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LOCAL EQUITY REPORT

CARGO HANDLERS LIMITED

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

Company Overview

Cargo Handlers Limited ("Cargo Handlers", "CHL", "the company") was founded in 1981 and is based in Montego Bay, Jamaica. CHL's principal activities are the provision of stevedoring services, equipment leasing, and management services. The Company's major customers are Seaboard Freight & Shipping Jamaica Limited, Lannaman & Morris (Shipping) Limited, Bulk Liquid Carriers Petroleum Transport Limited, Buying House Cement Limited and CMA CGM Jamaica Limited. In 2020, CHL spent approximately $100 million to acquire a 30% stake in cement importers, Buying House Cement Limited which is based in Montego Bay and supplies cement to the western region of the Island. CHL was listed on the Junior Market of the Jamaica Stock Exchange in December 2010.

Stock	CHL
Current Price	$13.70
Estimate Fair Value	$15.92
YTD Return	-11.76%
Trailing P/E	17.07x
Forward P/E	16.12x
Dividend Yield	1.89%
Potential Upside	16.23%
Total Return	18.12%
Recommendation	OVERWEIGHT
as at April 25, 2023	

Executive Summary and Outlook

Stevedoring, the loading and unloading of a ship and its cargo, historically makes up more than 80% of the CHL's revenue. The global pandemic severely impacted CHL's financial performance due to a significant decline in the shipping industry. The resurgence of global trade as we exit the covid era, along with the introduction of imports of Liquefied Natural Gas ISO containers through the port of Montego Bay has led to record revenues and profits in the 2022 financial year (FY) for CHL. Also contributing to the company's performance is the share of profits of associates (Buying House Cement Limited) which more than doubled in FY 2022.

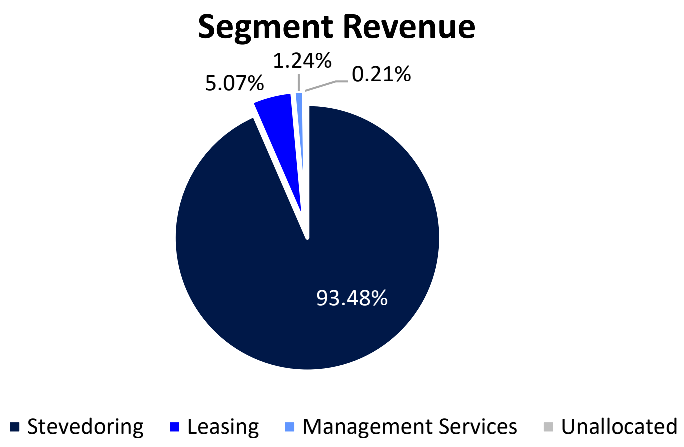
According to the World Trade Organization ('WTO'), global trade is projected to increase by 1.7% in 2023, down from the 2.7% growth in 2022. The projected decline in global trade in 2023 follows a sharp decline in trade in the fourth quarter (Oct-Dec) of 2022. This corresponds with CHL's first quarter (Q1) of its 2023 financial year. However, the expected effects of the decline in global trade were offset by the increase in tourist arrivals. According to Statin, Jamaica had 3.3 million tourist visitors in 2022, more than double the 1.5 million in 2021. Of the 3.3 million visitors, 852,000 were cruise passengers compared to 70,766 in 2021. 342,768 of those cruise passengers in 2022 arrived between October and December. The company benefitted from the increase in cruise passengers in Q1 2023 via an increase in baggage handling revenue from the cruise vessel's homeporting activities at the port of Montego Bay. Following the rebound of the tourism industry, the Jamaica Tourist Board projects an 11% growth in tourism in 2023. Though global trade is projected to decline in 2023, we believe the decline in global trade will continue to be offset by growth in tourism, specifically cruise ship arrivals. Also, the company earned $19 million in profit share from associates in Q1 2023, significantly higher than the $5 million earned in Q1 2022. Finally, the company expects to have future minimum lease payment receivables of US$356,400 in the future of which US$156,400 is expected within a year which will contribute to the revenue generated in FY 2023.

Our estimate of CHL's fair value is **$15.92**, which, when compared to the current price of **$13.70**, represents a potential total return of **16.23%.** This outlook reflects the revenue growth from global trade, expected increase in tourist arrivals, future minimum lease payment receivables and some contributions to profits from associates. Against this backdrop, we recommend that investors **OVERWEIGHT** this stock in their portfolio.

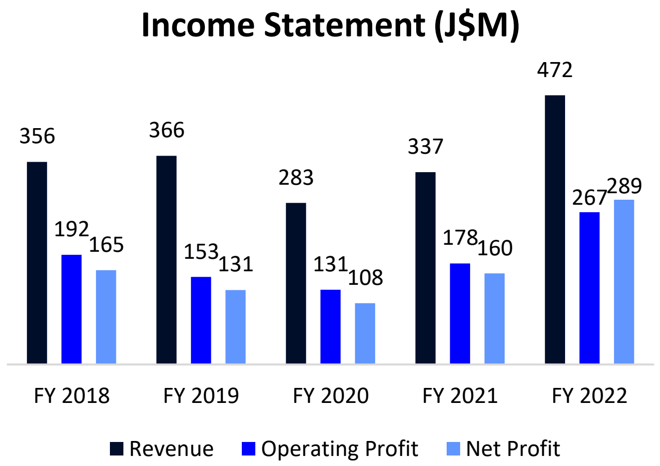
2022 Financial Year-End Performance

Income Statement

Revenue: Revenue for the 2022 financial year increased by 40.0%, amounting to $472.3 million, compared to the prior year's outturn of $337.3 million. The strong revenue growth was largely due to the introduction of imports of Liquefied Natural Gas ISO containers through the port of Montego Bay and the growing containerized cargo for domestic consumption and the hospitality sector. CHL reported that because of the factors mentioned above, there was a 56% increase in the number of containers handled in FY 2022 compared to the prior year. As a result of the increase in the number of containers handled, the stevedoring segment saw revenue grow by 45.1% to $441.5 million for the year and accounted for 93.5% of the company's total revenue, up from 90.2% in FY 2021. It is important to note that the company rarely incurs direct costs (baggage handling costs) and had no direct costs for FY 2021 and FY 2022, and therefore revenue and gross profit are the same. CHL earned $18.3 million in other income, a 23.1% decline Year over Year (YoY). The decline in other income is primarily due to the 23.9% decline in foreign exchange gains, from $21.7 million in FY 2021 to $16.5 million in FY 2022.



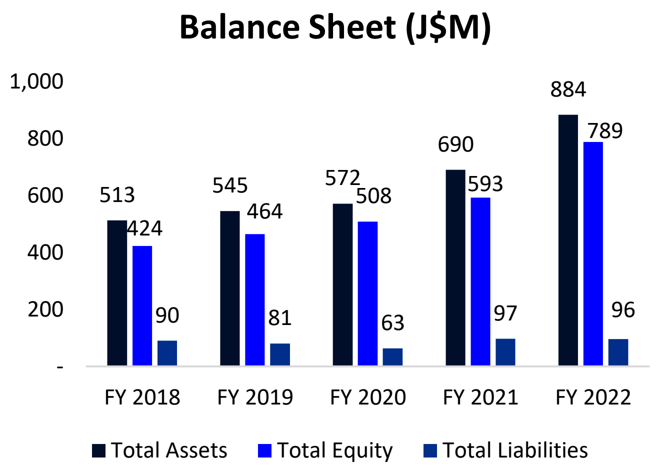
Operating Profit: Operating Profit amounted to $267.1 million, representing an increase of 50.5% YoY. Total Operating expenses were $223.5 million, an increase of 21.7% YoY, driven by a 22.8% increase in other operating expenses, which are primarily made up of staff costs. Staff costs grew by 25.9% to $155.2 million which may be due to an increase in the number of employees and/or increases in wages and salaries. Also, contributing to the increase in total operating expenses is the increase in administrative expenses of 14.9% to $27.3 million. The operating margin for the year increased to 56.6%, from 52.6% in the prior year as the growth in revenue and gross profit outpaced the growth in operating expenses.



Net Profit: CHL had a share of profits of associates of $57.5 million, a 101.0% increase over the prior year. Interest income for the year was $14.2 million, a 534.0% increase from the prior year. This large increase was due to significant short-term deposits made by the company. Finance costs amounted to $1.3 million, an increase of 13.8%. The company paid $48.3 million in tax and ultimately, had net profits of $289.2 million, a YoY increase of 81.2%.

Balance Sheet

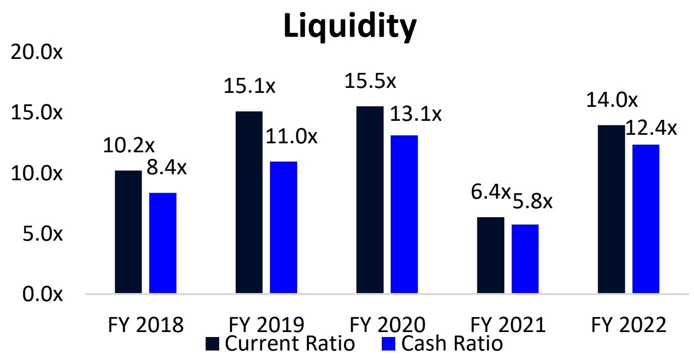
Total Assets: Total assets for the year increased by 28.1% YoY to $884.1 million. Current assets represented 65.1% of total assets, while non-current asset represents the remaining 34.9%. Receivables, among the largest contributors to growth in the asset base, grew by 78.2% to $66.2 million and accounted for 14.3% of current assets. Cash and cash equivalents declined 76.6% to $82.5 million at the end of FY 2022 as the company made many significant short-term deposits. Short-term deposits amounted to $426.2 million and accounted for 74.1% of current assets and 48.2% of total assets. Also contributing to the growth in total assets was investment in associates which grew by 43.0% to $191.2 million due to an additional share of net profits stemming from the company's 30% stake in Buying House Cement Limited



Total Liabilities: Total liabilities slightly decreased by 1.8% to $95.50 million for the year. Related party liabilities grew by 72.1% to $43.5 million, driven largely by advance payments received during the year. This was offset by declines in payables and income tax payable of 17.4% and 50.3% respectively to $27.1 million and $14.0 million respectively. Non-current liabilities totalled $54.4 million, accounting for 56.9% of total liabilities, while current liabilities accounted for 43.1%.

Total Equity: Total equity saw an increase of 33.0% YoY, amounting to $788.6 million. This increase was entirely driven by retained earnings, which amounted to $745.2 million for the year-end, an increase of 35.6% YoY. CHL has no debt, and its asset base is funded almost entirely by equity.

Liquidity: The company has maintained a healthy level of liquidity and solvency, with the lowest current ratio over the last five years being 6.4x in FY 2021 before climbing back to 14.0x in 2022. This was due to a 47.8% increase in current assets coupled with a 32.6% decline in current liabilities. The company has sufficient current assets to cover short-term obligations and maintained a cash ratio stood at 12.4x. It should be noted that CH has no inventory, therefore, the current ratio and quick ratio are the same for CHL.



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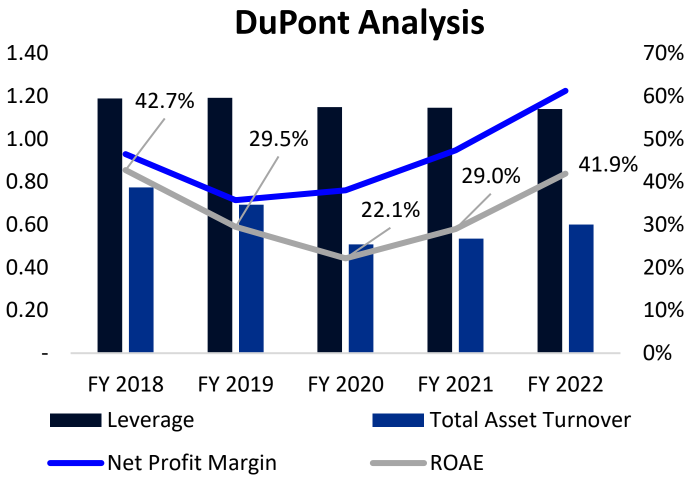
DuPont Analysis

CHL's return on average equity (ROAE) increased over the financial year, moving from 29.0% recorded in FY 2021 to 41.9% in FY 2022. Conducting a DuPont Analysis allows for the analysis of the drivers of return on average equity to determine the cause of the increase. The net profit margin (NPM) had increased YoY to 61.1% (driven by the record revenues and profits) in FY 2022, while the total asset turnover (TAT) ratio also increased to 0.60x and leverage marginally increased to 1.15x YoY from 1.14x. Therefore, the increase in ROAE can be mostly attributed to the record financial performance of the company as well as the efficiency of the utilization of its assets.



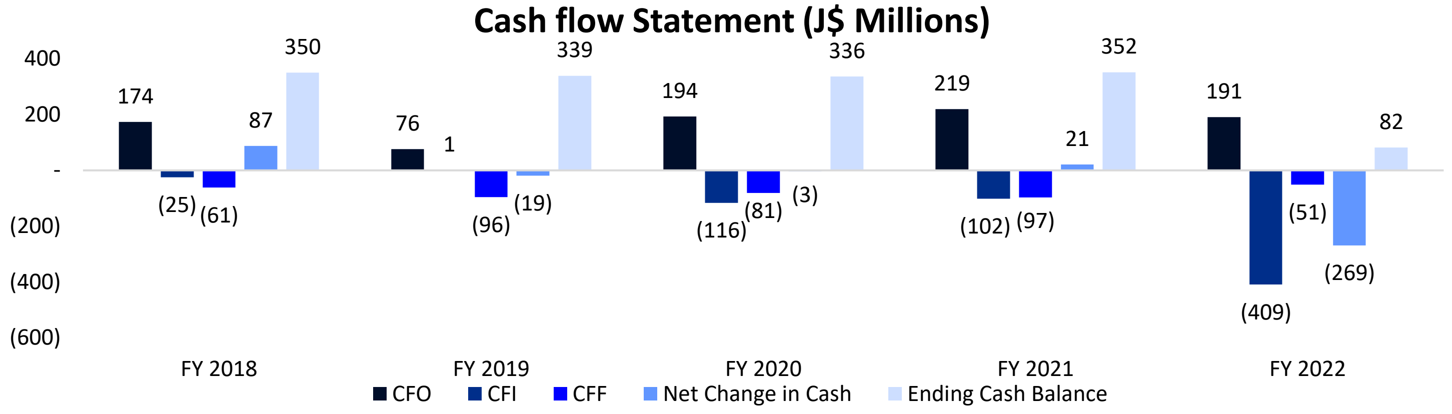
Cashflow Statement

CHL had cash inflow from operations (CFO) during FY 2022 of $190.8 million, a 12.9% decline from CFO in FY 2021 even though the company's net profits increased 81.2% YoY to $289.2 million. The decline in CFO in FY 2022 stemmed primarily from the $62.5 million in taxation paid compared to $21.0 million in the previous year. Also contributing to the decreased CFO is the deduction of interest income of $14.2 million compared to the $2.2 million in the prior year and the deduction of share of profits from associates of $57.7 million, up from $28.6 million. Finally, a $29.9 million increase in receivables also contributed to the reduction of CFO for the year.

CHL's cash flow from investing activities (CFI) was an outflow of $409.2 million in FY 2022, compared to an outflow of $101.5 million in FY 2021. The outflow in CFI is entirely due to the short-term deposits of the company in the 2022 FY. The company made short-term deposits of $414.6 million, which are held with Jamaica Money Market Brokers Limited, mature within one year and earn a weighted average interest rate of 5%. The $101.5 million CFI outflow in FY 2021 was almost entirely due to an investment in associates of $105.2 million.

Cash used in financing activities (CFF) improved from an outflow of $96.6 million in FY 2021 to a lower outflow of $50.5 million in FY 2022. This was driven by $44.6 million in proceeds from related companies. This was partially offset by an increase in dividend payments from $74.9 in FY 2021 to $93.7 million in FY 2022.

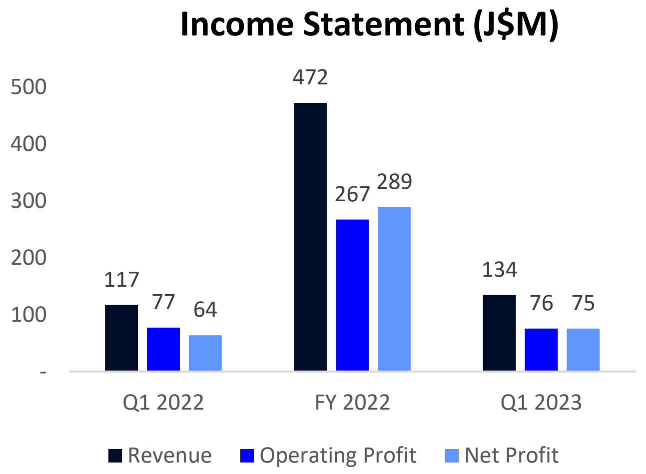
Ultimately, the combination of these movements in cash throughout the financial year contributed to a net decrease in cash of $268.9 million. Effects of the exchange rate negatively impacted cash and cash equivalents by $333,724. These led to an ending cash balance of $82.5 million in FY 2022, a 76.6% decrease YoY.



Three Months FY 2023 (December 31, 2022) Financial Performance

Income Statement

Revenue: For the three months ended December 31, 2022 (Q1 2023), revenue increased by 14.8% to $134.3 million compared to Q1 2022's revenue. The increase was primarily due to an increase in baggage handling revenue from the cruise vessel's homeporting activities at the port of Montego Bay as well as a slight increase in stevedoring revenue. As mentioned above, the company rarely incurs direct costs (baggage handling costs), and therefore revenue and gross profit are often the same. However, the company incurred $1.6 million in direct costs during the quarter, resulting in gross profits of $132.7 million and a gross profit margin of 98.8%. The company incurred no direct expenses in Q1 2022. The company earned $7.6 million in other income, a 40.7% decline from the prior period. The decline in other income is primarily due to the 84.1% decline in foreign exchange gain, amounting to $2.0 million in Q1 2023.

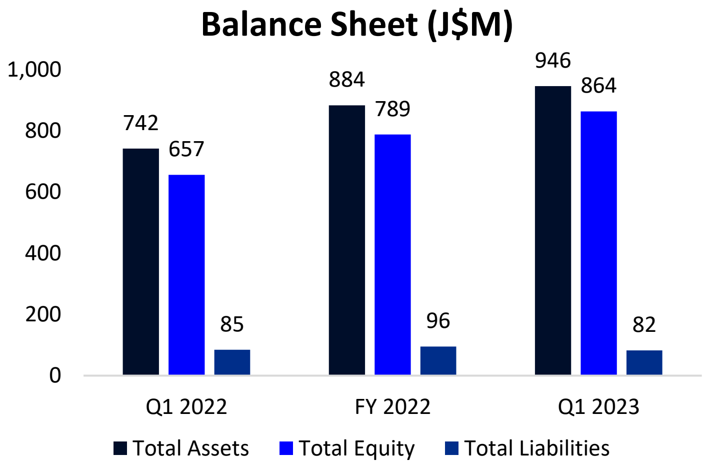


Operating Profit: Operating Profit amounted to $75.5 million, which represents a 2.1% decline from Q1 2022. Total Operating expenses increased by 23.1% for the quarter to $64.7 million, which was due to a 42.2% increase in administrative expenses to $8.8 million and a 20.6% increase in other operating expenses to $55.9 million. The company did not explain the drivers of the increase in expense. The operating margin for the quarter declined to 56.2%, from 66.0% in the prior quarter as the growth in revenue was outpaced by the growth in operating expenses coupled with a decline in other income.

Net Profit: CHL had a share of profits of associates of $19.0 million for the quarter, a 256.1% increase over the prior period. Interest income declined 86.1% from the previous quarter to $156,709, while finance costs amounted to $458,902, an increase of 83.1%. The company paid $18.9 million in tax and ultimately, had net profits of $75.3 million, an 18.0% increase from Q1 2022.

Balance Sheet

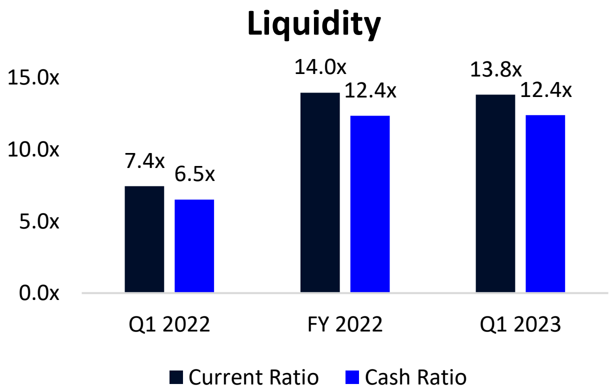
Total Assets: Total assets stood at $946.0 million, a 27.5% growth from Q1 2022, and a 7.0% growth over the 2022 FY end. Current assets make up 63.9% of the total asset base while the remaining 36.1% are non-current assets. Short-term deposits increased by 62.4% to $462.3 million YoY, the same amount from the 2022 FY end. Short-term deposits account for 70.6% of current assets and 45.1% of total assets. Receivables increased by 18.0% to $62.1 million but declined by 6.1% from the 2022 FY end amount. Investment in associates amounted to $210.2 million, an increase of 51.1% from Q1 2022 and 9.9% from the 2022 FY end amount. Investment in associates accounts for 22.2% of total assets. Cash and cash equivalents for the period amounted to $115.5 million, a 6.4% increase from the prior year's Q1 and a 40.0% growth over the 2022 FY end.



Total Liabilities: Total Liabilities as of the three months ended December 31, 2022, declined by 3.3% to $82.2 million, from Q1 2023. This is driven largely by a 43.9% decrease in income tax payable to $21.1 million during the quarter. This was partially offset by the 61.9% increase in related company liability to $27.6 million. Current liabilities totalled $43.7 million, accounting for 53.2% of total liabilities, while current liabilities accounted for 46.8%.

Total Equity: Total Equity amounted to $863.8 million, a 31.5% increase over the prior year's total of $656.9 million, and an increase of 9.5% over the 2022 FY end. This was driven by 33.7% YoY growth in retained earnings amounting to $820.5 million. CHL has no debt, and its asset base is funded almost entirely by equity.

Liquidity: The current ratio for the quarter measured at 13.8x, a slight decrease when compared to the 2022 financial year-end ratio of 14.0x. This decrease was primarily because of the growth in current liabilities of 6.2% from the 2022 FY end outpacing the 5.1% growth in current assets during the same period. The growth in current liabilities was largely due to a 50.7% increase in income tax payable from the 2022 FY end. The cash ratio for the current period was constant at 12.4x. It should be noted that the company has no inventory, therefore, the current ratio and quick ratio are the same for CHL.



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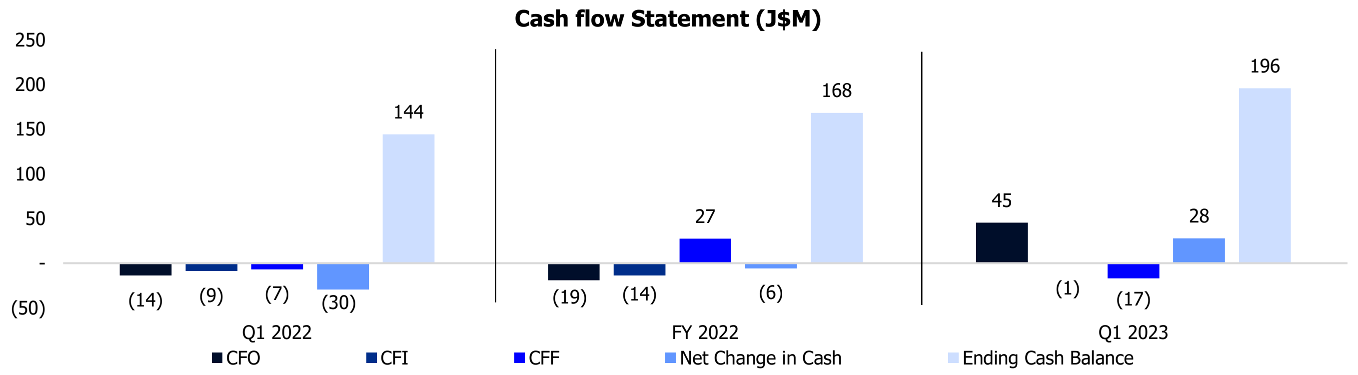
DuPont Analysis

CHL's ROAE Increased to 39.5% in the trailing twelve-month period ended December 31, 2022 (TTM December 2022), compared to 32.8% in a similar period in the prior year (TTM December 2021). The increase was primarily due to an increase in the net profit margin from 52.5% to 61.4%. Asset turnover slightly increased to 0.58 from 0.56 at the TTM December 2021 and the leverage ratio was constant at 1.11x compared to 1.12x at TTM December 2021.

Cashflow Statement

CFO amounted to a cash inflow of $63.4 million in Q1 2023, an 88.8% increase from the corresponding period last year. This was primarily due to an 18.0% increase in net profits to $75.3 million for the quarter. Also contributing to the greater CFO during the quarter was the cash inflow of $4 million from accounts receivables, compared to the $14.2 million outflow in Q1 2022. These were offset by a deduction of $19.0 million from a share of the profit of associates, compared to $5.3 million in Q1 2022. CFI was an inflow amounting to $6.0 million compared to a $261.1 million outflow in Q1 2022. The inflow was due to proceeds from the sale of property, plant and equipment of $6.0 million. The $261.1 million outflow in Q1 2022 was primarily due to investments in associates of $262.5 million in Q1 2022. CFF was an outflow of $36.2 million, compared to the prior year's outflow of $25.7 million. This is primarily a result of $35.8 million in cash payments to related companies compared to $25.4 million in Q1 2022. This resulted in a $33.2 million net change in cash and an ending cash balance of $115.5 million.



Trading Summary and Liquidity

It is important to factor in the liquidity of the stock, as it is tightly held, with 96.263% of the outstanding shares being regarded as stagnant shares, resulting in a market float of 15.56 million shares. This implies access to a significant volume of shares could be limited. The average daily volume over the past twelve months of trading has amounted to 27,444 with a median volume of shares of 600 implying the stock is thinly traded daily. Due to the limited supply, the stock has seen some volatility around the price. The company's stock has traded between the price ranges of $9.03 and $15.30 over the last 52 weeks.

CARGO HANDLERS LTD (CHL JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out	Source	Date
Float	15,555,529	3.737		
Shares Outstanding	416,250,000	100.000		
Stagnant Shares	400,694,471	96.263		

Close

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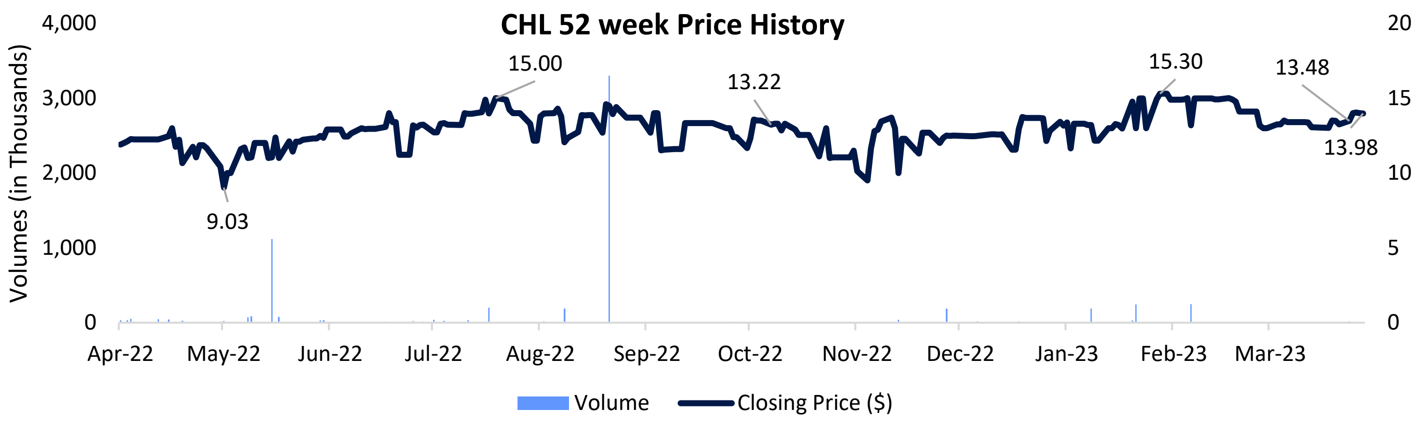

Valuation and Recommendation

To arrive at a fair value estimate for the company we utilized two methods, namely a Justified Price-to-Book method and a Justified Price-to-Earnings method. In arriving at our estimate for earnings, we assumed the projected growth in tourism can add to the stevedoring revenues, coupled with profit share from associates and future minimum lease payment receivables, CHL can achieve growth in revenues and profits in FY 2023. Using these assumptions, we arrived at a base case earnings per share (EPS) for the 2023 Financial Year end of **$0.85** which compares to the 2022 EPS of **$0.77**. We then arrived at a justified P/E of **19.41x**, using a discount rate of **15.45%** and paired with a growth rate of **10.30%**. Based on this justified P/E, which we applied to our 2023 EPS forecast, we arrived at a fair value price of **$16.50.** Our Price to Book Valuation utilized a justified P/B of **5.82x**, along with our 2023 financial year-end expected book value of **$2.64**. This resulted in a valuation of **$15.35**. Averaging our P/E and P/B estimates, we arrived at a price target of **$15.92**, a **16.23%** upside to the April 25, 2023, price of **$13.70**, suggesting the stock is undervalued. In light of this fair value estimate and expected financial performance going forward, we recommend investors **OVERWEIGHT** the stock.

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Current Price	$13.70
Estimate Fair Value	$15.92
YTD Return	-11.76%
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Forward P/E	16.12x
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Summary of Key Financial Highlights

FINANCIAL METRICS	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
BALANCE SHEET	**J$**	**J$**	**J$**	**J$**	**J$**
Total assets	513,372,471	545,221,470	571,517,469	690,300,776	884,088,973
Short term investments	0	0	0	0	426,214,140
Receivables	76,134,889	127,946,271	60,922,197	37,123,624	66,157,384
Cash and Cash equivalents	351,761,985	339,369,664	336,145,811	351,727,951	82,478,233
Property Plan and Equipment	77,525,880	64,404,375	163,629,973	138,162,262	114,835,616
Payables	31,470,127	26,854,031	23,540,466	32,852,312	27,136,243
Stockholders' equity	423,500,670	464,442,524	508,390,592	593,061,079	788,562,259
PROFIT AND DIVIDENDS					
Operating profit	192,363,699	153,444,692	131,179,863	177,524,897	267,122,695
Operating expenses	-187,475,449	-224,450,859	-173,812,408	-183,600,338	-223,517,942
Share of Profit of Associate	0	0	0	28,597,518	57,477,027
Profit before tax	191,862,844	152,242,836	130,548,631	207,179,666	337,441,373
Net profit	165,229,841	130,859,845	107,639,979	159,602,147	289,165,755
Earnings per stock unit (J$)	0.44	0.35	0.29	0.43	0.77
Dividends paid	91,791,284	89,917,991	63,691,911	74,931,660	93,664,575
FINANCIAL RATIOS					
Dividend payout ratio	68.71%	59.17%	46.95%	32.39%	39.67%
Return on shareholders' equity	42.72%	29.47%	22.13%	28.98%	41.86%
Return on assets	35.93%	24.72%	19.28%	25.30%	36.73%
Book value per stock unit (J$)	1.13	1.24	1.36	1.58	2.10
Efficiency ratio (Op. Exp / Revenues)	52.70%	61.25%	61.32%	54.43%	47.32%

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