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Summary Analysis

JFP

IPO

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

JFP IPO Analysis

Summary: JFP operates as a provider of bespoke furniture fittings and interior décor designs for commercial customers. On average, 72% of the company's revenue over the last 5 years has been obtained from government agencies, hotels, and quick-service restaurants. The revenue model of the company is inherently linked to its ability to secure contracts to be the provider of these customized offerings. The reliance on its ability to be able to secure contracts presents a high degree of uncertainty and risk for the Company and consequently, investors in our opinion. Despite growing revenues over the last five years and growing its customer base, the Company has had to contend with the reversal of contracts of undertaking; which again demonstrates the fragile nature of the company's revenue model.

Offer

The Company aims to list on the Junior Market of the Jamaican Stock Exchange. The opening date for the invitation is February 21, 2022. The offer price is J$1.00 per share and the offer has been arranged by GK Capital. The initial public offering has up to 280,000,000 ordinary shares for sale, of which 140,000,000 are newly created shares and the remaining 140,000,000 are being sold by an existing shareholder; JFP Property Investments Limited. The Company intends to use the capital raised for the following purposes:

- **Increase working capital**- The Company intends to use the proceeds raised to increase its working capital to be able to aggressively manage larger customer orders.
- **Debt reduction-** The Company intends to use part of the proceeds from this invitation for debt reduction, to lower its interest expenses.
- **Entrance into new markets-** The Company has indicated that part of the proceeds will go towards financing its expansion into new markets to be able to broaden its client base.

Income Statement

For the 9 months ended September 31, 2021, JFP recorded revenue of J$312.3 million, which represented a decrease of $102.57 million (32.8%) relative to the same period in the prior year. Gross profit declined by J$105.4 million or 53.2% YoY for the nine months ending September 2021. Operating expenses for the period were J$101.2 million, a reduction of $5.1 million (4.8%). Operating profit was J$11.8 million, which was a reduction YoY of $83.3 million (87.6%). Finance costs for the period were J$7.0 million, which was a decrease of $1.3 million (15.7%) YoY. There was a sharp decline in net profit which saw a decrease of 95% YoY or J$74.5 million. The explanation that was given regarding the significant decrease in profitability YoY, was that several contracts had been delayed due to the onset of the pandemic and the existence of reduced working hours. The company stated that expected revenues from the delayed contracts were J$81 million. The significant decrease in revenues and ultimately, profitability, highlights the fragile nature of JFP's revenue model and represents a key consideration that investors should use to guide their investment rationale in this company.

Balance Sheet

As at the end of September 2021, the Company's total assets amounted to $362.8 million, an increase of 4.2% YoY. The Company's total assets are funded by liabilities of $155.9 million and shareholders' equity of $206.8 million.

Current assets at the end of the period were $185.2 million, which represents a YoY decrease of 6.2%. The source of the decrease in current assets was a reduction in cash. At present, the Company has a bank overdraft of $15.2 million which has reduced its effective cash balance to -14.8 million. Strangely, simultaneously the Company has $38.6 million in "investments" which could be used to clear the overdraft. Inventory also experienced a decrease, declining by $42.1 million (59.2%), from $71.1 million to $29.0 million. Notably, the majority of the reduction in inventories ($28.4 million) was due to a reduction in work in progress, implying most of the Company's ongoing work has been completed and also implying that similar levels of work are unlikely to be done in the short term, considering the significant decline in inventories.

Total liabilities increased by $17.8 million (12.9%) YoY. The main driver of the increase in liabilities was the $39.9 increase in current liabilities, reflecting increases in the current portion of long-term loans of $21.6 million (195.2%) and the addition of a bank overdraft of $15.2 million. The company's non-current liabilities decreased by 22.1 million (37.0%) YoY due to a reduction in the long-term loans as $32.7 million in debt became current debt. The Company has a total equity base of $206.8 million, reflecting $1,000 of share capital and $206.8 million in retained earnings.

Investment Outlook

The revenue model of JFP can be characterized as very fragile which can present a clear pitfall for the Company, and consequently, for potential investors. Specifically, the Company's revenue is dependent on being able to successfully procure contracts for the provision of furnishing services. Despite JFP's pipeline of projects that they have outlined, there still exists the risk factor of cancellation of these contracts and consequently, the inability to generate revenue in such circumstances. Moreover, based on the contracted revenue outlined by the Company, the size of contracts procured for the 2022 period, thus far, is below what was completed during the same period in 2021. As we consider the procurement of future contracts, we must note that JFP operates within a market space such that the Company relies heavily on the expansionary plans of other companies. As such, if companies aren't expanding or perhaps renovating, then revenue generation is impeded.

Valuation & Recommendation

Our DCF model resulted in a fair value estimate of **0.59** value per share. To complement our income-based valuation, we employed a relative multiple approach – a P/E valuation, utilizing a wide set of companies within the manufacturing space. This resulted in a P/E multiple of 12.5x which when multiplied against our 1-year target EPS of $0.07 resulted in a share price estimate of $0.88**.** Consequently, at the low end (bear case), we've determined a value of $0.59 while at the high end (best case), we've determined a value of $0.88. Placing equal weights to both methods, a simple average of the above values results in a share price estimate of **$0.74**, a 26.0% downside relative to the offer price of $1.00. This represents our base case estimate. As our base case estimate is below the offer price of the stock, we recommend that clients do not participate in this offer.