



LOCAL EQUITY REPORT

LASCO MANUFACTURING LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

Lasco Manufacturing Limited

Company Overview:

LASCO Manufacturing was incorporated in October 1994. The Company was formed by the merger of LASCO Foods (Successors) Limited and LASCO Foods Limited. The Company's registered office is located at 27 Red Hills Road, Kingston 10, while the manufacturing units are located at White Marl, St. Catherine. The Company was listed on The Jamaica Stock Exchange's Junior Market in October 2010.

Stock	LASM
Last Price (J\$)	\$ 3.45
Year to Date Return	-25.37%
Dividend Yield	1.73%
Price/Book	1.72
Forward P/B	1.63
Estimated Fair Value	\$ 4.70
Total Return Upside/Downside	37.90%
Recommendation	OVERWEIGHT

As at October 16th, 2020

Executive Summary:

Analyst Outlook

COVID-19 disrupted many manufacturing and distribution companies' operations through their global supply chains due to curtailment measures to stop the spread of COVID-19 across nations. Those disruptions would have resulted in lower business activities for exporters and importers and businesses requiring the usage of materials outside of their domestic economy. There has been a measurable attempt to improve domestic distribution channels while supporting domestic entities to cushion the impact of global disruption. There has been increased usage for domestic distribution channels to accommodate the much lower demand for goods and services.

The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors LASM. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASM's business will thrive in this environment. Given that more restrictive curtailment measures do not seem likely, LASM is likely to perform better than in the April - June quarter. The national curfew measures were particularly restrictive and, therefore, negatively impacted LASM's revenue growth.

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = 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

Valuation

Our base case estimate of the LASM's fair value is **J\$4.70**, which, when compared to the current price of **J\$3.45**, represents a potential total return of **37.90%**. Given its underlying economics coupled with COVID-19 pandemic, Barita Investments Limited recommends this stock as a **MARKETWEIGHT**.

Business Economics

The Company has a long history of being the dominant Nutritious Powdered Beverage Company in Jamaica. LASM expanded into Liquid Refreshing Beverages and Water segment of the market with a range of Juice Drinks and Water under the iCool Brand in 2014. The Company has grown in this latter segment to become a significant player with an expanded range of products that enjoy wide distribution and consumer acceptance. The brands in both the Powdered and Liquid segments are well established in export markets as well.

Over the years, the Company has consistently invested in plant, technology, and people development to provide capacity and know-how to expand its range of food and beverage products relevant to consumer needs and trends. As a result, the Company is well equipped. It has the capability and flexibility to supply not current demand and meet anticipated growth in various market segments with affordable, innovative, high quality, and nutritious products. The strategy includes continuous improvement in operational efficiencies, organization adoptions and waste elimination with technology application, and people development being at the core.

Financial Performance Summary (Full Year End March 2020, FY 2020)

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:

Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO

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

MARKETWEIGHT/HOLD = 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

('000)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue	6,571,742	6,951,627	6,659,891	7,565,672	7,886,142
<i>% Growth</i>		5.8%	-4.2%	13.6%	4.2%
Operating Profit	1,140,517	1,068,664	861,273	1,257,879	1,292,405
<i>% Growth</i>		-6.30%	-19.41%	46.05%	2.74%
Net Profit	826,198	707,254	560,556	1,076,779	981,678
<i>% Growth</i>		-14.40%	-20.74%	92.09%	-8.83%
EPS	\$ 0.20	\$ 0.17	\$ 0.14	\$ 0.26	\$ 0.24
<i>% Growth</i>		-14.40%	-20.74%	92.09%	-8.83%
Total Assets	6,855,741	7,075,299	7,723,154	8,788,805	9,738,150
<i>% Growth</i>		3.20%	9.16%	13.80%	10.80%
Total Liability	3,000,476	2,635,394	2,800,201	2,942,991	2,987,085
<i>% Growth</i>		-12.17%	6.25%	5.10%	1.50%
Total Equity	3,855,265	4,439,905	4,922,953	5,845,814	6,751,065
<i>% Growth</i>		15.16%	10.88%	18.75%	15.49%
Cash & Cash Equivalent	237,956	240,455	194,797	918,722	1,354,148

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:

Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO

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

MARKETWEIGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO

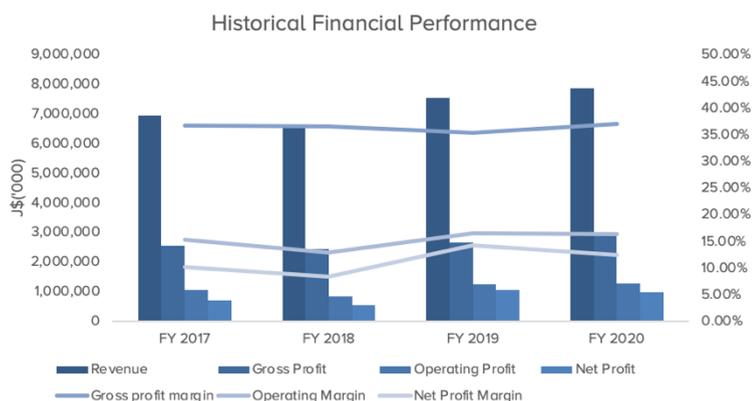
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO

	FY 2017	FY 2018	FY 2019	FY 2020	Average
PROFITABILITY RATIOS					
ROA	10.15%	7.58%	13.04%	10.60%	10.34%
ROE	17.05%	11.97%	20.00%	15.59%	16.15%
ROIC	15.82%	11.55%	16.29%	16.26%	14.98%
SOLVENCY & LEVERAGE					
Debt/Equity	0.32x	0.30x	0.25x	0.18x	0.26x
Asset/Equity	1.68x	1.58x	1.53x	1.47x	1.57x
MARGINS					
Net Profit	10.17%	8.42%	14.23%	12.45%	11.32%
Gross Profit	36.83%	36.63%	35.41%	36.99%	36.47%
Operating Profit	15.37%	12.93%	16.63%	16.39%	15.33%
	FY 2017	FY 2018	FY 2019	FY 2020	
NPM	10.17%	8.42%	14.23%	12.45%	11.32%
Asset Turnover	1.00x	0.90x	0.92x	0.85x	0.92x
Leverage	1.68x	1.58x	1.53x	1.47x	1.57x
ROE	17.05%	11.97%	20.00%	15.59%	16.15%

The Company recorded revenues of J\$7.88 billion, an increase of 4.2% over the corresponding period. The Company's ability to generate sales from its extensive inventory of diversified powered portfolio products and liquid portfolio products, including its newly introduced products, would underpin the growth expectation. The cost of sales also increased by 1.7% to J\$4.96 billion, reflecting a gross profit of J\$2.92 billion, an increase of

8.9%; this resulted in a gross profit margin of 37.0%, relative to 35.4% in the previous period; management attributed the Improved margins to improved efficiencies in the manufacturing operations.

Other income saw an increase of 1.5 folds to J\$30.01 million, relative to just a J\$1.84 million in the previous year. Gain on investment property disposal drove other income, which amounted to J\$12.56 million. The Company had a bad debt recovery of J\$7.59 million, which also contributed to the Company's significant growth in other income. There was also a noticeable increase in the Company's interest income, increasing to J\$6.06 million, relative to just J\$487 thousand in the previous period.



Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = 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

Operating expenses grew to J\$1.65 million, a 16.3% increase year over a year. Management accredited this increase primarily to include charges of stock options granted during the year under the Employee Stock Option Plan. Advertising and promotion expenses for their brands in both the local and export markets also increased. Notwithstanding the Increased costs, operating profits still rose by J \$ 1.29 million, which Is a 9.9% increase over the previous year; this resulted in an operating margin of 16.4%, which is lower than the last year 16.6%.

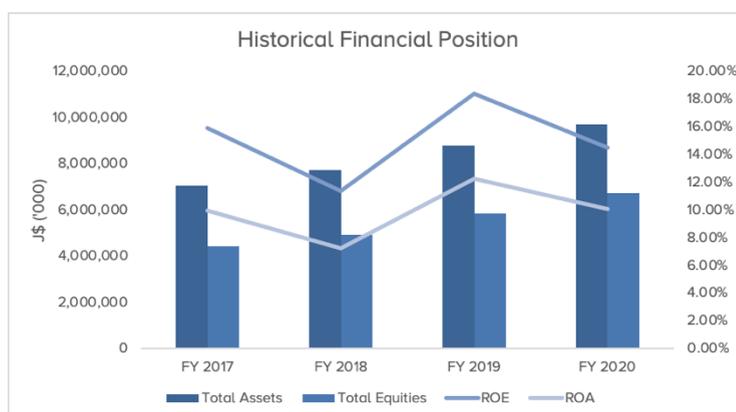
Finance costs saw a material decrease of 12.9% to J\$93.61 million due primarily to a reduction in the Company's overall debt load. After accounting for finance costs, profit before taxation saw an increase of 4.2% to J\$1.19 billion. The Company is at the end of its Junior Market tax concessionary period, given they were listed in 2010. As such, the Company paid a noticeably higher tax amount in this financial year versus the period. As such, net profit decreased by 8.8% to J\$981 million, relative to J\$1.07 billion in 2019; consequently, there was a noticeable decrease in the net profit margin from 14.2% to 12.5% in March 2020.

The Company saw its interest coverage ratio increase to 13.81X from 11.71X due to its higher operating profit and lower debt levels. The lower net profit margin contributed to the Company have a lower return on equity of 14.5% relative to 18.4% in the previous year. The Operating leverage also increased to 297% relative to 248%, indicating that the fixed cost component of the Company's operations increased relative to their variable costs.

LASM has returned a creditable return on shareholders' equity over the last couple of financial years. The main driver pushing ROE Is the net profit margin. Consequently, given the still challenging period ahead, LASM will have to manage Its operating costs carefully to maintain a sizeable net profit margin to drive ROE.

Liquidity & Solvency (As at March 31, 2020)

Total assets stood at J\$9.73 billion, a 10.8% increase over the corresponding period. A 20.3% growth in inventories drove this growth in assets to J\$1.08 billion and a change of 13.9% to J\$2.04 billion. Inventories increased primarily due to Raw materials (53% of inventories) and Goods in transit (41% of inventories), while accounts receivable increased due to higher



Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:
 Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
 UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
 MARKETWEIGHT/HOLD = 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

trade receivables. The Company's cash and cash equivalents saw a noticeable increase to J\$1.35 billion, representing a 47.4% increase year over year.

Total liabilities saw an increase of 1.50% to J\$2.98 billion at the end of FY 2019. This increase was mainly attributable to a higher payables level of 32.9% to J\$1.08 billion. Trade payables primarily drove this increase over the period. The Company saw lower long-term loans to J\$548.69 million, a 41.1% decrease year over year. This decrease in the Company's loan is primarily from its reduction in its expansion loan from the First Caribbean, which will mature in August 2021. Equity attributable to shareholders saw an increase of 15.5% to J\$6.75 billion due primarily to an increase in retained earnings to J\$6.16 billion (13.5% growth).

During this period, the Company had improvements in the cash ratio to 0.76X (2019: 0.63X), quick ratio to 1.97X (2019: 1.93X), and current ratio to 2.57X (2019: 2.54X). These financial ratios showcase LASM's improvement with regards to liquidity. There was an improvement in the Company's leverage ratio from 1.50X to 1.44X due primarily to a decrease in its loan book over the period. Over the period which saw approximately 3-months of the impact of COVID-19, the Company's cash conversion cycle (CCC) increase to 94 days from 93 days. This was primarily due to a rise in days of sales outstanding and days of inventory on hand.

Financial Performance Summary (3-Month Ended June 30, 2020, Q1'21)

For the three months ended June 30, 2020, the Company achieved J \$ 1.84 billion revenues, a 3.40% increase over the corresponding period in 2019. The cost of sales saw moderate growth of just 0.76% to J\$1.12 billion. The net result improved the gross profit to J \$ 720.12 million, a 7.8% growth, yielding a gross margin of 39.0% relative to 37.4% in Q1'2020. This topline performance management accredited to their improvements primarily to the on-going improvement in manufacturing efficiencies.

Operating profit improved to J\$406.89 million, 14.7% higher than the previous year, which resulted in an improvement in an operating margin of 22.0% relative to 19.9% a year ago. This management accredited this to improvements in operational efficiencies, reduced structural costs, and continued streamlining of the operations.

Finance costs declined by 49.2% to J\$406.89 million, primarily due to the Company's lower debt levels relative to the previous period. After accounting for taxes, the Company generated net profits of J\$341.80 million, an increase of 21.0%, which resulted in a net profit margin of 18.5% relative to 15.8% in the previous period.

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = 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

The Company saw its interest coverage ratio increase to 25.02X from 11.07X due to its higher operating profit and lower debt levels. The higher net profit margin contributed to the Company have a slightly higher return on equity of 14.7% relative to 14.5% at the 2020 FY.

Liquidity & Solvency (As at June 30, 2020)

Total assets stood at J\$9.86 billion, a 1.34% increase over the 2020FY. The increase in total assets was primarily due to higher inventories of J\$1.31 billion (21.2% growth), receivables which increased by 26.27% to J\$2.00 billion, while cash and cash equivalents also increased by 23.21% to J\$1.22 billion. Short-term investments saw a noticeable increase of 116% to J\$212.06 million.

Total liabilities saw a decrease of 4.15% to J\$2.77 billion, compared to J\$2.89 billion in FY19. That decrease was mainly attributed to a J\$369 million (42% decrease) reduction in a long term loan, moving from J\$875 million in FY19 to J\$506 million in FY20. Equity attributable to shareholders saw an increase of 5.1% to J\$7.09 billion due primarily to increased retained earnings, which grew from J\$5.18 billion to J\$6.50 billion year-on-year.

During this period, the companies cash ratio remained flat at 0.76X, while the current and quick ratio improved to 2.94X and 2.13X from 2.57X and 1.97X, respectively. The Company's leverage ratio further improved to 1.39X from 1.44X due to the Company's lower loan balance. The Company's cash conversion cycle saw a noticeable spike relative to the 2020FY. The CCC increased to 105 days due to higher inventory days on hand close to the last financial year.

Valuation Summary

The Price to Book (P/B) and Dividend Discount Model (DDM) Valuation methods were applied to our forecasted Earnings and Book Value for FY 2022 to estimate the stock's fair value.

Our base case forecast for LASM is that they will earn approximately **J\$1.47 billion** in FY 2022, which translates to an estimated Earnings Per Share of **J\$0.36**. We expect book value to increase FY 2022 to **J\$8.70 billion** with an estimated book

Stock	LASM
Last Price (J\$)	\$ 3.45
Year to Date Return	-25.37%
Dividend Yield	1.73%
Price/Book	1.72
Forward P/B	1.63
Estimated Fair Value	\$ 4.70
Total Return Upside/Downside	37.90%
Recommendation	OVERWEIGHT
<i>As at October 16th, 2020</i>	
	value per share of J\$2.12 .

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:
 Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
 UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
 MARKETWEIGHT/HOLD = 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

Utilizing the justified P/B of **2.79x**, we estimate the Company's fair value to **J\$5.91**. We complemented this with a DDM and obtained a fair value estimate of **J\$3.49**. Utilizing the average of the two-valuation methodology, we obtained a fair value of **J\$4.70**, comparing this to the current price of **J\$3.45**; the stock is currently undervalued by **37.90%**. Therefore, we rate this stock as an **OVERWEIGHT**.

Disclaimer: This review is for information purposes only. The information stated herein may reflect the opinion of the analyst. Any opinion, estimates or forecasts reflects judgment as at the date of the report in relation to available data and market conditions. This does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. The value of any securities or securities for any issuer referred to in this document may rise or fall for several reasons including but not limited to market conditions. Before making any investment decision, please consult an investment advisor at Barita Investments Limited.

Definitions:**Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO****UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET****MARKETWEIGHT/HOLD = 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**