Wt. Avg. Interest Rate***	***2016***	***Wt. Avg. Interest Rate***
Short-term lines of credit	158,186	4.8%	70,188	5.0%
Short term loans	20,235	8.8%	36,780	7.4%
Long-term lines of credit	67,440	6.2%	71,555	5.7%
Long-term loans	533,993	6.9%	508,092	7.0%
Securitization issuance and commercial paper	2,851		2,438	

Net cash flows used in operating activities for the nine months period ended Mar. 31, 2016 amounted to \$1.6M, which compares inflows of \$31.26M for the comparable period of 2015. This decrease was attributed to an increase in accounts receivable, inventories, and in other receivables and prepayments due to the acquisition of subsidiaries and organic growth. Net cash used in investing activities were down from \$63.89M to \$53.24M and was related to the OMNI acquisition and the capital expenditures. Net cash provided by financing activities moved from \$31.15M to \$74.95M in the nine months ended Dec. 31, 2016, due to the extension of terms loans.

Grupo Unicomer's main sources of liquidity have been cash flows from operations and short-term borrowings under credit facilities. The company's working capital has grown year-after-year and stood at \$1.11B as at Dec. 31, 2016, up 6.6% from Mar. 31, 2016. The quick ratio stood at 1.11x while the current ratio was 1.56x as at Dec. 31, 2016, which compared to 1.18x and 1.64x, respectively, as at Mar. 31, 2016.

Fitch Ratings' Action

On March 09, 2017, Fitch Ratings assigned an expected rating of 'BB-' to Grupo Unicomer's \$350M senior unsecured notes due in 2024. According to the credit rating agency, the rating reflects GU's "leading business position in most of the countries where it operates and the solid financial position of its main shareholders." GU's geographic and format diversification is also incorporated into the ratings as it has contributed to positive consolidated cash flows from operations throughout economic cycles. As such, the company has been able to report stable operating results based on a business model that targets low-income to middle-income segments.

These ratings are limited by the Group's operating environment given that the countries in which it operates have low sovereign ratings. Also, its growth strategy through acquisitions has prevented the company from reducing consolidated leverage. Historically, the Group has expanded its operations through a combination of organic and inorganic growth, with organic growth being funded primarily by internal cash flows and acquisitions by debt.

Fitch also noted that GU's consumer finance strategy includes sufficient financial spreads to cover credit risks associated with the portfolio. The company has more than 1.45M active clients in its credit portfolio which has yielded nearly 40% after deducting uncollectable expenses and write-offs. As at Dec. 31, 2016, non-performing loans (accounts with instalments past due for 90 days or more) stood at 6.9%. Provisions for non-performing loans stood at 90%.

Recommendation

We recommend the 7.875% due 2024 notes as OVERWEIGHT as we believe the company has a strong operating base and solid balance sheet which reassures us of its ability to service its debt. Investors should be cognisant of the fact that the company operates in countries which have experienced economic and political instability which could adversely affect their financial condition and results of operations. These countries in Latin America and the Caribbean have also experience significant natural disasters, and the recurrence of such events could also have a negative impact on operations.

However, as a market leader in many of its operating regions, Grupo Unicomer has been able to withstand such headwinds and their geographical diversification should mitigate some of the risks discussed above. This investment is suitable for investors seeking income with a medium-risk appetite and a medium-term investment horizon. The bond is currently trading at yield of 7.61% with a spread of 547 basis points above the interpolated yield of a corresponding US Treasury.

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Abridged Financials

US$'000		Year Ended March 31				Nine Months ended Dec. 31		
	2012	2013	2014	2015	2016	2015	2016	Change %
Turnover	**648,461**	**896,111**	**1,073,972**	**1,084,862**	**1,120,567**	**896,307**	**943,957**	**5.3%**
Cost of Sales	452,461	650,627	786,882	781,840	802,882	643,279	664,420	3.3%
Gross Profit	**196,000**	**245,484**	**287,090**	**303,022**	**317,685**	**253,028**	**279,537**	**10.5%**
Operating Expenses	303,445	414,322	499,200	526,257	551,677	423,847	449,535	6.1%
Operating Profit	**111,162**	**143,409**	**150,701**	**149,247**	**154,183**	**120,164**	**134,159**	**11.6%**
Profit Before Taxation	81,473	96,046	89,837	96,890	100,264	80,623	88,625	9.9%
Profit for the year	**59,214**	**70,085**	**67,016**	**73,732**	**74,410**	**58,329**	**64,439**	**10.5%**
Total Assets	**960,828**	**1,370,113**	**1,435,925**	**1,495,474**	**1,626,772**		**1,813,174**	
Total Liabilities	**604,628**	**953,142**	**987,721**	**991,189**	**1,079,065**		**1,233,659**	
Shareholder's Equity	**356,200**	**416,971**	**448,204**	**504,285**	**547,707**		**579,515**	
Key Ratios								
Gross profit margin	30.2%	27.4%	26.7%	27.9%	28.4%	28.2%	29.6%	
Operating profit margin	17.1%	16.0%	14.0%	13.8%	13.8%	13.4%	14.2%	
Net Margin	9.1%	7.8%	6.2%	6.8%	6.6%	6.5%	6.8%	
Interest coverage ratio (x)	3.86	3.69	3.01	2.89	3.12	3.36	3.28	
Total debt/equity (x)	1.09	1.58	1.47	1.24	1.26		1.35	
Net debt/TTM EBITDA (x)	2.70	3.60	3.50	3.30	3.60	3.60	3.70	

Source: Offering Memorandum, Bloomberg, Fitch Ratings

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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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