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LOCAL EQUITY REPORT

EXPRESS CATERING LIMITED

Barita investments Limited
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Tel #: 1-888-429-5333

Company Overview

Express Catering Limited ("ECL") was incorporated in 2001 and engages in the operation of branded sports bars, restaurants, and general food and beverage outlets at the Sangster International Airport (SIA) in Montego Bay. By securing international franchises and licenses, ECL has become the **exclusive** provider of food and beverage offerings at the airport. The Company is a 100% owned subsidiary of Margaritaville St Lucia Inc. and a member of the Margaritaville Group.

Stock	ECL
Close Price	J$5.14
Estimated Fair Value	J$4.82
YTD Return	0.59%
Trailing P/E	331.58x
Forward P/E	23.43x
Dividend Yield	0.00%
Potential Downside	-6.22%
Total Return	-6.22%
Recommendation	**UNDERWEIGHT**
as at March 23, 2022	

Summary and Outlook

ECL's last three financial years, from 2019 to 2021, demonstrate consistent revenue reduction. This performance follows the shock to the economy from COVID-19 which led to total passengers accessing the airport during 2020 by approximately 191.3% relative to the previous year). What followed the May 2020 financial year-end was a halt to the travel sector until June 2020 which had a significant negative impact on the Company's financial performance. Thereafter, Jamaica had a controlled opening of the sector, and though this was positive relative to the lockdown period, it still marked a difficult year characterized by a significant reduction in total passengers and subsequently led to a revenue decline of 68.5% during the 2021 financial year.

Given its location at the Sangster International Airport, the Company's revenue growth is pinned to the performance of the travel and tourism sector. More recently, the industry has shown significant improvements. Total passengers at the Sangster International Airport (SIA) for 2021 was 2.6 million, up from 1.6 million in the prior year. This increase in airport activity has had positive implications, made evident by the Company's most recent financials which have demonstrated top-line growth. Looking at the most recent data, we observe that year to date ended February 2022, total passengers at SIA amounted to 548,745, an increase of 213.0% over the same period last year. Going forward, we expect to see a significant increase in total passengers at the SIA as the tourism industry continues to rebound from pandemic lows.

With the ongoing recovery of the tourism industry, we believe ECL's revenues will increase year over year. However, the Company is not currently operating at pre-covid efficiency levels, as price increases due to the current global supply chain challenges have driven higher costs across all product categories. Consequently, there has been a clear deterioration of the Company's profit margins. This higher cost of goods has had implications for the Company's profitability and while we expect continued growth in the tourism industry will drive higher revenue, we also expect the inflationary environment to present challenges for the Group's profitability. Given this expectation, our valuation result indicates that at its current price, the stock is overvalued. The combination of these factors underpins our **UNDERWEIGHT** recommendation.

Industry Overview

Express Catering's operations are located at the Sangster International Airport and as such, the Company's performance is heavily dependent on total passenger traffic through the airport which is largely influenced by the tourism industry. As such, the below review and outlook for the industry form an important part of determining the outlook for ECL.

Tourism Activity Improves in Jamaica

For the quarter ended December 2021, the Planning Institute of Jamaica (PIOJ) projects real GDP growth of 6.0%, driven largely by the Services Industry which is expected to grow by 7.8% while the Goods-producing industry is expected to grow just slightly by 0.4%. According to PIOJ, The Hotel and Restaurants industry is expected to be one of the main drivers in the GDP components with an expected growth rate of 76.2%.

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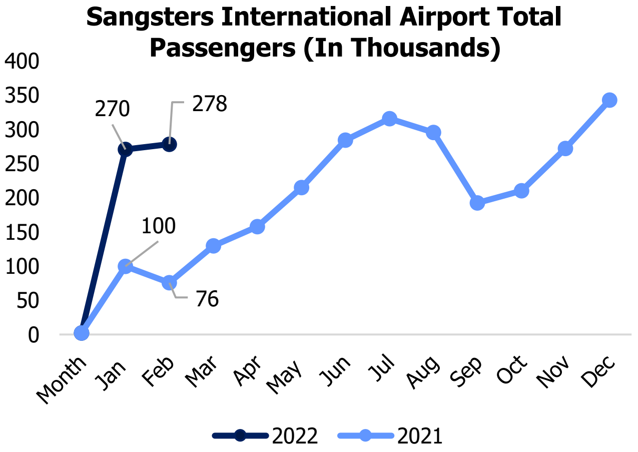
The modest easing of travel restrictions and a more limited nighttime curfew in Q2 2021 supported an improvement in tourist arrivals and related commercial activity. Tourism historically accounts for approximately one-third of economic activity, once the indirect reach of the industry is accounted for. Stopover visitor arrivals to Jamaica have surged by 39% to reach just under a million for the first nine months of 2021, based on the latest figures from the Jamaica Tourist Board (JTB). Stopover arrivals climbed to 970,435, up from the 695,721 recorded in the corresponding period of 2020. However, the latest numbers are still below the pre-COVID-19 levels by 52% when 2,020,508 stopovers arrivals came in the first nine months of 2019. Notably, Preliminary data show that the improvement in arrivals continued into October 2021 and November 2021 where the variance, when compared against 2019, is now down to 22% compared to 52% at the end of September 2021.

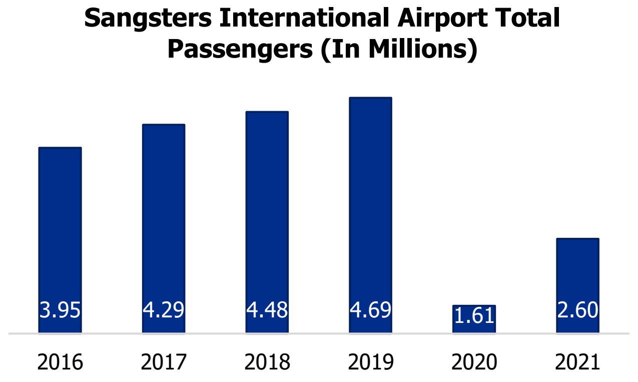
According to the Minister of Tourism, Hon. Edmund Bartlett, Jamaica is expected to surpass its pre-pandemic tourism inflows by the end of 2024, where total arrivals are estimated to reach 4.5 million. He also noted that total visitor arrivals are estimated at 3.2 million by end of 2022, with cruise passengers accounting for 1.1 million and stopover arrivals at 2.1 million. Bartlett reported that 7,000 airline passengers arrived at the Sangsters International Airport in St. James on December 11, 2021. Citing the number of arrivals as a single day record since the reopening of air travel on June 15, 2020. This single-day arrival record falls within ECL's February 2022 quarter and further suggests a positive turnaround for the industry and the Company's ability to drive higher revenue. Following the single-day record, total passengers continue to show promise at the end of February 2022, where total passengers amounted to 548,745, an increase of 213% relative to the same period in 2021.

As we look to the future of the tourism industry, it must also be noted that key tourism source markets, The US, UK, and Canada, ramped up their vaccination campaigns in 2021, with at least 75% of their respective populations receiving at least one dose of a Covid-19 vaccine as of March 17, 2022. This should underpin greater demand for overseas travel. Moreover, airline and cruise ship companies have announced plans to increase travel options to Jamaica. **American Airlines** resumed direct flights to Jamaica in December 2021, with approximately 17 non-stop flights per day. Meanwhile, **Carnival** announced that 110 cruises will stop in Jamaica from October 2021 to April 2022.

Certainly, risks to the growth of the industry remain. One such critical risk is the ongoing war between Ukraine and Russia. While keeping a close eye on the global instability created by the war, the Hon Edmund Barlett remains positive regarding the continued growth in Jamaica's tourism industry. This is somewhat supported by several assurances from travel partners in the USA and Europe of confirmed plans for increased flights to Jamaica, starting between April and May of this year.

We expect the tourism industry will continue to recover throughout 2022 as COVID-19 increasingly becomes less severe. However, if the risks associated with the pandemic or the conflict in Eastern Europe develop in a significant way, they could weaken global travel demand and threaten the recovery of Jamaica's tourism industry. While possible, we believe this scenario is less likely, barring an extremely high increase in the positivity rate and subsequent increase in hospital admissions, in several source markets.



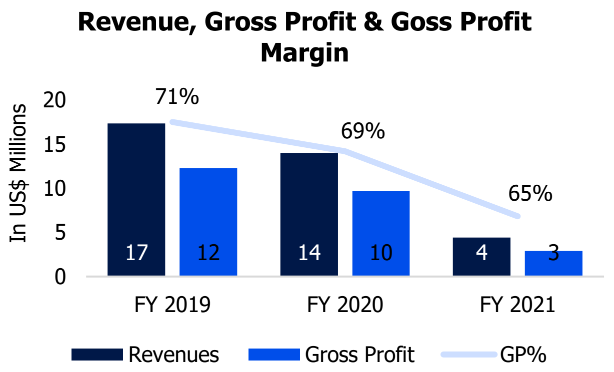


Supply Chain Issues

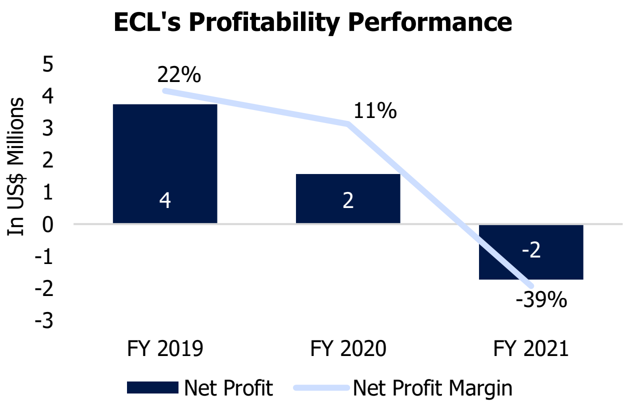
While ECL has benefited from improvements in the tourism industry, the Company's most recent quarterly results indicate that supply chain issues are having a significant negative effect on profitability. This has taken the form of higher cost of goods, and consequently, reduced profit margins. Over the ensuing quarters, we expect inflationary pressures to remain elevated and while revenue improvement has been pronounced, the severity of the current cost increases have been such that the Company reported a loss in the quarter. We expect this dynamic of lower margins due to the cost pressures to persist over the year.

Financial Analysis

Following the Company's Junior Market listing, ECL generated revenue growth before the onset of the Covid-19 pandemic. Specifically, revenues moved from US$14.2 million in FY2017 to US$17.3 in FY2019, represented by a CAGR of 10.3%. The initial effects of the COVID-19 pandemic were seen in the Company's last quarter of the financial year 2020 where revenues dipped by 19.1% to end the year at US$14.0. million. This decline was a result of travel and tourism coming to a halt. Total passengers accessing the airport during 2020 was 1.6 million compared to 4.6 million passengers in the prior financial year, an 65.6% reduction.

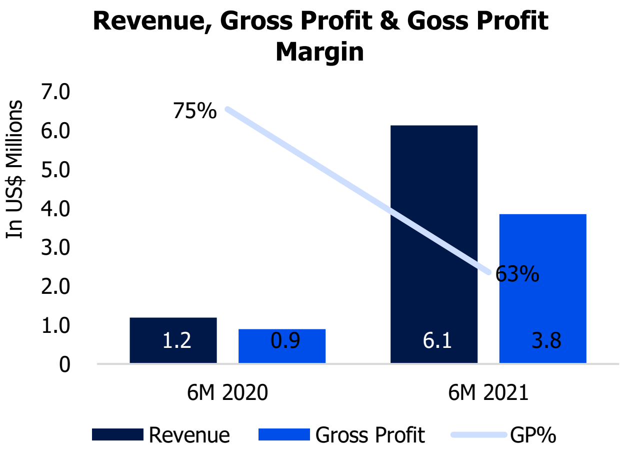


For the financial year ended May 31, 2021, the Company operated during a challenging period which was evidenced in its year-end financial performance, where revenues declined significantly by 68.5% to end the year at US$4.4 million. This reduction was due to a significant decline in the number of passengers handled at Montego Bay's Sangster International Airport where the total number of passengers for the financial year 2021, was 1.6 million, down from 4.6 million in 2020. Sangster International Airport has seen a significant increase in total passengers. Between the periods 2020 and 2021, where total passengers amounted to 2.6 million, an increase of 61.4% over 2020.



Q2 and 6-Month ended November 2021

Revenues for Q2 ended November 2021 amounted to US$2.5 million an increase of 232.9% over Q2 2021. Despite this increase in revenues, the Company reported a loss of US$320,810 compared to a loss of US$571,047 for Q2 2020. This loss was due to the price increases associated with the severe supply chain disruptions where the Company's gross profit margin fell from 81.0% for the quarter ended November 2020 to 58.2% for the quarter ended November 2021. ECL's second-quarter performance ended November 2022 showcases that the Company is experiencing a significant increase in the cost of goods sold and while it is difficult to determine how long this will continue, we expect it to persist over the short to medium term (approximately the next 6–12-month horizon).



The Company recorded revenue of US$6.1 million for the 6-months ended November 2021 compared to US$1.2 million for the corresponding period of the prior year. This represents a significant growth of 414.0%, and the Company is now operating 25 of its 27 locations, following the resumption

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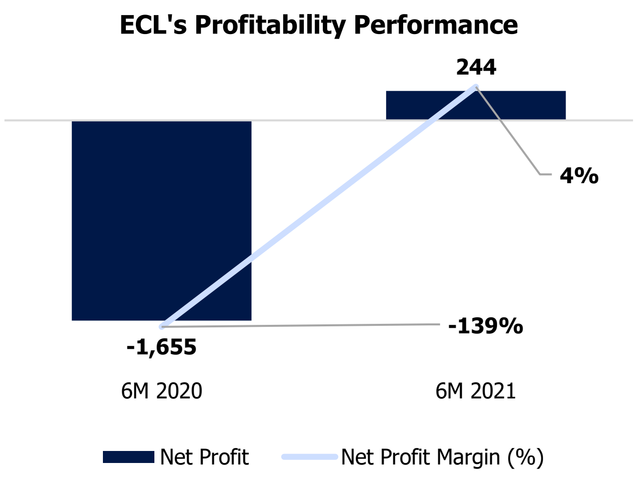
of economic activity after what had been a suspension of all locations in March 2020 due to the COVID-19 pandemic. Passenger numbers for the second quarter (November 2021 quarter) continued on an uptrend that commenced in the first quarter (August 2021 quarter).

The passenger traffic during the November 2021 quarter was 217.4% above the November 2020 quarter's outturn. Over the entire six-month period, the increase in passenger count was 351.29%. Despite this increase, the Company's profit for the six months was not as impressive, ending the period at US$244,458. This outturn was impacted by the quarters ended August 2021 where the Company reported a loss of US$320,810.

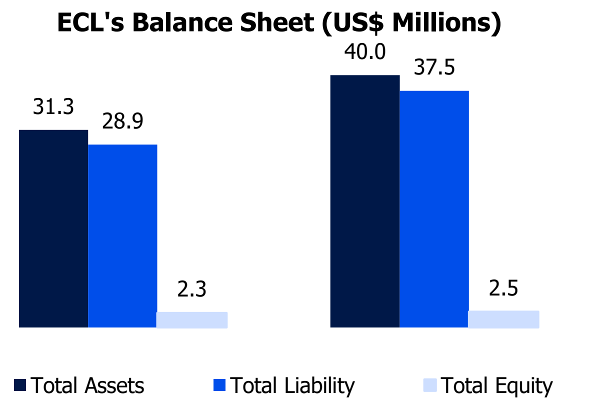
Notwithstanding, the 6-months performance compared favorably, relative to the prior year where the Company reported a loss of US$1.73 million for the entire 2021 financial year. The Company continues to face price increases associated with the severe supply chain challenges due to the Covid-19 pandemic and the ongoing Russia/Ukraine war. Prices have increased across all product categories. This is evident based on the Company's gross profit margin ratio which decreased from 74.7% for the 6months ended November 2020 to 62.7% for the 6 months ended November 2021.



Net profit for the six months was US$244,257 compared to a net loss of US$ 1.66 million for the same period in the prior year. While profits increased year over year, the Company's net profit margin declined significantly when compared to pre-pandemic. For the six months ended November 2021, for instance, the Company's net profit margin declined to 4.0%, coming from 21.5% in 2019.

Balance Sheet Overview

As at November 31, 2022, ECL reported total assets of US$ 39.94 billion relative to US$39.81 billion in the previous year. The Company's assets are heavily concentrated in right of use assets and property plant and equipment which together, account for 72.8% of total assets. Of the remaining assets, there is a heavy concentration (23.4% of total assets) in assets owed to the Company by related parties. Receivables and Inventories only account for $222.62 thousand (0.56%) and $414.15 thousand (1.04%) of the Company's total assets.



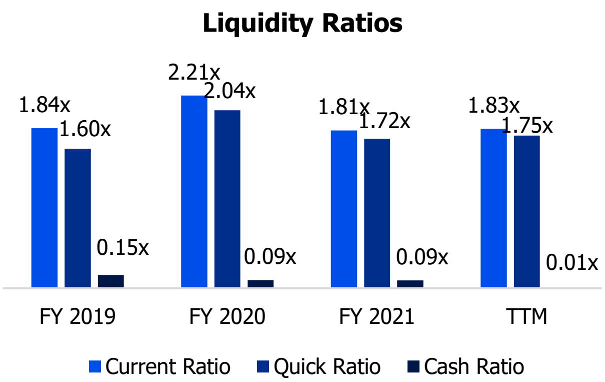
ECL's asset base is funded by total liabilities of US$ 37.46 million and total shareholders' equity of US$2.49 million. Consistent with its large right of use assets, the Company's total lease liabilities of US$25.62 million represent the majority (68.4%) of its total liabilities. In FY2021, the Company repaid a 9.5% Cumulative Redeemable USD Indexed Preference Share valued at US$3.50 million. The repayment was facilitated through a 5-year loan of US$ 8.00 million received from Sygnus Credit Investments. As per the Company's November 2021 financial release, the total long-term loans are US$ 8.20 million, representing 21.9% of total liabilities. Total shareholders' equity mainly reflects retained earnings of US$2.37 million, a share capital position of US$73,861.00, and capital reserves of US$43,490.00.

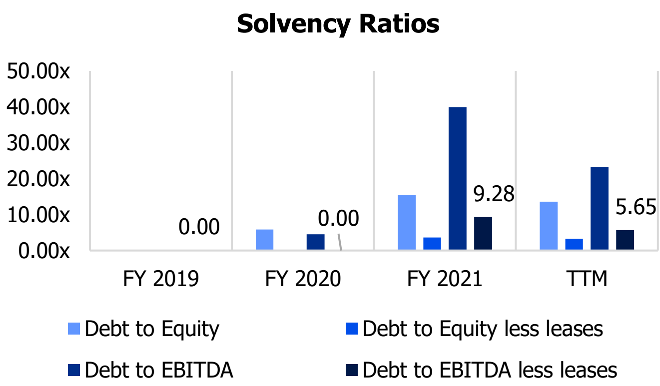
Liquidity

ECL's liquidity position based on its current and quick ratios suggests that the Company is quite liquid considering its current quick ratio of 1.75x which is 0.75x the minimum expectation for current assets matching current liabilities. While this is the case, we note that 93.5% of the Company's current assets are concentrated in monies due from related parties suggesting that neither the sale of inventories on hand nor the receipt of receivables is sufficient to cover current liabilities. Notwithstanding, we believe the Company's liquidity position is very remains cushioned once we consider the Company's net operating cash flows which benefit from a large depreciation and amortization (non-cash charges) and cash conversion cycle which benefits greatly from long periods of days payables outstanding.

Solvency

As shown in the accompanying chart, the Company's solvency position has deteriorated since the start of the pandemic. While debt has increased considerably, the Company's earning generation remains constrained despite the considerable improvements that the tourism industry has witnessed recently. Based on its most recent November 2021 results, the Company's debt to EBITDA is currently 5.65x which compromises the Company's financial covenant on its current loan from Sygnus which specifies a maximum debt to EBITDA of 4.00x. Importantly, we must mention that continued improvement in the tourism industry will likely drive improved EBITDA for the Company, particularly in light of the fact that in previous years the Company reported sizable operating losses.

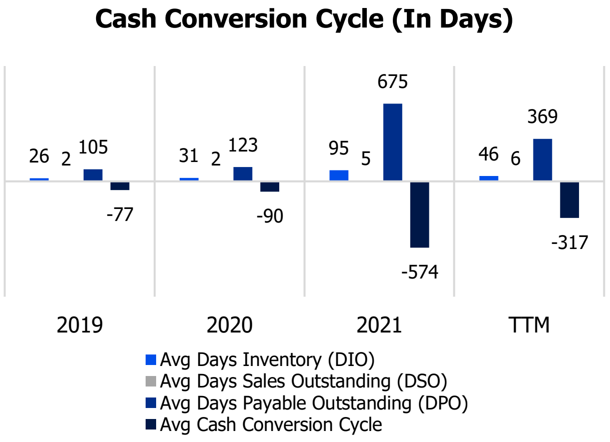




Cash Conversion Cycle

ECL's businesses are generally heavily cash-driven. Essentially, since the Company operates food and beverage outlets that typically receive cash upfront, ECL rarely sells goods on credit. Simultaneously, inventory is generally not held for long periods since food and beverages are fast-moving goods, much of which have very short shelf lives.

Therefore, from both a Days Sales (Receivables) Outstanding and a Days Inventory Outstanding perspective, ECL receives cash quickly (a very fast receipt of cash from those who owe, if there are any receivables) and sells its inventory relatively quickly. Both measures suggest a quick turnaround and receipt of cash. Added to this, the Company takes very long to repay creditors, i.e., other businesses that are owed because ECL received goods that have not yet been paid for. Consequently, ECL has a very high Days Payables Outstanding (DPO) because it repays creditors slowly.



This dynamic results in a negative Cash Conversion Cycle (CCC) which is generally positive for the operation of the business. However, we must note that the current DPO is quite significant and would suggest meaningful difficulty as it relates to paying for goods.

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Cash Flow

The Company's net cash generated from operating activities for the 6-months ended November 2021, stood at US$167,615, a decrease of US$134,859 or 44.6% relative to the corresponding period of the prior year. While the Company reported a net loss in the previous year, operating cash flow was markedly higher. The decline in net operating cash flows in the current period was largely due to an increase in current assets which is classified as a use of cash, which therefore reduces cash generation. Importantly, however, the Company's cash flow before working capital was US$1.98 million, which largely reflects the significant depreciation and amortization of US$1.36 million. ECL's investing activities also declined for the period under review by US$ 82,821 due to an increase in purchasing fixed assets. Financing activities also declined, moving from US$191,179 to US$285,240. The company ended the period with a cash balance of US$28,466 compared to US$157,960 in the prior period of the corresponding period.

Float size and Market Sentiments

As is typical with Junior Market stocks, the float size of Express Catering is relatively small, with a total value of approximately $1.49 billion. As a result, there can be significant dissonance between **price** and **value,** depending on market sentiments and the demand that can be created from these sentiments.

Float Transparency

EXPRESS CATERING LTD (ECL JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out
Float	289,231,520	17.663
Shares Outstanding	1,637,500,000	100.000
Stagnant Shares	1,348,268,480	82.337

Valuation and Recommendation

To value ECL, a P/E valuation approach was used. We firstly forecasted the company's 1-year expected earning and arrived at an EPS of approximately J$0.22 for 12 months ended November 2022. Investors should note that the forecasted EPS is still below pre-Covid levels where ECL's EPS in 2019 was approximate J$0.35. Key assumptions used in this forecast include a continuation of the revenue growth (%) that the company has reported in recent quarters, particularly as the tourism sector rebounds. Our projections also take into consideration the company's increased cost of sales resulting from supply chain disruptions.

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To determine a benchmark multiple, we've used the Junior Market average P/E which was less than the Company's average historical 2-year P/E pre-Covid. The average PE multiple of the junior market was 21.97x at the time of this writing. Applying this multiple to the forecasted EPS we arrive at a fair value of J$4.82.

Given the significance of the supply chain pressures, and rising interest rates, a fundamental valuation of ECL demonstrates that at present, the Company's ROE is insufficient relative to its cost of equity, resulting in meaningless valuation results. This, coupled with the fact that the Company has not paid dividends since FY2020 highlights the relevance of the P/E multiple approach.

Characteristic of the decline in the business' profitability and clear net losses in several quarters, the trailing P/E as at March 24, 2022, was 331.58x. The rebound effect of the stock would typically warrant positive investor sentiment. However, the most recent quarter suggests supply chain issues are significant, more so than the improvement in revenue from the strengthening of the tourism industry. Hence, the Company reported a loss in Q2 2022, despite the market's expectation of robust rebound, on the back of improvements in tourism. Our 1-year net profit estimate which is below pre-pandemic (FY2019) levels by 37.5% but above FY2020 levels by 49.2%, suggests that even at a relatively elevated multiple of 21.97x, the Company trades above what is justified based on our one year forecast. This, coupled with the meaningful deterioration in profitability underscores our current **UNDERWEIGHT** recommendation.

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