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LOCAL EQUITY REPORT

KINGSTON WHARVES LIMITED

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

Barita

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Company Overview

Kingston Wharves Limited (KWL), founded in 1945, is the Caribbean's most recognized multipurpose port terminal operator, connecting Jamaica's importers and exporters to over 40 ports worldwide. Strategically located on the port, KWL provides full–range cargo handling and logistics services 24 hours per day, seven days per week. Additionally, several premier shipping lines use KWL's transshipment service, which has experienced strong growth over the past decade.

Stock	KW
Last Closing Price	J$30.56
52 Week High	J$44.00
52 Week Low	J$27.15
YTD Return	-9.10%
Target Price	**J$25.06**
Potential Return	-17.99%
Trailing P/E	16.22x
Trailing P/B	1.21x
Forward P/E	15.84x
Dividend Yield (TTM)	2.00%
Total Return	-15.99%
Recommendation	**UNDERWEIGHT**
(As at April 13, 2023)	

Executive Summary

Kingston Wharves Limited had good revenue growth throughout 2022, having increased by 9.27% to J$9.48 billion, primarily the result of a 12.2% increase in Terminal Operations revenues over the year. Inflationary pressures over the year and higher input costs have resulted in direct costs growing faster than revenues, at a rate of 16.83% year over year, contributing to lower gross and operating profit margins. As a result, net profit attributable to shareholders decreased by 15.70% to J$2.74 billion despite the growth in revenues.

The World Trade Organization ('WTO') expects global trade to potentially increase by 1.0% in 2023 compared to the 3.5% growth noted for 2022. World trade is expected to have lost momentum in the second half of 2022, and is expected to remain subdued in 2023 as multiple shocks weigh on the global economy. This does not bode well for continued growth in KW's revenues through FY 2023, as the group's earnings are generally dependent on global overall shipping activity. Despite this, the group has continued to invest in infrastructure and its ability to do greater volumes of business more efficiently. During FY 2022, KW implemented expansion and capacity-building investments valued at US$60 million which will allow the company to accommodate two post-Panamax sized vessels at the same time rather than one, through an investment in it's Shipping Berth 7, the Ashenheim Road Warehouse Complex and it's Crane #8. This means that the company will be able to expand its position as a regional hub for auto shipments, which already moves over 150,000 cars; 70%-80% of which are intended for other markets.

Despite the significant investments, we do believe KW will see slower growth as well as elevated costs and expenses through FY2023 keeping margins below FY2021 levels. As a result, we currently think the market is pricing KW shares higher than fair value and recommend the company as **UNDERWEIGHT** for investors.

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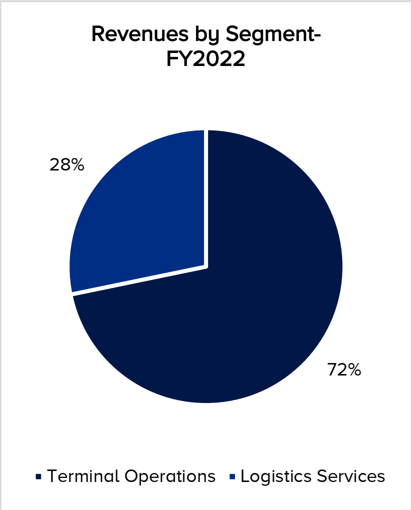
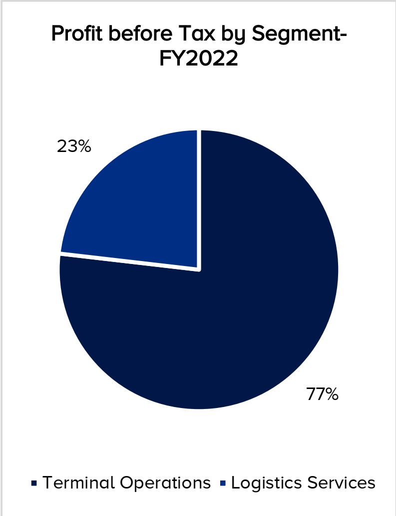
Business Economics & Segment Breakdown

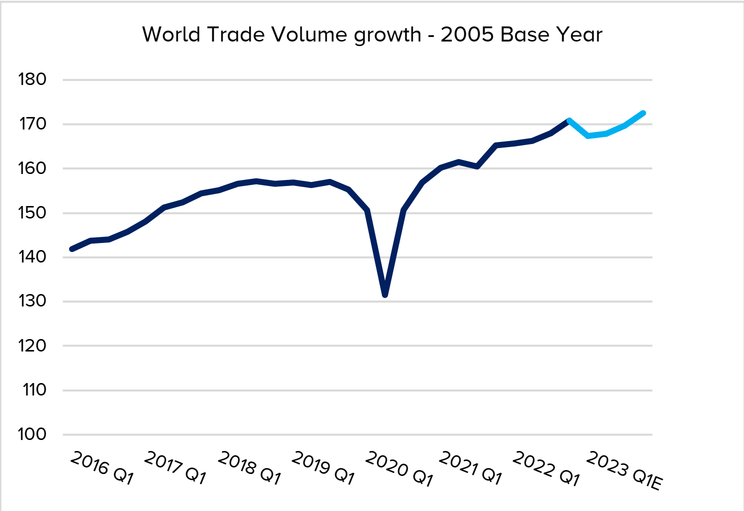
Kingston Wharves Limited has two main divisions: **Terminal Operations** and **Logistics**. Terminal operations refer to public wharves' operation and vessels' stevedoring, while the logistics services division offers logistics facilities, port security services, and refrigerated services. Combined, the terminal operations and logistics divisions enable KWL to provide a full range of services from cargo clearance to warehousing. Domestic and international entities use the port, given its strategic location relative to major trading destinations in the northern hemisphere.





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.



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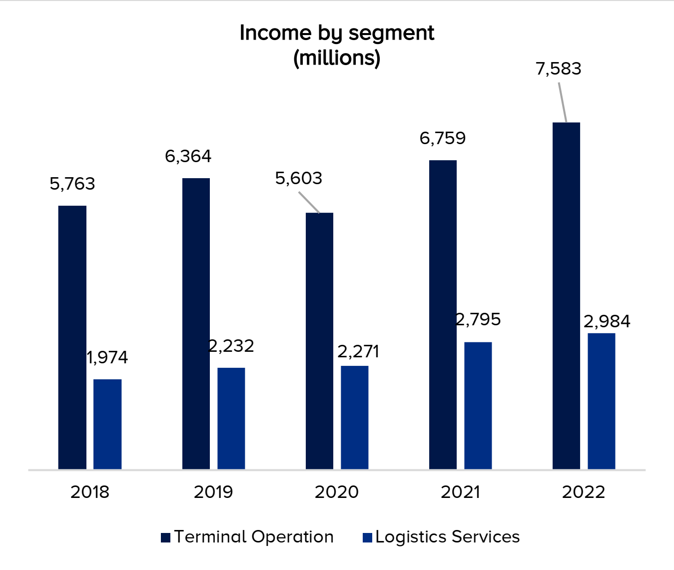
Financial Performance Summary (Year Ended December 31, 2022)

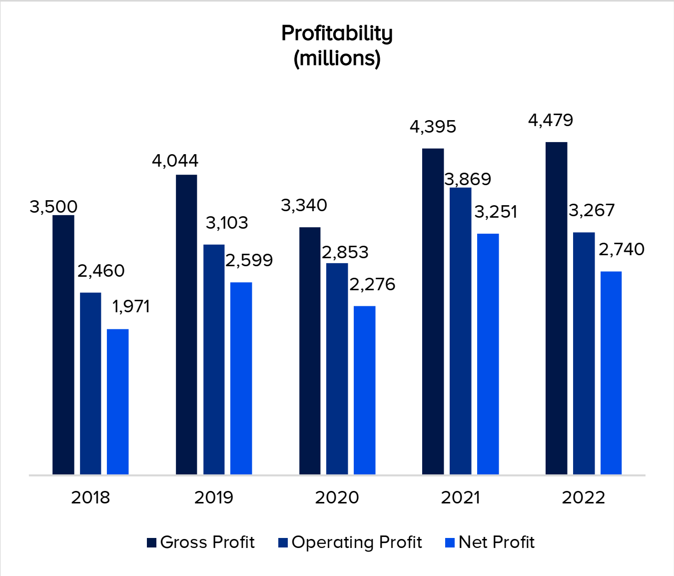
Income Statement

Total revenue grew by 9.27% year-over-year to J$9.48 billion for the year ended December 31, 2022. Terminal Operations income grew by 12.20% to J$7.58 billion while Logistics & Infrastructure income grew 6.75% year-over-year to J$2.98 billion contributing to the growth in overall revenues. KWL handled increased volumes of a number of cargo types in 2022 and experienced a particularly strong year in its transhipment business.



Cost of sales grew at a faster rate than revenues of 16.83% to J$5.00 billion for the year ended December 31, 2022. This reflects elevated input costs throughout 2022. As a result, the gross profit margins for KWL deteriorated to 47.26% from 50.67% noted for the prior year.

Other income fell 25.67% year-over-year to J$505.27 million, while selling, administrative and operating expenses grew 42.35% to J$1.72 billion. Other income fell primarily due to foreign exchange losses on its holding of USD cash reserves throughout the year; in 2022, the USD depreciated relative to the JMD, compared to FY 2021, where the USD appreciated resulting in KWL booking FX gains of J$432.17 million in the previous year.



Finance costs fell by 31.79% to J$101.89 million due to the effect of foreign exchange translation on finance costs which helped offset higher interest expense as a result of greater debt through FY 2022. This resulted in net profit attributable to owners for the year ended December 31st, 2022 amounting to J$2.69 billion, decreasing by 15.70% from the J$3.20 billion recorded in 2021.

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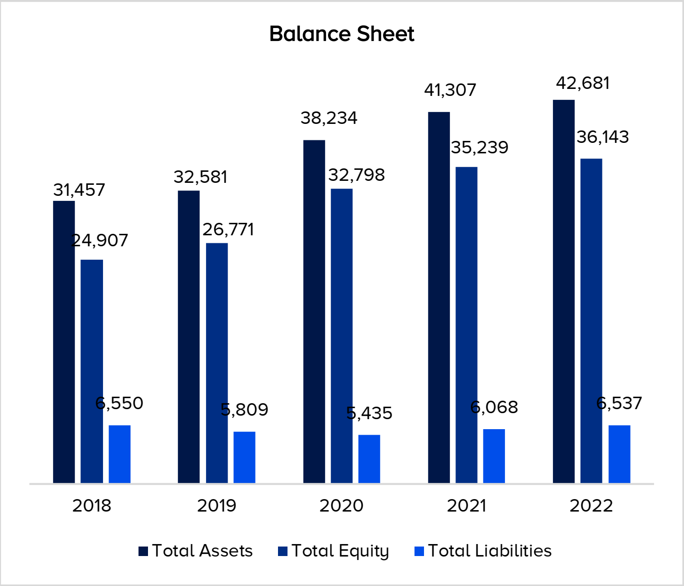
Balance Sheet

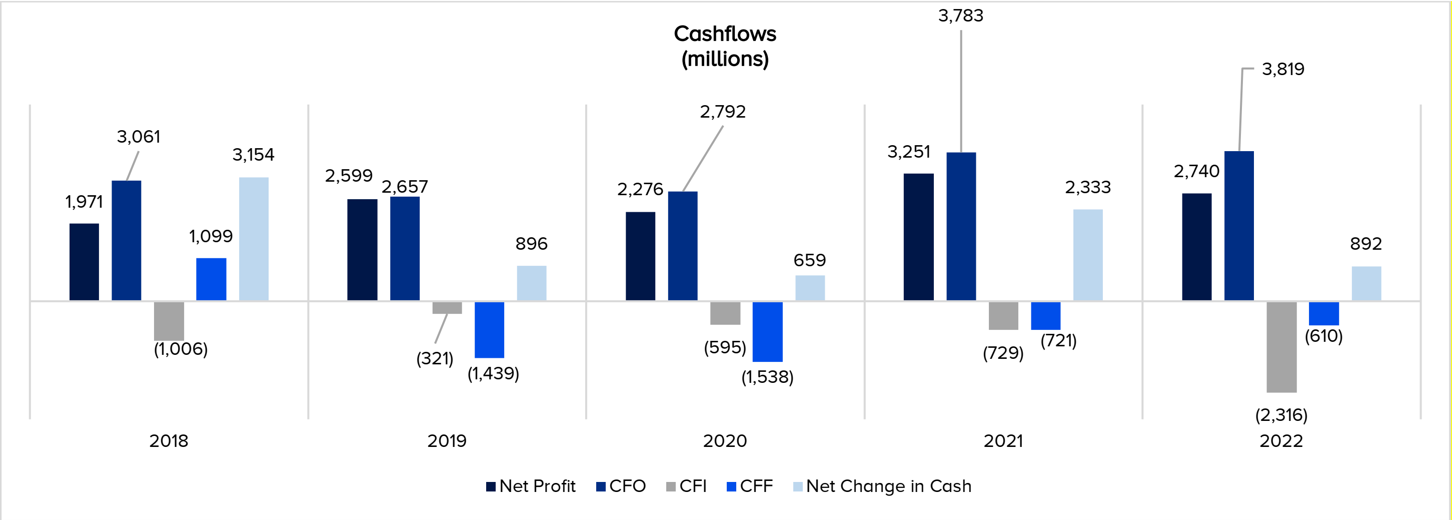


As at December 31, 2022, total assets amounted to J$42.68 billion, compared to J$41.31 billion on December 31, 2021, representing a 3.33% increase. This increase was driven primarily by property, plant and equipment growing by J$1.79 billion to J$29.30 billion and short-term investments growing 6.11% to J$9.63 billion.

Total Stockholders' equity was J$36.14 billion, 2.56% higher than equity as at the prior financial year-end. Total equity attributed to the Company's shareholders grew by 2.46% to J$35.83 billion at the end of December 31, 2022, due to a 3.22% increase in retained earnings. Total liabilities grew by 7.74% year-over-year to J$6.54 billion at the end of FY 2022. Trade and other payables grew 29.76% to J$496.57 million which contributed primarily to the growth in total liabilities.

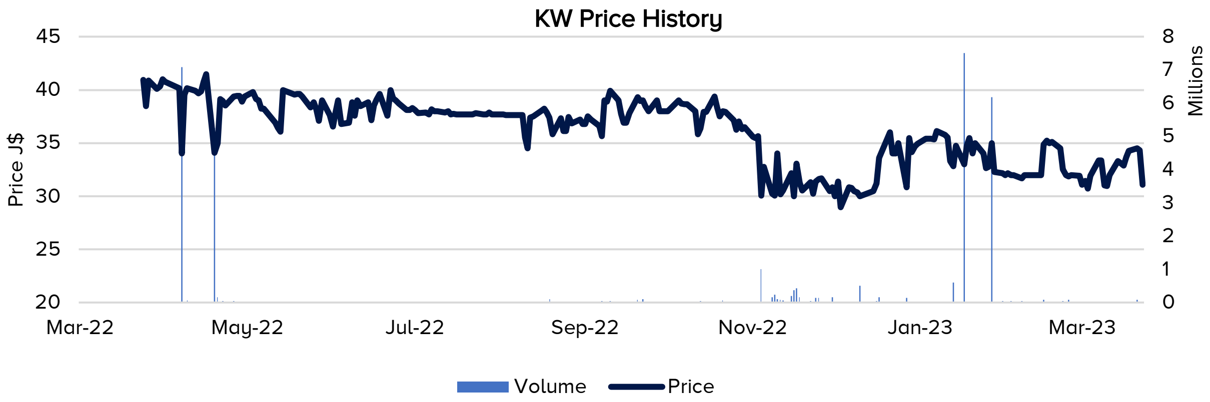
At the end of December 2022, both the return on assets and return on equity have deteriorated over the year, with return on assets coming in at 6.31%, compared to 7.74% in 2021 and return on equity of 6.42%, falling from 7.87% in 2021. This was mainly due to the fall in profitability for FY 2022. KW's Leverage ratio measured by total assets to equity was 1.18x, compared to 1.17x at the end of FY 2021.

Cashflow Summary



Net cash flow provided by operating activities grew 0.93% in FY 2022, to J$3.82 billion. This slight growth was a result of greater cash provided by trade and other payables as well as by receivables during FY 2022 offsetting the reduced profitability during the year. Net cash used in investing activities was J$2.32 billion, compared to a J$728.62 million used in 2021 due to greater investment in property, plant and equipment. Cash used for financing activities for the year was J$610.37 million compared to J$721.41 million used in FY 2021, the result of increased loan proceeds during the year. This combined, resulted in an overall net increase in cash of J$891.97 million and an ending cash and cash equivalents balance of J$10.28 billion.

Market Liquidity and Trading Action



JP ownership (as at December 31, 2022)

Name	Shares Held	Percentage
Jamaica Producers Group Ltd.	601,184,005	42.03%
S.B.D. Ltd.	300,689,810	21.02%
Kingston Portworkers Supperannuation Fund	123,844,292	8.66%
SAJE Logistics Infrastructure Limited	113,169,157	7.91%
Maritime & Transport Services Ltd.	68,125,418	4.76%
Sagicor Pooled Equity Fund	37,859,889	2.65%
Lannaman & Morris (Shipping) Ltd.	28,845,258	2.02%
Guardian Life Limited	21,844,844	1.53%
PANJAM Investment Limited	11,064,715	0.77%
NCB Insurance Co. Ltd. - A/C WT 181	9,000,000	0.63%
Total	**1,315,627,388**	**91.99%**

There was little trading of shares among the top 10 shareholders in FY 2022. KW's float at the end of 2022 was 21.09%, as 78.96% of shares outstanding are considered stagnant, i.e., not normally traded on the market. The stock trades sparingly, having an average adjusted volume of 28,448 shares each day, representing a value of J$883.88 thousand. The Market Liquidity of this stock is only sufficient for retail traders to transact in a timely manner, institutional investors may have to source liquidity through brokers to get sizable trades done in a timely manner.

KINGSTON WHARVES LTD (KW JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position↓	% Out	Source	Date
⊟ Float	300,862,661	21.036		
Shares Outstanding	1,430,199,578	100.000		
⊞ Stagnant Shares	1,129,336,917	78.964		

KW has gone through the past year in a downward price trend with shares being geberally rangebound between J$30 and J$35 since November 2022.

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Valuation

Stock	KW
Last Closing Price	J$30.56
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YTD Return	-9.10%
Target Price	**J$25.06**
Potential Return	-17.99%
Trailing P/E	16.22x
Trailing P/B	1.21x
Forward P/E	15.84x
Dividend Yield (TTM)	2.00%
Total Return	-15.99%
Recommendation	**UNDERWEIGHT**
(As at April 13, 2023)	

In order to ascertain a target price for KW, we used a justified Price to Earnings approach applied to forward financial expectations for the company, as well as a relative P/E ratio valuation based on main market averages. In arriving at our target price based on the justified P/E approach, we forecasted the earnings of KW, incorporating slower revenue growth due to the projections made by S&P and the World Trade Organization for reduced global logistics and shipping activity through 2023. Additionally, our projection includes the cost of sales increasing at a slightly slower pace relative to revenues due to softening input costs expected through 2023 and higher finance costs due to J$661 million worth of debt maturing in FY 2023, that will likely need to be refinanced at higher rates given that the company maintains a consistent level of cash on hand. Our target EPS for 2023, as a result, was J$1.94 compared to the current J$1.88 for FY 2022.

We used the capital asset pricing model (CAPM) to arrive at a discount rate for KW of 13.54% and assumed a long-term growth rate of 5.53%, giving us a justified P/E ratio of 12.48x. We applied this multiple to our 2023 EPS target to arrive at a valuation of J$24.07. Additionally, we assigned the main market's average P/E of 13.5 times to the forward estimates for KW's earnings arriving at a target price of J$26.22. **Using the simple average of the two results gave us a target price of J$25.06 and at the last closing price of J$30.56, this represents a potential downside of 17.99%. As a result, we have assigned an UNDERWEIGHT recommendation for KW, in line with the expectations of stifled growth due to macro conditions.**

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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	31,456,820	32,580,694	38,233,506	41,307,043	42,680,569
Short term investments	4,458,955	5,229,574	6,558,479	9,077,893	9,632,840
Long term investments	128,466	128,466	537,112	449,617	449,617
Investment properties	0	568,619	560,701	552,783	544,865
Bank and other loans	2,777,428	2,351,073	1,763,627	2,091,892	2,533,010
Trade and other payables	1,829,089	1,410,214	1,348,723	1,668,673	2,165,247
Stockholders' equity	24,907,132	26,771,373	32,798,423	35,239,333	36,143,069
Stockholders' equity less NCI	24,765,896	26,593,460	32,582,332	34,968,279	35,827,572
PROFIT AND DIVIDENDS					
Operating profit	2,460,166	3,102,944	2,852,760	3,868,736	3,267,491
Operating expenses	-1,199,841	-1,203,379	-1,067,495	-1,206,161	-1,716,997
Profit before tax	2,239,217	2,925,356	2,697,884	3,719,346	3,165,599
Net profit attributable to shareholders	1,945,450	2,600,817	2,237,719	3,195,882	2,694,027
Dividends paid	643,590	686,070	729,390	814,693	872,606
FINANCIAL RATIOS					
Earnings per stock unit (J$)	J$1.36	J$1.82	J$1.56	J$2.23	J$1.88
Dividends per stock unit (J$)	J$0.45	J$0.48	J$0.51	J$0.57	J$0.61
Dividend payout ratio	33.08%	26.38%	32.60%	25.49%	32.39%
Return on shareholders' equity	6.27%	7.98%	5.95%	7.87%	6.42%
Return on assets	6.18%	7.98%	5.85%	7.74%	6.31%
Book value per stock unit (J$)	17.32	18.59	22.78	24.45	25.05
Efficiency ratio (Admin. Exp / Revenues)	16.54%	15.24%	14.95%	13.91%	18.11%

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