# STRATEGIC INVESTING

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FOR FEBRUARY 2019



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## BUY·HOLD·SELL



February's edition of the monthly Investor Forum featured an Investor Update on Express Catering Limited (ECL), where CEO, Ian Dear, spoke on the company's recent performance and its expansion plans.


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# CEO CORNER

**CEO CORNER**
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## Value of the Stock Market to the Economy

The presence of the stock market is a potential gateway blanketing the globe, allowing companies a lucrative opportunity to raise capital by offering shares for sale. Though fluctuations are normal and in return, it allows investors to benefit from capital appreciation after selling valued stocks at a profit or benefit from dividend payments that the shares pay out. The stock market can have a reflective impact on an economy as it plays a pivotal role in the growth of the industry and commerce of the country. As such, the various industries and the investors in a country observe closely the activities of the stock market.

The stock market can be the primary source of capital for any company seeking to raise funds for business expansions or developing a new business venture that shows a significant potential for growth. In either case, the company simply issues shares in exchange for a percentage of ownership in the company, and as a lists on a stock exchange in order to make its shares tradable. The stock exchange supports the development of the market and builds wealth by leveraging growth in the nation’s economy, resulting in a profit for some companies even if some stocks lose value.

Notably, without a functioning stock exchange, businesses would find it challenging to find investors, and financiers would face the risk of doing business with unlicensed financial products with little to no oversight. A stock market’s activity can have a direct effect that impacts a nation’s economy in numerous ways, one of the major ones being its influence on consumers’ confidence. This leads us back to how the stock exchange plays an integral role in a society’s social and fiscal structure. Furthermore, its objective in any economy is to maximise returns on investments that might have otherwise languished in bank accounts that stay stagnant and offer very low investment returns.

The state of the stock market has a consequential impact on an economy, as its rate of return is generally competitive, affecting how much money is being deposited back into the economy and how much confidence consumers have in the value of their income. People should think to invest in securities that can offer real returns in order to maximise their income, once they have the risk appetite to handle the ups and downs of the stock market. It is a highly recommended way to diversify investments between a mix of financial instruments to achieve one’s financial goals.


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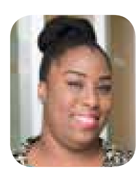

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# Market Expectations for 2019

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The Jamaican stock market continues to be one of the best investment vehicles in the Caribbean and Latin America. In 2018 the Main Market of the Jamaica Stock Exchange (JSE) grew by 32% year over year whilst the JSE's Junior Market grew by 19% year over year. Year to date, we have however seen only a 2% growth in the Main Market and a decline in Junior Market of 5.67%. At this point one must be asking the following: is it time to get out the market? Is the bull finally coming to an end?

In response, I must say no! As a trend, the market is usually slow at the beginning of the year, which can be attributed to factors such as expected release of company year-end earnings and recovery of investors from the heavy spending done over the Christmas holidays. The markets usually see an upturn in the summer or at the addition of an attractive stock to the market. Market movers such as NCB Financial Group (NCBFG) continue to report good earnings results whilst Kingston Wharves (KW), Pan Jam Investments (PANJAM), Seprod (SEP) and Supreme Ventures (SVL) continue to make head ways in growth and have the potential to do even more.

As long as these companies continue to grow then the market will continue to trend upward. With the debt market looking attractive, it is a good time for junior market expansion. We should be seeing some Junior Market companies raising debt to focus or aid in their expansion.

Investors should also note that stocks are not short-term securities and when buying into a company, it is best to buy for its long-term potential rather than a short-term gain. As the markets continue to grow, investors will have to be careful in their purchases by ensuring that they research all the relevant information to determine a stock's potential for growth.

The main market remains the market to be in for 2019 and is expected to grow at double digit rates. There are also some excellent growth stocks on the Junior Market whose value should be unlocked for 2019. It is a good time to be a Jamaican investor and if you are not yet investing and need more information on how to do so then begin your research on how you can achieve tangible growth on your investments.

# COMPANY ANALYSIS

Seprod Limited (SEP)

## Executive Summary

Since 1940, SEP has produced some of Jamaica's most iconic brands, including Serge Island Milk, Monster Milk, Butterkist Biscuits, Snackables, Pronto Cereal, Chiffon Margarine, Miracle products and others. As one of Jamaica's leading food manufacturers, SEP has recommitted itself to pursuing growth through innovation and acquisition, as well as expansion of its export market exponentially. The company at the same time, aims to cut Jamaica's trade gap through an aggressive import substitution programme.

SEP and its subsidiaries (the Group) engage in activities that span much of the Jamaican economy. They operate in sectors such as agriculture, distribution and manufacturing. In 2017, the company agreed to an Asset Sale Agreement with Paramount Trading (Jamaica) Limited (PTL) to sell its bleach plant equipment and other assets. In September 2018, the Group completed its acquisition of Facey Group Limited's consumer and pharmaceutical business. This transaction, according CEO Richard Pandohie, strengthened the company's distribution capabilities. The Group also opened its state-of-the-art $3 billion grain mill in March of 2018 through its subsidiary, Jamaica Grain and Cereals Limited. The grains mill operation, which has allowed SEP to compete in the regional flour market, is growing steadily according to the company, "by focusing on export markets".

SEP's revenue has increased consistently over the last five years from 2014-2018. Revenue moved from $14.01 billion in 2014 up to $24.38 billion in 2018, a five-year compounded annual growth rate (CAGR) of 15%. Growth in net profit attributable to shareholders was also observed, moving from $1.01 billion in 2014 to $1.35 billion in financial year (FY) 2018, a five-year CAGR of 8%. Consequently, the Group's earnings per share (EPS) increased from $1.38 in 2014 and $1.84 in 2018. With the expected impact of the Facey acquisition, SEP's EPS is projected at $3.03 for the 2019 FY (2018: $1.84) while the stock price is projected at approximately $53.65 over the short to medium term based on expected earnings. The stock currently trades around $44.01 as at March 15, 2019 and is recommended as a **HOLD** at this time.

## SWOT Analysis

**Strengths**

- Strategic partnership with several manufacturing and distribution locally and internationally.
- Diversified and strong brand portfolio, with a wide array of products under their respective brands.
- Strong export growth and import subsutition within the domestic market.

**Weakness**

- Susceptible to deteriorating economies in which their suppliers exist.
- Increased price competition from their competitors.
- Structural inefficiencies in sugar operation industry.

## Disclaimer

**Opportunities**

- The potential to continue obtaining more market share in both its manufacturing and distribution division.

- Creating synergistic value with its subsidiaries.

- The company has a great opportunity of continued expansion in the distribution industry through their recent acquisition.

**Threats**

- Low barriers to entry, leading to increased competition within existing industries.

- Slow economic growth could hinder sales revenue.

## Operational Analysis

SEP and its exciting line of consumer products have grown into a household name since it began operations, approximately 79 years ago. In 2017, SEP outlined that the company will have three lines of business: ingredients, dairy and distribution. Currently, the company reports its segments under 'manufacturing' and 'distribution'.

***Ingredients***

Jamaica Grain and Cereals Limited, a joint venture with Seaboard Corporation and a significant milestone in SEP's business, commenced the production of flour in December 2017. Jamaica Grain and Cereals Limited is now a first-class operation that provides flour, cornmeal and grits in bulk and consumer package sizes. With renewed focus on ingredients, SEP has decided to divest International Biscuits Limited, its baking operation. The sugar operation on the other hand continues to provide significant challenges, with management noting, "the industry has significant structural deficiencies that the business' small operation, even with significant capital investment, would struggle to overcome". Management continued, "Seprod can no longer sustain further losses from this operation and are working on a plan to reverse this loss position".

***Dairy***

According to the Group, "Seprod has completed the integration of the dairy operation formerly owned and operated by Nestle within the Group. This operation consists of the physical assets located in Bog Walk (which is a world-class facility), the Betty and Suppligen brands in Jamaica and other countries, including Trinidad, The OECS, Barbados and The Dominican Republic. This operation compliments SEP's existing dairy business at Serge Island Farms and will bring significant synergies going forward. It also enhances export offering as Supligen and Betty are iconic Jamaican brands."

***Distribution***

In 2018, Seprod completed the purchase of Facey Commodity Company Limited, a leading distributor in Jamaica. Seprod's first pillar, Ingredients, has been propelled by the commencement of the production of flour at Jamaica Grain and Cereals Limited. The combination of the acquisition of the Supligen/Betty business and Facey Commodity Company Limited will double the company's size and reinforce the other two pillars - dairy and distribution.

SEP and its subsidiaries, as well as joint venture entity, engage in activities that spans quite a few economic sectors. A short list of the company's main subsidiaries and joint venture entity along with their primary activities are listed below:

| *Subsidiary* | *Principal Activities* |
|---|---|
| Belvedere Limited | Agriculture |
| Caribbean Products Company Limited | Manufacture and sale of oils and fats |
| Golden Grove Sugar Company Limited, and its subsidiary | Sugar production |
| Golden Grove Funding Limited | Investments |
| Industrial Sales Limited | Sale of consumer products |
| International Biscuits Limited | Manufacture and sale of biscuit products |
| Serge Island Dairies Limited | Manufacture and sale of milk products and juices |
| Serge Island Farms Limited | Dairy farming |
| Jamaica Edible Oils and Fats Company Limited | Dormant |
| ***Joint venture entity*** | ***Principal Activities*** |
| Jamaica Grain and Cereals Limited | Manufacture and sale of corn and wheat products and cereals |

Together with its subsidiaries, SEP commits to delivering value to shareholders by focusing on innovation, export growth, improved productivity and expansion of its manufacturing footprint.

# COMPANY ANALYSIS

## Seprod Limited (SEP)

*Table 1:1 Seprod Limited (SEP) Five-Year Abridged P&L*

| Seprod Limited (SEP) Five Year Profit & Loss Statement | | | | | | | |
|---|---|---|---|---|---|---|---|
| Profit/Loss For The Year Ended | December 2014 $'000 | December 2015 $'000 | December 2016 $'000 | December 2017 $'000 | December 2018 $'000 | Change (%) $'000 | 5- YEAR CAGR % |
| Turnover | 14,007,117 | 13,777,863 | 15,781,917 | 16,511,206 | 24,378,801 | 48% | 15% |
| Cost of Sales | 11,216,211 | 11,114,536 | 12,291,448 | 12,687,358 | 17,631,056 | 39% | 12% |
| Gross Profit | 2,790,906 | 2,663,327 | 3,490,469 | 3,823,848 | 6,747,745 | 76% | 25% |
| Finance & Other Operating Income | 682,791 | 760,629 | 1,051,619 | 753,103 | 795,258 | 6% | 4% |
| Selling expenses | -399,517 | -510,648 | -589,830 | -624,930 | -650,787 | 4% | 13% |
| Administrative Expenses | -1,416,111 | -1,798,595 | -2,171,049 | -2,621,052 | -4,485,039 | 71% | 33% |
| Operating Profit | 1,460,478 | 900,823 | 1,588,716 | 1,330,969 | 2,407,177 | 81% | 13% |
| Finance Costs | -289,833 | -290,054 | -374,631 | -337,773 | -771,503 | 128% | 28% |
| Profit Before Taxation | 1,170,645 | 604,058 | 1,185,924 | 938,960 | 1,713,121 | 82% | 10% |
| Taxation | -270,244 | -281,317 | -310,715 | -291,117 | -462,551 | 59% | 14% |
| Net Profit | 895,375 | 376,900 | 875,209 | 647,843 | 1,250,570 | 93% | 9% |
| Earnings Per Share | 1.38 | 1.18 | 1.49 | 1.00 | 1.84 | 84% | 8% |

Revenue increased by 48% or $7.87 billion for the 2018 FY when compared to the 2017 FY. Revenue for 2018 was $24.38 billion compared to the $16.51 billion booked in 2017. The manufacturing division recorded a 36% growth to close at $13.13 billion (2017: $9.64 billion), while the distribution division increased by 64%, closing the period at $11.25 billion (2017: $6.87 billion). SEP indicated that, "the 2018 results are bolstered by the transfer of the former Jamaican dairy operations of Nestle within the Group effective 1 January 2018. These operations, located in Bog Walk, St. Catherine, produce the Supligen and Betty products, as well as co-manufacture products for international customers. In 2017, these operations were operated by Seprod under a management services contract and were not included in the Group's results". Management further highlighted that the 2018 results also surged due to, "the acquisition of Facey Commodity Company Limited effective 1 October 2018. As of that date, Facey's sole business comprises the distribution of consumer goods and pharmaceutical products in Jamaica. This acquisition serves to strengthen the Seprod Group's distribution platform – a key strategic priority for the Group. This acquisition contributed revenues of J$3.42 billion and net profit of J$218 million for Q4." Notably, Seprod's revenue over the past five FYs has increased at a 5-year CAGR of 15%.

Cost of sales increased by 39% from $12.69 billion in 2017 to $17.63 billion in 2018. Consequently, gross profit improved significantly by 76% to close at $6.75 billion (2017: $3.82 billion). This resulted in a gross profit margin of 28% compared to 23% in 2017.

Finance and other income for the year amounted to $795.26 million versus $753.10 million in 2017, a 6% increase year over year.

Selling expenses closed the FY 2018 at $650.79 million (2017: $624.93 million), while administrative expenses for the year increased to $4.49 billion compared to $2.62 billion in the prior year. As such, operating profit rose 81% to $2.41 billion (2017: $1.33 billion).

SEP reported finance costs of $771.50 million compared to $337.77 million in 2017. Share of results of joint venture for 2018 amounted to $77.45 million compared to a loss of $54.24 million booked in 2017. Following taxation of $462.55 million (2017: $291.12 million), SEP experienced an increase of 84% in net profit attributable to shareholders to $1.35 billion (2017: $735.04 million). A corresponding expansion was observed in the net profit margin, which rose to 6% in 2018 compared to 4% in 2017.

The company noted that, "the business continues its strong trajectory; as the investments in acquisitions, distribution expansion, product innovations, increased exports and retooling of the manufacturing base continue to yield positive results. Furthermore, SEP stated that, "unfortunately, the Group suffered a J$275 million loss in the sugar operation for the period and are now actively engaged in discussions with stakeholders as we move to eliminate these losses in the sugar manufacturing operation".

*Table 1.2: Balance Sheet*

| Seprod Limited (SEP) Five Year Balance Sheet | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balance Sheet For The Year Ended | December 2014 $'000 | December 2015 $'000 | December 2016 $'000 | December 2017 $'000 | December 2018 $'000 | Change (%) | Change ($) $'000 |
| **Non-Current Assets** | 8,069,516 | 8,875,914 | 9,853,770 | 8,410,538 | 17,917,705 | 113% | 9,507,167 |
| Property, plant and equipment | 3,820,236 | 3,907,037 | 4,116,287 | 4,101,869 | 7,279,019 | 77% | 3,177,150 |
| Available for Sale Investments | 2,752,296 | 1,628,304 | 1,495,919 | 1,369,574 | 1,394,900 | 2% | 25,326 |
| Investment in Joint Ventures | - | 427,403 | 399,242 | 345,006 | 422,453 | 22% | 77,447 |
| Intangible Assets | 7,975 | 4,234 | 1,694 | - | 6,587,265 | | 6,587,265 |
| Deferred Tax Assets | 74,989 | 73,701 | 20,063 | 19,237 | 930,985 | 4740% | 911,748 |
| Long-term Receivables | 1,096,041 | 2,584,476 | 3,543,922 | 2,243,724 | 922,019 | -59% | - 1,321,705 |
| **Current Assets** | 5,966,390 | 6,420,288 | 7,362,980 | 11,597,518 | 18,941,360 | 63% | 7,343,842 |
| Inventories | 1,934,453 | 1,746,461 | 1,950,268 | 2,495,063 | 5,998,124 | 140% | 3,503,061 |
| Trade and Other Receivables | 1,957,832 | 1,740,697 | 3,991,910 | 6,175,651 | 10,085,589 | 63% | 3,909,938 |
| Current Portion of Long-term Receivables | 65,176 | 121,836 | 76,439 | 1,487,134 | 207,724 | -86% | - 1,279,410 |
| Cash and bank balances | 583,787 | 1,312,707 | 667,595 | 837,294 | 2,061,770 | 146% | 1,224,476 |
| **Total Assets** | 14,035,906 | 15,296,202 | 17,216,750 | 20,008,056 | 36,859,065 | 84% | 16,851,009 |
| **Current Liabilities** | 2,279,566 | 3,516,447 | 6,660,515 | 8,890,870 | 9,964,005 | 12% | 1,073,135 |
| Payables | 1,217,604 | 1,081,700 | 4,468,479 | 6,807,507 | 8,271,449 | 22% | 1,463,942 |
| Current Portion of Long-term Liabilities | 916,268 | 1,447,781 | 2,182,838 | 2,012,776 | 1,553,130 | -23% | - 459,646 |
| **Non-Current Liabilities** | 1,965,007 | 2,045,595 | 1,580,493 | 2,107,374 | 11,989,448 | 469% | 9,882,074 |
| Long-term Liabilities | 1,406,028 | 1,565,114 | 1,245,659 | 1,716,732 | 11,399,947 | 564% | 9,683,215 |
| Deferred tax liabilities | 200,979 | 182,501 | 191,834 | 242,242 | 441,101 | 82% | 198,859 |
| **Shareholders' Equity** | 10,077,628 | 10,309,528 | 9,767,944 | 9,889,214 | 15,887,455 | 61% | 5,998,241 |
| **Shareholders' Equity & Non-Current Liabilities** | 12,042,635 | 12,355,123 | 11,348,437 | 11,996,588 | 27,876,903 | 132% | 15,880,315 |

# COMPANY ANALYSIS

Seprod Limited (SEP)

## Balance Sheet Analysis

SEP's non-current assets increased to $17.92 billion in 2018 from $8.07 billion in 2014. Year over year, there was an increase of over 100% relative to the $8.41 billion in booked in 2017. The main contributor to the increase was intangible assets of $6.59 billion, while none was recorded the year prior. There was also a $3.17 billion increase in 'Property, plant and equipment' which represented 41% of total non-current assets as at December 2018 and closed at $7.28 billion (2017: $4.10 billion).

Current assets closed the 2018 FY with a 63% increase over 2017 and an increase of over 200% relative to the $5.97 reported in 2014. This increase year over year was attributed mainly to a $3.91 billion growth in trade and other receivables which closed at $10.09 billion and accounted for 53% of total current assets. Additionally, inventories increased $3.50 billion in 2018 to $6 billion, representing approximately 32% of total current assets. Cash and bank balances expanded year over year from $837.29 million in 2017 to $2.06 billion in 2018. SEP's total asset base increased at a CAGR of 27% from $14.04 billion in 2014 to $36.86 billion in 2018 (2017: $20.01 billion).

Current liabilities as at December 31, 2018 amounted to $9.96 billion with payables representing 83% of the total to close at $8.27 billion (2017: $6.81 billion). Current portion of debt tempered the overall movement in current liabilities with a 23% decline to close at $1.55 billion (2017: $2.01 billion). Non- current liabilities closed the 2018 FY at $11.99 billion, whereas total liabilities as at December 2018 amounted to $21.95 billion (2017: $10.99 billion). Total shareholders' equity amounted to $15.89 billion as at the end of the 2018 FY. This translated into a book value of $21.66 for the 2018 FY relative to $13.48 reported in 2017.

## Ratio Analysis

*Profitability Ratios*

| Profitability Ratios | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Operating Profit Margin | 10.43% | 6.54% | 10.07% | 8.06% | 9.87% |
| Net Profit Margin | 7.22% | 6.29% | 6.92% | 4.45% | 5.55% |
| Operating Return on Average Assets | 10.50% | 6.14% | 9.77% | 7.15% | 8.47% |
| Return on Average Assets | 7.27% | 5.90% | 6.72% | 3.95% | 4.76% |
| Return on Average Equity | 10.41% | 8.50% | 10.88% | 7.48% | 10.50% |

SEP's profitability has declined slightly over the last five years. The operating profit margin for the five-year period trended downwards from 10.43% in 2014 to 9.87% in 2018, albeit fluctuating while the net profit margin closed at 5.5% in 2018, an increase relative to the 4.5% in 2017 but down from the 7.22% booked in 2014.

The company's return on average assets (ROAA) also declined, moving from 7.27% in 2014 to 4.76% in 2018. Return on average equity (ROAE) closed at 10.5%, up year over year from the 7.48% in 2017 but slightly down from 10.41% in 2014.

*Liquidity Ratios*

| Liquidity Ratios | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Current Ratio | 2.62 | 1.83 | 1.11 | 1.30 | 1.90 |
| Quick Ratio | 1.77 | 1.33 | 0.82 | 1.02 | 1.30 |
| Cash Ratio | 0.26 | 0.37 | 0.10 | 0.09 | 0.21 |

SEP's current ratio has fluctuated over the past five years, moving from a high of 2.62 times in 2014 to 1.90 times in 2018. The 1.90 times booked in 2018 is the highest the ratio has been in the last 4 years. The quick ratio rose to 1.30 times in 2018 after recording 1.02 times in the prior year. This suggests that the company can meet its debts when due without the assistance of its inventory. The cash ratio recorded a decline in 2018 relative to 2014 moving to 0.21 times from 0.26 times. The ratio has however increased year over year relative to 2017. This demonstrates that a little over 21% of SEP's current liabilities can be covered by its cash.

*Activity Ratios*

| Activity Ratios | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Receivables Turnover | 5.89 | 7.45 | 5.51 | 3.25 | 3.00 |
| Days of Sales Outstanding | 61.97 | 48.99 | 66.29 | 112.38 | 121.73 |
| Inventory Turnover | 5.36 | 6.04 | 6.69 | 5.73 | 4.15 |
| Days of Inventory on Hand | 68.13 | 60.44 | 54.59 | 63.66 | 87.91 |
| Payables Turnover | 7.43 | 6.77 | 3.87 | 2.35 | 2.80 |
| # of Days of Payables | 49.14 | 53.94 | 94.36 | 155.29 | 130.21 |
| Total Assets Turnover | 1.01 | 0.94 | 0.97 | 0.89 | 0.86 |
| Fixed Assets Turnover | 3.41 | 3.32 | 3.71 | 3.78 | 4.06 |
| Cash Conversion Cycle Ratio | 80.96 | 55.49 | 26.52 | 20.75 | 79.43 |

There has been a decline in SEP's receivables turnover ratio for the last five years. Over the period under review, the company's receivables turnover ratio peaked in 2015 of 7.45 times, but then fell to 3.00 times in 2018, which shows the number of times that SEP collects its average receivables during the year. The company's inventory turnover ratio also illustrates a decreasing trend over the five-year period, moving from 5.36 times in 2014 to close at 4.15 times in 2018. Consequently, this shows a slowdown in the number of times SEP turns over its average inventory for the year. This slowdown led to an increase in the number of days of inventory on hand, up to 87.91 days in 2018 relative to 63.66 days in 2017 (2014: 68.13 days). SEP's payables turnover has also declined to 2.80 times in 2018 (2017: 2.35 times) compared to 7.43 times in 2014. Total assets turnover was 0.86 times in 2018 relative to 0.89 times in the previous year, while 1.11 times was recorded for 2014.

*Solvency Ratios*

| Solvency Ratios | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Debt-to-Equity | 23% | 29% | 35% | 38% | 82% |
| Debt-to-Capital | 19% | 23% | 26% | 27% | 45% |
| Debt-to-Assets | 17% | 20% | 20% | 19% | 35% |
| Financial Leverage | 1.39 | 1.48 | 1.76 | 2.02 | 2.32 |
| Debt/EBITDA | 1.21 | 2.23 | 1.67 | 2.12 | 3.98 |

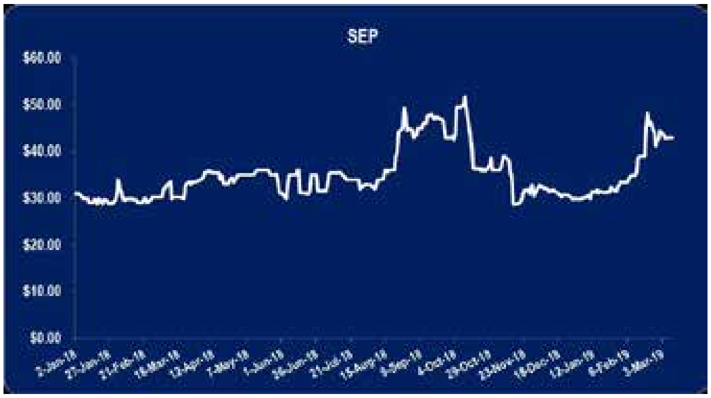
In 2018, SEP reported debt-to-equity of 82%, this compares with the 38% booked in 2017 and up from the 23% reported in 2014. As a part of its transaction with Facey, SEP took on approximately US$20 million in additional net debt in 2018. Nevertheless, based on the Debt/EBITDA ratio of 3.98 times as at December 2018, SEP will be able to repay its debt in a little less than 4 years. The company's debt-to-capital and debt-to-assets ratio in 2018 was 45% and 35%, respectively. SEP's financial leverage has increased from 1.39 times in 2014 FY to its current level of 2.32 times in 2018 FY.

*Table 1.3: SEP's Liquidity and Cash Conversion Compared to its Peers*

| Seprod Ltd (SEP) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Current Ratio | 2.62 | 1.83 | 1.11 | 1.30 | 1.90 |
| Cash Conversion Cycle | 80.96 | 55.49 | 26.52 | 20.75 | 79.43 |
| **Jamaica Broiler Group (JBG)** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2018** |
| Current Ratio | 1.74 | 1.69 | 2.19 | 2.33 | 1.56 |
| Cash Conversion Cycle | 44.72 | 37.30 | 38.05 | 39.45 | 37.04 |
| **Salada Foods Jamaica Ltd (SALF** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2018** |
| Current Ratio | 5.95 | 9.32 | 5.30 | 6.31 | 5.16 |
| Cash Conversion Cycle | 217.72 | 271.99 | 212.31 | 152.21 | 135.82 |
| **Wisynco Group Ltd (WISYNCO)** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2018** |
| Current Ratio | 2.07 | 2.10 | 1.83 | 1.83 | 1.89 |
| Cash Conversion Cycle | 30.73 | 19.24 | 0.74 | -0.53 | -1.74 |
| **Industry** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2018** |
| Current Ratio | 3.09 | 3.73 | 2.61 | 2.94 | 2.63 |
| Cash Conversion Cycle | 93.53 | 96.01 | 69.40 | 52.97 | 62.64 |

SEP reported a fluctuating but positive cash conversion cycle (CCC) over the last five years. There was a decrease from 80.96 times reported in 2014 to 79.43 times in 2018. The indicates the number of days it takes Seprod to convert its investments in inventory and other resources into cash flows from sales. In addition, the Company's CCC is above the industry average of 62.64 times in 2018.

*Graph 1: Price History*




SEP's stock price has appreciated 42% since beginning the year at $31.00 to close at $44.01 on March 15, 2019. The stock price reached peaked at $51.65 on October 11, 2018 and traded at a low of $28.59 on November 16, 2018.

*Table 2: Abridged P&L 2019 Projection*

| Profit & Loss | Seprod Limited (SEP) Dec-18 $'000 | Dec-19 $'000 | Change (%) | Change ($) |
|---|---|---|---|---|
| Turnover | 24,378,801 | 34,130,321 | 40% | 9,751,520 |
| Cost of sales | 17,631,056 | 24,744,483 | 40% | 7,113,427 |
| Gross Profit | 6,747,745 | 9,385,838 | 39% | 2,638,093 |
| Finance & Other | | | | |
| Operating Income | 795,258 | 835,021 | 5% | 39,763 |
| Administrative Expenses | (4,485,039) | (5,830,551) | 30% | -1,345,512 |
| Selling Expenses | (650,787) | (683,326) | 5% | -32,539 |
| Operating Profit | 2,407,177 | 3,706,982 | 54% | 1,299,805 |
| Profit Before Taxation | 1,713,121 | 2,858,329 | 67% | 1,145,208 |
| Net Profit | 1,250,570 | 2,057,997 | 65% | 807,427 |
| E.P.S. | 1.84 | 3.03 | | |

## Outlook

Jamaica's economy is currently showing signs of gradual but sluggish recovery which continues to anchor macroeconomic stability. Consumer confidence continued its rise to close at 175.5 points for the 4th quarter of 2018 relative to that of 172.6 points for the 3rd quarter of 2018. As Jamaica's overall macroeconomic indicators continue to trend in the right

direction and consumer confidence remains elevated, SEP is expected to yield positive returns in its top line figures. The company has benefitted from growth within the distribution and manufacturing division of 64% and 30%, respectively. Moreover, SEP has been experiencing export growth and increased brand visibility. The company's grains mill has also been growing steadily "by focusing on export markets". The company's CEO indicated that, "this Mill, a joint venture partnership with Seaboard Corporation, represents one of the largest manufacturing investments in Jamaica in the last three decades and plays a pivotal role in increasing exports and in import substitution, not only for Jamaica but for the entire Caribbean Community (CARICOM)". Furthermore, SEP stated that, "the consolidation of the dairy business will be substantially completed by the end of Q1 2019.

Against this background, for the FY ending December 2019, revenue is expected to increase due to continued growth in the export business through the active exploring of supply chain integration within CARICOM in order to improve the company's distribution footprint and improve food supply security within the Region. Also, expected revenue growth is in line with Seprod's intentions to maximize synergies in the diary businesses with the former Nestle factory being fully integrated into the Seprod Group effective January 1, 2018. Additionally, revenue will be boosted by the acquired Facey consumer and pharmaceutical business lines. As such, a conservative 40% increase is estimated for the Group's revenue in 2019 (2018: 48%). This, as the 2018 results reflect only 1 quarter with the consumer business.

Expenses (other than selling) were anticipated to increase by 30%, due to the inclusion of a significant factory in the group numbers and the consolidation of Facey Commodities following the acquisition.

Consequently, net profit attributable to shareholders has been projected to increase by approximately 64% to $2.22 billion (2018: $1.35 billion), resulting in an estimated EPS of $3.03 for the year end (2018: $1.84). Seprod's stock price is projected at approximately $53.65 over the short to medium term based on expected earnings. The stock currently trades around $44.01 as at March 15, 2019 and is recommended as a HOLD at this time.

**CONCLUSION**

SEP has evolved into one of Jamaica's leading food manufacturers through innovation and acquisition, expansion of its export market exponentially, while at the same time endeavouring to cut Jamaica's trade gap through an aggressive import substitution programme. The Group is expected to maintain its position and increase market share within its respective industries with growth in their business operations. It has also strengthened the distribution segment through the acquisition of Facey's Consumer Business. This is consistent with the year over year improvement in sales revenue and operational profit. Furthermore, SEP has benefitted from its strategic partnership with several manufacturing and distribution companies locally and internationally, as well as a diversified and strong brand portfolio with a wide array of products under their respective brands. Alternatively, the Group is faced with increased competition within the distribution and manufacturing industry as well as hindered growth within the same industries due to market saturation.

Despite the possibilities of increased price competition from its competitors, SEP reported turnover of $24.38 billion and net profit attributable to shareholders of $1.35 billion for the FY 2018. The Group's receivable turnover ratio decreased from 5.89 times in 2014 to 3.00 times in 2018 while the inventory turnover ratio has also shown a decreasing trend, moving from 5.36 times in 2013 to 4.15 times in 2018. This has been shown by an increase in the number of inventories on hand due to the expansion of SEP's business operation. Additionally, the Group reported a positive cash conversion cycle (CCC) over the five-year period, above the industry average of 79.43 times in 2018.

SEP's EPS is projected at $3.03 for the 2019-year end (2018: $1.84) with an estimated stock price of $53.65 over the short to medium term based on expected earnings. As at March 15, 2019, the stock trades at approximately $44.01 and is recommended as a **HOLD** at this time.

# FORUM RECAP
FOR FEBRUARY 2019

## Express Catering Limited continues to make positive strides...


Express Catering Limited (ECL), is a Montego Bay based, Jamaican company that began operations in 2001. The company, headed by CEO, Ian Dear, is the exclusive provider of food and beverage products in the post-security lounge of the Sangster International Airport in Montego Bay, St James. Since it began operations, the company has shown tremendous potential for growth. It currently occupies a niche space in a growing industry, which gives investors good reason to explore the company's plans for the future.
Having successfully raised just under $500 million dollars by way of an IPO, then subsequently listing its shares on the Junior Market of the Jamaica Stock Exchange (JSE) in 2017, ECL has been poised to take full advantage of any growth opportunities that may arise, and so, in an effort to keep our clients updated on the company's plans and projections, we invited the CEO to speak on what we can look forward to for this company.

Dear started out by giving a general overview of the growth and development within the tourism industry, the fastest growing industry in Jamaica today. He spoke to not only the increasing number of tourist stopover arrivals year over year, but also to the booming construction of hotel rooms, and the projections for more stopover arrivals that go with it. As he pointed out "more tourist stopover directly translates into increased consumption at any of our proprietary brands or international franchises that you'll find in the airport". He also pointed out the expansion of the airport itself, which will allow it to accommodate far more travelers while giving ECL the opportunity to also upgrade the space it now occupies. At the moment, the company operates within a 30,000 square feet space across the airport.

Dear went on to speak to the company's financial performance. Revenue for ECL moved from US $8.32 million in 2012 to US$15.7 million in 2018, almost doubling over the period. The increase in revenues was driven by the increased stopover arrivals to the island, increased accommodation capacity and targeted entertainment to tourists. Dear believes that this upward trend will only continue over the next few years.

While there are no plans in the near future to expand operations locally outside of the Sangster International Airport, Dear advised that the company is looking into possible new contract and joint venture opportunities with other airports across the Caribbean and Latin America. He said. "The company is also seeking opportunities for new food and beverage offerings to meet market demands, which generate an increased average spend per customer".
As the Jamaican tourism ministry is anticipating continued improvement in stopover visitor arrivals, ECL stands to benefit directly from these projected improvements year over year. ECL is currently in prime position to maximise the company's potential and continues to strive to take full advantage of the positive drivers within the company's industry.

# FORUM HIGHLIGHTS
FOR FEBRUARY 2019


After the evening's presentation, members of the Mayberry Team, CEO Gary Peart (2nd left) and Director of Investment Banking, Tania Waldron-Gooden (3rd left), are joined by members of the Express Catering (ECL) Team, CFO, Roland Clarke(far right) and CEO and the evening's guest presenter, Ian Dear (centre), Director, Harry Maragh and his wife Charmaine Maragh, along with Chief Communications Strategist and advisor in the Ministry of Tourism, Delano Seiveright.

Mayberry's Executive Investment Advisor and host for the evening, Karen Hall, welcomes one of the team members from ECL, Roland Clarke, Chief Financial Officer.

Cedric Stewart and Ian Dear share a moment ahead of the evening's programme.

Ian Dear during his presentation on the performance of his company.

The audience looks on during the evening's presentation.

Tania Waldron-Gooden (right) is joined here by Ian Dear and Harry Maragh.


After the evening's presentation, Mayberry's Gary Peart and Executive Chairman, Christopher Berry, engage in a friendly chatter with Ian Dear.

# ECONOMIC HIGHLIGHTS

## ECONOMIC HIGHLIGHTS FOR FEBRUARY 2019

| | February 2019 | January 2019 | Change |
|---|---|---|---|
| 91 Days Treasury Bills Avg. Yield (%) | 2.269 | 2.275 | -0.01 |
| 182 Days Treasury Bills Avg. Yield (%) | 2.318 | 2.152 | 0.17 |
| Exchange Rate (US$: J$) | 133.82 | 131.62 | 2.20 |
| Net International Reserves (NIR) (US$M) | 3,007.49 | 3,030.94 | -23.46 |

### Net International Reserves- February 2019

Jamaica's net international reserves (NIR) totalled US$3.01 billion as at February 2019, reflecting a decrease of US$23.46 million relative to the US$3.03 billion reported as at the end of January 2019.

Changes in the NIR resulted from a decrease in foreign assets of US$24.49 million to total US$3.54 billion compared to the US$3.56 billion reported for January 2019. Currency & deposits contributed the most to the decline in foreign assets. Currency & deposits as at February 2019 totalled US$2.98 billion reflecting a decline of US$12.27 million compared to US$2.99 billion booked as at January 2019.

Securities amounted to US$317.75 million, US$7.58 million less than the US$325.33 million reported in January 2019. Foreign liabilities for February 2019 amounted to US$529.35 million compared to the US$530.38 million reported for January 2019. Liabilities to the IMF accounted for 100% of total foreign liabilities, reflecting a US$1.03 million decline month over month from January 2019.

At its current value, the NIR is US$172.01 million less than its total of US$3.18 billion as at the end of January 2018. The current reserve is able to support approximately 34.86 weeks of goods imports or 20.11 weeks of goods and services imports.

The country came in slightly below the benchmark of US$3.28 billion outlined by the International Monetary Fund for March 2018. Under the New Agreement, the IMF noted, "Considerable progress has been achieved on macroeconomic policies and outcomes. Fiscal discipline anchored by the Fiscal Responsibility Law has been essential to reduce public debt and secure macroeconomic stability. Employment is at historic highs, inflation and the current account deficit are modest, international reserves are at a comfortable level, and external borrowing costs are at historical lows".

All performance criteria for the period ended December 2017 were met. The IMF further noted, "Financial sector stability is a prerequisite for strong and sustained growth. Ongoing prudential and supervisory improvements will enhance systemic stability". "Continued reform implementation will not only safeguard hard-won gains but also deliver stronger growth and job creation". The NIR target outlined as per the new agreement for the 2018/19 fiscal year is US$3.22 billion. As at February 2019, the country is US$0.21 million below targeted amount.

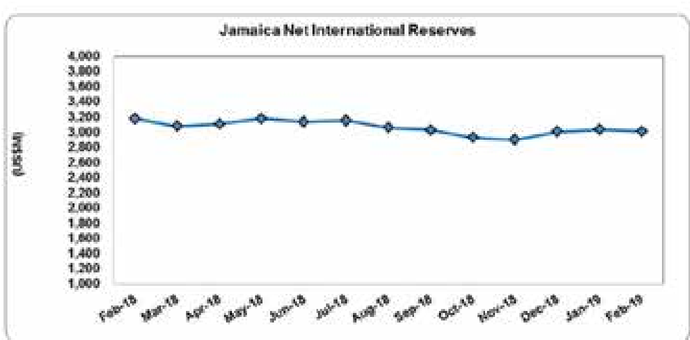



Figure 1

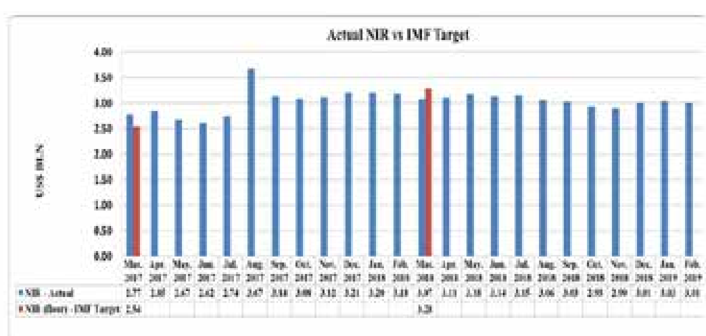



Figure 2

# JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR FEBRUARY 2019

## Jamaica Monthly Equity Market Report for February 2019

**Main JSE Index:** 387,078.63 points
**Point Movement:** 13,181.57 points
**Percentage Change:** 3.53%

**Advance Decline Ratio:** Positive
**Advancers:** 27 **Decliners:** 11
**Traded Firm:** 6

**Junior JSE Index:** 3,127.66 points
**Point Movement:** 9.35 points
**Percentage Change:** 0.30%

**Advance Decline Ratio:** Negative
**Advancers:** 16 **Decliners:** 19
**Traded Firm:** 3

| Major Winners (Main & Junior) | | |
|---|---|---|
| **Stock** | **Increase** | **Closing Price** |
| 138 Student Living Jamaica Limited | 152.86% | $5.31 |
| Sterling Investments Limited (USD) | 100.00% | $0.04 |
| Jamaica Stock Exchange | 48.22% | $17.86 |
| **Major Losers (Main & Junior)** | | |
| **Stock** | **Decrease** | **Closing Price** |
| IronRock Insurance Company Limited | -21.35% | $3.50 |
| Salada Foods Limited | -16.85% | $31.98 |
| CAC 2000 Limited | -16.67% | $12.50 |

**Total Shares Traded (Main): 180.97 million units**
**Total value (Main): Approx. $7.18 billion**

| Volume Leaders (Main) | | |
|---|---|---|
| **Stock** | **Units Traded** | **Market Volume** |
| NCB Financial Group Limited | 31,852,218 | 17.60% |
| Sterling Investments Limited (USD) | 15,980,347 | 8.83% |
| Wisynco Group Limited | 14,771,636 | 8.16% |

BUY HOLD SELL

## Caribbean Cement Company Limited (CCC)

For the for the year ended December 31, 2018

**BUY**

CCC reported total revenue for the year ended December 31, 2018 of $17.57 billion, a 6% or $1.06 billion increase when compared to the $16.51 billion reported in 2017. Total revenue for the quarter was $4.33 billion, reflecting an increase of 2% over the $4.25 billion reported in the corresponding quarter in the year prior.

Earnings before interest, tax, depreciation & amortization (EBITDA) was $5.32 billion, an increase of 79% relative to $2.98 billion for the prior year's corresponding period. For the quarter, CCC reported EBITDA of $1.46 billion, $911.88 million more than what was reported in 2017 (2017: $550.44 million).

Depreciation and amortization closed the year at $1.16 billion (2017: $531.60 million). CCC reported no stockholding and inventory restructuring loss for the period relative to the $457.82 million reported in 2017. Also, the company booked no manpower restructuring cost relative to $416.85 million reported in 2017. As such, operating profit for the year was $4.16 billion relative to the $1.57 billion booked in 2017.

Interest income for 2018 financial year (FY) end amounted to $12.44 million, a 144% increase compared to the $5.10 million for the corresponding period in 2017.

Notably, the company reported $877.54 million for finance cost compared to a $67.87 million reported in 2017.

Profit before taxation for the year end amounted to $3.29 billion, a 118% increase when compared to the $1.51 billion recorded for the 2017-year end. Taxation for the period amounted to $828.57 million, a significant increase of 108% when compared with the $398.68 million reported in 2017. As such, net profit for the 2018 FY closed at $2.47 billion, a 122% increase relative to net profit of $1.11 billion reported during the corresponding period in 2017. Net profit for the quarter amounted to $1.15 billion compared to a loss of $702.31 million for the corresponding quarter of 2017.

Total comprehensive income attributable to shareholders for the period was $2.41 billion compared to $1.10 billion for the corresponding period in 2017.

Consequently, earnings per share (EPS) was $2.90 (2017: $1.31), while the EPS for the quarter was $1.35 (2017: LPS of $0.83). The number of shares used in this calculation was 851,136,591 shares. Notably, the stock price for CCC closed the trading period on February 20, 2018 at $43.31

## Eppley Limited (EPLY)

For the year ended December 31, 2018

**HOLD**

EPLY for the year ended December 31, 2018 reported interest income of $319.62 million, a 22% or $58.21 million increase when compared $261.41 million recorded for the corresponding period in 2017. Total interest income for the quarter amounted to $85.20 million, a 21% increase when compared to the $70.44 million recorded for the same quarter in 2017.

Interest expenses for the period was $170.25 million, a 7% increase when compared to the $158.39 million recorded for the prior year.

Consequently, net interest income for the FY rose 45% to total $149.37 million from the $103.01 million recorded in the corresponding period of 2017. Net interest income for the fourth quarter amounted to $42.59 million relative to $28.59 million in 2017.

Other operating income for the period soared by 124% to total by $82.67 million relative to $36.89 million booked for 2017.

Administrative expenses rose 60% for the year to close at $140.39 million from the $87.90 million recorded the previous year.

EPLY recorded a total of $18.38 million for share of net profit from joint venture accounted for using the equity method for the period relative to the $16.13 million recorded for the corresponding period in the FY 2017.

As such, pre-tax profit closed at $110.02 million for the year ended December 31, 2018, 61% more than the $68.14 million booked in 2017. Taxation of $1.28 million was incurred for the period resulting in a net profit attributable to shareholders of $108.74 million, a 57% increase from the $69.23 million recorded for the same period in 2017. Net profit for the quarter amounted to $28.07 million, a 59% uptick when compared to the $17.63 million recorded for the last quarter in 2017.

EPS for the quarter was $0.15 (2017: $0.09). EPS for the year ended December 31, 2018 totalled $0.56 compared to $0.36 for the prior FY. The total amount of shares outstanding used for this calculation was 192,468,300 units. Notably, the stock price for EPLY closed the trading period on February 14, 2018 at JMD $9.00.

## Everything Fresh Limited (EFRESH)

For the year ended December 31, 2018:

**SELL**

Revenues grew by 4% for the period amounting to $1.88 billion, up from $1.81 billion reported a year ago. For the fourth quarter, revenues totaled of $489.07 million, a 10% increase when compared to last year's corresponding period's $443.15 million.

Cost of sales closed the period at $1.74 billion (2017: $1.67 billion), which translated into a gross profit of $143.11 million (2017: $143.04 million). For the fourth quarter, gross profit fell by 31% to $24.10 million relative to $35.05 million in 2017. The company noted, "Margins that were contracted with respects to some of the company's July to December hotel contracts".

Other operating income declined by 12% for the period to $1.83 million from $2.09 million reported for the prior year. Notably, the company booked a foreign exchange gain of $1.11 million relative to nil for the prior year.

Operating expenses totalled $129.55 million, 30% more than the $99.76 million booked the previous year. Of this, administrative expenses rose to $115.00 million (2017: $82.41 million), while finance costs amounted to $14.54 million (2017: $17.35 million).

Profit before tax declined 64% for the period totalling $16.51 million in comparison to 2017's $45.37 million.

Following taxation of $8.27 million (2017: $8.07 million), a net profit of $8.24 million was booked for the period relative to $8.07 million for the corresponding period in 2017. However, for the quarter a net loss of $10.84 million was booked compared to a net profit of $8.58 million in the previous year.

Consequently, EPS was $0.01 (2017: $0.05) while loss per share for the quarter was $0.014 versus an EPS of $0.011 in 2017. The number of shares used in this calculation was 780,000,000 shares. EFRESH's stock price closed the trading period at a price of $1.90 on February 14, 2018.

## Rating System

**BUY:** We believe the stock is attractively valued. The company has sound or improving fundamentals that should allow it to outperform the broader market. We anticipate that the stock will outperform the market over the next 12 months. The risk factors to achieving price targets are minimal.

**HOLD:** We believe the stock is fairly valued at the current price. The company may have issues affecting fundamentals that could take some time to resolve. Alternatively, company fundamentals may be sound, but this is fully reflected in the current stock price. The risk factors to achieving price targets are moderate. Some volatility is expected. In addition, technically, it may be difficult to attain additional volume of the stock(s) at current price.

**SELL:** We believe the stock is overpriced relative to the soundness of the company's fundamentals and long-term prospects.

**SPECULATIVE BUY:** We believe the prospect for capital appreciation exists, however, there is some level of uncertainty in revenue growth.