Barita
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LOCAL EQUITY REPORT

GRACEKENNEDY LIMITED

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Company Overview

Founded in Jamaica in 1922, GraceKennedy Limited (GK) is a publicly listed company on the Jamaica Stock Exchange (JSE) and the Trinidad and Tobago Stock Exchange (TTSE). GK is the parent company of a Group of subsidiaries operating mainly in the Food and Financial Services industries. The Group's operations are structured into two Divisions: Food Trading where GK manufactures and distributes Grace and several other brands as well as Financial Services, which offers a range of services including cambio services, remittance services, insurance, banking, and investment services. GK comprises companies in the Caribbean, North and Central America, the United Kingdom, and West Africa. The Company's core operations are segmented into four main areas.

Stock	GraceKennedy
Close Price	J$102.09
Estimated Fair Value	J$111.90
YTD Return	2.07%
Trailing PE	12.34x
Forward PE	9.29x
Dividend Yield	1.91%
Potential Upside	9.61%
Total Return	11.52%
Recommendation	**MARKETWEIGHT**
March 30,2022	

Below we briefly describe each of these business divisions that encompass the GraceKennedy Group:

1. **Food Trading-** This business unit is primarily involved in the merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.
2. **Banking and Investment-** Through its subsidiary, GK Capital Management, the Group offers stock brokerage; corporate finance; advisory services; and lease financing. It also provides commercial banking services through its subsidiary, First Global Bank Limited
3. **Insurance –** The insurance business line offers general insurance and life insurance. The Group's insurance footprint has been recently broadened via the acquisition of Scotia Insurance Eastern Caribbean Limited.
4. **Money Services –** This business line provides the operation of money transfer services, cambio operations, and bill payment services.

Investment Rationale

The Company celebrated its 100th year of operations in February 2022, and GK's management has been positioning the Group to be stronger and more resilient for the future. The Group's performance is demonstrative of its ability to generate consistent growth and profitability. For the past five financial years, Grace Kennedy's revenue has grown at a Compound Annual Growth Rate **(CAGR)** of **6.94%** which tracks slightly below the industry average of 7.11**%**. Operating profit has grown over the last four years at a **CAGR** of **16.19%** and net profit has grown at a rate of **13.38%** both of which are below the industry averages of **16.53%** and **16.64%** respectively**.** In our view, Grace Kennedy can generate even more value for its shareholders. GK's growth has been anchored by the following:

- **Strong Return on Equity:** Through the strategic use of debt financing for the funding of growth initiatives such as mergers and acquisitions and operational efficiency efforts like that of the Group's digital transformation, the Company has been able to provide a strong return on equity for its shareholders. The Company's four-year average return on equity was **12.93%**. For the financial year that ended December 2021, the Company had recorded an ROE of **14.75%** which was above that of the average ROE for the JSE which was **9.88%,** and higher than the average ROE for the conglomerate sector which was **12.79%.** This indicates that the Company has delivered strong ROE above that of its peers and that of the wider market.

- **Expansionary Efforts:** The Company has stated its intentions to grow the business as it celebrated its 100th anniversary earlier this year. The main avenue for growth that management has undertaken has been through mergers and acquisitions. The management of the Company has stated that it has a strong deal pipeline of mergers and acquisitions which is evident from the Company's recent acquisitions over the last two years. The Company is still in acquisition mode which is evidenced by its recent acquisition of 100% of Scotia Insurance Eastern Caribbean Limited. GK has since renamed the acquired Company, GK Life Insurance Eastern Caribbean Limited. This recent acquisition presents the opportunity for growth in GK Insurance's market reach, as, through the Scotia acquisition, GK Insurance will be able to have access to the eastern Caribbean. Scotia Eastern was acquired via an initial payment of $637.79 million with further consideration of $476.93 million being payable upon the achievement of gross premium income being above a specified target. This total would amount to Scotia Eastern Life Insurance being bought at a valuation of $1.12 billion. **Using a relative valuation metric of 8x to 15x earnings range, as a gauge to ascertain the**

earnings of the acquired company, we estimate a net profit of $80 million (0.98% of current new profit) to $150 million (1.83% of current new profit) for the acquired company. Given the mammoth size of GraceKennedy, we do not foresee this acquisition as being a great mover of GK's bottom line. However, despite the minimal forecasted accretive value of the acquisition, it could complement GK's wider insurance business through the delivery of synergies and the provision of access to the Eastern Caribbean for other insurance products that the group currently offers. Therefore, over time, it could drive more robust profitability.

- **Optimizing Operations & Positioning for The Future:** The Group has started a digitalization process, whereby it aims to optimize several processes across the group and by extension, facilitate the ease at which customers can transact business. As part of the digitalization strategy, GK launched a pilot mobile app that will incorporate remittance and bill payment services via this app. There has been a role out of an eCommerce platform for the Hi-Lo stores that will enable customers to purchase goods online with the use of a debit or credit card, from which they can opt for in-store pickup or home delivery. We believe that these initiatives geared towards enhancing the ease at which customers can do business are likely to increase the competitive edge for the various companies under the group and reduce overhead expenses.

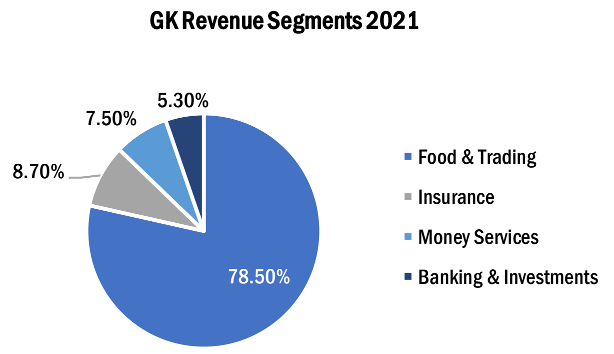
Outlook

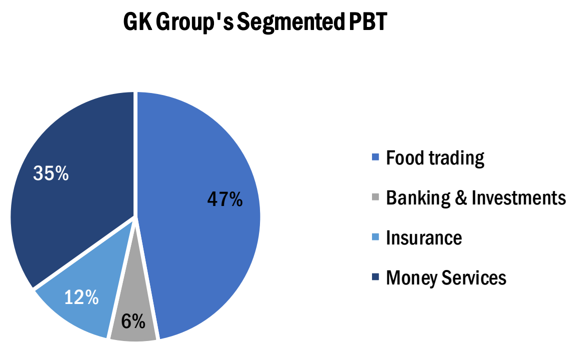
GraceKennedy has demonstrated growth in revenues and net profits over the last two financial years. A large part of this was contributed by the shift in consumer spending patterns. As countries had to cope with the containment of the COVID-19 pandemic, normal life which included frequent outings was reduced to a minimal level, and as such most people stayed home, coupled with work from home. As more persons stayed home, the consumption pattern of eating out shifted largely to home-cooked dining from which consumer distributors like GraceKennedy benefited. With the world gradually going back to normality, evidenced by the relaxation of the DRMA in Jamaica, we are of the view that consumer spending will gradually shift to pre-pandemic patterns. The shift in patterns may bode negatively for GraceKennedy's food and distribution business, which is the largest contributor to the Group's revenue. As such, the revenue growth rates that were observed over the last two financial years may be lower in the future. Another threat to the Group's earnings is that of the inflationary environment that exists locally. With rising prices, the disposable income of several householders has been lowered, thus lowering their disposable income and their spending power. This could result in demand for products offered by GK being reduced which could further lower GK's ability to drive revenue growth at the level witnessed in the last two financial years.
The Group's recent acquisition of Scotia Insurance Eastern, despite its potential to provide GK's Insurance business with a foray into the eastern Caribbean, will unlikely drive significant growth in the Group's bottom line initially, given GK's mammoth size.

Business Overview & Business Segments

The primary driver of revenue for the Grace Kennedy Group is the Food & Trading division. This division accounts for **78.50%** of the group's total revenue while Insurance was the second largest contributor to the Group's top line. As it relates to revenue by geographic location, Jamaica is the largest contributor to the Group's overall revenues, at 53.56% of the Group's revenue, while the second-largest contributor was the USA, accounting for 19.60% of total revenue. For the financial year that ended December 2021, the revenue geographic segmentation is as follows:

Jamaica: 53.60% **United States of America:** 19.60% **United Kingdom:** 12.40% **Canada:** 7.00% **Caribbean Countries:** 6.60% **European Countries:** 0.80%. Below we outline the Group's revenue and Profit Before Taxation (PBT) by business segments:





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GraceKennedy Foods Limited

Grace Kennedy Foods (GK Foods) operates as a distribution company. In Jamaica, the Company operates through the business units: Grace Foods & Services, Consumer Brands Limited, and the retail supermarket chain of Hi-Lo Supermarket which operates from 13 locations. Some of the major products which the company distributes include:

- Grace Corned Beef
- Grace Vienna Sausage
- Grace Frankfurters
- Grace Mackerel
- Grace Baked Beans
- Tropical Riddims
- Kaset Rice
- Downy

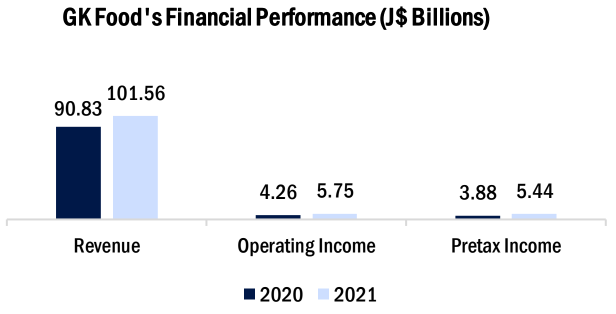
Grace Foods has developed a strong distribution network that allows the Company to distribute in over 40 countries. In the United States, Grace Kennedy Foods through its US subsidiary **(Grace Kennedy Foods USA LLC)**, operates as a full-service distributor of a product portfolio of 1,400 products. The distribution framework that is modeled in the US, allows the Company to be able to have a footprint in the east coast, mid-west, and western areas of the US.

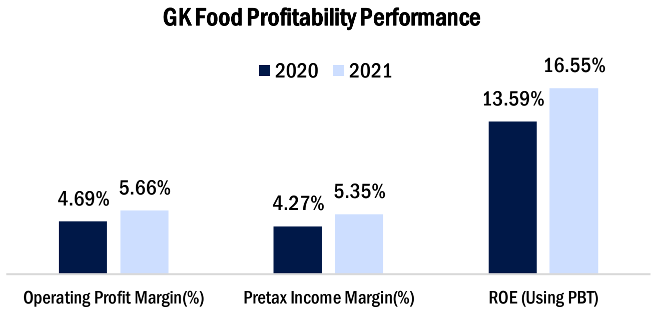
Through its subsidiary, **Grace Foods UK Limited,** the Company supplies a market-leading range of specialty and world food brands to the retail, wholesale, and food service sectors throughout the UK and Europe. The Company also has distribution footprints across the Caribbean and Western Africa as well.

Financial Performance

For the financial year that ended December 2021, GK Food Limited recorded revenues of $101.56 billion which was an increase of 11.55% YoY. Operating income amounted to $5.753 billion, which increased YoY by 35.04%. Pre-tax income amounted to $5.436 billion which was an increase of 40.10%.

The improved financial performance of GK Foods YoY was due to strong performance in core products such as Corned beef, Caribbean Choice, Sardines, and Tropical Rhythms.





The growth in the financial performance of GK Foods in 2021 was a combination of the introduction of new products and new distribution channels. GK Foods USA launched new products such as Grace Peanut Punch and Grace Ackee. The introduction of new products was also coupled with GK Foods USA distributing its products via Instacart which is an e-commerce platform that allows users to make grocery purchases online and get them delivered to their homes. This deepened the Company's market reach in the US market by enabling customers to have ease of access to the Company's product offerings.

In the second half of 2021, GK Foods UK benefited from the reopening of the food services industry in the United Kingdom which provided growth in the division's top line.

Strategic Initiatives& Outlook

The growth strategy for Grace Kennedy Food Limited is aimed at deepening the entity's market penetration. To accomplish this over the last financial year, through its subsidiary World Brands Limited, the Company added two new van routes and increased its distribution points to widen its market reach. Consumer Brands Limited, another subsidiary that falls under this business segment, also added new products to their existing product portfolio, namely Downy, Tide, and Pampers. Additionally, through its retail outlets; Hi-Lo, there has been a launch of an e-commerce platform that allows users to shop online with their debit or credit card and to be able to receive their goods either through a curbside pickup or by way of home delivery. All these initiatives have complemented the growth of GK Foods Limited and have positioned the Company for further growth. In 2021, the Group began merging its factory operations. The merger will see its canning operation and processing plants being under one umbrella. This was done to drive efficiency and cost optimization.

Given the inflationary environment compounded by supply chain disruptions, the cost of raw material inputs that are needed for the manufacturing processes will rise. We believe that this may result in GK having to operate with lower margins on some products which may lower the overall profitability of its manufacturing division. However, we believe that as the Company expands its product portfolio in 2022 and enters new markets, this will be able to drive top-line growth. In line with this, a contract was signed recently which will see Grace being the manufacturer for Capri Sun to be distributed in Bolivia which has a population of 11.67 million which should drive improved performance by the food division.

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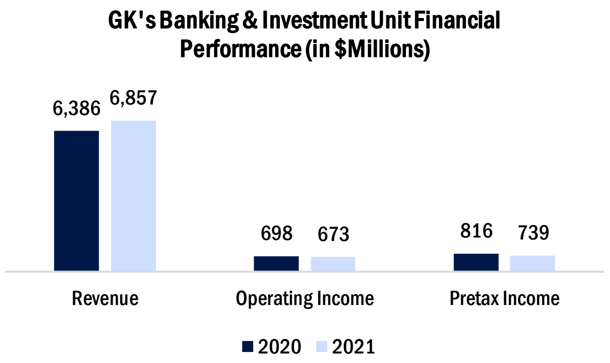
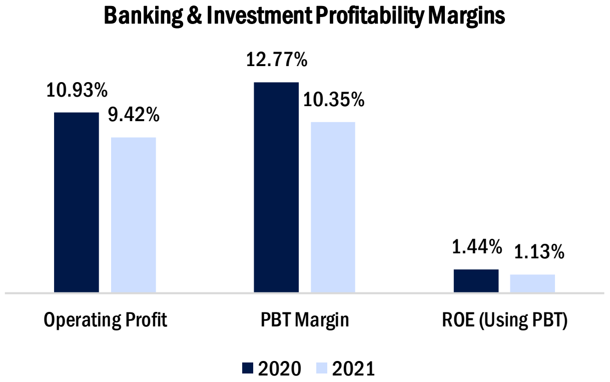
Banking & Investment

Grace Kennedy's banking services include the operations of First Global Bank (FGB) a 100% wholly-owned subsidiary. First Global Bank is a full-service commercial bank that offers corporate and retail loans to clients as well as is a deposit-taking institution. FGB operates 13 locations of which five are mini branches and the remaining eight are traditional branches. The Group's banking services also encompass a joint venture with a financial outfit in Barbados named Signia Globe Financial in which Grace Kennedy owns 40%. Signia Globe Financial services include personal loans, corporate loans, term deposits, foreign exchange, and brokerage services.
The Group's investment business line is centered around GK Capital Investment Limited and GK Investments Limited. GK Capital offers corporate advisory services, investment banking, and stock brokerage services.

Financial Performance

For the financial year ended December 2021, the banking and investment business segment recorded revenue of $6.86 billion which was 5.30% of the Group's total revenue. The revenue recorded for the year was an increase of 7.37% YoY. Operating income amounted to $673 million which was lower than the amount recorded last year, declining by 3.61% YoY. It should be noted that banking and investment's operating income contributed 5.70% to the Group's combined operating income. Pre-tax income amounted to $739 million which was lower than the amount recorded for the prior financial year. The decline amounted to 9.36% YoY. Banking and investment activities contributed 6.3% of the Group's total pre-tax income. It should be noted that despite the growth in revenues YoY, the decline in pre-tax income was a result of the amount earned from the share of results of associates and joint ventures which amounted to $134.01 million, which was a decrease of 26.65% YoY. A second driver in the reduced profit before tax by the division was the reduction of finance income by 3.28% while the division's finance expenses climbed by 2.69%. The combined factors resulted in an overall reduced profit before tax, YoY.





During the year, operating assets increased by 17.04% to amount to $85.51 billion as of the end of December 2021. The growing operating asset base in our view provides the division to benefit from improved interest income. Presently, the Banking and Investments business is funded by both Repurchase agreements and Deposits and as such, the rising interest rate environment could positionally weaken the Group's net interest margin as repurchase agreements reprice. Importantly, however, the deposit liabilities help to cushion some of the Group's potential net interest margin reduction.

Strategic Initiatives & Outlook

Grace Kennedy has committed to playing a leading role in bolstering financial inclusion within the Jamaican economy. As such, it has started a digitalization strategy that aims to encapsulate the unbanked within the population through the recent launch of GK One which operates as a digital financial shop. Users can digitally access financial products as opposed to going in-branch. A feature of this digitalization rollout includes applying for loans online. Through the GK One initiative, more so the GK Proxim, GK Capital Investments has partnered with GK Money Services to offer a consumer lending product that allows individuals to access unsecured loans. The accretive value of these new loan offerings is that they enable GK to position itself in the microfinance industry. A foray into the microfinance industry with this new loan product should provide growth in GK's loan portfolio. The novelty of GK One is the ability for users to be able to access all the financial services from the Grace Kennedy Group under one roof, which provides ease and convenience for users such as applying fully for loans online. GK has recently indicated that it has received approval from regulators to enter the mutual fund market. Initially, GK Capital will launch three mutual fund products. We believe that these will enable GK Capital to experience growth with the added products as well as provide synergies, as the mutual funds should complement GK in its ability to underwrite larger investment banking transactions.

GK Money Services

GK Money Service product offerings include Bill Payment, Money Transfer, and Cambio services. GK Money Services provide bill payment services in Jamaica, Guyana, and Trinidad & Tobago. The Money Services is the exclusive agent of Western Union in Jamaica and several other Caribbean countries. The Cambio services operate in Jamaica and Trinidad & Tobago and provide FX trading for US dollars, Canadian dollars, Cayman Island Dollars, Euros, and Pound Sterling.

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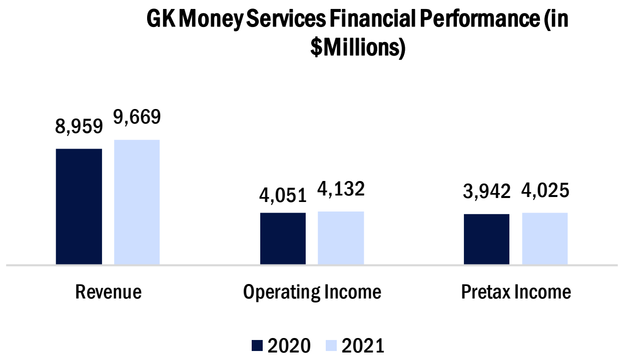
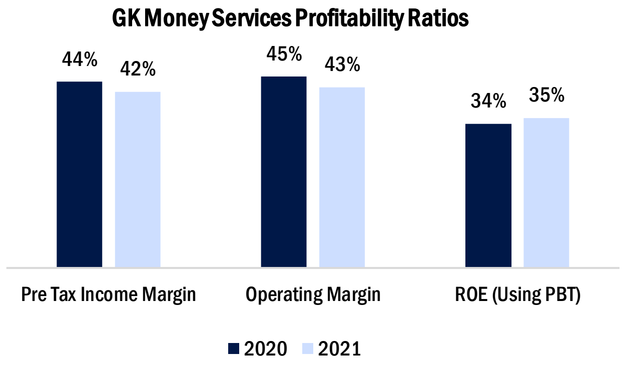
Financial Performance

For the financial year ended December 2021, the Money Service business segment recorded revenue of $9.67 billion, which was an increase of 7.92% YoY. The money services division contributes 7.5% to the Group's overall revenue. Operating income amounted to $4.13 billion which was a slight increase of 2% YoY. The Money Services division contributed **34.70%** to the Group's overall operating income. Pre-tax income amounted to $4.02 billion, reflecting a slight increase of 2.12% YoY while making up 34.50% of the Group's consolidated Pre-tax income.



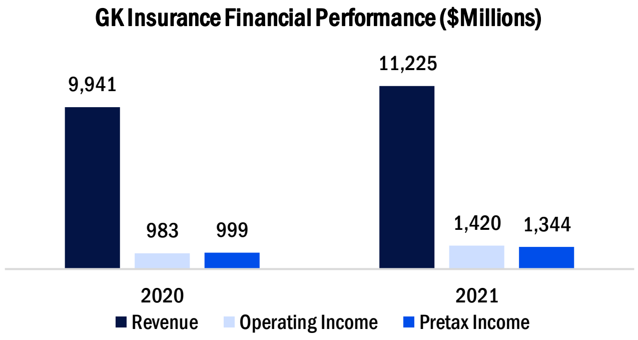
Strategic Initiatives& Outlook

GK Money Services continues to grow and innovate as they recently introduced new digital offerings to end-users. The Money Services divisions recently implemented electronic registration which allows users to sign up online as well as being able to benefit from direct to bank (D2B) transactions. The D2B initiative allows for remittance customers to be able to receive payments via their bank accounts as opposed to long lines, which have historically been a common feature. On average, around 70% of remittance inflows to Jamaica are from the United States of America (US). With the US currently in an inflationary environment with inflation at 7.90% compared to the annualized inflation of 2.30% in 2019 which was pre-pandemic. The high inflationary environment will likely reduce the real wages earned by many in the US, and by extension, reduce their disposable income. The reduced disposable income could result in persons having less money to send via remittances to Jamaica. This potential weakening of remittance inflows, particularly the growth in remittance inflows, could threaten revenue growth for GK Money Services.



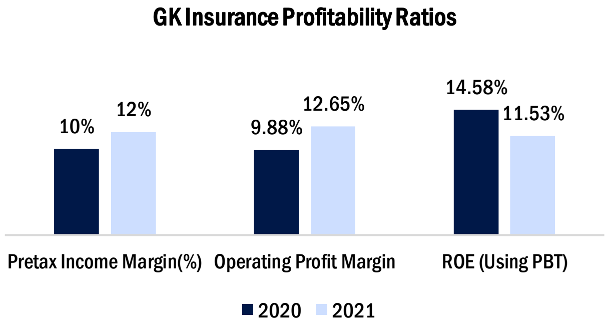
GK Insurance

The GK Insurance umbrella provides general and life insurance services in Jamaica and across the Eastern Caribbean. The Companies that comprise the GK Insurance umbrella include Allied Insurance Brokers, GK Insurance, GK Insurance (Eastern Caribbean) Limited, GK Insurance Brokers, Canopy Life Insurance, and Key Insurance Limited.



Financial Performance

For the financial year that ended December 2021, revenue amounted to $11.22 billion which was an increase of 12.92% YoY. The insurance segment contributed 8.70% to the Group's total revenue. Operating income amounted to $1.42 billion, which increased YoY by 44.49%. Pre-tax income amounted to $1.34 billion which was an increase of 34.56% YoY. Operating income and Pre-tax Income from the insurance business unit contributed 11.90% and 11.50%, respectively, to the Group's consolidated financial report.



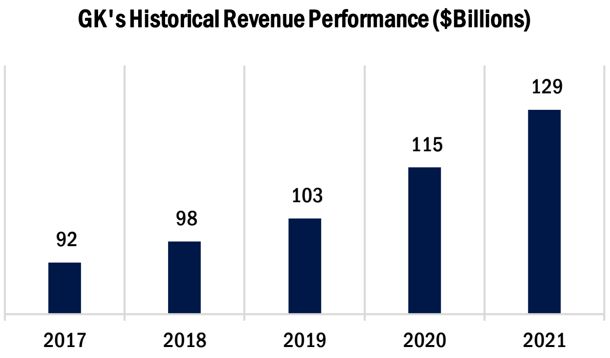
Strategic Initiatives

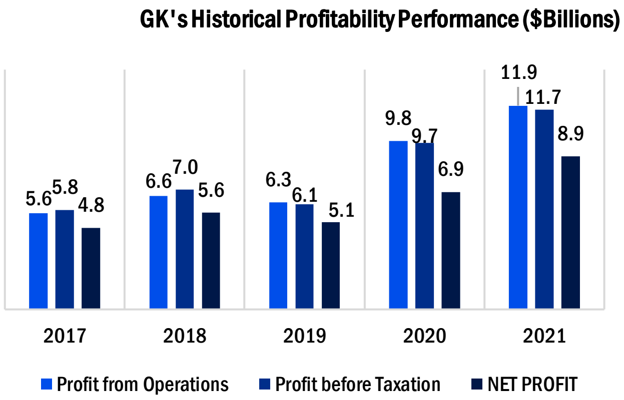
GK Insurance recently launched a new insurance product. This was done in partnership with the Ministry of Agriculture, where an insurance product was created to protect farmers from climatic pitfalls. The insurance product called **GK Weather Protect** seeks to protect farmers from the adverse effects of natural disasters such as flooding and hurricanes. The group recently stated that Allied Insurance Brokers has been actively engaging in fostering relationships with international brokers which has yielded additional accounts and exposure to constricted markets. The recent acquisition of Scotia Insurance Eastern Caribbean Limited may provide the opportunity for synergies to be created for the wider insurance division. The acquisition positions GK's Insurance to have access to the eastern Caribbean, through which it can be able to market and sell existing insurance products within that market, thus being able to serve and encapsulate new markets.

Group Financial Performance (Financial Year Ended December 2021)

Income Statement

The Group's revenue has grown steadily over the last four years. Consolidated revenue has grown at a **CAGR** of 6.94%. It should be noted that the revenues recorded for the full financial year 2021 were the highest over the last five years, thus even surpassing pre-pandemic levels. Total revenues for 2021 were $129.31 billion which was an increase of $13.87 billion or 12.02%. A dissection of the Group's revenue will show that the increase in revenues was driven largely by an increase in revenue from products and services as opposed to interest revenue. Revenues from products and services amounted to $124.69 billion which was an increase of $13.63 billion or 12.27% YoY. It should be noted that interest revenue increased by $245.51 million or 5.61% YoY. The growth in revenue from the food and trading business division could be attributed to the introduction of new products and the deepening of market reach. Throughout the financial year 2021, the Group has optimized its distribution strategy in the North American market, by placing focus on getting products directly to customers, with e-commerce platforms such as Instacart, which allows customers to make direct purchases. Direct operating expenses amounted to $121.57 billion which was an increase of $13.46 billion or 12.45% YoY. The business segment that largely anchored the growth in revenue YoY was the food and trading business which saw revenues grow by $10.73 billion or 11.82% YoY.





Total operating expenses amounted to $122.01 billion which was an increase of $13.38 billion or 12.32% YoY. It should be noted that other income amounted to $4.61 billion which was a 52.27% or $1.58 billion increase YoY. Profit from operation amounted to $11.90 billion which was an increase of $2.07 billion or 21.09% YoY. The strong growth that was seen in the profit from operations was a derivative of increased earnings from the Group's other income. The primary driver for the increase in other income was the gain on a subsidiary of $593.54 million which was not present in the prior financial year. The gain on subsidiary was due to the Group's recent acquisition of Scotia Eastern Caribbean Limited. Another driver for the gain in other income was an increase in fees and commissions earned by the Group. Fees and commission income increased by $390.21 million which correlates with the growth in the Group's assets.

It should be noted that despite the strong growth in revenues, the operating profit margin has only increased from 8.85% in the previous financial year to 9.54% in FY2021. The slim growth in operating profit came as the Group has had to face rising freight charges, given the supply chain disruptions that have affected retailers globally. Another cost driver that has hampered the Group in 2021 was the ramifications of Brexit, which has negatively affected the Group's ability to position its products in Europe via its British subsidiary. Due to Brexit, the shipping and distribution of products across Europe now attracts duties. Interest expense net of financial services amounted to $1.23 billion which was an increase of 8.46% YoY, one of the drivers for the increase in the Group's interest expense was the additional debt of $3 billion that the Group had taken via private placement for financing mergers and acquisitions.
Profit before taxation for the period was $11.68 billion which was an increase of $1.97 billion or 20.26% YoY.
The Group's effective tax rate for the financial year 2021 was 23.43% which was lower than that of the prior financial year's rate of 29.38%. The net profit which amounted to $8.94 billion grew by 30.38% YoY or $2.08 billion. EPS for the period that ended December 2021 was $8.27 compared to that of $6.28 for the prior financial year.

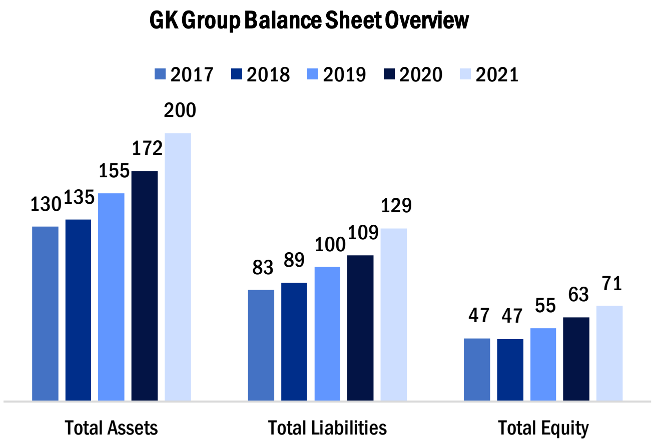
DuPont Analysis

With the decomposition of GK's ROE into the varying components, we can gain insights into the drivers of the growth of GK's ROE over the last four years. In FY2021, GK recorded its highest ROE (14.75%) in four years. The growth in ROE was achieved through higher net profit margins. The improved net profit margins were achieved as growth in revenues outpaced the rate of growth in operating expenses. A part of the Group's focus over the last four years has been maximizing operational efficiencies, and cost containment. From the improved net profit margins, the optimization strategies have shown results. The Group continues to implement optimization activities, such as the recent merger of the canning and processing factories as well as the rollout of its digitalization mechanism across the group. We are of the view that these new processes should be able to further improve the Group's operating profit and net profit margins which should further drive growth in ROE. The other drivers of ROE; asset turnover and financial leverage have remained relatively flat over the last four years. Despite the growth in revenues over the last four years, the efficiency in the use of the Group's asset base has not increased over the years.

Dupont Analysis	**2018**	**2019**	**2020**	**2021**
Asset Turnover	0.74x	0.71x	0.71x	0.70x
Financial Leverage	3.08x	3.14x	3.05x	3.06x
Net Profit Margin(RHS)	5.79%	4.95%	5.94%	6.91%
ROE	**13.13%**	**11.03%**	**12.82%**	**14.75%**

Balance Sheet Overview

For the financial year that ended December 31, 2021, the Group's total assets amounted to $199.79 billion. This represents an increase of $28.10 billion or 16.37% over the prior year. The increase in the asset base was mainly driven by an increase of 21% or $6.97 billion YoY in investment securities which amounted to $40.48 billion as well as Cash and deposits which amounted to $30.04 billion, increasing by 23.45% or $5.71 billion YoY. It should be noted that the largest components of the Group's investment securities were BOJ securities, GOJ securities, and corporate bonds which amounted to $9.21 billion, $9.76 billion, and $10.61 billion, or 22.77%, 24.10%, and 26.22% of the total investment portfolio respectively measured at amortized cost. Another driver for the increase in the Groups' assets was an increase of 33.23% or $4.80 billion YoY in inventories. Inventories at the end of December 2021 amounted to $19.23 billion. It should be noted that the Group's inventory value at the end of the financial year 2021 was the highest the inventory has been in five years. The growth in inventory positions the Group's food and trading division to be able to mitigate some of the disruptions in supply chains across its retail networks.



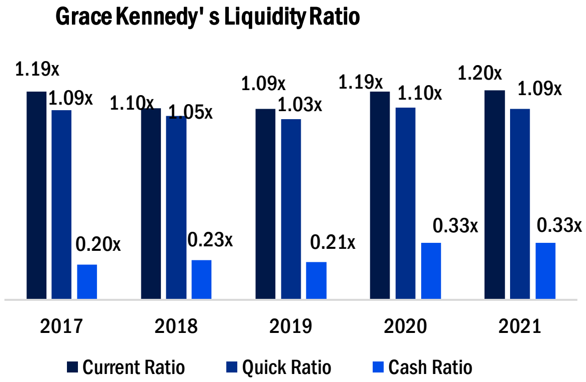
The Group's asset base is funded by total liabilities of $128.79 billion and shareholders' equity of $71.01 billion. Total Liabilities increased by $19.87 billion or 18.25% YoY. One of the main growth drivers in total liabilities was payables. Payables increased by 27.67% or $7.81 billion YoY. Growth in liabilities was also because of a growth in securities sold under agreements to repurchases which increased by $2.28 billion or 45.91% YoY.

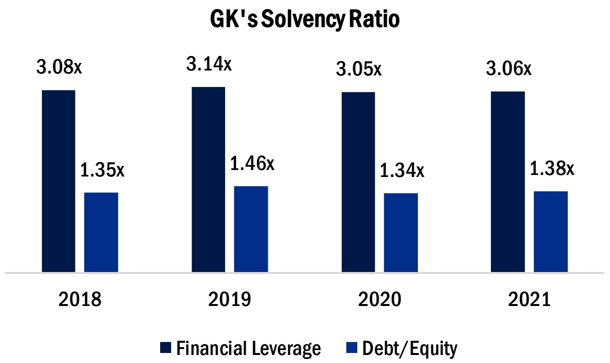
Total equity amounted to $64.21 billion which was an increase of $7.16 billion or 12.56% YoY. The growth in shareholders' equity was driven by an increase of 14.11% or $6.22 billion YoY in retained earnings due to the increased profitability of the Group. Retained earnings amounted to $50.32 billion. Another driver for the growth in shareholder's equity was the 38.41% increase in other reserves. Other reserves amounted to $5.67 billion which was an increase of $1.57 billion YoY. Other reserves comprise the Group's foreign exchange translation reserves and share-based payments.

Liquidity & Solvency

Over the last five years, the Group has maintained current and quick ratios above 1.00x which is indicative of the Group's ability to meet its current liabilities with its current assets. For the financial year that ended December 2021, the Group's current ratio slightly improved YoY as it increased from 1.19x to 1.20x. The quick ratio decreased slightly moving from 1.10x to 1.09x. The Group's cash ratio of 0.33 remained relatively unchanged YoY.

To drive growth, the Company has relied heavily on the use of debt for both organic and inorganic growth through mergers and acquisitions. This can be seen through the Group's financial leverage (Equity Multiplier) ratios. GK's financial leverage (3.06x) tracks above the industry's average financial leverage (2.25x). The relatively higher leveraged position of GK is due to the Group's banking and investments division which is funded by repurchase agreements and deposits. Consequently, we do not believe this is of grave concern as deposit and repurchase agreement funding are typical routes for banking and investment companies to attain capital.

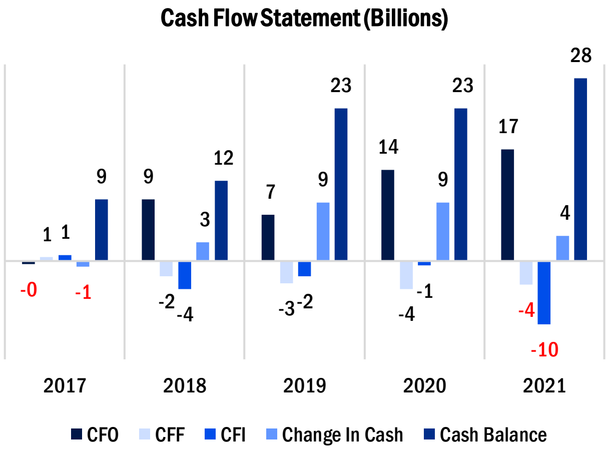




Cashflow

For the financial year 2021, Cash Flow from Operations (CFO) amounted to $17.08 billion compared to that of $13.88 billion in the previous financial year. This represented an increase of 22.92% or $3.18 billion YoY. The increase in operating cash flow reflected growth in both the Group's profit drivers and positive working capital changes driven predominantly by payables, deposits, and securities sold under repurchase agreements.

Cash Flow from Financing Activities (CFF) amounted to an outflow of $3.62 billion. This represented a reduction in the outflow of 14.72% YoY. The reduction was due to a decline in the dividends paid to equity holders. For the financial year 2021, the dividend paid amounted to $1.91 billion which was 20.58% or $326.28 million lower than that of the prior period.



Cashflow From Investing Activities (CFI) amounted to an outflow of $9.64 billion compared to an outflow of 0.712 billion in the prior year. One of the drivers for the increased outflow was the increase of $768.70 million in additional intangible asset investments. The major driver for the increase in the outflow of cash for investment purposes was the increase in the Group's investment portfolio following an additional investment of $16.08 billion compared to $9.53 billion in the prior year which was an increase of 68.82% YoY.

Cash and cash equivalents at the end of the period amounted to $27.91 billion which was an increase of $4.59 billion or 19.69% YoY.

Float Size and Market Sentiments

As presented in the accompanying chart, 27.44% of GK's shares outstanding are considered stagnant shares. Stagnant shares represent shares that are not readily/typically traded on the market. Consequent to this, the float size of GK is 772 million which creates a float percentage of 72.56%. This translates to a float value of approximately $73.71 billion, a large sum that makes GK a good "store of wealth" for large investors as the large float presents greater ease of moving capital (higher liquidity). Simultaneously, it presents an increased probability of a broader spectrum of investors likely owning the stock. Given the sizeable shareholder base, much of which are large holders of capital, significant swings in price are less likely, when compared to smaller companies listed on the Junior Market of the JSE. As such, large price moves are mainly seen during periods of new information regarding the Group.

GRACEKENNEDY LTD (GK JA Equity)

Calculation of Float

Current Shares Outstanding - Stagnant Shares

Components	Position↓	% Out
Float	722,008,544	72.559
Shares Outstanding	995,069,405	100.000
Stagnant Shares	273,060,861	27.441

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 and Recommendation

Stock	GraceKennedy
Close Price	J$102.09
Estimated Fair Value	J$111.90
YTD Return	2.07%
Trailing PE	12.34x
Forward PE	9.29x
Dividend Yield	1.91%
Potential Upside	9.61%
Total Return	11.52%
Recommendation	**MARKETWEIGHT**
March 30,2022	

To obtain a value for GraceKennedy, we employed two methods. These were the Discounted Dividend Model (DDM) and P/E Valuation. We firstly forecasted the company's income statement and arrived at a 1-year EPS of **$10.99**.

For our comparative analysis, we used companies that were listed on the main market whose business model is centered around operating as a conglomerate. Using these companies, we obtained an average P/E multiple of 11.03x. This tracks below the Company's trailing P/E of 12.57x. Using the projected EPS of **$10.99** we obtained a fair value estimate of **$121.28**.

To complement our relative P/E valuation, we then employed a Dividend Discount Model of three years. The assumptions that guided our model included a cost of equity of 12.24% and a long-term growth rate of 9.95%, determined using the Company's average ROE and Retention Ratio over the past 2 years. Using these assumptions, we obtained a fair value estimate of **$102.53**. Using a simple average of the two fair value estimates we obtained a price target of **$111.90** which represents a potential upside of **9.61%**. In consideration of our estimated fair value which is lower than the cost of equity along with the aforementioned discussion, we have assigned a **MARKETWEIGHT** recommendation.

Definitions:
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