MAKING MONEY WORK FOR YOU.

Summary Equity Analysis

MASSY HOLDINGS LIMITED

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Massy Holdings Limited Summary Analysis

Summary: In 2018, following an extensive review of its portfolio of assets, Massy Holdings Limited (MHL) determined that 48% of its assets were generating returns less than the Group's average funding cost; its Weighted Average Cost of Capital (WACC). With this realization, the Group embarked on a multi-pronged strategy aimed at fulfilling Massy's values and purpose, more efficiently. As such, the Group sold several assets that were not returning more than its WACC of 9.60% and in some cases, the Group sold assets that simply did not fit its long-term strategic goals. In addition to selling these assets, Massy gave greater autonomy to its Portfolio Companies while reshaping the business from a Conglomerate model to an Investment Holding Company. This large-scale transition has allowed the Group to deliver a return on equity of 9.97% in FY2021 and 9.89% on a TTM basis while net profit has grown to reflect this improvement in the Group's performance. The Group's balance sheet is strong, marked by low debt and considerable cash and Massy has indicated an appetite for global growth within its respective main portfolios. We believe the deployment of its large stock of cash following the improvement in its business model should be very accretive to profitability and consequently, should drive shareholder value.

Income Statement

Revenue: For the quarter ended December 31, 2021, Massy reported revenue of $3.23 billion, an increase of $250.47 million (8.4%). This increase for the Group was underpinned by clear growth in Massy's main portfolio companies; Integrated Retail (up by $144.22 million or 7.2%), Gas Products (up by $94.06 million or 30.7%), and Motors & Machines (up by $44.33 million or 5.6%). This display of growth across all major business lines implies that the current refocused Investment Holding Company model has been beneficial; as growth has been more broad-based.

Profitability: Similarly, the Group has reported growth in operating profit after finance costs, profit before tax, and net profit to shareholders from continuing operations. In the Key Ratios table, we present a snapshot of the Company's performance relative to the prior year:

As shown in the key ratios summary, Massy's December 2021 quarter performance has significantly improved across several measures. Specifically, revenue has improved, tax management has also improved as indicated by the lower effective tax rate. Simultaneously, despite a much larger revenue base, net profit from continuing operations margin has remained at 5.5%. Consequently, net profit has grown by 8.5%, outpacing the growth in the prior quarter's YoY performance.

The managing of the Group's performance and subsequent growth in the bottom line has driven higher ROE both on a continuing operations basis and on a total net profit basis (continuing + discontinued operations). Finally, while doing this, the Company has managed its leverage, reporting a lower debt to equity ratio relative to the prior year.

Key Ratios		
For the Financial Period Ending	Dec-31-2020	Dec-31-2021
Revenue Growth (YoY)	-5.8%	8.4%
Operating profit after finance costs Margin	8.2%	8.1%
Profit before tax Margin	8.8%	8.5%
Effective Tax Rate (lower is better)	33.0%	31.0%
Net Profit Continuing Operations (shareholders) Margin	5.5%	5.5%
Net Profit Continuing Operations (shareholders) Growth	6.2%	8.5%
Debt/Equity	39.0%	37.7%
ROE (Continuing Operations)	6.4%	9.9%
ROE (Cont. + Discont. Oper.)	11.7%	12.2%

Balance Sheet

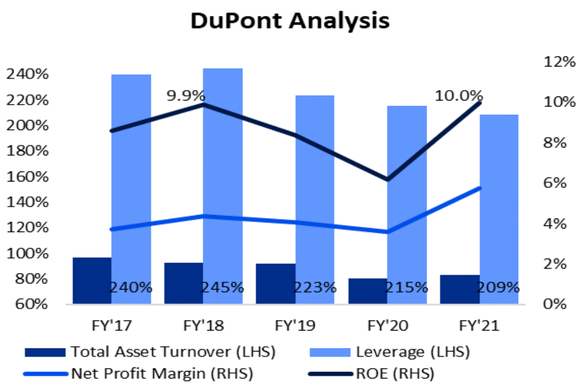
Consistent with the Group's improved profitability, its balance sheet remains well anchored; characterized by low debt relative to equity and assets. Further, Massy's current ratio suggests an enhanced liquidity position, moving from 2.11x to 2.24x. Additionally, in keeping with Massy's aim of realigning its businesses by divesting non-core assets and businesses, the Group is still in proceedings to complete the sale of Massy United Insurance Ltd. to Coalise Group. Consequently, its current assets and liabilities presently also reflect assets and liabilities classified as held for sale. The completion of this transaction will further strengthen the Group's current ratio, and consequently, its working capital position. Within that vein, based on its current cash position of $1.36 billion, adjusting for (removing) liabilities classified as held for sale, the Group has enough cash to meet current liabilities at a ratio of 0.60x.

Presently, Massy has total assets of $13.63 billion. Its asset base is funded by $7.03 billion in total shareholders' equity and $6.60 in total liabilities. Its asset position is mainly weighted in Other Current Assets (34.2% of Total Assets (TA)), PPE and Investment Properties (18.6% of TA), assets classified as held for sale (16.6% of TA), and cash and cash equivalents (10% of TA).

Balance Sheet Ratios		
As at	Dec-31-2020	Dec-31-2021
Current Ratio	2.11x	2.24x
Debt to Equity	0.39x	0.38x
Debt Ratio	0.20x	0.19x
Leverage	1.94x	1.94x

DuPont Analysis

By decomposing Massy's return on equity over the last five financial years, we can verify that the strategy has been working well. Despite the ongoing pandemic, Massy has recorded its highest ROE (10.0%) in 5 years and has done so efficiently, through a higher net profit margin, while reducing its leverage. The second step towards greater ROE will be asset utilization which should drive higher sales and consequently, improved asset turnover. An important point to note is that of the Group's FY2021 total assets of $13.53 billion, $2.51 billion or 18.5% represents assets classified as held for sale reflecting the ongoing sale of assets, the majority of which is attributable to the sale of Massy United Insurance Limited. The removal of this large asset which represents 18.5% of Massy's total asset as at September 30, 2021, and the removal of discontinued revenue which represented 7.5% of total revenue, could improve Massy's ROE further as total asset turnover (revenue/average total assets) will benefit from the higher proportion of revenue to assets, once discontinued operations are removed.



Valuation

To value Massy Holdings Limited, we utilized a free cash flow to equity valuation method. **The core result from our valuation was a price target of J$2,850.16 (TT$123.00),** assuming an average revenue growth rate over the 5-yr forecasted period of 6.94%, cost of equity of 11.71%, and a long-term growth rate of 4.74%. Cost of equity was determined using an average of the CAPM method and a transposed calculation of equity cost, based on the Group's stated WACC of 9.60%. Our long-term growth rate reflects an average of the Group's retention ratio x ROE over the last 5 financial years. Notably, we believe this is a conservative estimate, considering the current higher level of ROE results in a growth rate of 6.06% in FY2021.

The share price determined equates to a P/E of 15.00x relative to net profit attributable to shareholders and 18.51x relative to net profit from continuing operations attributable to shareholders. Forward P/E relative to net profit from continuing operations attributable to shareholders under these assumptions equates to approximately 17.44x. At present, the stock trades at a P/E ratio of 12.77x.

DCF Sensitivity Analysis (J$)						
		Long-term Growth Rate				
		2.50%	3.89%	4.52%	4.74%	5.98%
	9.50%	3,149.88	3,762.31	4,151.46	4,309.40	5,585.58
Cost of	10.50%	2,713.96	3,144.91	3,405.54	3,508.56	4,287.19
Equity	11.01%	2,531.01	2,896.62	3,113.35	3,198.11	3,822.98
	11.71%	2,315.66	2,612.09	2,783.79	2,850.16	3,326.07

Utilizing varying estimates of the Company's cost of equity and long-term growth rate within a reasonable range (reasonable is determined to be at least 10.50% given the Company's stated WACC of 9.60%) suggest that the value of the stock could range from J$2,612.09 (TT$112.73) at the low end to J$3,508.56 (TT$151.42) at the high end. Note that this is based on the present financial position of the Company that informs our estimate of growth and therefore, is subject to change once new information is released.

As at February 25, 2022, the stock traded at a share price of J$1,967.25 (TT$ 106.00) which implies an **upside of 44.9% in J$ and 16.0% in TT$**, relative to the core price target of J$2,850.16 (TT$123.00). Based on our estimate for FY2022 dividend payout of J$66.04 ($2.85), coupled with the current price of J$1967.25 (TT$ 106.00), the Company's expected dividend yield, assuming purchase at this price, would be 3.4% in J$ and 2.7% in TT$, **thereby reflecting a total return of 48.3% in J$ and 18.7% in TT$. Given the return potential and our positive outlook for the Group, we recommend that investors OVERWEIGHT Massy's stock.**