

## Margaritaville (Turks) Limited (MTL)

### Company Background

The company was incorporated under the Laws of Turks and Caicos Islands (TCI) on July 15, 2004 and commenced operations in February 2006. The company's principal place of business is located at Grand Turks Cruise Centre, White Sands, Turks and Caicos Island. Its main activity during the year was the operation of a Margaritaville branded bar and restaurant. The company is a subsidiary of Margaritaville Caribbean Limited, a company registered under the Bahamas IBC Act of 2000.

### SWOT Analysis:

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Foreign Exchange Earner</li> <li>• Company has shown a track record of profitability</li> <li>• Company doesn't pay corporate tax, income tax or sales tax/ VAT</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• High operating expenses</li> <li>• Cash generated from operations seems to experience some volatility</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Further expansion across the region</li> <li>• Increase product and service offers</li> <li>• The new Beached Whale Bar and Grill can boost overall profitability</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Departure of any Cruise line can significantly affect the revenue and profitability of the company</li> <li>• Development/Construction work at the Grand Turk Cruise Center can adversely affect revenue and profitability of the company</li> </ul>

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### Abridged Financials:

US\$Million	Year Ended May									3 Months Ended August		Change %
	2009	2010	2011	2012	2013	2014	2015	2016	2015	2016		
Revenue	3.55	4.34	4.9	4.79	4.51	6.22	6.17	6.86	1.73	1.61	-6.5%	
Cost of sales	0.98	1.15	1.3	1.40	1.48	1.89	1.90	2.08	0.47	0.42	-11.1%	
<b>Gross Profit</b>	<b>2.56</b>	<b>3.19</b>	<b>3.56</b>	<b>3.39</b>	<b>3.04</b>	<b>4.34</b>	<b>4.27</b>	<b>4.77</b>	<b>1.26</b>	<b>1.20</b>	<b>-4.8%</b>	
Other Operating Income	0.91	0.42										
<b>Total Operating Income</b>	<b>3.47</b>	<b>3.61</b>	<b>3.56</b>	<b>3.39</b>	<b>3.04</b>	<b>4.34</b>	<b>4.27</b>	<b>4.77</b>	<b>1.26</b>	<b>1.20</b>	<b>-4.8%</b>	
<b>Operating Expenses</b>	<b>2.24</b>	<b>2.44</b>	<b>2.62</b>	<b>2.47</b>	<b>2.44</b>	<b>3.60</b>	<b>3.60</b>	<b>3.84</b>	<b>0.98</b>	<b>0.95</b>	<b>-3.1%</b>	
Other Operating expenses	0.03	0.02	0.02	0.08	0.06				0.06	0.06		
Depreciation	0.18	0.17	0.17	0.18	0.17	0.21	0.25	0.31	0.06	0.06		
Administrative	1.95	2.15	2.31	2.14	2.17	3.37	3.33	3.50	0.85	0.82		
Promotion	0.08	0.11	0.11	0.07	0.05	0.03	0.03	0.03	0.01	0.01		
<b>Operating Profit</b>	<b>1.24</b>	<b>1.16</b>	<b>0.94</b>	<b>0.92</b>	<b>0.60</b>	<b>0.73</b>	<b>0.66</b>	<b>0.94</b>	<b>0.27</b>	<b>0.24</b>	<b>-10.9%</b>	
Finance costs	0.22	0.22	0.09	0.03	0.00	0.01	0.002	0.002	0.0001	0.0002	49.6%	
Profit Before Taxation	1.02	0.94	0.84	0.88	0.60	0.72	0.66	0.93	0.27	0.24	-10.9%	
<b>Profit for the year</b>	<b>1.02</b>	<b>0.94</b>	<b>0.84</b>	<b>0.88</b>	<b>0.60</b>	<b>0.72</b>	<b>0.66</b>	<b>0.93</b>	<b>0.27</b>	<b>0.24</b>	<b>-10.9%</b>	
other comprehensive income												
<b>Total Comprehensive Income</b>	<b>1.02</b>	<b>0.94</b>	<b>0.84</b>	<b>0.88</b>	<b>0.60</b>	<b>0.72</b>	<b>0.66</b>	<b>0.93</b>	<b>0.27</b>	<b>0.24</b>	<b>-10.9%</b>	
Total Assets	3.71	3.75	3.78	4.15	4.89	4.42	4.31	4.70	4.83	5.20	7.7%	
Total Liabilities	2.68	1.77	0.96	0.45	0.59	0.74	0.53	0.67	0.76	0.94	22.8%	
Shareholder's Equity	1.03	1.98	2.82	3.70	4.30	3.69	3.79	4.03	4.07	4.26	4.9%	
EPS (\$)	0.02	0.01	0.01	0.01	0.01	0.01	0.010	0.014	0.004	0.004		
Book Value per Share (\$)	0.02	0.03	0.04	0.05	0.06	0.05	0.06	0.06	0.06	0.06		
<b>Key Ratios</b>												
Net Margin	22.9%	19.8%	17.4%	18.4%	13.3%	11.6%	10.7%	13.6%	15.7%	15.0%		
Pre-tax Margin	22.9%	19.8%	17.4%	18.4%	13.3%	11.6%	10.7%	13.6%	15.7%	15.0%		
P/E Ratio	n/a	n/a	n/a	n/a	n/a	10.73	10.74	14.44	27.36	58.62		
Price / Book Value	n/a	n/a	n/a	n/a	n/a	2.11	1.87	3.35	1.83	3.32		
Return on Average Equity		63%	35%	27%	15%	18%	18%	24%	7%	6%		
Efficiency Ratio	64%	68%	74%	73%	80%	83%	84%	80%	78%	80%		

Source: [www.jamstockex.com](http://www.jamstockex.com), Bloomberg and JMMBIR

### Financial overview

MTL has experienced a 6.5% decline in revenues for the 3 months ended August 2016 relative to the same period last year. Revenue moved from US\$1.73M to US\$1.61M. Gross profit declined by 4.8% to US\$1.2M despite an 11.1% decrease in cost of sales. Meanwhile, operating expenses have declined in the quarter ended August 2016 relative to 2015 (see Graph 2). On the other hand finance costs inched up during the same period. From this perspective, net earnings declined by 10.9% to US \$0.24M (or EPS of US\$0.004) for the 3 months ended August 31 2016.

The asset base of the company increased during the period ended August 2016 to close at US\$5.20M relative to US\$4.83M as at August 2015 on account of increases in both current assets and non-current assets. Meanwhile, total liabilities increased from US\$0.76M to US\$0.93M owing to an increase in trade and other payables. Influenced by an increase in retained earnings, the shareholders' equity inched up 4.9% to US\$4.26M as at August 2016.

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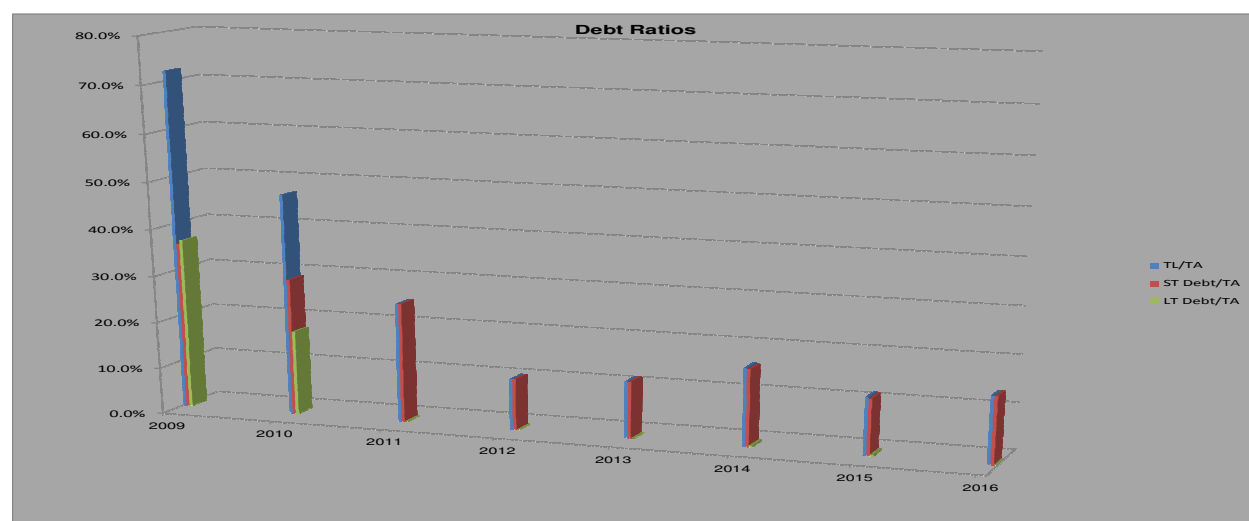
## Margaritaville (Turks) Limited (MTL)

### Ratio Analysis:

	May-09	May-10	May-11	May-12	May-13	May-14	May-15	May-16	
Debt Ratios	Total Debt/EBIT	2.16	1.52	1.03	0.49	0.98	1.01	0.80	0.71
	Net Debt/EBIT	1.98	1.32	0.98	0.43	0.84	0.93	0.68	0.68
	Equity/Total Assets	0.28	0.53	0.75	0.89	0.88	0.83	0.88	0.86
	Long-Term Debt/Equity	130.5%	34.2%	0.0%	0.0%	0.0%	0.3%	0.3%	0.0%
	Long-Term debt/Total Assets	36.4%	18.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.0%
	Total Liabilities/Equity	2.58	0.90	0.34	0.12	0.14	0.20	0.14	0.17
	Total Liabilities/Total Assets	0.72	0.47	0.25	0.11	0.12	0.17	0.12	0.14
Net Debt/Equity	2.37	0.78	0.33	0.11	0.12	0.18	0.12	0.16	
Liquidity	Current Ratio	0.76	1.09	1.40	3.41	3.50	2.01	2.28	2.38
	CFO/Total Liabilities	0.35	0.40	0.54	2.26	0.77	2.22	1.89	1.40
	CFO/CapEx	10.53	32.69	10.89	2.78	1.22	4.61	2.39	3.36
	Net Operating Accruals/TA	0.02	0.06	0.09	-0.03	0.03	-0.21	-0.08	0.00
	Finance and Policy costs/ Free Cash Flow	0.25	0.32	0.20	0.05	0.01	0.01	0.00	0.00
Profitability	Return on Equity	98.5%	47.8%	29.9%	23.9%	13.9%	19.6%	17.4%	23.2%
	Net Profit Margin	28.7%	21.8%	17.4%	18.4%	13.3%	11.6%	10.7%	13.6%
	Revenue/Total Assets	0.96	1.16	1.28	1.15	0.92	1.41	1.43	1.46
	Operating Margin	35%	27%	19%	19%	13%	12%	11%	14%
	Operating Efficiency Ratio	64%	68%	74%	73%	80%	83%	84%	80%
Working Capital	Inventory Outstanding	212.24	169.05	134.94	146.94	180.77	148.63	134.13	130.77
	Sales Outstanding	19.13	11.27	8.11	17.46	11.32	12.03	9.23	6.70
	Payable Outstanding	240.81	133.59	76.71	103.02	145.70	138.55	98.92	116.99
	Cash Cycle	-9.44	46.73	66.34	61.39	46.39	22.11	44.44	20.49

The above ratios revealed that there were improvements to debt and liquidity levels in the year ended May 2016 (see Graphs 1 and 3). Notwithstanding, there seems to exist some volatility in the cash cycle over the period amidst swings in the number of days payable. The profitability of the company showed some improvements for the year ended May 2016. There was deterioration in profitability for the first quarter ended August 2016 as shown in the abridged financials above.

### Graph 1: MTL' Debt Ratios

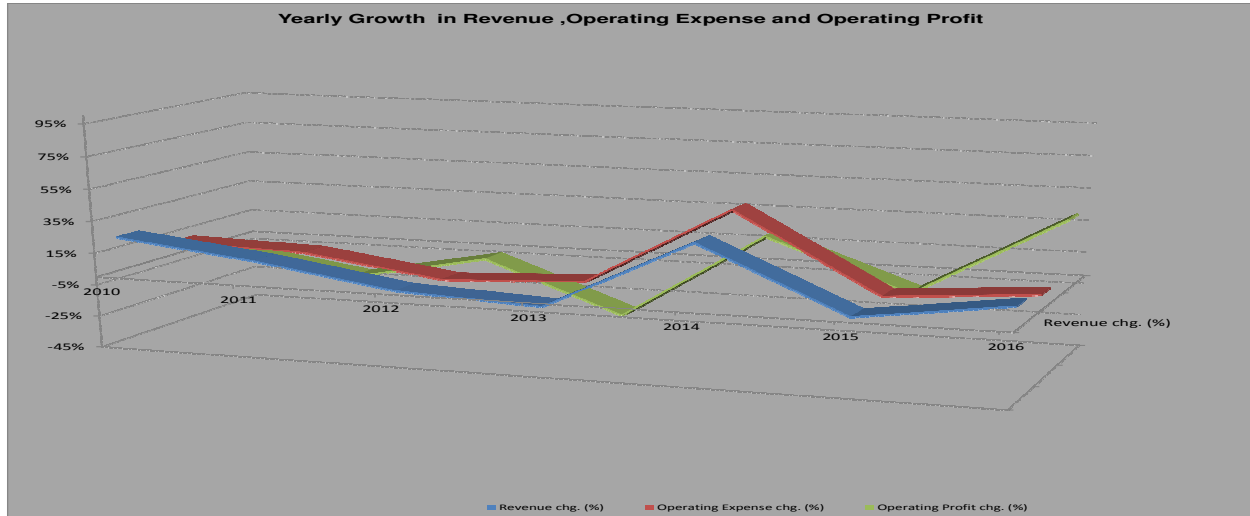


Source: [www.jamstockex.com](http://www.jamstockex.com) and JMMBIR

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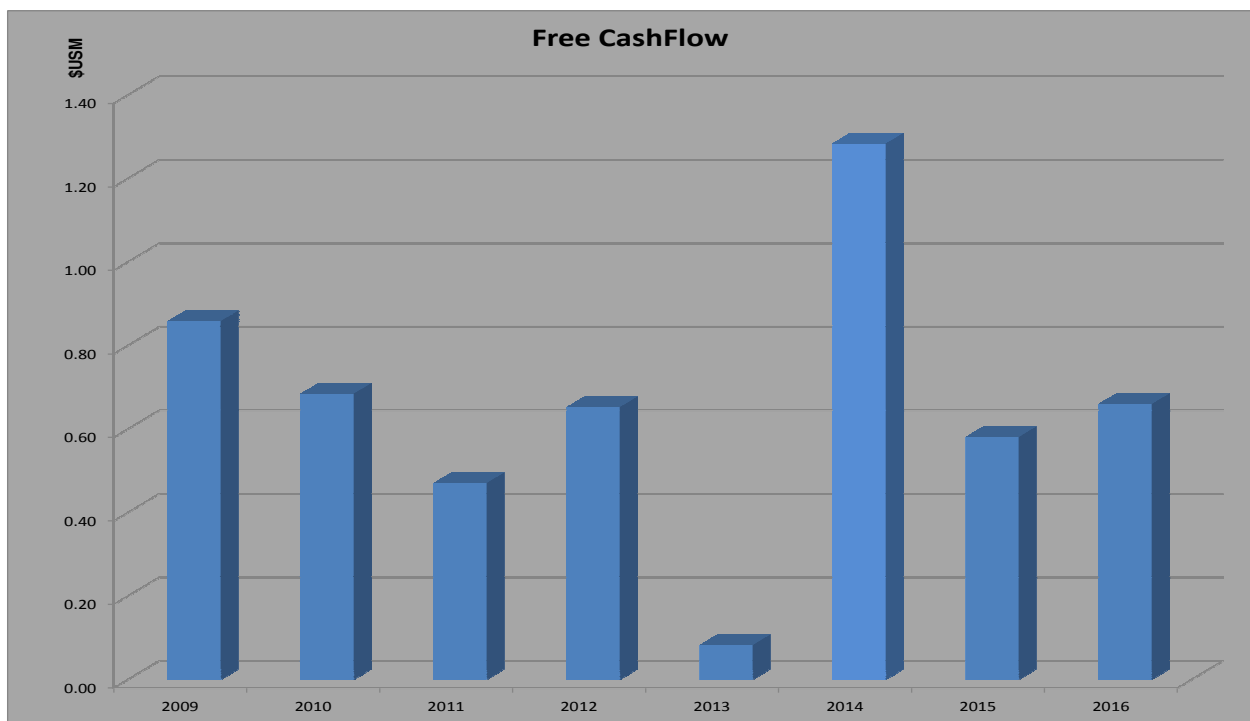
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**Graph 2: Growth in revenue, operating expenses and operating profit**



Source: [www.jamstockex.com](http://www.jamstockex.com) and JMMBIR

**Graph 3: MTL' Free Cash Flow**



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The free cash flow has shown some volatility over the review period (see Graph 3 above). Cash flow from operating activities has been volatile over the review period amid growth in inventory and payables coupled with the movement in net earnings and its associated growth in revenue. There have been some expansion plans that have also affected the capital expenditure during the 8 year review period.

### Forecast and Valuation

Turks and Caicos Strategic Policy and Planning Department and BMI Research are projecting that economic growth will average over 3% over the next two years. The main impetus for this economic performance is the continued improvements to the tourism sector.

Turks and Cruise Passenger Arrivals 2015						
	2014		2015		% change	
	Calls	Passengers	Calls	Passengers	Calls	Passengers
January	40	95,517	37	96,129	-7.5%	0.6%
February	27	72,862	37	104,928	37.0%	44.0%
March	35	84,303	30	75,350	-14.3%	-10.6%
April	25	74,092	18	54,611	-28.0%	-26.3%
May	24	71,586	16	52,248	-33.3%	-27.0%
June	24	79,230	24	82,587	0.0%	4.2%
July	28	97,646	22	78,929	-21.4%	-19.2%
August	24	73,973	21	71,182	-12.5%	-3.8%
September	21	66,413	18	57,121	-14.3%	-14.0%
October	23	68,553	25	72,248	8.7%	5.4%
November	31	81,094	33	91,151	6.5%	12.4%
December	41	106,569	36	93,253	-12.2%	-12.5%
<b>YTD</b>	<b>343</b>	<b>971,838</b>	<b>317</b>	<b>929,737</b>	<b>-7.6%</b>	<b>-4.3%</b>

The tourism sector showed mixed results:

- Stay-over arrivals increased by 8.1% in 2015, with the USA representing the largest contributor
- Cruise ship passenger arrivals suffered a 4.3% decline; which saw 929,737 passengers land in 2015

The trailing price-to-earnings (P/E) for MTL is 17.15 times at current price of US\$0.23. Meanwhile, the 3-year average P/E is approximately 11.97 times. The current P/E average for the Main Market is 10.8 times while the average P/E for the USD Market is 12.4 times (excluding Proven Investments Ltd.). Net earnings for the year ended May 2017 is expected to reach US\$1.08M or EPS of US\$0.0159. Assuming a forecasted P/E of 12 times, the value of MTL is US\$0.191 which represents a capital loss of 16.8%.

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The capital base of the company is expected to improve to US\$4.75M or a book value per share of US\$0.07. Assuming a forward P/BV of 2.5 times ( note; 3 year average P/BV is 2.44, while the average USD market P/BV is 2.05 times), the stock price is anticipated to reach US\$0.176, representing a 23.5% decrease relative to current price of US\$0.23.

The value of MTL using the Dividend Discount Method:

<b>Dividend Discount Model</b>	
dividend per share	0.007
value of stock	0.18

### Recommendation:

The above analysis of Margaritaville Turks Limited (MTL) reveals that the intrinsic value of MTL' stock price is approximately US\$0.181. The company has attempted to contain its costs and has expanded its offerings in a bid to enhance shareholders' value. There were also improvements in its indebtedness and liquidity levels. Notwithstanding, profitability has waned in recent times amidst expansion in offerings. During the forthcoming quarters, profits are expected to improve due to the opening of The Beached Whale Bar and Grill. Notwithstanding, the mixed results within the tourism sector could hinder further growth in demand for MTL offerings. MTL seems to be overvalued at current price and is recommended as **UNDERWEIGHT** at this time.

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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

*Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Various Company Financial Statements.*

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