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LOCAL EQUITY REPORT

KINGSTON WHARVES LIMITED

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Kingston Wharves Limited

Company Overview

Kingston Wharves Limited (KWL), founded in 1945, is the Caribbean's most recognized multipurpose port terminal operator, connecting Jamaica's importers and exporters to over 40 ports around the world. Strategically located on the wharf, KWL provides full–range cargo handling and logistics services 24 hours per day, seven days per week. Additionally, KWL transshipment service has experienced strong growth over the past decade and provides its services to several premier shipping lines.

Stock		KWL
Last Price (J$)	$	44.57
Year to Date Return		-27.19%
Dividend Yield		0.98%
Price/Book		2.58
Forward P/E		16.74
Estimated Fair Value	$	44.73
Estimated Shareholder Return Upside/Downside		**1.34%**
Recommendation		**Marketweight**
As at October 13th, 2020		

Executive Summary:

The Kingston Harbour is the seventh-largest natural harbour in the world, and consequently, it is an essential node in the global supply chain and logistics and international shipping. Kingston Wharves operates on the Kingston Harbour, which thus gives KWL several competitive advantages. Other tailwinds for the Company include the large CAPEX investments to improve the Panama Canal, which reopened in 2016. Kingston Wharves specifically underwent a large amount of capital expenditure to improve their facilities to accommodate these Panama ships while investing in technology to improve the services offered. They have steadily grown both revenues organically and profits to historical levels in 2019 of **J$7.89 billion** and **J$2.58 billion, respectively**.

Analyst Outlook

KWL will be impacted like other ports globally. The Panama Canal implemented strict precautionary COVID-19 regimes, such as all vessels stating their origination port before docking. This will impact cargos coming from COVID-19 affected ports, which will then impact the level of transhipments that enter the Kingston harbour. As such, within the short and medium-term, Kingston Wharves Limited will be required to manage working capital efficiently as a slowdown in global trade is expected. KWL is already low leveraged, and capital expenditure projects are discretionary. The World Trade Organization (WTO) estimated that the initial decline in the volume of merchandise trade shrank by 3% year-on-year with a further potential fall out of 18.5% in the second quarter of the calendar year. Even as some borders have started to reopen, some international trade has been permanently displaced by major disruptions in global supply chains. Consequently, both businesses and countries have begun either reshoring or nearshoring some of their economic production, which could lead to new opportunities in international logistics and shipping. Given its strategic location along one of the world's best shipping lanes, Kingston Wharves Limited is likely to benefit from those developing international shipping trends.

Valuation

Our base case forecast for KWL suggests a valuation range of between **J$36.69-J$56.88, derived using three valuation methods**. An average of the output from the three methods yielded a fair value estimate of J$44.73. Comparing this to the current price of **J$44.57**, suggests the stock is trading with a range of its fair value. Given the Company's underlying economics coupled with the COVID-19 pandemic, Barita Investments Limited recommends this stock as a **MARKET WEIGHT**.

Business Economics

Kingston Wharves Limited's business is organised into two primary divisions: **Terminal Operations** and **Logistics**. Terminal operations refer to public wharves' operation and the stevedoring of vessels while the logistics services division offers logistics facilities, port security services, and refrigerated services. These two business segments enable KWL to provide a full range of services, from clearance of cargos to warehousing. These services are used by domestic entities and international counterparties given the ports' strategic location relative to major trading destinations in the northern hemisphere.

Business Management

The Company's Board of Directors is comprised of twelve (12) individuals who have over 30 years collectively at the helm of Kingston Wharves. The Chairman, Jefferey Hall, has acted in this role for over eight years and remains at the forefront of all changes happening at the Company. During the financial year, Grantley Stephenson stepped down as CEO of KWL, but he remains a director on the board, while Mark Williams has taken over as CEO. Mark Williams joined the Company in 2011 and has acted in Chief Marketing and Planning Offer's capacity and then later promoted to Chief Operating Officer with responsibility for the development and execution of corporate strategy and the planning process. He was also responsible for domestic and international business development, marketing, customer service, terminal operations, safety and security, and human resources. Mr. Williams has been at the forefront of the transformative structural adjustments at KWL, heading the commercial negotiations for the Company's growing logistics division. The change

Board of Directors
Jeffrey Hall BA, MPP, JD, Chairman
Grantley Stephenson, CD, JP
Bruce Brecheisen
Kim Clarke
Marshall Hall, CD, OJ
Alvin Henry
Roger Hinds
Charles Johnston CD
Harriat Maragh
Kathleen Moss
Robert Scavone
Dorlan Valdes

in management we believe was a part of the Company's succession plan that gives us confidence in the current CEO to continue KWL's growth strategy, especially in the context of a COVID-19 environment, with a board structure providing adequate support.

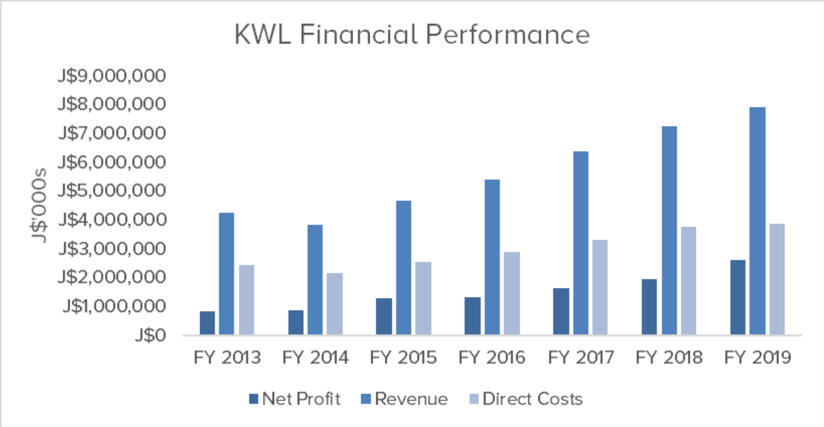
Industry Outlook

One of the significant fallouts caused by COVID-19 is felt in the global trade space. Supply chains were severely disrupted as all major trading territories saw the closure of borders to prevent the virus's spread. With China being a major exporter of raw materials and value-added products to the global economy, the global trade and logistics industry was impaired. The World Trade Organization (WTO) estimated that the initial decline in the volume of merchandise trade shrank by 3% year on year with a further potential fall out of 18.5% in second quarter of the calendar year. Even as some borders have reopen, there has been some permanent damage to global supply chains as businesses would have focused on establishing substitute sources for products domestically as a means of alleviating the abrupt halt. While it isn't expected all international trading will stop, the use of alternative sources will be significantly leveraged as governments continue to remain strict on the inflow of vessels and cargos into its borders.

The recently expanded Panama Canal is likely to continue to support demand for KWL's services. The Panama Canal was closed to allow for expansion of the canal to allow larger cargo size ships (referred to as panama and New Panamax ships) to operate through the canal seamlessly. Kingston Wharves specifically underwent a large amount of capital expenditure to improve their own facilities to accommodate these panama ships while investing in technology to improve the services offered. This investment led to the creation of the Global Auto Logistics Centre which is used to house both new and used vehicles for domestic and international transporters. KWL also invested heavily in the Total Logistics Facility, which comprises international standard equipment to manage cargos' haulage. KWL also developed technological resources to improve the clearance and registering speed of cargos which allows comprehensive and adequate management of cargos. Despite these investments, KWL will be impacted like similar ports within the world. The Panama Canal implemented strict precautionary COVID-19 regimes such as all vessels stating their origination port before docking. This will impact cargos coming from COVID-19 infected ports which will then impact the level of transhipments that enter the Kingston Harbour. As such, within the short and medium term, Kingston Wharves will be required to manage their working capital efficiently as a slowdown in global trade is expected.

Financial Performance Summary (Financial Year Ended December 31st, 2019)

The Group recorded revenues of J$7.89 billion in FY19, an 8.89% increase over FY18. This growth was supported by the improvement in Terminal Operations which accounts for 72% ($6.36 billion) of revenues. The Terminal Operations increase in revenue was approximately 10.43% which is attributable to the significant growth in their motor vehicle business and higher than projected volumes in break bulk operations. This performance is a direct benefit of the capital expenditure in developing the Global Auto Logistics Centre, and the resulting expanded yard capacity on the KWL main terminal.



The positive performance in motor vehicle volumes and other cargo types cushioned the effects of a moderate decline in container volumes in 2019 over the previous year. The other revenue component is Logistic Services, which accounted for the remaining 28% (J$2.23 billion). The growth in this segment was driven by warehouse services and the provision of boutique logistics solutions for commercial customers in a range of sectors. Over the last two years the Company incurred capital expenditure to build out a 340,000 sq. ft. of warehouse space, including the Kingport Warehouse Complex (KWC) and the 160,000 sq. ft. Total Logistics Facility Warehouse complex. This expansion in KWL's warehouse operations has bolstered the Company's capacity to deliver a full suite of logistic services, including inventory management; order picking and packing; order fulfilment; product assembling and labelling, as well as warehousing and returns.

Segment Report (J'000)		
2019	**Terminal Operations**	**Logistic Services**
Total Revenue	6,363,972	2,231,736
Operating Profit	2,432,711	670,233
2018		
Total Revenue	5,762,924	1,974,137
Operating Profit	1,879,356	560,768
Total Revenue		
% Change	10.43%	13.05%
Operating Profit		
% Change	29.44%	19.52%

Direct expenses saw an increase of 2.69% to J$3.85 billion, leading to a gross profit of J$4.04 billion, 15.54% higher than the corresponding year. Gross profit margin increased to 51.2% from 48.2% in the corresponding period in 2018.

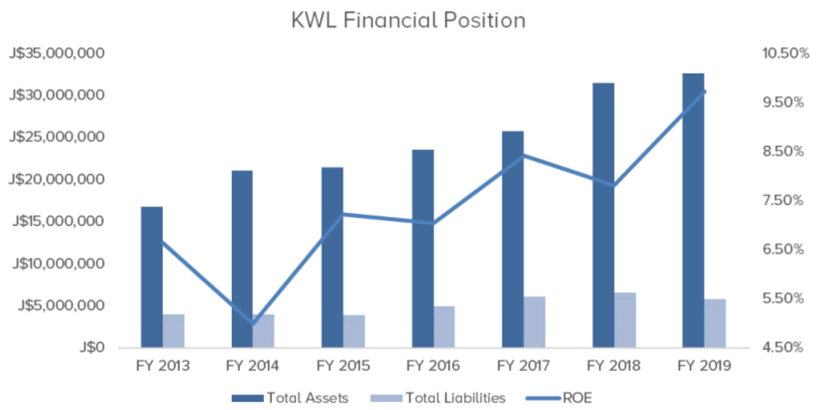
Other operating income saw an increase of 64.2% to $262 million due to an increase in interest income earned and gain on disposal of fixed assets. Administrative expenses increased slightly by 0.29% to J$1.20 billion as the majority of the items comprising expenses remained relatively flat year-over-year. The strong top-line performance led to a steady increase in the operating profit margin to 39.3% from 33.9% in the previous year. KWL also recognized one-off gains in the acquisition of SSL REIT, which was subsequently renamed 'KWL Warehousing Services'.

The aforementioned led to an increase in profit before tax of J$2.92 billion, a 30.6% increase over the corresponding period. After accounting for taxes, the Company generated $ 2.59 billion profits, a 31.86% increase year-over-year. This resulted in a net profit margin of 32.9% relative to 27.1% in the previous year. Net profit attributable to shareholders of the Company increased by 33.6% to J$ 2.60 billion.

During the period, the Company improved its interest coverage ratio year-over-year to 17.4X from 11.31X. The Company also has operating leverage of 1.30X which showcases its ability to generate additional net income from an increase in its revenue. Asset utilization saw a rise from 23.1% to 24.2% which indicates the Company was able to generate more revenues from its total assets over the comparative period.

Liquidity & Solvency (As at December 31st, 2019)

Total assets stood at J$32.58 billion, a 3.57% increase over the corresponding period. This growth in assets was driven primarily by higher short-term investments to J$5.22 billion (23.80% growth) and Trade and Other Receivables to J$833 million (19.57% growth). These short-term investments are predominantly deposits with the weighted average effective interest rate being 3.98% for USD deposits and 2.67% for JMD deposits, with both term deposits having an average maturity of 67 days. The increase in trade receivables is due to a higher level of prepayments and increases relating to repairs to damaged berths -these amounts are recoverable from the offending ships' principals. Cash and cash equivalents also increased by 23.8% to J$693.91 million, and inventory increased to J$433.04 million, a 10.4% increase. Inventories primarily consist of operating supplies and fuel.



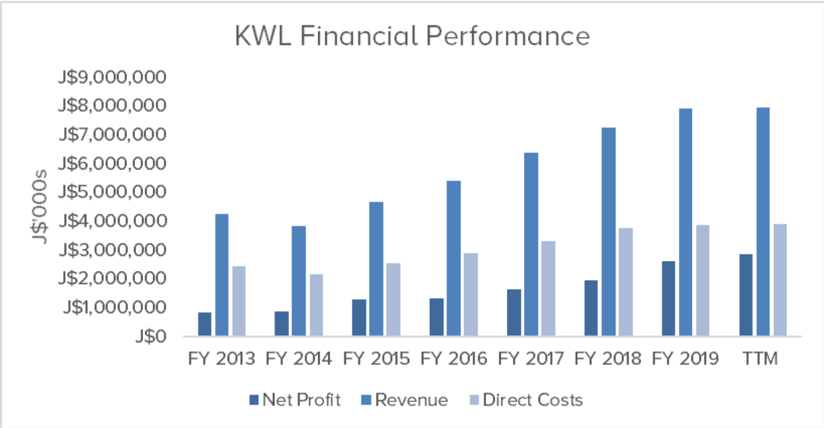
Total liabilities saw a decrease of 11.3% to J$5.80 billion as at the end of the 2019FY. This decrease was mainly attributable to a reduction in borrowings to J$1.76 billion (-22.1%) and a 22.9% reduction in trade and other payables to J$1.41 billion. The borrowings for the company span multiple creditors with differing terms. The reduction in trade and other payables is due to a reduction in third party collections which no longer has an outstanding balance.

Equity attributable to shareholders saw an increase of 7.38% to J$26.59 billion due primarily to an increase in retained earnings to J$10.50 billion (20.1% growth).

During this period, the companies cash ratio improved slightly to 0.33X from 0.23X and the current ratio also improved to 3.44X from 2.69X. The reduction in the Company's borrowings saw a reduction in debt-to-assets and debt-to-equity to 9.76% and 11.96%, respectively, down from 13.04% and 16.57% in 2018, respectively.

From a cash flow perspective, the Company was able to generate free cashflows (FCF) of J$2.65bn, while also boasting a cash conversion cycle (CCC) of negative 54 days (2018FY: negative 144 days). Both these developments showcase KWL's ability to sufficiently generate cash from their core operating activities. Their strong cash conversion cycle is due to their relative high days of payable outstanding (DPO) of 133 days relative to a days-of-inventory outstanding (DIO) and days-of-sales outstanding (DSO) of 41 and 38 respectively. This is an indicator of KWL's ability to manage working capital without the need for external financing, which would lead to an increase in leverage.

Financial Performance Summary (6-Month Ended June 30^{tht} 2020, 6M'20)



For the six-month period ended June 30th, 2020, the KWL achieved consolidated revenues of J$3.35 billion, an 11.8% decrease over the corresponding period in 2019. An 11.7% decrease in Terminal Operations to J$2.69 billion was the primary reason for the decrease. Management accredited this performance to the effects of the slowdown in the global economy which was most impactful in Q'2 of the calendar year. Management views the operations of the Terminals by Kingston Wharves as an essential service and therefore it continued to be active during the period under review and continued to be a crucial connection in the local and regional supply chains. However, the fallout from measures to limit COVID-19 cases in Jamaica as well as in major markets around the world saw a market reduction in the movement of some cargo types, primarily containers. Logistic services saw a decline in revenues to J$980 million from J$999 million.

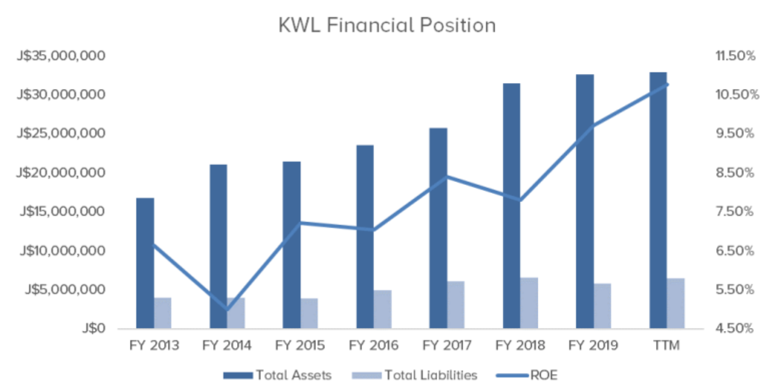
Management viewed this segment's performance to be credible in the context of the adverse market conditions precipitated by the COVID-19 pandemic. This division is deemed an essential service by management and as such, it undertook proactive measures to maintain service standards and intensify overall support for their customer base. Management views KWL's agile and reliable logistics services model as an attractive option for businesses seeking solutions in managing their inventory, storage needs and supply chain challenges that have arisen as a result of the pandemic. Direct costs decreased by of 3.1% to J$1.78 billion. Gross profit thus decreased by a further 20.1% to J$1.56 billion. This resulted in the Gross Profit margin declining to 46.7% from 51.5% in the previous year.

Other operating income saw a 98.4% increase year-over-year to J$330 million. This occurred while administration expenses saw a decrease of 5.8% to J$582 million. Those mentioned above resulted in a 12.8% decrease in operating profit to J$1.31 billion, yielding an operating margin of 39.1%. After accounting for finance costs, which decreased by 16.3%, profit before taxation decreased by 12.7% to J$1.23 billion, resulting in a pre-tax margin of 36.8% (6M'19: 37.2%). After accounting for taxes, the Company recognized net profits of J$1.06 billion, an 11.6% decrease year-over-year. This yielded a net profit margin of 31.7% relative to 31.5% in 2019. Net profit attributable to equity holders improved slightly to J$1.18 billion year-over-year. During the period, the Company saw a decrease in its operating leverage to 1.47X from 1.63X in the corresponding period. The decrease was mainly attributable to lower revenue generation as COVID-19 impacted the Company's business activities.

Segment Report (J'000)		
2020	**Terminal Operations**	**Logistic Services**
Total Revenue	2,690,369	980,206
Operating Profit	1,009,933	302,050
2019		
Total Revenue	3,047,469	999,284
Operating Profit	1,210,033	295,670
Total Revenue		
% Change	-11.72%	-1.91%
Operating Profit		
% Change	-16.54%	2.16%

Liquidity & Solvency (As at June 30th, 2020)

Total assets stood at J$32.87 billion, a 0.89% increase over the 2019FY. The increase in total assets was primarily due to higher short-term investments of J$5.64 billion (7.88% increase). Cash and cash equivalents decreased to J$533 million (23.1% decrease). These short-term investments are predominantly deposits with the weighted average effective interest rate being 3.98% for USD deposits and 2.67% for JMD deposits, with both term deposits having an average maturity of 67 days. A noticeable decrease in trade receivables



of 5.8% to $785 million with inventories also decreased to J $ 428 million , a 1.1% decrease. Inventories primarily consist of operating supplies and fuel.

Total liabilities saw an increase of 11.0% to J$6.44 billion when compared to the 2019FY. This increase was mainly attributable to an increase in borrowings to J$1.52billion (201%). The borrowings for the company span multiple creditors with differing terms. Equity attributable to shareholders saw an increase of 2.5% to J$27.27 billion due primarily to an increase in retained earnings to J$11.25 billion (7.14% growth).

During this period, the Company's cash ratio weakened to 0.18X from 0.33X and the current ratio also weakened to 2.57X from 3.44X. The decrease in the Company's borrowings saw a reduction in debt to assets and debt to equity to 8.51% and 10.26% from 9.76% and 11.96% in 2019, respectively. These are positive improvements in the Company's finances, especially in the context of COVID-19.

From a cash flow perspective, the Company was able to generate free cashflows (FCF) of J$1.28Bn, while also having a cash conversion cycle (CCC) of negative 83 days compared to negative 113 days in the corresponding FY19 period. Both these developments show case that while COVID-19 impacted KWL's operations, they were still able to generate cash from their core operating activities while also managing their working capital needs.

Valuation Summary

In order to ascertain a fair value for KWL, the price-to-earnings (P/E) and price-to-book (P/B) valuation methods were applied to our forecasted earnings and book value for FY 2021.

Our forecast for FY 2021 is based on the economic environment we believe best represents a post-COVID environment. Specific to KWL, the resumption of global trade to near pre-COVID levels will significantly bolster their performance relative to what is expected in 2020. We foresee growth in 2021 being stronger than 2020 as the logistic services industry would have implemented key health measures such as to prevent any spread of the virus via ships; a potential vaccine being found could also be an important tailwind. Given the importance of global trade to the overall economic framework of the global demand and supply, we foresee the importance of the KWL's services as being crucial for the recovery of regional trade.

Stock		KWL
Last Price (J$)	$	44.57
Year to Date Return		-27.19%
Dividend Yield		0.98%
Price/Book		2.58
Forward P/E		16.74
Estimated Fair Value	$	44.73
Estimated Shareholder Return Upside/Downside		**1.34%**
Recommendation		**Marketweight**
As at October 13th, 2020		

Based on the collective impact of the factors mentioned above, our base case forecast for KWL is that they will earn approximately J**$3.80 billion** in FY 2021 which translates to an estimated Earnings Per Share of J**$2.66**. We expect book value to increase in FY 2021 to J**$31.11 billion** with an estimated book value per share of J**$21.76**. Utilizing the justified P/E and P/B while yielded multiples of **21.37X** and **1.87X,** respectively. Utilizing these P/E and P/B valuation method, we estimate our fair value range for KWL between J**$40.61-56.88**. We complemented this methodology by applying the Dividend Discount Model which yielded J**$36.69**. Utilizing the average of these valuation methodologies, we obtain a fair value of J**$49.12** Comparing this to the current price of J**$44.57**, the stock is currently fairly valued. Given the underlying economics of the Company coupled with COVID-19 pandemic, Barita Investments Limited recommends Market weight.

Investment Merits & Risk

Investment Positives	Investment Risks/Considerations
Major Economic Contributor: The Company operates the largest port in Jamaica, which facilitates the bulk of import and exports; this drives the sustainability and growth of many industries and firms in the country.	**Substitutes:** The Company faces an on-going threat of new entrants into the market and global substitutes, especially seeing that the bulk of revenues last year came from transshipment services. However, due to the Legal, Real Estate, and Capital Requirements for such a venture, KW has an extraordinarily high entry barrier.
Executive Leadership: The Company boasts a diverse Board of Directors who has individual track records of success in both the private and public sectors.	**Enterprise risk:** The complex nature of some port operations can lead to higher operational costs, including energy, labour, and transportation.

Strategic Development: KW demonstrates the ability to generate more revenue as a Result of the continual investments in expanding automotive logistics, warehousing and container freight station services.	**Natural Hazards:** Natural disasters such as earthquakes, hurricanes or flooding can severely slow down or even halt operations, with a very slow recovery time. However, natural disasters of that magnitude are rare, and may be seen as a good entry point for a long-term investment in KW.

Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
HOLD/MARKETWEIGHT = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO