MAKING MONEY WORK FOR YOU.

LOCAL EQUITY REPORT

MAILPAC GROUP LIMITED

Barita Investments Limited
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Tel #: 1-888-429-5333

Company Overview

Mailpac Group Limited ("Mailpac", "MGL" or the "Group") is a provider of logistics/e-commerce fulfilment services in the Caribbean. According to the Group's annual report, its services span "e-commerce fulfilment services from the United States to Jamaica (Mailpac Services), cross-border online shopping with local landed prices (MailPac Marketplace), local online shopping and delivery from local retailers (Mailpac Local), online shopping financing (Mailpac Financial Services), a branded MasterCard for shopping online (The Mailpac Card), sea freight shipping (Mailpac Ocean Freight) and brokerage services".

Stock	MAILPAC
Current Price	J$1.93
52 Week High	J$3.21
52 Week Low	J$1.60
YTD Return	-4.46%
Estimated Fair Value	J$2.20
Potential Return	13.75%
Trailing P/E	16.08x
Trailing P/B	8.35x
Forward P/E	15.58x
Recommendation	MARKETWEIGHT
As at April 26, 2023	

Executive Summary

Mailpac Group Limited was incorporated in September 2019 to facilitate the acquisition of Mailpac Services Limited and Mailpac Local Limited, with a view to consolidating both businesses/platforms into a single seamless operation. The group raised just under $500 million in its November 2019 junior market initial public offering (IPO), and by March 2020 the global economy halted as the COVID-19 virus became a crisis. Mailpac Group took full advantage of the situation, given the sudden and immediate need for e-commerce due to social distancing and other non-medical interventions to reduce the spread of the virus. The group generated $1.7 billion in revenue in 2020 and $1.82 billion in 2021, demonstrating its ability to pivot in building both scale and capacity through the pandemic landscape.

Following the sharp recovery from the pandemic, air cargo costs skyrocketed amidst the larger complex of global supply chain disruptions and as a consequence Mailpac incurred additional costs to charter flights and for other freight solutions. The Group has combated rising costs by implementing specific strategies to ensure more sustainable long-term transportation solutions to maintain their air-cargo capacity. This effort by management has been realized through consistent gross profit margins, over the past three years, despite the higher input costs.

In the short term, however, Mailpac has struggled with waning demand for e-commerce solutions locally and globally through 2022. A complete reopening of the economy has resulted in less demand for online shopping and grocery solutions resulting in revenues contracting 7.32% from FY 2021 to FY 2022. Further, net profits have declined following growth in selling and distribution costs as well as in administrative and general expense. The growth seen through 2020 and 2021 has not been sustained. Another major hurdle to the company remains the characteristics of the industry in which it operates; Without any major barriers to entry, the space could attract additional capital and therefore further competition that may constrain Mailpac's revenue and earnings growth.

While Mailapc remains positioned to take advantage of the digitisation of services and the growing access to the global marketplace by local consumers, the company has suffered in the short term from normalization following the disruptive growth

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in the industry triggered by the pandemic. As a result of tempered expectations for growth, we recommend that investors **MARKETWEIGHT** Mailpac Group in their portfolio.

Industry Overview and Outlook

The global e-commerce industry, which includes all activities of the buying and selling of goods and services on the Internet, has been a rapidly growing industry. According to Statista, revenue in the global e-commerce industry is expected to grow at a compounded annual growth rate (CAGR) of 9.3% from 2023 to 2027).[1] According to Morgan Stanely, the global e-commerce market is predicted to grow from $3.3 trillion in 2022 to $5.4 trillion In 2026, a CAGR of 13.1%. Going further, Brian Nowak, an equity analyst covering the U.S. internet industry, sees e-commerce rising to 27% of retail sales by 2026. For context, global e-commerce rose from 15% of total retail sales in 2019 to 21% in 2021, then to an estimated 22% of retail sales in 2022.[2] The main drivers of this expected growth include higher projected levels of global internet penetration, higher levels of global mobile device penetration, as well as the convenience it provides customers. According to Euromonitor International, a London-based market research company, online/internet penetration is expected to increase to 71% by the end of 2027 from an estimated 60% in 2022, which translates to one billion new internet users across the globe during the next five years.[3] These factors combined are expected to support the growth of the e-commerce industry over time.

The e-commerce fulfilment industry, which directly benefits from the growth of the e-commerce industry, is expected to grow at a CAGR of 9.5% from 2022 to 2030. E-commerce fulfilment includes activities such as storing, picking, packing, shipping, returns management, etc. The growth of this industry is expected to be driven by the growth of the overall e-commerce market, which ultimately, as discussed earlier, stems from higher expected internet and mobile device penetration, as well as the convenience it provides.

While growth in the medium to long term seems almost certain in the e-commerce space, in the short term, the disruptive growth seen during the pandemic has normalized through 2022 and is expected in 2023. According to Nielsen Research[4], consumers intend to change their spending habits to combat growing economic insecurity amidst tightening monetary and resulting economic conditions. Changing spending intentions will manifest across retail channels in this environment, and these changing habits may pressure e-commerce growth to the downside through 2023

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[1] Statista- Projected global e-commerce growth
[2] Morgan Stanley - E-commerce growth forecast (2022)
[3] Euromonitor International - Who are the next Billion internet users?.
[4] NielsenIQ – The Omni Future of Retail (2023)

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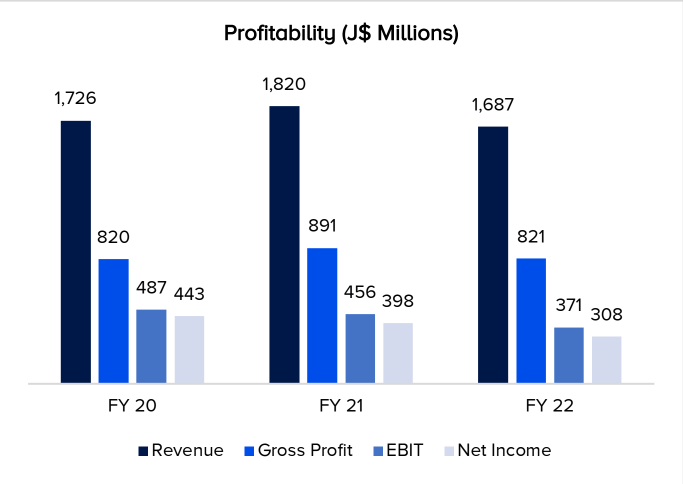
Financial Performance Summary (Financial Year Ended December 31st, 2022)

Income Statement



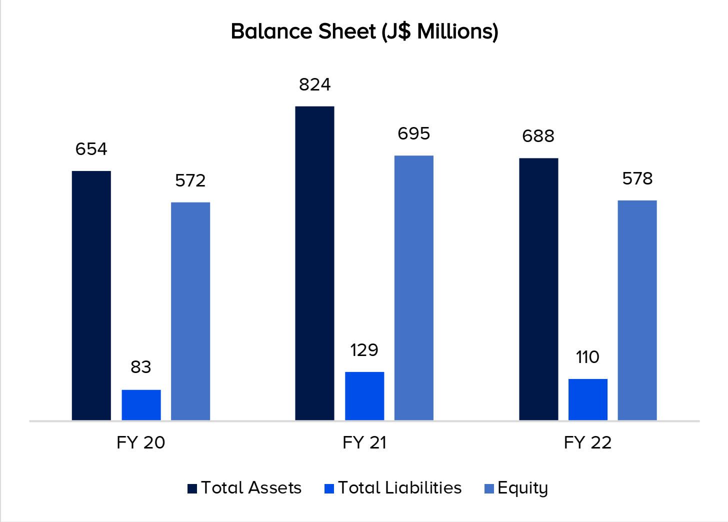
Revenue for the financial year ended December 2022 (FY 2022) totaled $1.69 billion which is 7.32% lower than the $1.82 billion for the financial year ended December 2021 (FY 2021). This decline in sales was driven by a decline in the local e-commerce industry following the easing of pandemic restrictions and the re-opening of traditional retail channels. The cost of sales amounted to J$865.43 million, a decline of 6.80%, thus declining at a slower rate than revenues. Cost of sales typically includes items such as freight and brokerage, delivery, packaging materials and online orders. Freight and brokerage costs have historically been the largest component of the cost of sales, having accounted for 80.2% of cost of sales in FY 2022 which is up from 72.0% in FY 2021. Gross profit fell by 7.86% year over year (YoY) in FY 2022 with the gross profit margin slightly contracting to 48.69% in FY 2022 from 48.97% in FY 2021.

Operating expenses for FY totaled $462.10 million, a 4.49% increase YoY. The main drivers behind this increase was administrative and general expenses rising 5.89% YoY. Administrative and general expenses have historically been the largest contributor to operating expenses, accounting for 85.6% in FY 2022 which is up from 84.4% in FY 2021. Selling and distribution costs include items such as advertising and commission fees. Administrative and general expenses typically include items such as salaries, utilities, professional fees, etc. Operating expenses grew while revenues and gross profit shrunk, leading to the operating profit declining by 20.03% to $359.04 million in FY 2022 from $448.96 million in FY 2021. The operating profit margin, therefore, declined from 24.67% in FY 2021 to 21.29% in FY 2022.

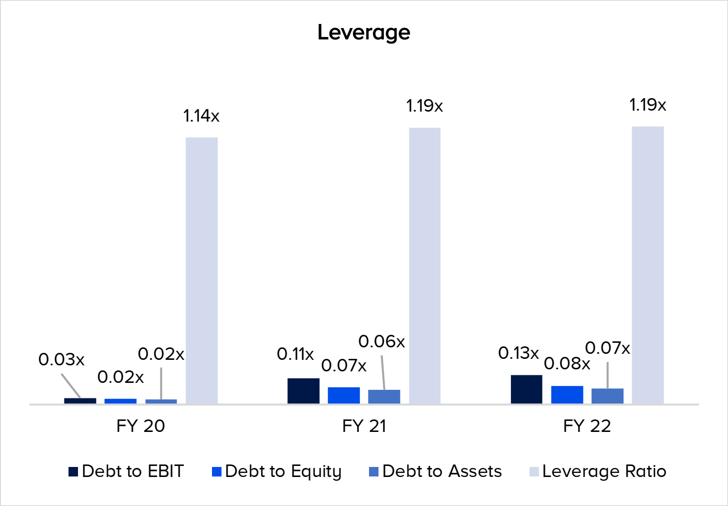
Finance and policy costs increased to $62.42 million in FY 2022 from $57.37 million in FY 2021, a 8.80% growth rate. The Group has low levels of leverage on its balance sheet, therefore finance and policy costs largely consist of bank charges, depreciation and amortization as well realized and unrealized gains on foreign exchange. After accounting for finance costs and other income, the Group generated net profits before taxation of $308.24 million in FY 2022, a decline of 22.68% from $398.64 million earned in FY 2021. After accounting for taxes, MGL recorded a decline in net profit of 22.57% to $208.04 million in FY 2022. This resulted in the net profit margin contracting from 21.9% in FY 2021 to 18.26% in FY 2022.

Balance Sheet

Total assets stood at J$687.71 million at the end of FY 2022, a decrease of 16.52% YoY. This decline was primarily due to a 42.42% decline in cash and cash equivalents to $209.49 million from $363.81 million in FY 2021; cash was used during FY 2022 for investments in equipment as well as to pay out $419.73 million in dividends, greater than total net profit during the financial year. The decline in cash and current assets offset a 40.49% growth in property plant and equipment to $137.10 million during the year. The single largest asset at the end of FY 2022 was cash and cash equivalents which accounted for 30.46% of total assets, down from 44.16% at the end of FY 2021.



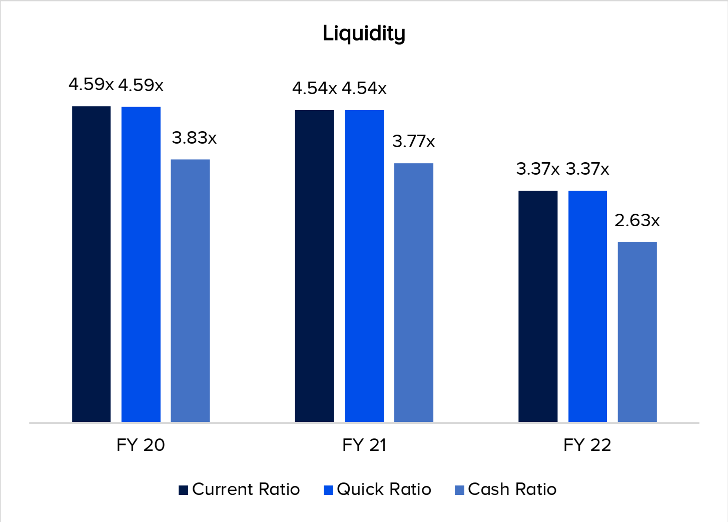
Total liabilities fell 14.83% to J$110.12 million at the end of FY 2022, compared to $129.30 million at the end of FY 2021. This fall was largely driven by a 23.08% decrease in trade and other payables. The single largest liability at the end of FY 2022 was trade and other payables which accounted for 53.5% of total liabilities, down from 59.2% at the end of FY 2021.



Total equity fell 16.84% to $577.59 million at the end of FY 2022 from $694.55 million at the end of FY 2021, driven by a 27.38% fall in retained earnings following large amounts of cash used for reinvestment as well as dividends during the financial year.

Liquidity & Solvency

The Group's liquidity position continues to remain strong despite some deterioration during the financial year. The Group's current ratio fell to 3.37x at the end of FY 2022 compared to 4.54x at the end of FY 2021. The cash ratio was also declined to 2.63x at the end of FY 2022 from 3.77x at the end of FY 2021. This indicates the Group has sufficient liquid assets to meet its short-term liabilities. It should be noted that the company has no inventory, therefore, the current ratio and quick ratio are the same for MGL.



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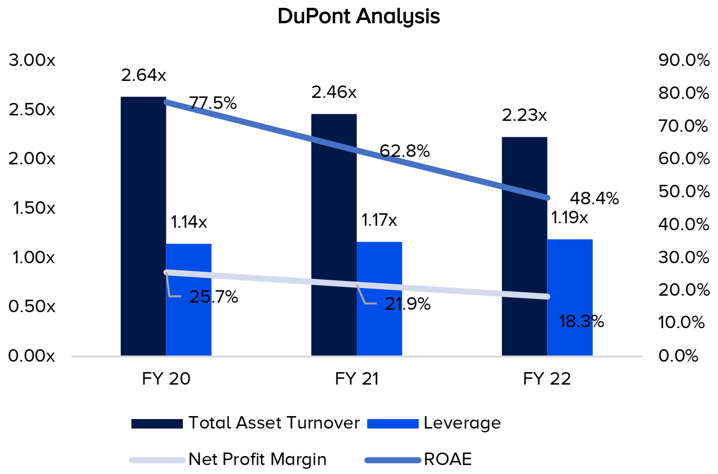
The group also employs a small amount of leverage, thus leading to a strong solvency position. MGL's debt-to-equity ratio increased from 0.07x at the end of FY 2021 to 0.08x at the end of FY 2022. This indicates that the Group utilizes only a small amount of debt and therefore finances the majority of its assets with equity.

DuPont Analysis

The Group's return on average equity (ROAE) declined to 48.4% in FY 2022 from 62.8% in FY 2021. A DuPont analysis allows for the examination of the drivers behind the ROAE and provides an explanation for the movement of the ROAE. Firstly, the net profit margin declined to 18.3% from 21.9%, secondly, the total asset turnover ratio declined to 2.23x from 2.46x, which indicates a decrease in the efficiency of the group's assets. Leverage was essentially flat, increasing marginally to 1.19x from 1.17x. These factors combined, i.e. lower efficiency of its operations and lower efficiency of its assets led to the decline in ROAE. The company has no inventory on its balance sheet, given the nature of its services, as such the cash conversion cycle (CCC) for the company is negative fifteen (15) days, which is an indirect source of financing for the company.



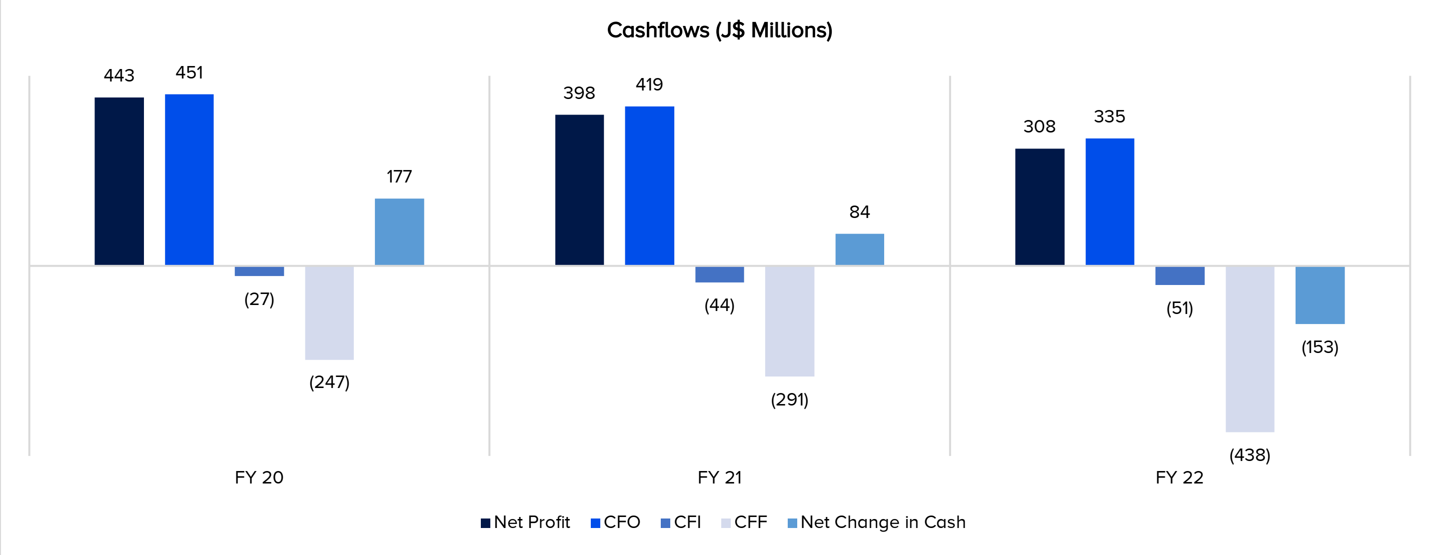
Cashflow Statement

MGL generated cash inflows from operations (CFO) during FY 2022 of $335.28 million, a 20.01% decline from CFO in FY 2021 due primarily to decline in net income compared to the previous year.

MGL's used $50.60 million of cash in investing activities (CFI) during FY 2022, greater than the $43.95 million used in FY 2021. The outflow in CFI is entirely due to the increase in cash used in work-in-progress investing activities to $41.06 million during FY 2022.

Cash used in financing activities (CFF) was $437.83 million in FY 2022 compared to a lower cash used of $291.00 million in FY 2021. This was driven by $419.73 million paid in dividends, a 55.14% increase from FY 2021.

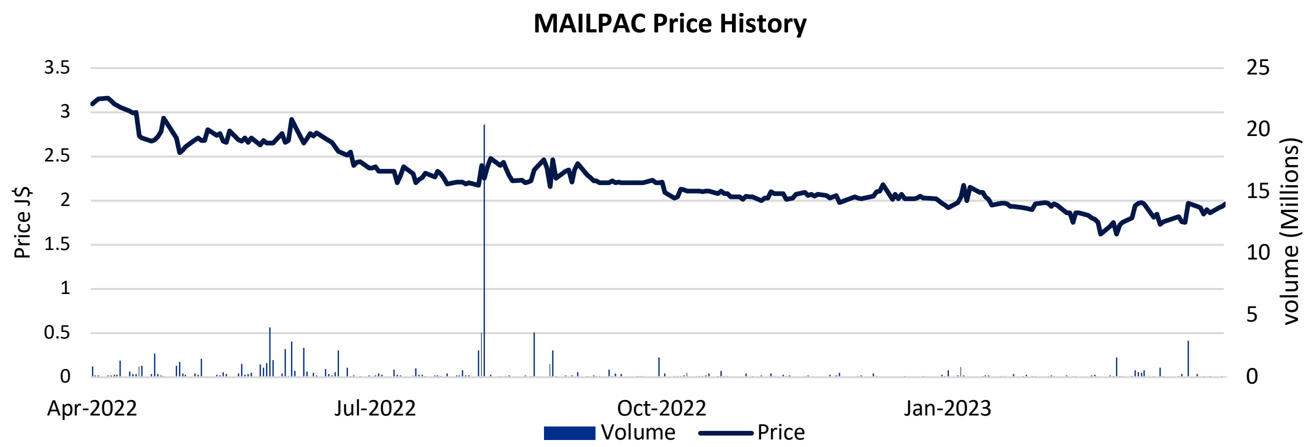
Ultimately, the combination of these movements in cash throughout the financial year contributed to a net decrease in cash of $153.15 million. Effects of the exchange rate negatively impacted cash and cash equivalents by $1.18. These led to an ending cash balance of $209.48 million in FY 2022, a 42.42% decrease YoY.



Trading and Ownership Summary

MAILPAC ownership (as at December 31, 2022)

Name	Shares Held	Percentage
NORBROOK EQUITY PARTNERS LTD	1,815,000,000	72.60%
JCSD TRUSTEE SERVICES LIMITED A/C BARITA UNIT TRUST CAPITAL GROWTH FUND	94,780,703	3.79%
MF&G ASSET MANAGEMENT LTD. - JAMAICA INVESTMENTS FUND	62,052,750	2.48%
JCSD TRUSTEE SERVICES LTD - SIGMA GLOBAL VENTURE	45,583,878	1.82%
BARITA INVESTMENT LTD - LONG A/C (TRADING)	42,470,843	1.70%
JMMB FUND MANAGAERS LTD. T1 - EQUITIES FUND	25,000,000	1.00%
PAM - POOLED EQUITY FUND	20,683,439	0.83%
SJIML A/C 3119	14,633,588	0.59%
BALJIT DEOL	12,686,500	0.51%
NCB CAPITAL MARKETS LTD - A/C 2231	10,284,279	0.41%
Total	2,143,175,980	85.73%



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Mailpac is a tightly held stock with 85.87% of outstanding shares considered to be stagnant shares. These are shares that are not readily/typically traded on the market. Mailpac has a float of 353.16 million shares or 14.13% of total outstanding shares. Trading volume is relatively small with an average of 409,674 traded per day in the last year having a dollar value of $790,670. 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.

MAILPAC GROUP LTD (MAILPAC JA Equity)

Calculation of Float

Current Shares Outstanding - Stagnant Shares

Components	Position↓	% Out
Float	353,155,829	14.126
Shares Outstanding	2,500,000,000	100.000
Stagnant Shares	2,146,844,171	85.874

Valuation Summary

To arrive at a price target for Mailpac, we utilized a Justified Price to Earnings (P/E) Model with our estimated forward earnings for the company. Our estimate for the 2023 Financial year-end eps amounted to **$0.12,** which took into account the continued lower demand for e-commerce in the near term. To arrive at a discount rate, we utilized the capital asset pricing model to arrive at a discount rate of 12.90%. We calculated the company's sustainable growth rate arriving at an outturn of 7.26%. **This long-term growth rate resulted in the company having a justified P/E ratio of 17.73x, giving us a price target of $2.20.** The company currently trades at a multiple of 16.08x and with our expected eps output for FY 2023, the company trades at a forward P/E of 15.58x. **With consideration to the expected return along with other factors stated above, we recommend investors MARKETWEIGHT MAILPAC.**

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Current Price	J$1.93
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YTD Return	-4.46%
Estimated Fair Value	J$2.20
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Forward P/E	15.58x
Recommendation	**MARKETWEIGHT**
As at April 26, 2023	

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Summary of Key Financial Highlights

BALANCE SHEET	FY 2020 J$ '000	FY 2021 J$ '000	FY 2022 J$ '000
Total assets	654,386,661	823,849,156	687,711,948
Property, Plant & Equipment	57,695,793	97,586,541	137,104,195
Total Liabilities	82,668,428	129,295,253	110,122,748
Total Debt	13,947,125	50,901,906	46,747,699
Stockholders' equity	571,718,233	694,553,903	577,589,200
Retained Earnings	304,362,121	427,197,791	310,233,088
Income Statement	**J$ '000**	**J$ '000**	**J$ '000**
Revenues	1,726,239,428	1,819,782,353	1,686,568,861
Gross Profit	819,519,664	891,199,690	821,139,601
Total Operating Expenses	-340,111,355	-442,241,417	-462,099,860
Finance and Policy Costs	-43,726,775	-57,371,104	-62,422,451
Net Profit	443,077,350	397,835,670	308,035,297
FINANCIAL RATIOS	**FY 2022**	**9M FY 2022**	**9M FY 2023**
Earnings per stock unit (J$)	$0.18	$0.16	$0.12
Dividends per stock unit (J$)	$0.09	$0.11	$0.17
Gross Profit Margin	47.47%	48.97%	48.69%
Net Profit Margin	25.67%	21.86%	18.26%
Current Ratio	4.59x	4.54x	3.37x
Cash Ratio	3.83x	3.77x	2.63x
Debt to Equity	0.02x	0.07x	0.08x

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