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Summary Analysis

GraceKennedy Limited

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GraceKennedy Group

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.

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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.

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.

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.

Valuation

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.**

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 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**.**