Barita

MAKING MONEY WORK FOR YOU.

LOCAL EQUITY REPORT

JAMAICA PRODUCERS GROUP

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

Barita
MAKING MONEY WORK FOR YOU.

Company Overview

The Jamaica Producers Group (JP) is a large conglomerate that focuses on business acquisition and development, particularly in the Food & Beverage and Logistics & Infrastructure industries. The Group's business structure is diverse with regard to both the type of businesses under the JP Group umbrella, as well as the global reach of these operations. The Group's business activities are separated into three main segments: Logistics & Infrastructure, Food & Drink and Corporate Services.

The main activities of the Group include the following:

- Port Terminal Operations
- Shipping and Logistics
- Cultivation, Marketing, and Distribution of Fresh Produce
- Food and Juice Manufacturing
- Land Management
- Holding of Investments

Stock	JP
Last Closing Price	J$21.00
52 Week High	J$28.00
52 Week Low	J$17.10
YTD Return	-4.33%
Target Price	**J$25.63**
Potential Return	22.06%
Trailing P/E	9.60x
Trailing P/B	0.43x
Forward P/E	9.38x
Dividend Yield (TTM)	1.15%
Total Return	23.20%
Recommendation	**OVERWEIGHT**
(As at April 6, 2023)	

Executive Summary

Jamaica Producers Group's revenue performance strengthened in 2022, having increased by 15.9% to J$29.0 billion, primarily resulting from a 17% increase in Food and Drink revenues over the year. Despite the revenue outturn, increasing raw material costs and challenges due to inflationary pressures over the year have contributed to lower gross and operating profit margins. However, a greater share of profits from associates and joint ventures has resulted in an increase in net profit attributable to shareholders of 24.64% to J$2.30 billion.

JP has focused on acquisitions in the most recent years with the Company making 4 acquisitions, which have grown the share of profit in associates to J$1.51 billion, representing an 83.3% growth rate over the past five years. In 2021, the group acquired 50% of Grupo Frontera Limited and 50% of CoBeverage Lab S.L. which has boosted food and drink performance. In 2021 the group acquired 50% of the Geest Line Limited, which operates a shipping line connecting Europe and the Caribbean and in 2022 the group acquired 100% of Miami Freight and Shipping Company, a Florida-based company engaged in freight handling, logistics and shipping primarily between North America and the Caribbean. These acquisitions have boosted the Logistics & Infrastructure segment, which has been long anchored by the consolidation of the results of Kingston Wharves Limited. In March 2023, the group announced its acquisition of the Juicy Group and HPP Belgium NV.

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

While we do not know the ultimate financial contribution of this acquisition, we anticipate that the company will positively impact food and drink performance.

In addition to its acquisitions, in November 2022, JP and Eppley Limited announced the formation of an investment company, Capital Infrastructure Group (CIG). Both JP and Eppley will control and manage CIG as equal partners, and the company is funded by capital commitments by both firms along with anchor investor NCB Capital Markets Limited. JP Group and Eppley through CIG formed Rio Cobre Water Limited in partnership with Vinci Construction Grans Projets SAS. Rio Cobre Water has entered into a public-private partnership agreement with National Water Commission (NWC) to design, build, finance and operate a 15-million-gallon-per-day water treatment plant under a 25-year concession. The project will be carried out at a cost of US$77 million ($11.9 billion) over two years and will provide water to NWC customers in Kingston and St Andrew along with Spanish Town and Portmore in St Catherine. The direct effect of the venture on JP's future earnings is yet to be seen.

JP and Pan Jamaica Investment Limited have embarked on a restructuring exercise scheduled for completion in early Q2 2023. On November 21, 2022, The Group announced that Jamaica Producers Group Limited (JP) and PanJam Investment Limited (PJAM) had reached an agreement that will see the merger of the operating assets of JP with PJAM, which precipitated the restructuring exercise. This arrangement was approved by the shareholders of both companies at extraordinary general meetings held on December 22, 2022. **In exchange for the operating assets, JP will be taking a 34.5% interest in PJAM. After the transaction, PJAM will be renamed Pan Jamaica Group Limited and will ultimately hold both JP's and PanJam's current operating businesses. JP will become the largest shareholder of the newly formed Pan Jamaica Group, with its shares in the Pan Jamaica Group being JP's primary operating asset. Both the renamed Pan Jamaica Group and JP will remain listed on the Main Market of the Jamaica Stock Exchange.** This merger will result in one of the largest, non-financial services, conglomerates in Jamaica with assets of over J$110 billion.

Business Economics

Jamaica Producers Group operates under two main business segments, namely JP Food and Drink and JP Logistics & Infrastructure. A third segment, Corporate Services, comprises interest and investment income, net of the cost of corporate functions not directly charged to business units.

Segment Breakdown

JP Food and Drink

This segment comprises businesses that are engaged in agriculture, processing, distribution and/or retail of food and drink. Specifically, this segment's performance is driven by several subsidiaries inclusive of Grupo Frontera Limited, CoBeverage Lab S.L., A.L. Hoogesteger Fresh Specialist B.V., JP Tropical Group Limited, Tortuga, JP Snacks Caribbean and JP Farms. In FY2022, this segment accounted for J$17.06 billion or 58.56% of total revenue and J$557.61 million or 1.91% of the Group's operating profit. It's important to note that while the Food and Drink segment accounts for a larger portion of revenue, the operating profit margin is thin, at 3.27% in FY2022 and 3.90% in FY 2021.

Grupo Frontera Limited: is the largest contributor to the food and drink segment. a 50/50 holding company with Norbrook Equity Partners, Grupo Frontera is the holding company for the assets and operations of Grupo Alaska, a leading ice and water company in the Dominican Republic. Moving forward, the company will acquire and grow well-positioned companies in the Spanish-speaking Caribbean and Central America. For FY 2022, Grupo Frontera provided JP with a share of profit before tax of J$476.19 million, 35.06% of the total share of profits of associates and joint ventures.

JP Tropical Group:

- **JP Caribbean Snacks –** produces and markets tropical snack products and fresh produce in Jamaica. The business operates from snack factories in the Dominican Republic and Jamaica, selling under the "St. Mary's" and "Charles" brands both in the Caribbean and Internationally. The company also produces tropical snacks for other third-party brands and retailers across the region. Beginning in 2019, the products manufactured by this segment are distributed by Wisynco which has a much broader distribution channel. Under the arrangement, Wisynco owns 30% of JP Caribbean Snacks' equity.
- **JP Farms –** operates a 400-acre farm in St. Mary, mainly cultivating bananas, pineapples, and coconuts. All the crops grown are then sold internally to JP Foods for distribution as fresh fruit or used in the manufacturing of snacks. This segment poses considerable uncertainty underpinned by the nature of agricultural operations in Jamaica. Specifically,

operations are dominated by uncertain weather, crop disease, challenges in market demand, and competition from production by households and informal producers.

- **Tortuga –** markets and manufactures Tortuga rum cake and other Tortuga branded food and drinks. The company's sales are directed at the travel retail market across the region, focusing on major air and cruise ports, hotels, and gift locations.

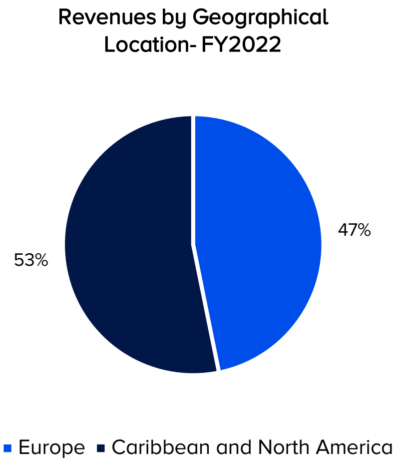
JP Logistics and Infrastructure

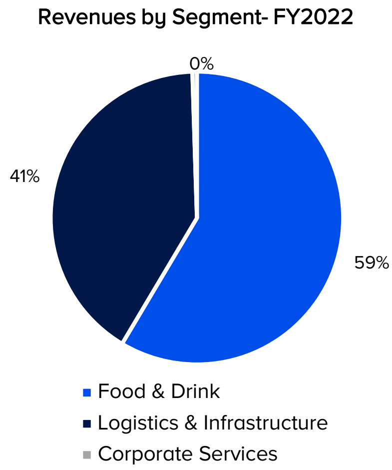
This segment comprises businesses that are engaged in logistics, transportation, port operations, and related services. These include Geest Line Limited, Miami Freight & Shipping Company, Kingston Wharves Limited (KWL), JP Shipping Services Limited and SAJE Logistics Infrastructure Limited (indirect exposure through KWL). This segment represented J$11.93 billion (40.95%) of Group revenue and J$4.37 billion (14.99%) of Group operating profit in FY2022. As such, the Logistics and Infrastructure Segment is the largest segment of the Group measured by profit. Relative to 2021, this segment saw a 15.65% increase in revenues, however, operating profits fell 0.39% despite revenue growth due to foreign exchange losses on USD cash holdings as the USD depreciated relative to the JMD over the year. The operating profit margin from the segment fell to 36.61% from 42.73% as a result.

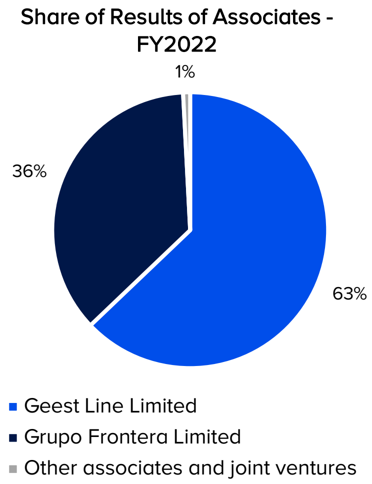
Geest Line Limited

In April 2021, JP acquired a 50% interest in Geest Line Limited ("Geest"). Geest operates a shipping line between the UK and Europe and several destinations in the English-speaking Caribbean, Colombia, and the Dominican Republic. Refrigerated fresh fruit constitutes the major share of the eastbound cargo destined for Europe from the Caribbean, with consumer goods, vehicles, and other capital goods representing the major share of the westbound cargo transported to the Caribbean from Europe. The remaining 50% share of Geest was acquired by Seatrade Group, a ship-owning and chartering business with whom JP has had a long relationship. For FY 2022, Geest provided JP with a share of profit before tax of J$853.91 million, 62.87% of the total of JP's share of profits from associates and joint ventures.

Kingston Wharves: Based on the 2022 audited financial statement of Kingston Wharves Limited's and JP's Logistics and Infrastructure Segment data, we can determine that Kingston Wharves accounts for approximately 79.46% of segment revenue and approximately 74.79% of the segment's operating profit. **Additionally, KWL accounted for 66.59% of the Group's FY 2022 operating profit. What this means is that while the Group is large, its profitability was fairly concentrated around the performance of KWL.**

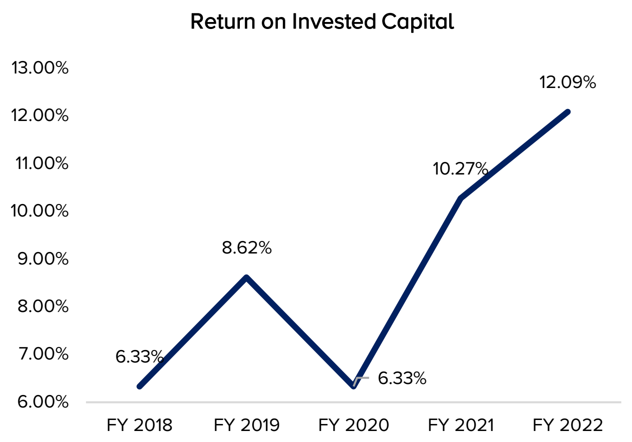






Effectiveness of Growth Strategy

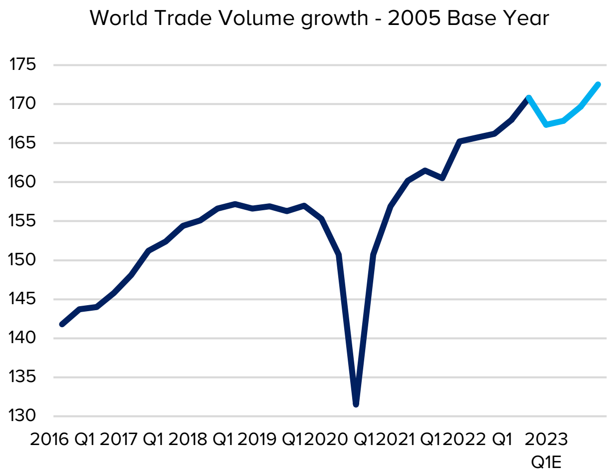
Over the past 5 years, JP Group has engaged in a strategy to build its core food & drink and logistics & infrastructure businesses through efficiency-enhancing capital investment projects and selective acquisitions. Despite maintaining consistent levels of debt through the years, JP has reinvested its retained earnings in property, plant and equipment as well as in packaging and information technology systems in its food & drink line. In addition to capital expenditure, the Group has acquired companies which enhance the group's overall earnings. This strategy has paid off given the group's improved return on invested capital from 6.33% in FY 2018 to a peak of 12.68% in FY 2020 and 12.09% in the most recent financial year. The return in FY 2020 is higher than expected due to the Group's one-off $1.87 billion gain on the disposal of its share in SAJE logistics. Without this one-off result, the return on invested capital would've been 6.33% in FY 2020, further highlighting the improvement and enhanced core return through FY 2021 and FY 2022.



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

Expectations for Shipping and Logistics

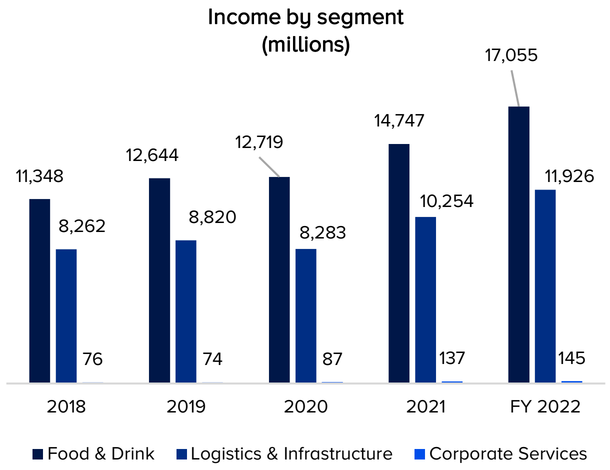
The World Trade Organization ('WTO') expects global trade to potentially increase by 1.0% for 2023 compared to 3.5% growth noted for 2022. World trade is expected to have lost momentum in the second half of 2022, remaining subdued in 2023 as multiple shocks weigh on the global economy. For 2023, WTO economists foresee a 1.0% increase in trade, down from the previous estimate of 3.4% in trade growth. Import demand is expected to soften as growth slows in major economies for different reasons; a combination of tightening monetary policy, higher-than-average commodity prices and debt distress in developing countries is cited as the cause of waning demand. Lower demand and slowing growth in global trade will directly affect the rate of growth for companies involved in shipping and logistics, including associates and subsidiaries of JP, Kingston Wharves and Geest amongst others.



Financial Performance Summary (Year Ended December 31, 2022)

Income Statement

Total income grew by 15.9% year-over-year to J$29.00 billion for the year ended December 31, 2022. The largest contributing factor was an increase in Food & Drink income by 15.65% to J$17.06 billion reflecting results from the acquired Grupo Frontera Limited. Additionally, Logistics & Infrastructure income grew 16.30% year-over-year to J$11.93 billion, on the back of 20.01% revenue growth in Kingston Wharves Limited to J$9.48 billion, whose results are fully consolidated with JP's financial statements.

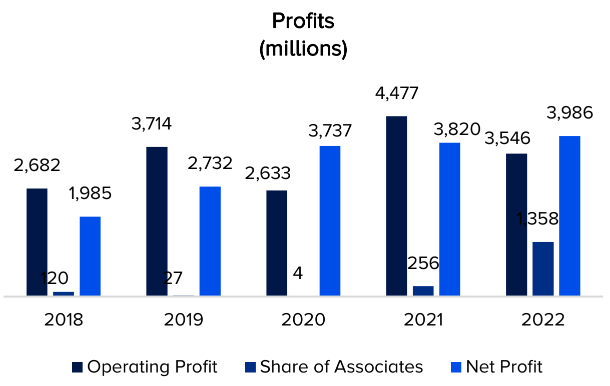


Cost of sales grew at a faster pace than revenues at 18.8% to J$21.34 billion for the year ended December 31, 2022. This reflects a similar pace of growth in the cost of sales to Kingston Wharves following increasing input costs throughout 2022. As a result, the gross profit margins for the Group deteriorated to 26.4% from 28.2% the prior year.

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

Other income fell 76.5% year-over-year to J$205.21 million, while selling, administrative and operating expenses grew 25.2% to J$4.32 billion. Expenses grew as a result of increased advertising, promotion and selling costs, as well as staff costs. The share of profits from associate companies and joint ventures grew by 429.9% year-over-year to J$1.36 billion as a result of the addition and growth of Geest and Grupo Frontera results.

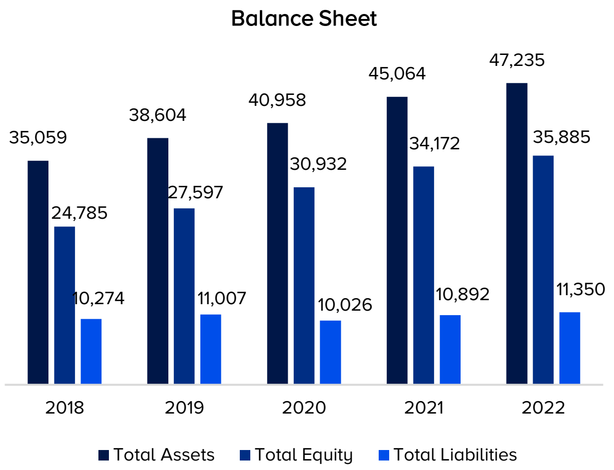
Finance costs increased by 13.0% to J$235.13 million due to slightly higher debt and overall higher average interest rates. This culminated in net profit attributable to owners for the year ended December 31st, 2022 amounting to J$2.30 billion, increasing by 24.6% from the J$1.84 billion recorded in 2021.



Balance Sheet

On December 31, 2022, total assets amounted to J$47.23 billion, compared to J$45.06 billion on December 31, 2021, representing a 4.82% increase. This increase was driven primarily by Short term investments growing by 42.41% to J$592.60 million, inventories growing 22.91% to J$1.44 billion, interest in associates increasing 108.20% to J$2.02 billion and property, plant and equipment growing by nearly J$2 billion to J$24.61 billion.

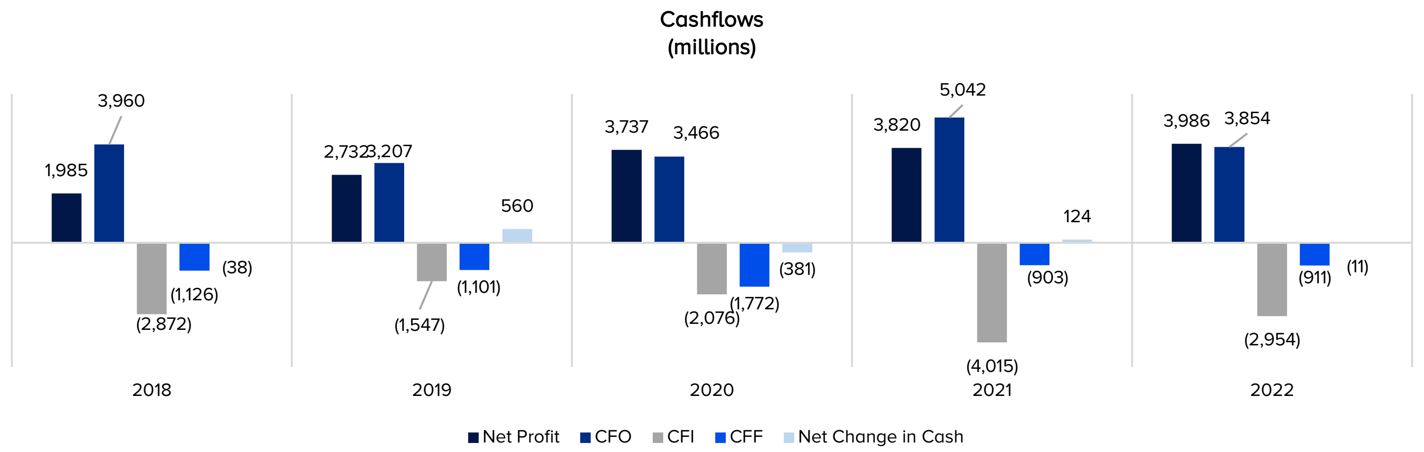
Total Stockholders' equity was J$35.89 billion, 5.01% higher than the prior financial year-end. Total equity attributed to the Company's shareholders grew by 6.53% to J$19.13 billion at the end of December 31, 2022, due to a 13.8% increase in retained earnings. Total liabilities also grew by 4.20% year-over-year to J$15.26 billion at the end of FY 2022. The largest liability, accounts payable increased 15.72% to J$5.26 billion to make up the bulk of this increase. The growth in assets and acquisitions over the past few years has been funded by reinvested earnings given debt and cash has been held relatively constant since 2020.



At the end of December 2022, both the return on assets and return on equity have improved over the year, with return on assets coming in at 4.98%, compared to 4.29% in 2021 and return on equity of 12.40%, rising from 10.82% in 2021. This was mainly due to the growth in profitability for FY 2022. JP's Leverage ratio measured by total assets to equity was 1.32x, unchanged year-over-year.

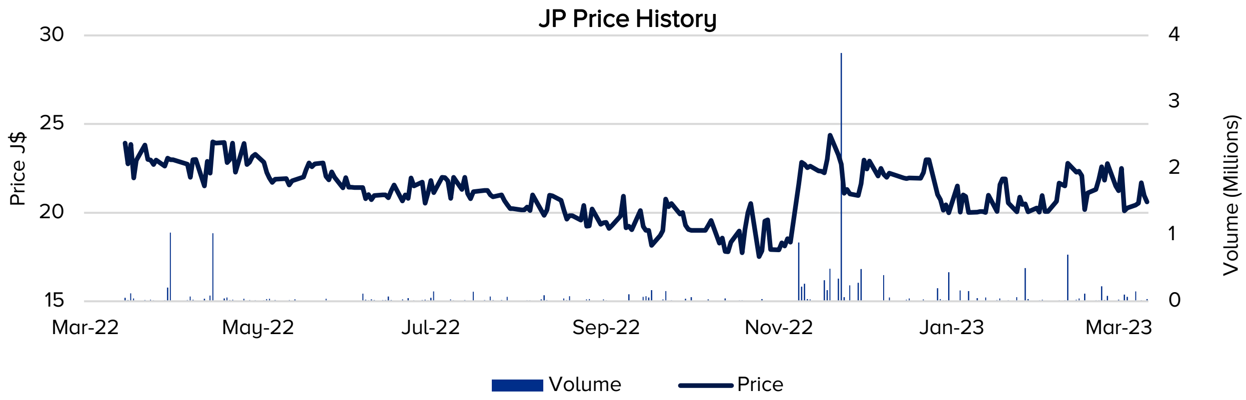
Definitions:
Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO

Cashflow Summary



Net cash flow provided by operating activities fell 23.57% in FY 2022, to J$3.85 billion. This fall was a result of a greater portion of profits for the year coming from the share of associates which does not represent an operating cash flow. Net cash used in investing activities came in at J$2.95 billion, compared to a J$4.01 billion used in 2021 due to a reduction in outlays for the purchase of securities under resale agreements. There was also a net use of cash for financing activities for the year of J$910.73 million, mostly related to distributions to shareholders and non-controlling interest. This combined, resulted in an overall net use of cash of J$11.29 million and an ending cash and cash equivalents balance of J$1.21 billion.

Market Liquidity and Trading Action



JP ownership (as at December 31, 2022)

Name	Shares Held	Percentage
McGowan Properties Limited	112,178,507	10.00%
Sagicor Pooled Equity Fund	104,686,413	9.33%
Lennox Portland Ltd. Et al	105,157,263	9.37%
Shareholder Services Trust J.P.	86,223,100	7.68%

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

Shareholder Services Trust J.B.P.A.	86,110,460	7.67%
Trustees - Jamaica Producers Group Limited ESOP	69,708,801	6.21%
National Insurance Fund	54,166,633	4.83%
David and Kathleen Moss	37,610,468	3.35%
Jeffrey McGowan Hall	30,199,687	2.69%
JMMB Pension Fund	13,416,244	1.20%
Total	**699,457,576**	**62.33%**

JAMAICA PRODUCERS GROUP (JP JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out	Source	Date
Float	595,899,418	53.104		
Shares Outstanding	1,122,144,036	100.000		
Stagnant Shares	526,244,618	46.896		

There was little trading of shares among the top 10 shareholders in FY 2022. JP's float at the end of 2022 was 53.10%, as 46.90% of shares outstanding are considered stagnant, i.e., not normally traded on the market. The stock trades sparingly, having an average volume of 70,278 shares each day, representing a value of J$1.45 million. The Market Liquidity of this stock is typically only sufficient for retail traders to transact without much slippage in price in a timely manner, while institutional investors may have to source liquidity through brokers to get sizable trades done in a timely manner.

JP went through most of 2022 in a downward price trend, however, 52-week highs were achieved following the announcement of the amalgamation of JP with PanJam in November. Since the beginning of the year, the stock has traded within a range of J$20.00-J$23.00 and absent any major news or earnings surprises, we are likely to see a short-term continuation within the range.

Valuation

In order to ascertain a target price for JP, we used a justified Price to Earnings approach applied to forward financial expectations based on JP owning 34.5% of PanJam shares as its primary operating asset following the merging of current JP operations with PanJam. In arriving at our target price based on the justified P/E approach, we forecasted the earnings of PanJam, given the merging of JP's current operations, for its 2023 financial year. Our forecast for JP's 2023 result incorporates organic revenue growth, and an increase in the share of profit of associates and was directly applied to ascertain our forward expectations for PanJam's result. Comprehensive coverage of the assumptions made to determine PanJam's forward expectations can be found in the valuation section of our PanJam review. Following our determination of a forward estimate of PanJam's results, we were able to estimate the share of earnings JP would be entitled to, given its proposed 35.4% ownership in the group. Against this backdrop, our target EPS for 2023 was J$2.24 compared to the current J$2.19 for FY 2022.

Stock	JP
Last Closing Price	J$21.00
52 Week High	J$28.00
52 Week Low	J$17.10
YTD Return	-4.33%
Target Price	**J$25.63**
Potential Return	22.06%
Trailing P/E	9.60x
Trailing P/B	0.43x
Forward P/E	9.38x
Dividend Yield (TTM)	1.15%
Total Return	23.20%
Recommendation	**OVERWEIGHT**
(As at April 6, 2023)	

Barita
MAKING MONEY WORK FOR YOU.

We used the capital asset pricing model (CAPM) to arrive at a discount rate for JP of 15.62% and assumed a long-term growth rate of 6.88%, which was determined using forward expectations for PanJam's potential return on equity and dividend payout ratio after the amalgamation of JP, giving us a justified P/E ratio of 11.44x. **We applied this multiple to our 2023 EPS target to arrive at a valuation of J$25.63. At the last closing price of J$21.00, this represents a potential upside of 22.06%. As a result, we have assigned an OVERWEIGHT recommendation for JP given the impending change in Company structure.**

Summary of Key Financial Highlights

FINANCIAL METRICS	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
BALANCE SHEET	J$ '000	J$ '000	J$ '000	J$ '000	J$ '000
Total assets	35,058,947	38,603,888	40,958,000	45,064,167	47,234,945
Investment in associate	803,747	733,754	0	969,891	2,019,289
Investment securities	107,943	347,319	1,683,315	927,168	1,054,594
Investment properties	0	568,619	560,701	552,783	544,863
Bank and other loans	4,674,404	4,393,209	3,611,190	3,774,617	4,038,617
Repurchase agreements	4,467,950	5,380,567	7,645,526	10,319,916	10,217,311
Stockholders' equity	24,785,072	27,597,099	30,931,859	34,172,462	35,885,283
Stockholders' equity less NCI	12,110,072	13,836,454	16,132,100	17,953,457	19,125,431
PROFIT AND DIVIDENDS					
Operating profit	2,681,893	3,714,276	2,633,430	4,476,678	3,545,661
Operating expenses	-3,448,973	-3,369,330	-3,260,093	-3,453,300	-4,322,832
Profit before tax	2,435,376	3,433,944	4,215,463	4,475,616	4,679,856
Net profit attributable to shareholders	815,621	1,204,338	2,167,593	1,844,791	2,299,346
Dividends paid	104,483	119,140	150,009	199,321	253,123
Retained Earnings	11,997,858	13,724,240	16,019,886	17,841,243	19,013,217
FINANCIAL RATIOS					
Earnings per stock unit (J$)	J$0.78	J$1.15	J$2.07	J$1.76	J$2.19
Dividends per stock unit (J$)	J$0.10	J$0.11	J$0.14	J$0.19	J$0.24
Dividend payout ratio	12.81%	9.89%	6.92%	10.80%	11.01%
Return on average shareholders' equity	6.74%	9.28%	14.47%	10.82%	12.40%
Return on average assets	2.33%	3.27%	5.45%	4.29%	4.98%
Book value per stock unit (J$)	J$11.59	J$13.24	J$15.41	J$17.14	J$18.19
Efficiency ratio (Admin. Exp / Revenues)	18.15%	17.59%	15.70%	15.53%	13.80%

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