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LOCAL EQUITY REPORT

JAMAICA BROILERS GROUP LIMITED

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Company Overview

Jamaica Broilers Group Limited ("JBG" or "the Group") was founded in 1958 and has grown into a multinational entity with operations in Jamaica and the United States, with supporting entities throughout the Caribbean that are committed to providing home-grown products at the international standard. The Group is best described as a vertically integrated poultry business covering the full scope of poultry raising as a means of production. This includes breeder flocks, hatcheries, feed mills, grow-out operations, processing facilities, shipping and logistics services, and more. The company places its core beliefs upon reference to Christian principles that set a framework for the way they do business and is keen on impacting lives.

Stock	JBG
Close Price	J$34.29
Estimated Value	J$44.96
Potential Upside	31.13%
Dividend Yield	1.95%
Total Return	33.08%
YTD Return	-7.40%
52 Week High	J$38.88
52 Week Low	J$25.00
Trailing P/E	7.99x
Forward P/E	8.04x
Sector P/E Average	12.12x
Recommendation	**OVERWEIGHT**
as at February 27, 2023	

Executive Summary and Outlook

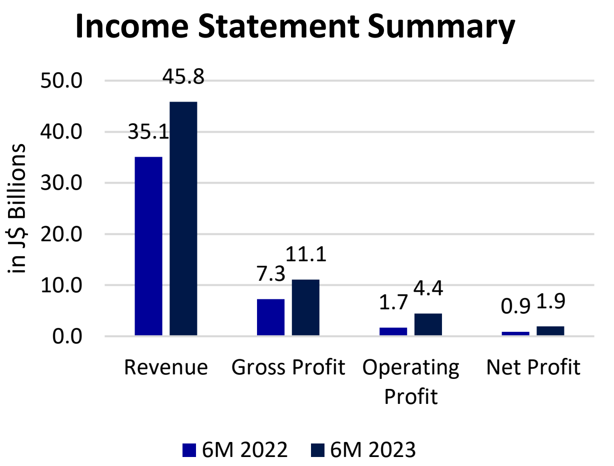
JBG has continued where it left off in the financial year 2022 (FY 2022), i.e, continuing to grow and expand its top and bottom line. As discussed in our previous analysis of JBG, covering the financial years 2018 to 2022, JBG managed to grow revenue by 33.0% to $75.7 billion and net profit by 28.4% year over year (YoY) in FY 2022. Over the first 6 months of the financial year 2023 (6M 2023), the Group reported both revenue and net profit rising by 30.7% and 119.3% respectively. Net profit growing at a faster pace than revenue highlights an improvement in the Group's margins as well. JBG's liquidity and solvency position remain adequate, while its return on average equity (ROAE) has risen significantly from 11.8% in the trailing twelve months ended October 2021 (TTM Oct 2021) to 19.3% in the trailing twelve months ended October 2022 (TTM Oct 2022).

It is expected that the Group will continue growing as the Jamaican tourism industry rebounds, production increases in its United States operation with the expected completion of the expanded South Carolina facility, and the Haiti operation has been disposed of. JBG's improved margins, stable liquidity and solvency position and improved ROAE, coupled with the stock is trading at a material discount to our estimate of fair value, thus, in our view, giving investors a sufficient margin of safety, underscoring our current **OVERWEIGHT** recommendation to JBG.

Financial Performance

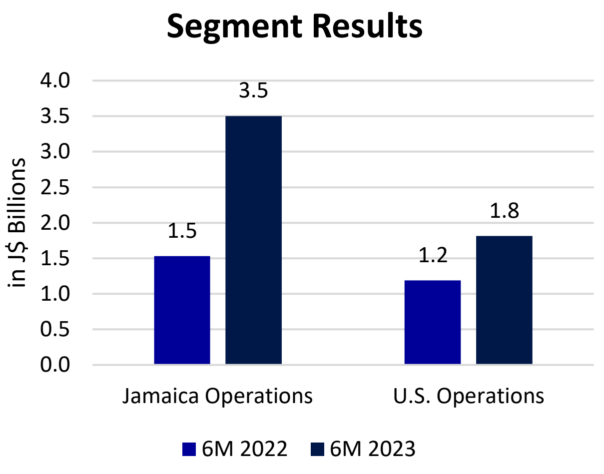
6 months ended October 2022

Revenue: Revenue for the 6M 2023 grew 30.7% YoY, amounting to $45.8 billion. This was largely driven by increased revenue from both its Jamaican and United States operations. In its Jamaican operations revenue growth was driven by increased production and sale of poultry, as well as higher sales of baby chicks to small farmers. The continued recovery of the Jamaican tourism industry also played a part in increasing revenue due to the higher demand from that sector. In the United States operations, revenue growth stemmed from increased production and sales in the Best Dressed Chicken line of products. The Jamaican operations grew revenue by 37.9% to $28.3 billion YoY, while the US operation grew revenue by 9.2% to $20.4 billion YoY.



Gross Profit: The Group recorded a gross profit for the period of $11.1 billion, representing a 52.6% increase compared to the outturn in the 6M 2022 of $7.3 billion. The cost of sales increased by 24.9% to $34.8 billion, which grew slower than revenue. Invariably, the Gross profit margin increased from 20.7% in the 6M 2022 to 24.2% in the 6M 2023. This margin expansion can likely be attributable to management's decision to permanently cease its loss-making Haiti operation.

Operating Profit: The operating profit for the period saw an increase of 159.5%, totalling $4.5 billion compared to $1.7 billion in the 6M 2022. This was primarily driven by the strong improvement in gross profit as well as management's strong operating cost control. Operating expenses grew 20.9% YoY, while gross profit grew 52.6%. Against this backdrop, the Group's operating profit margin, therefore, expanded to 9.7% in the 6M 2023 from 4.9% in the 6M 2022. The Group's Jamaican operations reported a segment profit of $3.5 billion, representing a 128.8% increase from the 6M 2022 segment profit of $1.5 billion, while the U.S. operations reported segment profits of $1.8 billion, which translates to a 52.6% increase from the $1.2 billion reported in 6M 2022. Both the Jamaican and the U.S operations reported increased efficiency with the operating profit margin (excluding the impact of eliminations and unallocated costs) in the Jamaica operations improving to 12.4% in 6M 2023 from 7.5% in 6M 2022 and the operating profit margin in the U.S. improving to 8.9% in the 6M 2023 from 6.4% in 6M 2022, again driven by management's strong cost control.

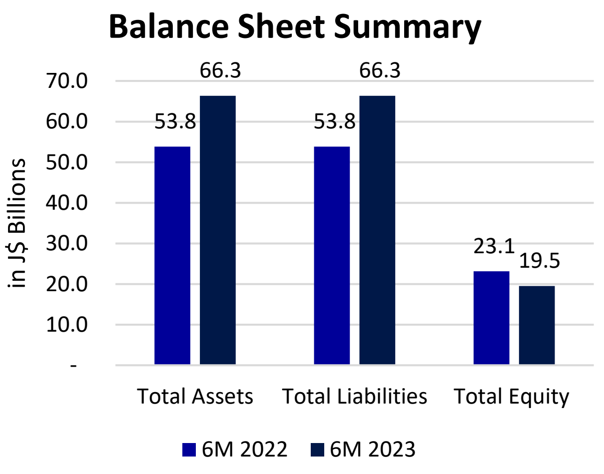


Net Profit: Profit after taxes for the period totalled $1.9 billion, representing an increase of 119.3% relative to the outturn in the comparable period in the prior year of $871.5 million. Ultimately, JBG recorded a net profit attributable to shareholders of $2.1 billion, representing an increase of 134.7%. Similarly, the net profit margin also expanded, from 2.5% in 6M 2022 to 4.2% in 6M 2023. Importantly, during Q2 2023, management decided to permanently cease all operations of its subsidiary, Haiti Broilers S.A. and its subsidiary, T&S Rice S.A., effective October 29, 2022. This led to the Group recording a loss from discontinued operations of $1.1 billion for 6M 2023. Given that this included the total carrying value of the net assets of Haiti Broilers S.A we are unlikely to see a repeat of such losses related to the entity going forward. Excluding this loss, net profit from continued operations rose to $3.0 billion in 6M 2023 from $944.8 million in 6M 2022, a 220.0% growth rate YoY.

Balance Sheet

Assets: At the end of 6M 2023, total assets stood at $66.3 billion, compared to $53.9 billion at the end of 6M 2022, representing a YoY increase of 23.0%. This resulted largely from increases in current asset items, most notably biological assets and inventories, which were up 40.2% and 44.6% respectively.

Equity and Liabilities: Total Equity at the end of 6M 2023 amounted to $23.1 billion, representing an increase of 18.6% YoY. This was driven largely by a 16.9% increase in retained earnings. Total Liabilities rose 25.7% to $43.2 billion at the end of 6M 2023 when compared to the end of 6M 2022. This was primarily attributable to total borrowings increasing by 21.1%, from $22.0 billion at the end of 6M 2022 to $26.6 billion. Another notable contributor was a 29.2% increase in payables YoY, to $12.4 billion.



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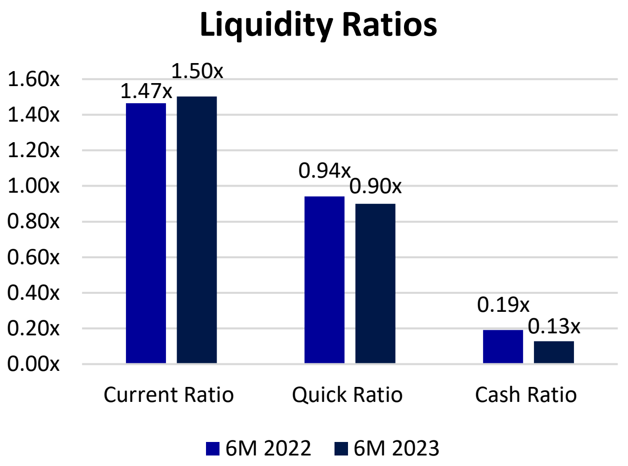
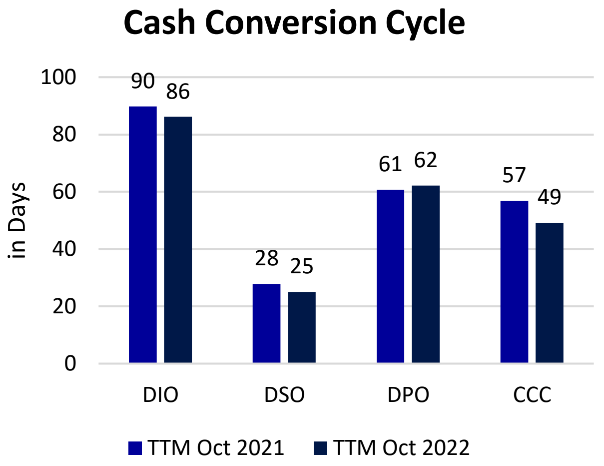
Liquidity and Solvency:
JBG recorded a current ratio of 1.50x at the end of the 6M 2023 which is slightly above the current ratio of 1.47x at the end of the 6M 2022, indicating a slight improvement in its liquidity position. However, looking at more conservative measures of liquidity, namely the quick and cash ratios, the Group's liquidity position slightly worsened. The quick ratio declined to 0.90x at the end of 6M 2022 from 0.94x at the end of 6M 2021 while the cash ratio declined to 0.13x from 0.19x. Overall, this is characteristic of an adequate liquidity position.

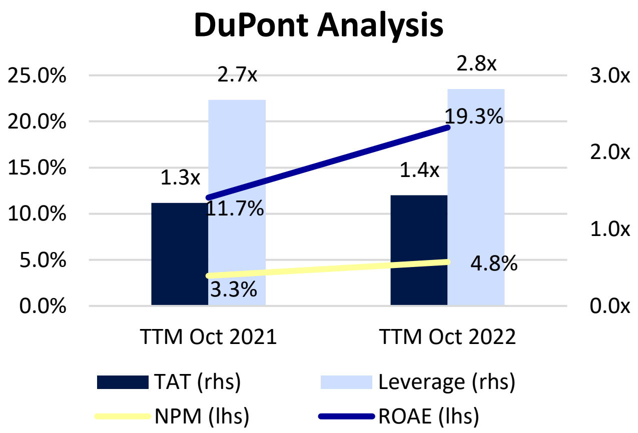
The Group saw a minor increase in its solvency position with the debt-to-equity ratio rising marginally to 1.19x at the end of the 6M 2023, from 1.18x at the end of the 6M 2022.



Cash Conversion: The Group has seen an improvement in its cash conversion cycle over the TTM Oct 2022 YoY. This increase was primarily driven by a decrease in days inventory outstanding (DIO), declining to 86 days in the TTM Oct 2022 from 90 days in the comparable period in the prior year (TTM Oct 2021). Days Sales Outstanding (DSO) also improved, falling from 28 days in TTM Oct 2021 to 25 days in the TTM Oct 2022. Days Payables Outstanding (DPO) was essentially flat, increasing to 62 days from 61 days. The improvement in the DIO suggests that JBG held on to its inventory for a shorter period and therefore has become more efficient in selling its inventory while the improvement in its DSO suggests that the Group has become more efficient in collecting the monies owed to them from customers from the sale of its goods. Taken together, this led to a decline in the cash conversion cycle (CCC), from 57 days in TTM Oct 2021 to 49 days in the TTM Oct 2022, which means that JBG has taken less time to convert the cash paid to suppliers into cash received from the sale of its goods.



DuPont Analysis:
For the TTM Oct 2022, JBG improved its ROAE to 19.3% from 11.8% in the TTM Oct 2021. Conducting a DuPont Analysis allows for the inspection of the drivers behind the ROAE. Firstly, the net profit margin (NPM) increased from 3.3% in the TTM Oct 2021 to 4.8% in the TTM Oct 2022. This was driven by the increase in efficiency in both its Jamaica and U.S. operation, as well as the shedding of its loss-making Haiti operations. The total asset turnover (TAT) ratio also improved to 1.4x in the TTM Oct 2022 from 1.3x in TTM Oct 2021, indicating an improvement in the efficiency of the Group's assets. Lastly, the Group slightly increased its leverage, shown by the equity multiplier rising to 2.8x in the TTM Oct 2022 from 2.7x in the TTM Oct 2021. Taken together, the movement of these factors led to the improvement in the Group's ROAE, which suggests the Group has become more efficient in the use of its shareholders' equity.



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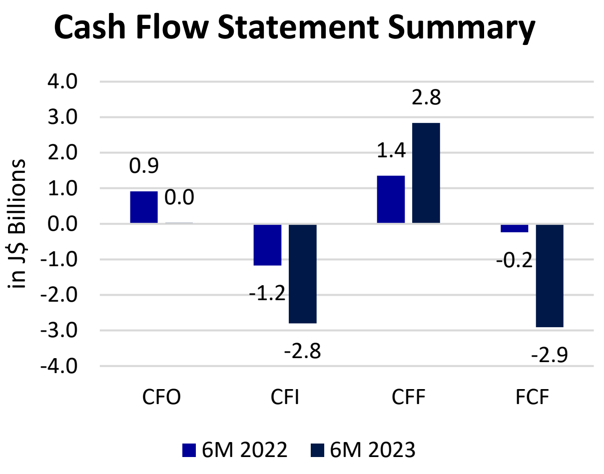
Cash Flow

For the 6M 2023, JBG generated $37.0 million in operating cash flow which is a steep decline from the $910.8 million generated in the 6M 2022. The reason for this steep decline is management's decision to invest heavily in its inventories and biological assets. Year-to-date, on a net basis, JBG spent $2.6 billion on increasing its inventory and $1.6 billion on increasing its biological assets. This is compared to a cash inflow of $431.7 million from inventories and a $484.9 million cash outflow for biological assets in the 6M 2022. On the other hand, cash outflows from Investing activities came in higher at $2.8 billion compared to a cash outflow of $1.2 billion in the 6M 2022. This was largely driven by capital expenditure rising to $3.0 billion in the 6M 2023 from $1.2 billion in the 6M 2022. Due to the steep decline in cash flow from operating activities, free cash flow moved from -$238.3 million in the 6M 2022 to -$2.9 billion in the 6M 2023. Net cash flows from financing activities for the period amounted to an inflow of $2.8 billion which is an increase over the net cash inflow of $1.4 billion million recorded in the 6M 2022. This rise was driven largely by an increase in net borrowing. The Group recorded a net cash inflow from loans of $3.8 billion versus recording an inflow of $2.0 billion in the 6M 2022, which helps to explain how the capital expenditure was financed.



Valuation & Recommendation

Valuation:

We estimated a price target for JBG using an average of two approaches, the first being based on an average price-to-earnings (P/E) ratio, and the second being based on an average price-to-book (P/B) ratio.

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Recommendation	OVERWEIGHT
as at February 27, 2023	

P/E Valuation – Under this approach, we estimated a 1-year forward (FY 2024) earnings per share (EPS) of $4.26. The expected growth compared to the outturn of $3.06 per share for FY 2022 and expected EPS of $3.23 for FY 2023 is anchored by our expectation of continued strong revenue growth, particularly in the US segment. The significant factor driving this large EPS growth is the fact that the Group has ceased its operations in Haiti. Given that the Haiti operation was a loss-making venture, the Group is expected to realize some margin expansion going forward. However, this is partially offset by the continued strong inflationary environment that is present and the likelihood of higher finance costs following the refinancing of debt coming due this year. We then applied a P/E multiple of 12.12x, which is the average P/E multiple of a select group of JBG's peers (The table showing the group of peers can be found below). In applying this multiple to our expected forward EPS, we arrive at an estimated fair value of **$51.65**.

P/B Valuation – The P/B multiple applied was derived by calculating the average P/B multiple of the select group of JBG's peers (excluding Wisynco's P/B multiple, as we deemed it to be an outlier), arriving at an outturn of 1.40x. This multiple, when applied to the 1-year (FY 2024) estimated forward book value of $27.34 resulted in an estimate of the fair value of **$38.28**.

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Ticker	Market Capitalization (J$ '000)	TTM Sales (J$ '000)	TTM Net Profit (J$ '000)	Net Profit Margin	Return on Equity	P/E	P/B
GK	77,518,564	136,350,606	7,353,759	5.39%	11.24%	10.08x	1.13x
JP	25,001,389	28,606,837	4,226,448	14.77%	11.92%	11.44x	1.36x
SEP	45,522,157	79,671,363	3,839,432	4.82%	9.12%	12.58x	1.71x
WISYNCO	64,052,322	41,787,405	4,437,235	10.62%	22.98%	14.36x	3.14x
JBG	41,128,881	86,477,589	4,118,206	4.76%	19.34%	7.99x	1.78x

Finally, using an average of the valuation results of both approaches, we arrive at a price target of $44.96, representing a 31.13% potential upside to its last closing price. Lastly, given an average P/E multiple of 12.12x and a closing price of $34.29, JBG would need to earn an EPS of $2.83 (net profit of $2.1 billion) to be considered fairly valued at that P/E level. In our view, it is highly unlikely that JBG would, given the current trajectory, will see a slowing of the momentum in their earnings growth to that degree. One would have to go back to FY 2018, to find a period when JBG last reported that level of profitability (ignoring FY 2020's one-off results due to the Covid-19 pandemic). Given the above, we believe the closing price of $34.29 provides investors with a sufficient margin of safety.

Over the first 6 months of FY 2023, JBG has grown remarkably. Both revenue and profit have significantly increased when compared to the 6M 2022, with profit margins expanding as well. This margin expansion assisted JBG in growing its net profit by 119.3% and its net profit from continuing operations by 220.0%, despite the top line increasing by only 30.7%. JBG's liquidity and solvency position seem to continue to be adequate, while its return on average equity has improved to 19.3%. However, its free cash flow has declined steeply YoY, driven by the low levels of cash flow from operations, as explained earlier. However, this is to some degree reflective of the pace at which the company is investing in increasing its inventory for future growth. The company has managed to protect its operation from the ongoing bird flu outbreak in Iowa, which has so far affected roughly 3% of production in the state. Notably, management does not expect an impact to its operation or its expansion plans in the U.S., with its expanded South Carolina facility expected to be opened in Q4 2023, with the aim of doubling production there following an investment of US$20 million in capital expenditure and working capital. Lastly, as the stock is trading at a material discount to our estimate of fair value, we maintain an **OVERWEIGHT** recommendation on JBG.

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