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LOCAL EQUITY REPORT

JAMAICA PRODUCERS GROUP

Barita Investments Limited
15 St. Lucia Way, Kingston

Company Overview

The Jamaica Producers Group (JP) is a large conglomerate that focuses on business acquisition and development, particularly in the Food & Beverage and Logistics & Infrastructure industries. The Group's business structure is diverse, both in terms of the range of businesses under the JP Group umbrella as well as the global reach of these operations. The Group's business activities are separated into two main segments: Logistics & Infrastructure and Food & Drink.

The main activities of the Group include the following:

1. Port terminal operations
2. Logistics
3. Cultivation, marketing, and distribution of fresh produce
4. Food and Juice Manufacturing
5. Land Management and Holding of Investments

Stock	JP
Close Price	J$23.27
Estimated Fair Value	J$28.37
Potential Upside	**21.92%**
Dividend Yield	0.76%
Total Return	22.68%
Year to Date Return	10.81%
Normalized Trailing P/E	23.34x
Forward P/E	19.72x
Recommendation	**OVERWEIGHT**
As at May 18, 2021	

Executive Summary

Jamaica Producers Group's revenue performance strengthened in its most recent quarter (Q1 2021), having increased by 6.36% relative to a decline in 2020 of 2.17%. Despite the revenue outturn, increasing raw material costs, pandemic-related expenses, and a change in the product sales mix have contributed to lower gross and operating profits. However, with the share of loss in associates declining materially year-over-year and an improved effective tax rate, net profit attributable to shareholders increased by 16.59%. For the remainder of the year, we expect an even stronger revenue outturn, consistent with the company's historical financial performance wherein Q1 revenue represents the smallest share of annual revenue. Additionally, we anticipate the company, like many others, will benefit from a rebound in its major countries of operation amidst continued vaccinations. Finally, while we do not have a direct line of sight into the financial performance of JP's recent acquisition, Geest Line Limited ("Geest"), the Jamaica Producers management team has demonstrated the ability to acquire companies, like Kingston Wharves, and create value for shareholders from these acquisitions. With that said, our **OVERWEIGHT** recommendation is guided by our expectation that JP is well-positioned to grow considerably in 2021, both organically and inorganically.

Business Economics

Jamaica Producers Group operates under two main business segments, namely JP Food and Drink and JP Logistics & infrastructure. A third segment, Corporate Services, comprises interest and investment income, net of the cost of corporate functions not directly charged to business units. This segment typically accounts for a minuscule portion of revenue and earnings.

JP Food and Drink: This segment comprises businesses that are engaged in agriculture, processing, distribution and/or retail of food and drink. Specifically, this segment's performance is driven by several subsidiaries inclusive of A.L. Hoogesteger Fresh Specialist B.V., JP Tropical Group Limited, Tortuga, JP Snacks Caribbean and JP Farms. In FY2020, this segment accounted for $12.71 billion or 60.5% of total revenue and $101.02 million or 2.24% of the Group's operating profit. It's important to note that while the Food and

Drink segment accounts for a larger portion of revenue, the operating profit margin is thin, at 6.11% in FY2019, before the pandemic, 0.79% in 2020, and 2.60% in Q1 2021.

JP Logistics & Infrastructure (L&I) Segment: This segment comprises businesses that are engaged in logistics, transportation, port operations, and related services. These include JP Shipping Services Limited, Kingston Wharves Limited (KWL), and SAJE Logistics Infrastructure Limited (indirect exposure through KWL). This segment represented $8.28 billion (39.44%) of Group revenue and $2.93 billion (65.08%) of Group operating profit in FY2020. With that said, the Logistics and Infrastructure Segment is the largest segment of the Group if measured by profit. Relative to 2019, this segment saw a decline in both revenue and operating profit of approximately 6.10% and 10.47%, respectively. The operating profit margin from the segment is robust, at 37.16% in FY2019, before the pandemic, 35.43% in FY2020, and 32.96% in Q1 2021.

Segment Breakdown and Expectations

JP Food and Drink

In FY2020, the food and drink business marginally grew its revenue by 0.59% YoY as sales to supermarkets for 'take home' consumption remained buoyant throughout the pandemic. However, sales to foodservice channels, convenience, or roadside channels (in the Caribbean), travel retail and the hospitality sector were adversely affected in the second quarter of 2020 by the pandemic.

In Q1 2021, net profit margin from this segment improved but costs continue to weigh on operational performance, particularly due to changes in the sales mix of products as well as increased raw material costs. The Jamaica Producers Group has not explicitly indicated how margin improvement will be driven within this segment which is imperative for future growth of the Group. Notwithstanding, we have seen strengthening in Q1 2021 relative to FY2020 and we believe this should continue as the effects of the COVID-19 pandemic recede on the back of continued vaccination administration and the loosening of lockdown measures in its major source market, Europe.

Under the JP Food and Drink segment, the company has Hoogesteger as well as the "JP Tropical Group", which comprises JP Caribbean Snacks, JP Farms, and Tortuga subdivisions.

Hoogesteger: is the largest contributor to the food and drink segment. The company produces, markets, and distributes cold-pressed juices and boasts a large portfolio of retail customers in 15 countries across Europe. To meet growing demand, the Group has made significant capital injection for both technological improvements and capacity expansion. Thus far, the Group has Finstalled new fresh juice extraction capacity, commissioned new investments in cold press equipment, and added additional real estate to drive future growth. Given the anticipated growth in health-conscious eating and the cold-pressed niche market in particular coupled with the company's investments to stay at the forefront, **we expect strong growth for this business in the long term**. **As a consequence of the pandemic, raw material costs coupled with COVID-19 restrictions have slowed growth and weakened profitability in this business. Notwithstanding, the strengthening of the underlying economy should be beneficial to the company in 2021.**

JP Tropical Group:

- **JP Caribbean Snacks –** produces and markets tropical snack products and fresh produce in Jamaica. The business operates from snack factories in the Dominican Republic and Jamaica, selling under the "St. Mary's" and "Carles" brands both in the Caribbean and Internationally. The company also produces tropical snacks for other third-party brands and retailers across the region. With effect starting April 2019, the products manufactured by this segment are distributed by Wisynco which has a much broader distribution channel. With the arrangement, Wisynco now owns 30% of JP Caribbean Snacks' equity. While this was a strategic decision, Wisynco's distribution network has faced significant headwinds due to the pandemic given the closure of vital industries that Wisynco supplies with products. **As it relates to the distribution of JP Caribbean Snacks, the closure of schools has surely challenged this business in Jamaica and Latin America. The main upside for distribution is in the US and UK markets that continue to grow, with revenues of ready-to-eat and ready-to-cook products up by between 18% and 25% in those territories.**
- **JP Farms –** operates a 400-acre farm in St. Mary, mainly cultivating bananas, pineapples, and coconuts. All the crops grown are then sold internally to JP Foods for distribution as fresh fruit or used in the manufacturing of snacks. This segment poses considerable uncertainty underpinned by the nature of agricultural operations in Jamaica. Specifically, operations are dominated by uncertain weather, crop disease, challenges in market demand, and competition from production by households and informal producers. Its industry is also affected by relatively high input costs. Notably, the company has been reducing its costs, resulting in a 50% reduction in operating losses in 2019 and a 50% reduction in net losses in 2020;notwithstanding, the business remains unprofitable. While this is concerning, we believe it represents just a small weight in the Group's overall profitability.
- **Tortuga** markets and manufactures Tortuga rum cake and other Tortuga branded food and drinks. The company's sales are directed at the travel retail market across the region, focussing on major air and cruise ports, hotels, and gift locations. **JP accounts for this company as an associate, having an interest of 40%. However, no profit or loss from the Associate company was recognized in 2020 since the share of losses in this associate was equal to or exceeded JP's interest in the associate.**

JP Logistics and Infrastructure

On August 13, 2020, the Group concluded an agreement to sell part of its interest in SAJE Logistics Infrastructure Limited ('SAJE'), representing 22.1% of the issued share capital of SAJE, for consideration of $1.90 billion, resulting in a gain of **$1.87 billion** before transaction costs. The Group retains an investment representing 9.5% of the issued share capital of SAJE through Kingston Wharves Limited and accounts for this remaining investment based on fair value through other comprehensive income (FVOCI).

Recent Acquisition (Geest Line Limited)

Subsequent to the end of the First Quarter (and the sale of SAJE in the prior year), JP acquired a 50% interest in Geest Line Limited ("Geest"). Geest operates a shipping line between the UK and Europe and several destinations in the English-speaking Caribbean, Colombia, and the Dominican Republic. Refrigerated fresh fruit constitutes the major share of the eastbound cargo destined for Europe from the Caribbean, with consumer goods, vehicles, and other capital goods representing the major share of the westbound cargo transported to the Caribbean from Europe. The remaining 50% share of Geest was acquired by Seatrade Group, a ship-owning and chartering business with whom JP has had a long relationship.

Kingston Wharves: Based on Kingston Wharves Limited's 2020 Audited Financial Statements and JP's Logistics and Infrastructure Segment data, we can determine that Kingston Wharves accounts for approximately 86.18% of segment revenue and approximately

97.22% of the segment's operating profit**. Additionally, excluding operating income from the Corporate Services Segment which includes the gain on sale of SAJE, KWL accounted for 93.99% of the Group's FY2020 operating profit. What this means is that while the Group is large, its profitability throughout 2020 was concentrated around the performance of KWL.**

Kingston Wharves Limited's Growth Trajectory

As a result of the pandemic, Kingston Wharves reported a revenue outturn of $7.14 billion, a decline relative to the prior year of -9.62% or $759.87 million. KWL has two distinct segments, Terminal Operations, and Logistics. The majority of the Group's revenue (approx. 69.42% of total revenue) stems from Terminal Operations which declined by $797.97 million or -13.87% YoY in 2020, while the Logistics segment remained resilient with revenue growth of $38.79 million or 1.78% YoY.

The decline in the company's terminal operations business was driven by a decline in both transshipment and domestic cargo handled at the port. Transshipment cargo handled declined by 34.74% relative to the prior year and domestic cargo handling declined by 13.36% YoY. The drop in transshipment cargo has been reflective of the decline in global shipping as aggregate demand slumped in 2020, particularly for non-essential goods. Importantly, KWL's major transshipment products are vehicles which are high-valued non-essential goods that saw a significant reduction in sales in 2020 as the pandemic crippled the auto industry, as individuals were locked down and had little need for vehicles. As for domestic cargo, Jamaica's imports fell by US$1.4 billion during the 2020/21 fiscal year, largely due to a reduction in oil prices and a decline in the tourism industry to the tune of -74%.

The pandemic has illustrated that KWL and the Maritime and Port Operations Industry, in general, are cyclical. Consequently, we believe the transshipment business is linked closely to global growth while the domestic cargo business is more closely linked to the local economy. With that said, the trajectory of the global and local economies will have direct implications for both segments within the cargo handling business.

Over the 2021 period, we expect the transshipment business will register higher growth than the domestic cargo business, driven by the increase in global growth of approximately 6.0% based on estimates from the IMF which essentially brings the global economy back to a pre-pandemic level of output. With this underlying growth in the economy, the World Trade Organization (WTO) expects global merchandise trade growth to expand by 8% in 2021; implying that the industry is expected to grow by 2.38% relative to 2019. This should, in turn, improve KWL's transshipment business. However, domestic cargo handling is expected to rebound more slowly, amidst expectations for a slower rebound in the local economy which is expected to demonstrate growth in the range of 1.5% (IMF) and 3.0% (Fitch Ratings). For the quarter ended March 2021, net profit was flat while revenue declined slightly by 1.37%. Notably, revenue for the March 2021 quarter is 25.41% above revenue posted for the June 2020 quarter. This suggests to us that compared to pandemic-stricken months, the company is performing well which implies more upbeat performance for the next three quarters.

Financial Performance – *Q1*

For the quarter ended April 3, 2021, Jamaica Producers reported revenue of $5.48 billion, an increase over the prior year of 6.36% or $328.08 million. This increase represents growth in both the Food and Drink business (up $265.56 million or 8.65% YoY) and the Logistics and Infrastructure business (up $63.84 million or 3.06%). Despite the increase in revenue, gross profit contracted by 1.93% ($30.17 million) on the heels of increased raw material prices coupled with a change in the sales mix of the company's products. Operating profit amounted to $763.37 million, a YoY decrease of 3.20% ($25.20 million). This decline was due to operating profit reduction in both of the company's main business segments. Food and Drink reported an operating profit of $86.73 million, a YoY decrease of $26.06 million or 23.10% while the Logistics and Infrastructure segment reported an operating profit of $708.40 million, a YoY decrease of $25.05 million or 3.42%. The reduction in operating profit reflects heightened operating costs reflective of the extraordinary measures taken to remain operational during the pandemic. Notably, the increase in operating costs ($37.84 million or 4.08%) was cushioned by increased “other income” which grew by $42.81 million (4.62%).

For the quarter, finance cost decreased from $71.60 million to $63.84 million which slightly cushioned the company’s profitability. Profit before tax for the quarter totalled $699.51 million, a YoY decrease of 1.81% or $12.92 million. Despite the decline in pretax profit, net profit for the quarter grew by 1.90% or $10.63 million due to a reduction in the company’s tax expense of $22.56 million or 15.40%. Net profit attributable to shareholders of the company totalled $256.50 million, an increase over the previous year of $36.49 million or 16.59%.

The table below demonstrates that the company’s net profit has improved during the quarter, which is reflective of reduced finance cost and lower effective tax. Margin management continues to be the main issue for the company. Notwithstanding, we expect this should improve relative to FY2020, given the strengthening of the underlying economy.

Income Statement	FY2017	FY2018	FY2019	FY2020	TTM	Q1 2020	Q1 2021
YoY Revenue Growth	33.8%	21.4%	9.4%	-2.2%	1.6%	7.6%	6.4%
Adjusted ROE	6.1%	7.0%	9.3%	7.2%	7.4%	-	-
Gross Margin	31.8%	30.5%	31.5%	26.2%	25.7%	30.3%	27.9%
Adjusted OPM	14.2%	14.3%	17.4%	12.6%	12.2%	15.3%	13.9%
Adjusted NPM	4.1%	4.2%	5.6%	5.2%	5.2%	4.3%	4.7%

Balance Sheet

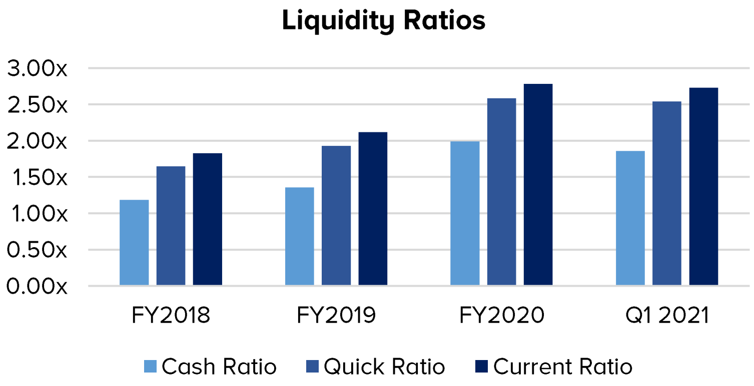
Overview

For the quarter ended April 3, 2021, Jamaica Producers reported total assets of $41.44 billion, an increase over the prior year of $2.95 billion (7.66%). The increase in assets was fuelled predominantly by an increase in the company’s repurchase agreements which grew by $2.34 billion or 42.60% as well as short-term investments which grew from $49.68 million in the prior year to $808.10 million, an increase of $758 million.

For the quarter, the company’s assets were funded by total liabilities of $9.99 billion and total shareholders’ equity of $31.45 billion. YoY, total liabilities declined by $285.10 million (2.77%) while total equity increased by $3.23 billion (11.47%). The reduction in total liabilities largely reflects a reduction in total interest-bearing debt and lease liabilities of $844.11 million (down 17.01%), which explains the reduction in finance costs previously mentioned. While debt decreased, accounts payables increased considerably, by $639.55 million (18.63%). The increase in shareholders’ equity reflects a strengthening of company reserves which increased from $13.98 billion to $16.21 billion, an increase of $2.23 billion or 15.95% as well as an increase in non-controlling interest of $1.01 billion or 7.12%.

Liquidity and Solvency

As at April 3, 2021, JP had trade receivables to revenue ratio of 15.70%, which indicates that most of the company's sales are cash, as opposed to credit-based. Consequently, the company's balance sheet has significant cash (inclusive of short-term investments and repos) of $9.35 billion, representing 22.57% of the company's total assets. This large cash balance supports the company’s strong liquidity position. Consequently, as demonstrated below, the company has consistently maintained liquidity ratios well above the benchmark level of 1.00x. This indicates that while the company's profitability has softened due to the pandemic, working capital management remains robust. Similarly, given its high cash generation and high cash balance, the company maintains a very lean debt structure, with very little debt relative to equity and capital as indicated in the table below. This low debt structure reduces insolvency risk.



Solvency Ratios	FY2018	FY2019	FY2020	Q1 2021
Total Debt/Equity	0.18x	0.19x	0.14x	0.13x
Total Debt/Capital	0.15x	0.16x	0.12x	0.12x
Equity Multiplier	2.90x	2.79x	2.54x	2.54x

Cash Flow Statement

For the quarter ended December 31, 2020, JP reported an operating cash inflow of $904.41 million, an increase over the prior year of 53.91% or $316.80 million. This significant increase contrasts with the relatively softer growth witnessed in the company's net profit and was driven by a marked improvement in its working capital changes. Specifically, changes in working capital added $8.37 million to the company's operating cash flow in Q1 2021 while in Q1 2020, working capital changes reduced operating cash flow by $543.85 million.

Over the period, the company reported a net investing cash outflow of $605.22 million, an increase over the prior year of $366.32 million (153%). This was predominantly driven by the purchase of Property Plant and Equipment ($763.71 million) compared to $380.07 million in the prior year, an increase of 100.94%.

Simultaneously, net financing cash outflow for the period amounted to $701.31 million on account of the company's repayment of debt and lease liabilities. Importantly, the net cash outflow was $71.18 million above the prior year and largely reflects increased dividend payments to shareholders and non-controlling interests which totalled $480.44 million relative to $402.25 million in Q1 2020. Given the outflows from investing and financing cash flow, the company cash (excluding cash equivalents), declined by $402.11 million for the quarter to total $724.97 million.

In summary, the company's Q1 cash flow statement demonstrates that JP's operating cash flow generation remains robust. Consequently, management has been using this cash generation to reinvest in the business (the purchase of PPE), repay outstanding debt which benefits shareholders from a reduction in interest cost, and increase dividend payments, which provides shareholders with increased income.

Financial Performance – *Year Ended December 31, 2020*

Income Statement

For the year ended December 31, 2020, Jamaica Producers Group reported total revenue of approximately $21.0 billion, a YoY decline of -2.17%. While revenue declined, the company reported an increase in its cost of sales of 8.90%. Consequently, gross profit for the year amounted to $5.51 billion, a reduction of -18.50% relative to the prior year's $6.76 billion. Operating profit for the year totalled $2.63 billion, a decrease of -29.10% ($1.08 billion) YoY. Despite the decline, the company's operating profit was cushioned slightly by an increase in other operating income of $60.43 million and a decrease of $109.24 million in selling, general, and admin expenses.

Given the recent sale of SAJE Logistics Infrastructure Limited and the resulting gain of $1.87 billion from this transaction, profit before taxation and finance cost was increased by +20.52% YoY. Removing this non-recurring gain of $1.87 billion, the company's profit inclusive of share of profit from associate companies, amounted to approximately $2.64 billion, a decline of -29.50% or $-1.10 billion. Net profit for the year, adjusted for the gain on disposal of SAJE, totalled approximately $1.87 billion, a decline of -31.69% or $865.89 million, buttressed by a reduction in finance cost (decline of $13.75 million) and taxation (decline of $223.94 million). Importantly, the company has significant Non-Controlling Interest (NCI) representing Investment in subsidiaries that are not wholly-owned. These include Kingston Wharves (58% NCI), Tortuga International (38% NCI), and JP Snacks Caribbean Limited (30% NCI). As such, while net profit amounted to $1.87 billion, net profit attributable to parent company shareholders amounted to approximately $1.08 billion, a YoY decline of -10.1%. Without adjustments, the company reported net profit attributable to parent company shareholders of $2.17 billion, a YoY increase of 79.98%.

Valuation Summary

To ascertain a fair value for JP, a 5-year Free Cash Flow to Equity (FCFE) and a P/E Valuation was utilized. Our model resulted in a price target of $28.09 which represents an upside of 20.69% above the May 18, 2021, close price of $23.27.

Stock	JP
Close Price	J$23.27
Estimated Fair Value	J$28.37
Potential Upside	21.92%
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Recommendation	OVERWEIGHT
As at May 18, 2021	

Free Cash Flow to Equity

Our FCFE model assumes revenue growth of 14.67% in 2021 driven primarily by revenue growth for the rest of the year (Q2 to Q4). Historically, the company's Q2 to Q4 quarters demonstrate the highest revenue outturn and 2020 represented a decline. Therefore, given Q1 revenue growth of 6.36%, we expect stronger growth in the upcoming quarters. In 2022, we expect the company to see a rebound in its major business lines and demonstrate growth of 14.83% which is in line with its 4-year revenue CAGR. Thereafter, we project a gradual slowdown over the forecasted period to our terminal growth rate of 6.05%. This terminal growth is reflective of the company's trailing-twelve-month normalized ROE and Retention Ratio.

Our estimate of the weighted average cost of capital (WACC) was 12.63%, derived using CAPM. **Our firm value was adjusted by removing the total debt ($4.12 billion) and the company's large minority interest ($15.13 billion) while adding the company's current cash and equivalents balance ($9.35 billion) to arrive at its equity value per share estimate of $29.19.**

P/E Valuation

Our P/E valuation utilized our DCF's 2021 expected revenue outturn of $24.08 billion. We utilized a net profit margin of 5.50% (FY2019 was 5.61% and **Q1 2021 was 4.68%** while **Q1 2019 was 4.81%**). Notably, the projected net profit margin is consistent with the company's quarterly performance in FY2019, Q2 to Q3 adjusted downwards to reflect the reduction demonstrated in Q1 2021 (4.68% vs 4.81%). Utilizing this revenue and net profit margin resulted in a net profit estimate of $1.32 billion or $1.18 earnings per share. At present, the Market prices JP at an adjusted trailing P/E multiple of 23.34x. The company's historical average P/E between FY2017 and FY2020 was 26.53x, indicating that the market is currently pricing the company at a lower multiple which is understandable given the current COVID-19 environment. As such, we utilized the 23.34x multiple to value the company at our expected 2021 EPS which results in a price target of $27.54.

Valuation Summary

Averaging both our DCF and P/E valuation price estimates results in a price target of $28.37 which is 21.92% above the company's May 18, 2021 price of $23.27 and underpins our **OVERWEIGHT** recommendation.

Recommendation - OVERWEIGHT

The COVID-19 pandemic has been a significant headwind for many companies, including Jamaica Producers Group. Notwithstanding, amongst listed companies, Jamaica Producers has one of the most robust balance sheets, with very little leverage coupled with several distinct operations that combined, generate significant and consistent operating cash flows. The company's Q1 performance indicates continued operational weakness, driven largely by heightened input costs. With that said, an uplift in the underlying economy bodes well for most of the company's business segments which have cyclical exposure to the business cycle. Additionally, while we cannot determine the financial implication of the Geest acquisition, the company's demonstrated ability to consolidate good businesses, like Kingston Wharves, indicates to us that this acquisition should be value accretive to shareholders. Against that backdrop, we believe the market's current price for JP is below its intrinsic value and recommend an **OVERWEIGHT**.

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