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LOCAL EQUITY REPORT

LASCO MANUFACTURING LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

Company Overview:

LASCO Manufacturing was incorporated in October 1994. The Company was formed by the merger of LASCO Foods (Successors) Limited and LASCO Foods Limited. The Company's registered office is located at 27 Red Hills Road, Kingston 10, while the manufacturing operations are in White Marl, St. Catherine. The Company was listed on The Jamaica Stock Exchange's Junior Market in October 2010.

Stock	LASM
Current Price	J$4.06
52 Week High	J$5.90
52 Week Low	J$3.75
YTD Return	-3.79%
Estimated Fair Value	J$6.22
Trailing P/E	8.95x
Forward P/E	8.34x
Total Return	53.15%
Recommendation	OVERWEIGHT
(as at March 21st, 2023)	

Analyst Insight

The Company has benefitted from proactively improving its financial position with the repayment of debt obligations, shoring up its working capital with improved inventory management and credit terms with suppliers while maintaining operational cost efficiencies. These factors allowed LASM to generate higher revenues during the pandemic and maintain revenue growth after while being significantly bolstered by the reopening of industries and the return of demand from entertainment, schools and tourism.

It is expected that the Company's growth trajectory will be sustained, however, in the short term, the financial results have seen an impact from the overall macroeconomic conditions since the pandemic. Margins across the board have been compressed despite record profitability in 2022. Despite continued record tourism arrivals and growth in key sectors such as entertainment, steps need to be taken to restore margin progression. Against this backdrop it is notable that inflationary pressures and supply issues that plagued the company from 2022 to the first quarter of this year will likely begin to ease in the spring of 2023, suggesting a rebound in net profit growth for the company moving forward beyond FY 2023.

Plans to further expand its geographical footprint by driving the contribution of export to its revenue will be value-added to the long-term sustainability of the Company's operations. The expected capital expenditure to be undertaken by management to expand the exporting capacity will enable them to achieve the targeted contribution to revenue from exports of approximately 15% over the medium term by serving the Latin American market.

Our base case estimate of the LASM's fair value is **J$6.22,** which, when compared to the current price of **J$4.06**, represents a potential total return of **53.15%.** This outlook reflects enhanced revenue growth throughout the current financial year combined with consistent profit margins despite the inflationary and supply challenges experienced through the calendar

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year of 2022. As inflationary conditions continue to stabilize, we anticipate improved profitability for the company. Against this backdrop, we recommend that investors **OVERWEIGHT** this stock in their portfolio.

Business Economics

The Company was listed on the Junior Market of the Jamaica Stock Exchange on October 12, 2010, and trades on the Junior Market as LASM. At listing, the company was entitled to remission of taxes for ten years, however, the tax remission benefit expired on October 11, 2021, and the Company began paying the full corporate taxation at the rate of 25%. The year ended March 31, 2022, marked the first full year of the 25% rate of taxation since listing. The Company has a long history of being the dominant Nutritious Powdered Beverage Company in Jamaica. LASM expanded into the Liquid Refreshing Beverages and Water segment of the market with a range of Juice Drinks and Water under the iCool and Lyrix brands Brand in 2014. The brands are well accepted and widely distributed in the local market and are exported to over twenty destinations in the Caribbean and North America.

Over the years, the Company has consistently invested in plant, technology, and people development to provide the capacity and know-how to expand its range of food and beverage products relevant to consumer needs and trends. As a result, the Company is well-equipped. It has the capability and flexibility to supply current demand and meet anticipated growth in various market segments. The strategy includes continuous improvement in operational efficiency, lower costs, organizational adaptations and simplification as well as ongoing research and development to deliver product innovation.

Management has also indicated the intention to increase the percentage of revenue derived from the export market. This is aligned with the need to expand outside of the competitive domestic space which would be a necessary driver of future revenue growth. However, expected costs associated with exportation and higher shipping costs have had a direct impact on margins.

Financial Performance (Year ended March 31, 2022)

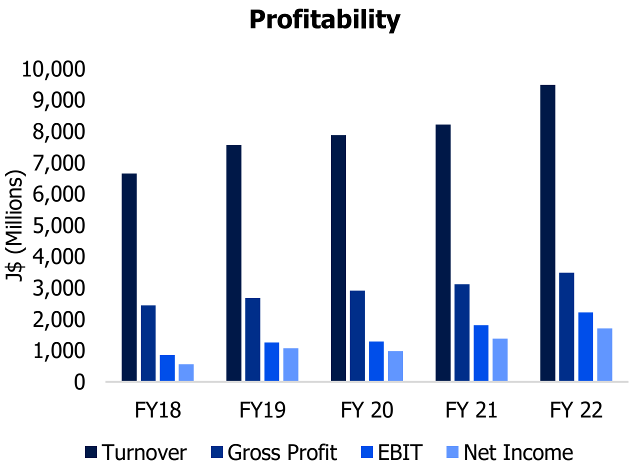
Income Statement

Revenue: Revenue for the 2022 financial year increased by 15.4%, amounting to $9.48 billion, compared to the prior year's result of $8.22 billion. The strong revenue growth reflects volume growth in all categories and increases in pricing. Volume growth was particularly strong for the refreshing beverage portfolio in the second half of the year following the progressive relaxation of the COVID-19 restrictions which precipitated the return of channels catering to schools and increased events consumption.

Gross Profit: Gross Profit was $3.48B an 11.9% growth over the previous year; however, the gross profit margin decreased to 36.7% from 37.9% in the prior year as price increases were not enough to fully offset cost increases. While margin progression is important to management, the company has made the decision to absorb some of the increased input costs.

Operating Profit: Operating Profit amounted to $2.23 billion, representing an increase of 22.5% YoY. Selling and Administrative expenses inclusive of marketing investments were contained at $1.29B, representing a decrease of 2.3% with respect to the prior year primarily as a result of improved efficiencies. The operating margin for the period was 23.5% an improvement over the prior year's outturn of 22.09%.

Net Profit: Finance costs amounted to $47.22 million, decreasing by 20.2% on the back of a 55.50% decline in total debt. Ultimately, net profit for the period grew by 23.8% to $1.71 billion.

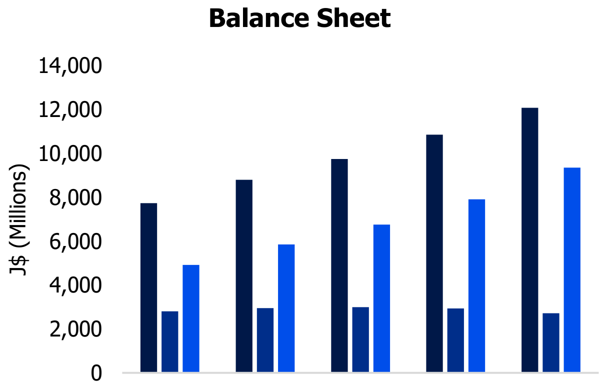


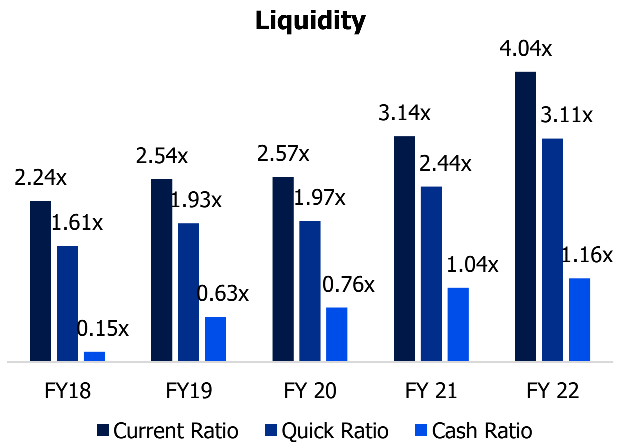
Balance Sheet

Total Assets: Total assets for the period increased by 11.2% YoY to $12.07 billion. Of the total, current assets represented 58.3% of total assets, while non-current asset represents the remaining 41.7%. Inventories stood at 23.0% of current assets, and 13.4% of total assets and was the largest contributor to growth in the asset base, after cash and short-term investments.

Total Liabilities: Total liabilities stood at $2.72 billion, representing a decrease of 7.5% over the prior year's total of $2.94 billion. This decline was due entirely to the aforementioned decline in long-term debt of 55.50% to $364.57 million. Non-current liabilities totalled $0.97 billion, while current liabilities amounted to $1.74 billion.

Total Equity: Shareholders' equity saw an increase of 18.2% over the prior year amounting to a total of $9.35 billion, compared to the 2021 financial year's total of $7.91 billion. This increase was mainly driven by retained earnings, which amounted to 8.70 billion for the year-end by the net income generated within the year.





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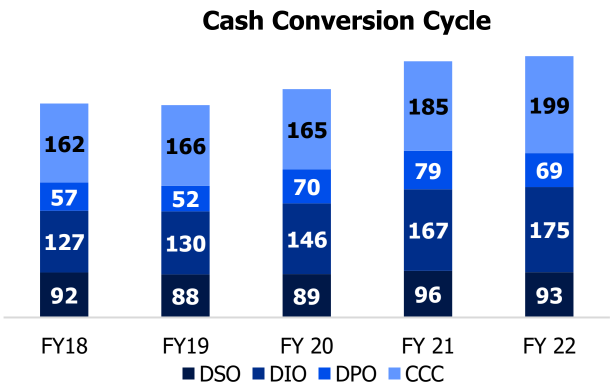
Liquidity and Leverage

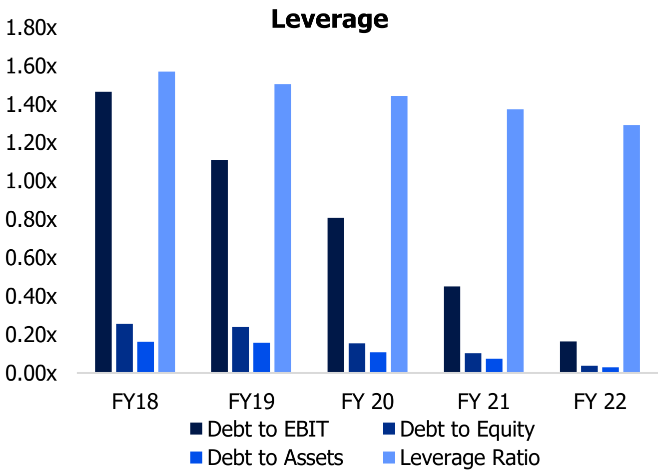
Liquidity: The company has maintained a healthy profile of liquidity and solvency, with the current ratio over the last five years coming in at over 2.00x. At the end of the 2022 financial year, the current ratio was 4.04x, up from 3.14x in 2021. Current assets increased by 25.1%, while current liabilities decreased by 2.8%% for the period. The company has sufficient current assets to cover short-term obligations and maintained a strong quick ratio of 3.11x, while the cash ratio was also very healthy at 1.16x.

Cash Conversion Cycle:

The company had a cash conversion cycle of 199 days at the end of the 2022 financial year, with days of inventory outstanding (DIO) being the longest portion at 175 days. Days of payables outstanding (DPO) stood at 69 days. The days of sales outstanding (DSO) for the year was 93 days.

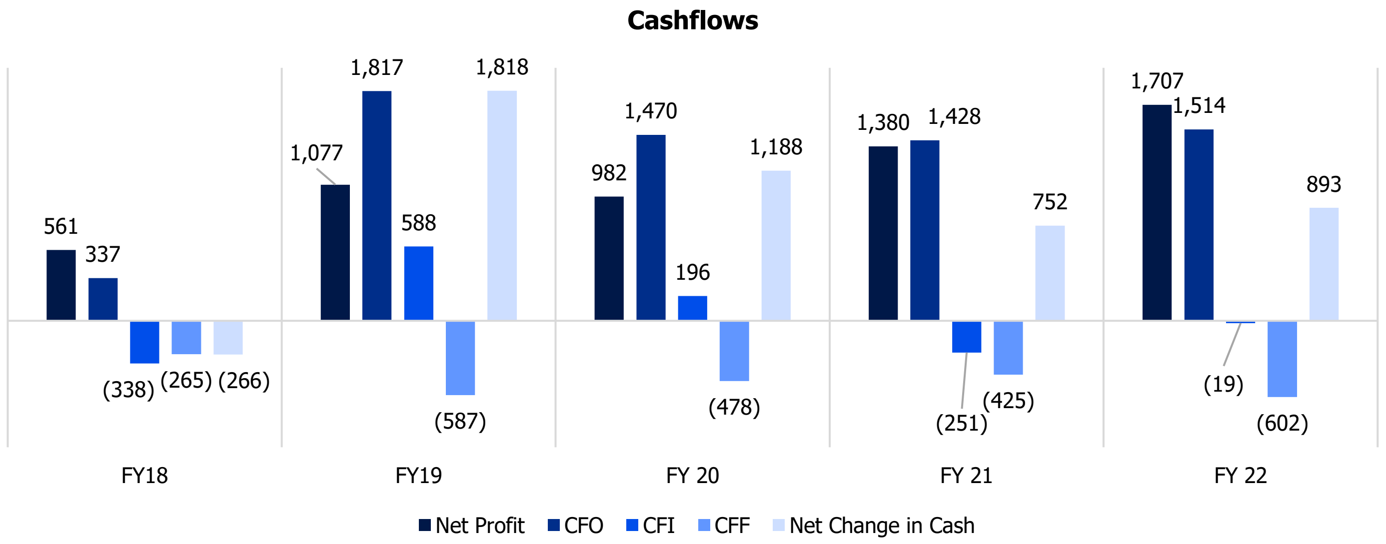


Leverage: The level of debt remained low and easily serviceable, as evidenced by the interest coverage ratio of 47.1x at the end of the 2022 financial year. LASM has utilized very little debt in its capital structure and in recent years has continuously reduced debt exposure, leading to a downward trend in the debt-to-equity and debt-to-assets ratio, culminating in outturns of 0.04x and 0.03x respectively. The debt-to-EBIT ratio has also been trending downward over the last 5 years, reaching 0.16x at the end of 2022. Total debt at the end of the 2022 financial year amounted to $364.56 million.

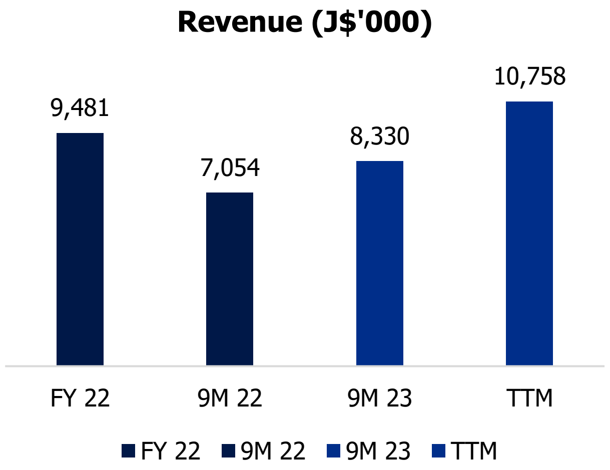


Cashflows

Cash flow from operations has been strong, over the last five (5) years, however, there has been no growth since 2019. Cash flow from operations for the 2022 financial year amounted to $1.51 billion and was primarily due to the improved net income. Cash flow from investing activities came in at an $18.76 million outflow, representing a 92.5% decrease YoY, driven by the payment of short-term debt. Cash flow from financing activities saw an outflow of $602.35 million, representing a 31.8% increase compared to the prior year due to aggressive repayment of loans. This culminated in a net inflow of cash for the 2022 financial year of $892.80 million, an 18.7% increase year-over-year.



Nine-Months 2023 (December 31, 2022) Financial Performance



Income Statement: For the nine months ended December 31, 2022, the company reported revenue of $8.33 billion, representing an increase of 18.10% over the prior comparable period's outturn of $7.05 billion. Gross profit for the period amounted to $3.05 billion, an increase of 16.01% YoY. The gross profit margin fell to 36.6%, compared to 37.3% for the first nine months of 2022, due to slightly faster growth in the cost of sales relative to the growth in revenue. Operating profits grew 12.94% to $1.97 billion amidst a rise of 9.74% in operating expenses, registering $1.04 billion for the nine months. Finance costs for the period were $19.83 million, decreasing 50.92% YoY, driven primarily by the repayment of over $450 million in debt late in the prior financial year. Ultimately, net profit for the nine months ended December 31, 2022, amounted to $1.37 billion, representing growth of 15.60% over the prior comparable period's outturn.

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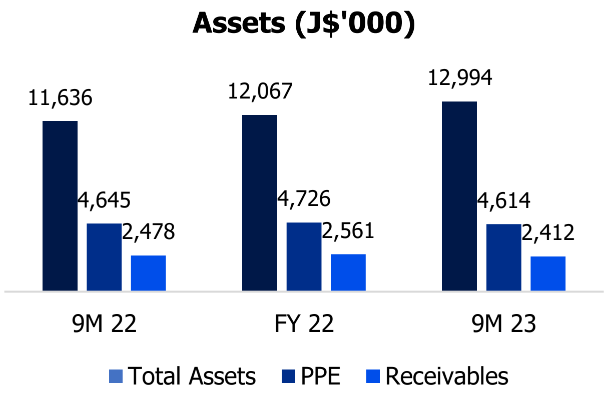
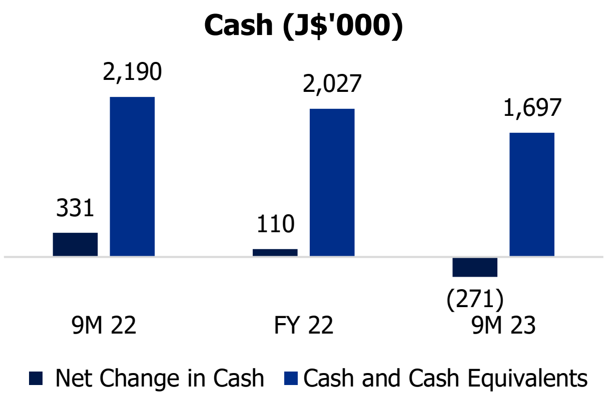
Balance Sheet and Cashflow: Total assets for the nine months ended December 31, 2022, summed to $12.99 billion, representing an increase of 13.1% over the total assets at the end of the 2022 financial year. This came on the back of increases in inventories and short-term investments of 23.16% and 97.48% respectively. The company also saw a slight decline in return on equity to 18.20%, on a trailing basis, compared to 18.27% at the end of the 2022 financial year.



The company's asset base was funded by mostly equity, which grew 11.24% during the period to $10.40 billion due to 11% growth in retained earnings. Conversely, total liabilities shrunk by 4.58% to $2.59 billion as a result of a $164.70 million reduction in total debt during the period. Payables, the largest liability line item, also declined 28.31% to $828.66 million.

The company saw a net decrease in cash of $271.33 million, compared to the prior nine month's outturn of an increase in cash of $330.79 million. LASM had a positive operating cash flow for the period of $1.49 billion, for a 27.46% increase YoY, due to good overall profitability. Cash and cash equivalents at the end of the period amounted to $1.70 billion, a 22.48% decrease compared to the comparable period in the last financial year's outturn of $2.19 billion.



The company had a cash conversion cycle grow to 224 days at the end of the nine months compared to 199 days at the end of FY 2022. Days of inventory outstanding (DIO) increased to 193 days from 175 days. Days of payables outstanding (DPO) fell to 53 days from 69 days and the days of sales outstanding (DSO) for the period was 84 days, less than 93 days at the end of FY 2022.

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Trading and Ownership Summary

LASM ownership (as at December 31, 2022)

Name	Shares Held	Percentage
EAST WEST (ST. LUCIA) LTD.	2,002,693,780	48.45%
LASCELLES A. CHIN	1,244,428,470	30.11%
NATIONAL INSURANCE FUND	103,794,541	2.51%
MAYBERRY JAMAICAN EQUITIES LTD	34,850,544	0.84%
SAGICOR SELECT FUND LIMITED - ('CLASS C' SHARES) MANUFACTURING & DISTRIBUTION	32,816,914	0.79%
SJIML A/C 3119	31,777,000	0.76%
JOEL IZQUIERDO GONZALEZ	21,652,392	0.52%
LIUDMILA GONZALEZ DIAZ	21,621,259	0.52%
HILDA GONZALEZ ROSALEZ	21,000,000	0.50%
WAYNE M. CHIN	19,867,160	0.48%
Total	3,532,315,169	85.48%

LASCO MANUFACTURING LTD (LASM JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position↓	% Out	Source	Date
⊟ Float	786,146,941	19.022		
Shares Outstanding	4,132,913,151	100.000		
⊞ Stagnant Shares	3,346,766,210	80.978		

LASM is a relatively tightly held stock with 80.98% of outstanding shares considered to be stagnant shares. These are shares that are not readily/typically traded on the market. LASM has a float of 786.15 million shares or 19.02% of total outstanding shares. Trading volume is relatively small with an average of 139,655 traded per day in the last year having a dollar value of $573,982. Market liquidity is tight and is generally only sufficient for small retail traders; high net worth and institutional investors may find it difficult to transact large blocks of shares in a timely manner.

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Valuation

To arrive at a price target for LASM, we utilized a Justified Price to Earnings (P/E) Model with our estimated forward earnings for the company as well as a relative P/E valuation approach with respect to its manufacturing and distributing peers traded on the Jamaica Stock Exchange. Our estimate for the 2023 Financial year-end eps amounted to **$0.49.** To arrive at a discount rate, we utilized the capital asset pricing model to arrive at a discount rate of 14.73%. We calculated the company's sustainable growth rate based on factors including the company's net profit margin, equity multiplier, total asset turnover and retention ratio, arriving at an outturn of 11.31%. This was further discounted by 25% for risks associated with tight monetary conditions and the potential for escalation in key points of global macroeconomic risk, yielding a result of 8.48%**. This long-term growth rate resulted in the company having a justified P/E ratio of 16.02x, giving us a price target of $7.87.** When compared to peers, the company trades at a discount from the average P/E of 9.28 times; **applying this multiple to our forward projection resulted in a target price of $4.56. When averaged with the justified P/E result, our final price target was $6.22.** The company currently trades at a multiple of 8.87x and with our expected eps output for FY 2023, the company trades at a forward P/E of 8.26x. **With consideration to the expected return along with other factors stated above, we recommend investors OVERWEIGHT LASM.**

BALANCE SHEET	J$ '000	J$ '000	J$ '000	J$ '000	J$ '000
Total assets	9,738,150	10,851,578	12,067,412	11,636,134	12,993,551
Property, Plant & Equipment	4,971,070	4,950,808	4,726,058	4,645,286	4,614,226
Total Liabilities	2,987,085	2,940,296	2,719,145	2,839,521	2,594,546
Total Debt	1,044,925	819,170	364,567	462,807	199,870
Stockholders' equity	6,751,065	7,911,282	9,348,267	8,796,612	10,399,004
Retained Earnings	6,162,040	7,290,930	8,698,366	8,176,260	9,655,425
Income Statement	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**
Revenues	7,886,142	8,218,152	9,481,244	7,053,617	8,329,970
Gross Profit	2,917,394	3,114,074	3,484,174	2,630,091	3,051,135
Total Operating Expenses	-1,655,005	-1,323,712	-1,293,335	-950,237	-1,042,811
Finance Cost	-93,615	-59,186	-47,220	-40,397	-19,825
Profit before Taxation	1,198,791	1,755,814	2,175,839	1,706,832	1,953,453
Net Profit	981,678	1,379,637	1,707,486	1,185,382	1,370,352
FINANCIAL RATIOS	**FY 2020**	**FY 2021**	**FY 2022**	**9M FY 2022**	**9M FY 2023**
Earnings per stock unit (J$)	$0.24	$0.33	$0.41	$0.29	$0.33
Gross Profit Margin	36.99%	37.89%	36.75%	37.29%	36.63%
Net Profit Margin	12.45%	16.79%	18.01%	16.81%	16.45%
Current Ratio	2.57x	3.14x	4.04x	3.39x	2.98x
Cash Ratio	0.76x	1.04x	1.16x	1.12x	0.65x
Debt to Equity	0.15x	0.10x	0.04x	0.05x	0.02x

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