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LOCAL EQUITY REPORT

TROPICAL BATTERY COMPANY LIMITED

Barita Investments Limited
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Tropical Battery Company Limited

Company Overview

Stock	TROPICAL
Current Price	$1.93
Estimate Fair Value	$2.30
YTD Return	-11.76%
Trailing P/E	13.60x
Forward P/E	12.71x
Dividend Yield	1.03%
Potential Upside	19.12%
Total Return	20.15%
Recommendation	OVERWEIGHT
as at April 18, 2023	

Tropical Battery Company Limited ("Tropical Battery", "Tropical", "the company") has its headquarters in Kingston, Jamaica with distribution centres currently located in Kingston and Montego Bay, 5 Retail Stores (Ocho Rios, Mandeville, Montego Bay and 2 in Kingston) and approximately 1,000 resellers (Gas Stations, Auto Parts stores, etc.) to serve the Jamaican market. Tropical Battery was founded in 1950 by Tex Williams, an American businessman. In 1967 the Company was purchased by John Melville, and it remains controlled by the Melville family today.

Tropical Battery Limited's core business model is centred around the distribution of automotive batteries, this is complemented by the distribution of local and globally renowned automotive consumer product brands which are categorized as accessory sales. The Company's distribution model is anchored by its retail outlets, this encompasses 5 retail stores, of which 2 are located in Kingston while the other 3 are located in Ocho Rios, Mandeville, and Montego Bay. The retail footprint of Tropical Battery is embedded in areas that are deemed commercial centres which increases its ability to drive foot traffic through its stores. Tropical Battery's retail footprint is further expanded with the aid of resellers, the Company's distribution network encompasses 1000 resellers. These resellers further aid in expanding the company's market reach beyond its five locations. The Company's retail network is supported by its two distribution centres; one located in Kingston and the other in Montego Bay. The positioning of these two distribution centres in Kingston and Montego Bay, allows the company to be able to manage its internal supply chain. It allows the company to reduce the lead time between warehouses, its retail stores, and resellers and reduce the likelihood of these outlets experiencing stockouts.

Executive Summary and Outlook

At the end of 2021 financial year (FY), the Company foresaw continued global shipping and logistics problems being and made the decision to shore up its inventory levels; a decision from which it has benefited in FY 2022. In 2022 FY, the company executed an aggressive sales campaign and promotions using these inventory levels and experienced improvements in operational cost efficiencies, expense management and credit terms with suppliers. These factors, along with the loosening of the Covid restrictions and reopening of industries, have allowed Tropical to generate record revenues and profits during the 2022 FY.

It is expected that the Company will continue to face global shipping and logistics problems for the 2023 FY, which is supported by the World Trade Organization's ('WTO') projected 1.7% increase in global trade in 2023, a fall from the 2.7% growth in 2022. Global trade growth in 2023 is expected to be subpar despite a slight upgrade to GDP projections. This is following a sharp drop in trade in the fourth quarter of 2022. Global shipping and logistics problems have already impeded the company's 2023 first quarter (Q1) performance according to management, with Q1 2023 revenue decreasing slightly by 1.9% to $649 million while net profits decreased by 22.0% to $44 million compared to the prior period's revenue and profits. As a result, the company has decided to shore up its inventory levels once again to offset the negative effects of shipping and logistics problems.

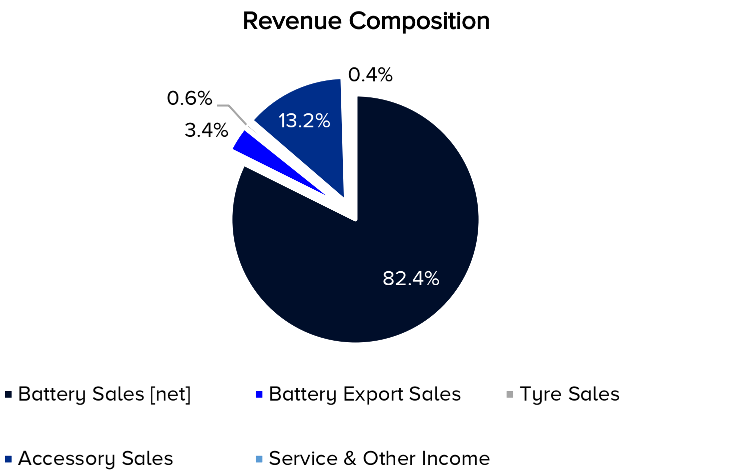
Also of note, the company has announced that it will be closing a 50% acquisition of Kaya Energy Group, a leading renewable energy company based in the Dominican Republic, within the second quarter. The company believes the acquisition is expected to have a positive impact on revenue and net profits and opens new opportunities for growth in the Caribbean region.

Our estimate of Tropical Battery's fair value is **$2.30**, which, when compared to the current price of **$1.93**, represents a potential total return of **19.12%.** This outlook reflects slight revenue growth due to higher inventory levels and some contributions to profits from the company's acquisition despite the shipping and logistics challenges experienced through the 2022 FY and Q1 2023. Against this backdrop, we recommend that investors **OVERWEIGHT** this stock in their portfolio.

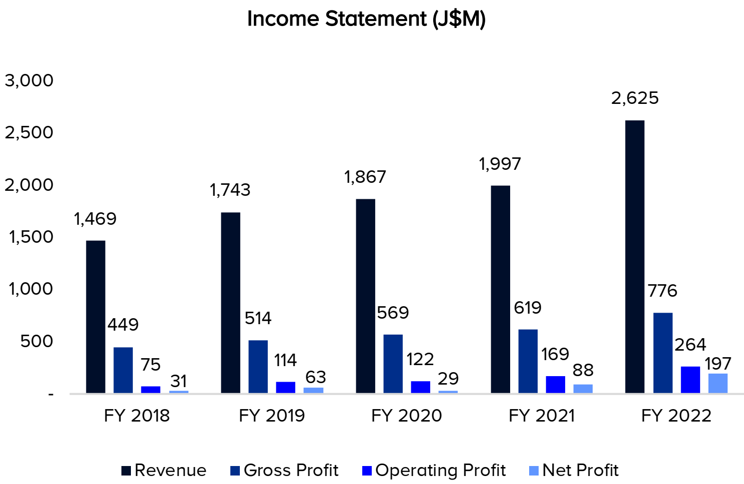
2022 Financial Year-End Division Performance

Income Statement

Revenue: Revenue for the 2022 financial year increased by 31.5%, amounting to $2.6 billion, compared to the prior year's outturn of $2.0 billion. The strong revenue growth is attributed to an aggressive sales campaign and promotions that were carried out by the company. Also, a second contributory factor to the increased revenue was the company's implementation of an inventory management system that better allows the company to monitor and manage its inventory levels. This has resulted in the company being less likely to experience stockouts at its retail outlets and improved lead times for products to reach resellers.



Gross Profit: Gross Profit was $776 million, a 25.3% increase year-over-year (YoY). However, the gross profit margin decreased to 29.6% from 31.0% in the prior year as the growth in the company's cost of operating revenues outpaced total revenues. This was due to the promotions in which the company reduce its selling price while incurring higher direct costs.

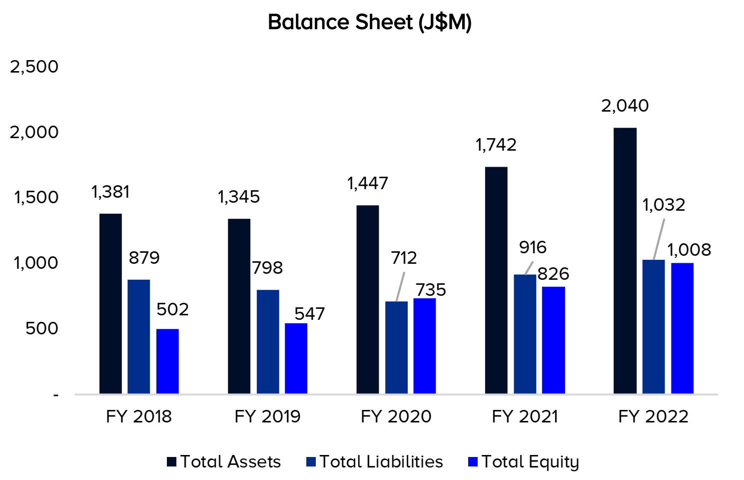


Operating Profit: Operating Profit amounted to $264 million, representing an increase of 56.2% YoY. Operating expenses were $512 million, an increase of 13.7% YoY, driven by a 15.3% increase in administrative, marketing and selling expenses, specifically higher rental/lease costs. Total operating expenses for the year were entirely made up of administrative, marketing and selling expenses as there were no impairment losses on trade receivables for the year. The operating margin for the year was 10.1%, representing an increase from the prior year's outturn of 8.5% as the growth in revenue and gross profit outpaced the growth in operating costs. The company earned $13 million in other operating income, resulting in earnings before interest, tax, depreciation, and amortization (EBITDA) of $277 million, a 43.7% increase over the previous year.

Net Profit: Depreciation expense for the year was $54 million, a 3.0% increase over the prior year. Net finance costs amounted to $26 million, decreasing by 51.4% due to $46 million in finance income, a 360.8% increase over the prior year. The massive increase in finance income is primarily due to gains from foreign exchange. The company paid $462,155 in tax and ultimately, had net profits of $197 million, a YoY increase of 123.0%.

Balance Sheet

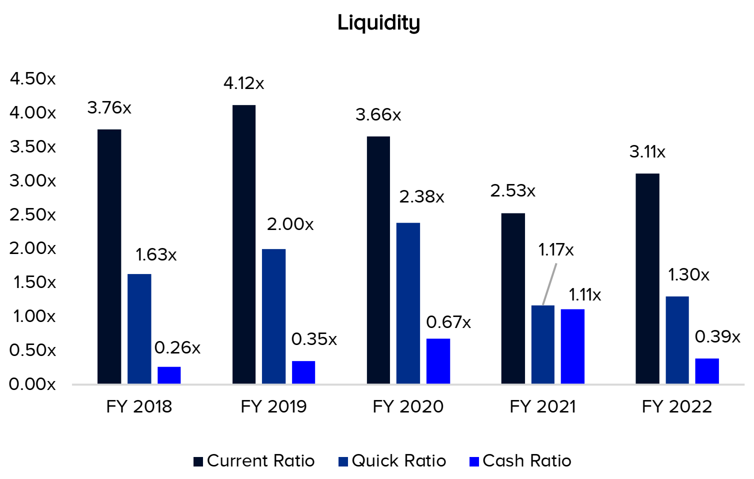
Total Assets: Total assets for the year increased by 17.1% YoY to $2.0 billion. Of the total, current assets represented 80.1% of total assets, while non-current asset represents the remaining 19.9%. Inventories and receivables accounted for 48.7% and 24.4% of current assets respectively and were among the largest contributors to growth in the asset base. Inventories grew 30.6% to $795 million, and receivables grew 13.5% to $399 million. The increase in inventory was a decision undertaken by management to offset the anticipated global shipping and logistics problems. Cash and cash equivalents declined 3.3% to $168 million at the end of FY 2022.



Total Liabilities: Total liabilities grew by 12.7% to $1.0 billion, driven largely by a 45.8% increase in long term loans to $452 million during the year. Also contributing to this growth is accounts payables which grew by 16.2% to $380 million and total debt which grew by 11.6% to $638 million. Non-current liabilities totalled $438 million which accounted for 42.5% of total liabilities, while current liabilities accounted for the other 57.5%.

Total Equity: Shareholders' equity saw an increase of 22.0% over the prior year amounting to a total of $1.0 billion. This increase was entirely driven by retained earnings, which amounted to $392 million for the year-end, an increase of 86.6% YoY.

Liquidity: The company has maintained a healthy level of liquidity and solvency, with the lowest current ratio over the last five years being 2.53x in FY 2021 before climbing back to 3.11x in 2022. In the 2022 FY, current assets increased by 20.2%, while current liabilities decreased by 2.3% for the period. The company has sufficient current assets to cover short-term obligations and maintained a healthy quick ratio of 1.26x, while the cash ratio stood at 0.39x. It should be noted that due to the uncertainty of repayment, related party assets were removed from calculations. If related party assets were used in the calculations, the current, and quick ratios would have been 3.73x and 1.91x, respectively.



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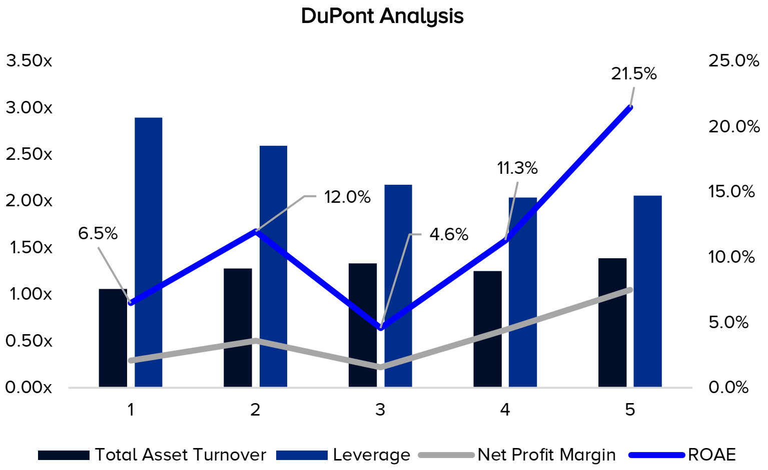
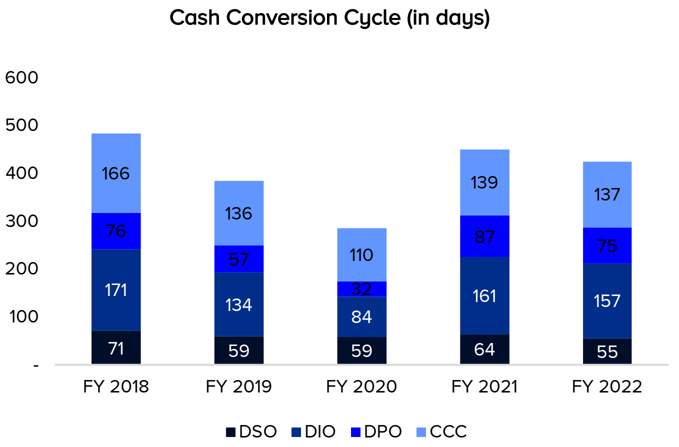
Tropical maintains low leverage and has slightly reduced its leverage further over the financial year. The company's debt-to-equity ratio stood at 0.69x at the end of FY 2021 and declined to 0.63x at the end of FY 2022, which indicates a strengthening of its solvency position. This is due to an increase in profitability adding to the company's total equity balance as total debt increased YoY by 11.6%, while retained earnings increased by 86.6% YoY. This also indicates a capacity to expand the business via the use of debt.

DuPont Analysis

Tropical's return on average equity (ROAE) increased over the financial year, moving from 11.3% recorded in FY 2021 to 21.5% 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 7.5% (driven by the record revenues and profits and improved operational efficiencies) in FY 2022, while the total asset turnover (TAT) ratio also increased to 1.39x and leverage marginally increased to 2.06x YoY from 2.04x. Therefore, the increase in ROAE can be mostly attributed to the record financial performance and improved operational efficiencies of the company as well as the efficiency of the utilization of its assets.



Cash Conversion Cycle: The company's cash conversion cycle (CCC), which displays the amount of time it takes (in days) to convert cash paid to suppliers into cash collected from the sale of its goods, increased decreased slightly to 137 days in FY 2022 from 139 days in FY 2021. The days inventory outstanding (DIO) ratio decreased to 157 days as a result of increased inventory levels intentionally being held by the company to offset global shipping and logistics problems being experienced. This means inventory being held for a longer period on average. The days sales outstanding (DSO) ratio decreased to 55 days from 64 days in FY 2021. Lastly, days payables outstanding (DPO) decreased to 75 days in FY2022 which implies that the company has been taking better advantage of its creditor's payment terms. These three factors combined contributed to the company's decrease in the CCC in FY 2022 to 137 days, implying that it is taking the company a shorter amount of time to generate cash from the operation of the business.



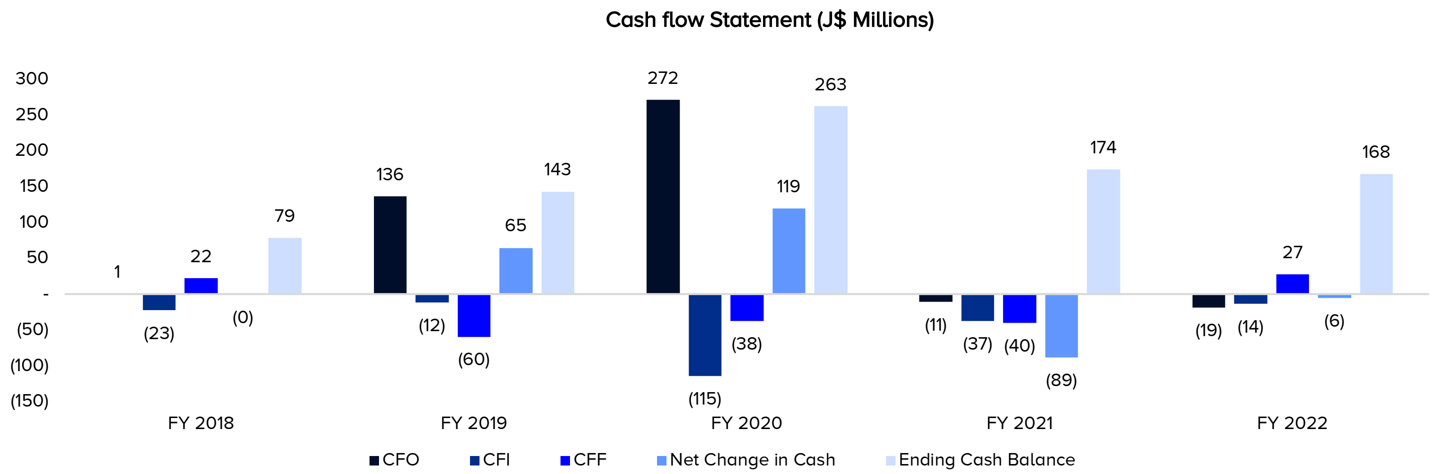
Cashflow Statement

Tropical had cash outflow from operations (CFO) during FY 2022, similar to FY 2021. As seen in the graph below, the company had a cash outflow from operations of $19 million. The cash outflow from operations in FY 2022 stemmed from the company spending more on inventories to mitigate the risk of possible supply chain disruptions. In FY 2022, the company spent $188 million on inventory, compared to $309 million in the previous financial year. Also contributing to the negative CFO is a $46 million increase in accounts receivables and a $90 million cash inflow in the form of dues from a related company. These were, however, partially offset by an increase of $62 million in accounts payables, which is a 71.9% decrease from the prior year.

Tropical's cash flow from investing activities (CFI) improved from an outflow of $37 million in FY 2021 to an outflow of $14 million in FY 2022. In the 2022 FY, the company had $18 million in the purchase of property, plant and equipment, compared to $49 million in the previous year. Additionally, the company recorded a cash inflow of $4 million from the Proceeds from the sale of property, plant and equipment in FY 2022 compared to an inflow of $4 million in FY 2021. The company had neither investments encashed nor proceeds from the sale of investments for the year, compared to a $50 million outflow in investments encashed and a $63 million inflow from proceeds from the sale of investments in FY 2021.

Cash used in financing activities (CFF) moved to an inflow of $27 million in FY 2022 from an outflow of $40 million in FY 2021. This was driven by $200 million in proceeds from long-term loans. This was offset by repayments of long-term and short-term loans of $20 million and $100 million, respectively. The company also paid $25 million in dividends in FY 2022.

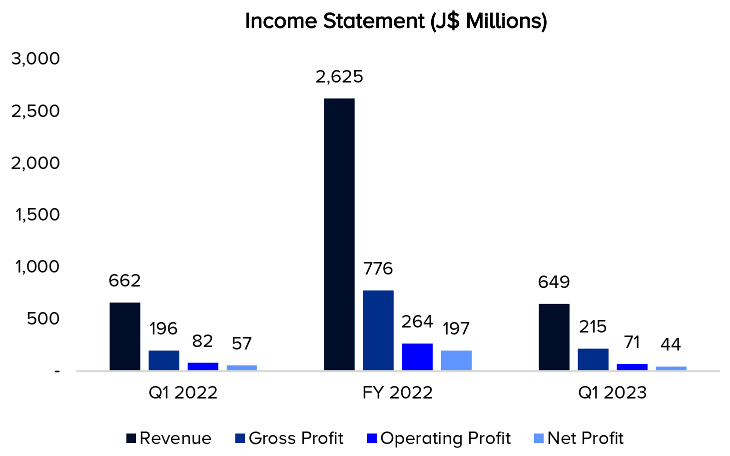
Ultimately, the combination of these movements in cash throughout the financial year, contributed to net decrease in cash of $6 million and an ending cash balance of $168 million in FY 2022, a 3.3% decrease YoY.



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

Income Statement

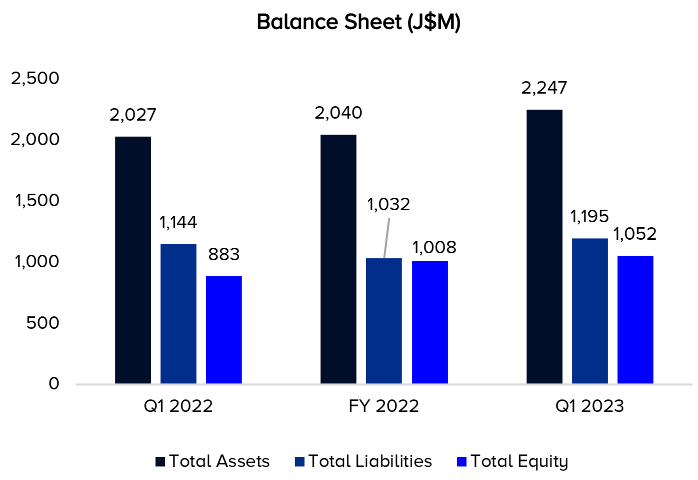
For the three months ended December 31, 2022, revenue decreased by 1.9% to $649 million compared to the prior period's revenue. This decrease was primarily due to supply chain issues and a shortage of materials. The company has taken steps to address supply chain disruptions by increasing inventory levels. Gross profits for the three months grew at 9.6% to $215 million compared to the prior year's outturn.



Though revenue shrank slightly, there was a greater decrease in the cost of sales than the decrease in revenues., resulting in a growth of gross profit margin from 29.7% in FY 2021, to 33.1% in FY 2022. Operating Expenses were $145 million, an increase of 26.4% primarily due to incentive payouts for last year's achievements and higher rental/lease costs. This resulted in an operating profit of $71 million, a 13.8% decrease from the previous year's first quarter (Q1) operating profit. The company had other operating income of $2 million resulting in an EBITDA of $73 million for the quarter, 14.0% lower than the previous year's Q1 result. Depreciation expense for the period was $16 million, flat YoY compared to the prior year's Q1 outcome. Net finance costs amounted to $12 million, a 6.8% growth over the prior year's Q1 result. Ultimately, the company had a net profit of $44 million, a 22.0% decrease from the prior year's Q1 net profit.

Balance Sheet

Total Assets: Total assets as of the three months ended December 31, 2022, stood at $2.2 billion, a 10.9% growth YoY, and a 10.2% growth over the 2022 FY end. Current assets make up 82.6% of the total asset base while the remaining 17.4% are non-current assets. Inventory Increased by 10.5% by to $965 million YoY and 21.3% over the 2022 FY end, as the company increased inventory levels to aid in cushioning the ongoing supply chain disruptions. Inventory accounts for 52.0% of current assets and 42.9% of total assets. Receivables declined by 4.9% to $377 million and accounts for at 20.3% of current assets, and 16.8% of total assets. Cash and cash equivalents for the period amounted to $195 million, a 35.8% increase from the prior year's Q1 and a 16.6% growth over the 2022 FY end. This was primarily due to the collection of receivables.



Total Liabilities: Total Liabilities as of the three months ended December 31, 2022, grew by 4.4% to $1.2 billion, from the prior period's $1.14 billion and 15.8% from the 2022 FY end. This is driven largely by a 19.5% increase in long-term loans to $442 million during the

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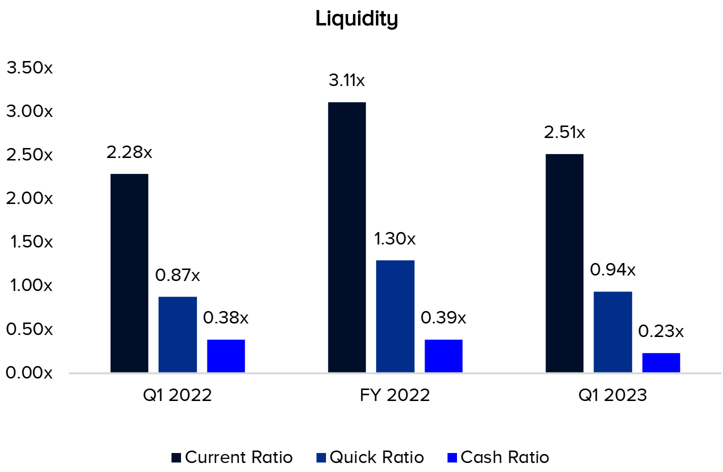
quarter. This was partially offset by the 11.5% decrease in lease liability to $127 million. Current liabilities totalled $612 million which accounted for 51.3% of total liabilities, while current liabilities accounted for the other 48.7%.

Total Equity: Shareholders' Equity for the three months ended December 31, 2022, totalled $1.1 billion, a 19.2% increase over the prior year's total of $7.0 billion, and an increase of 4.4% over the 2022 FY end. This was driven by 63.6% YoY growth in retained earnings amounting to $436 million.

The current ratio for the quarter measured at 2.51x, a decrease when compared to the 2022 financial year-end ratio of 3.11x. This decrease was primarily because of the growth in current liabilities of 39.8% from the 2022 FY end outpaced the 13.6% growth in current assets during the same period. The growth in current liabilities was largely due to a 45.6% increase in accounts payables. The cash ratio for the current period saw an outturn of 0.23x, a deterioration from the 2022 FY outturn of 0.39x. This was similarly due to the growth in current liabilities outpacing the growth in cash and cash equivalents of 16.6% over the same period. It should be noted that due to the uncertainty of repayment, related party assets were removed from calculations. If related party assets were used in the calculations, the current, and quick ratios would have been 3.03x and 1.45x, respectively.

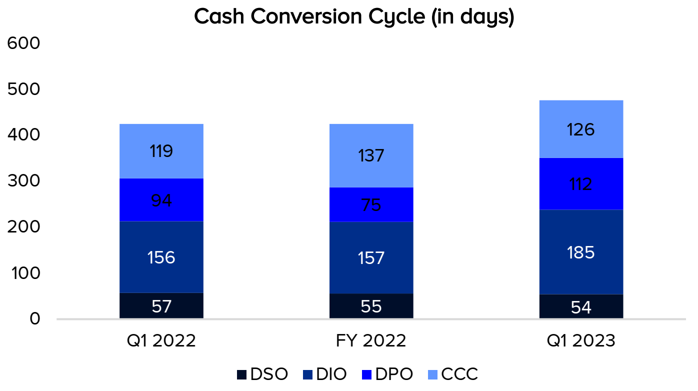


Tropical has continued to maintain low leverage in its balance sheet, with a debt-to-equity ratio of 0.60x at the end of Q1 2023, which is down from the 0.64x debt-to-equity ratio recorded at the end of Q1 2022.

DuPont Analysis

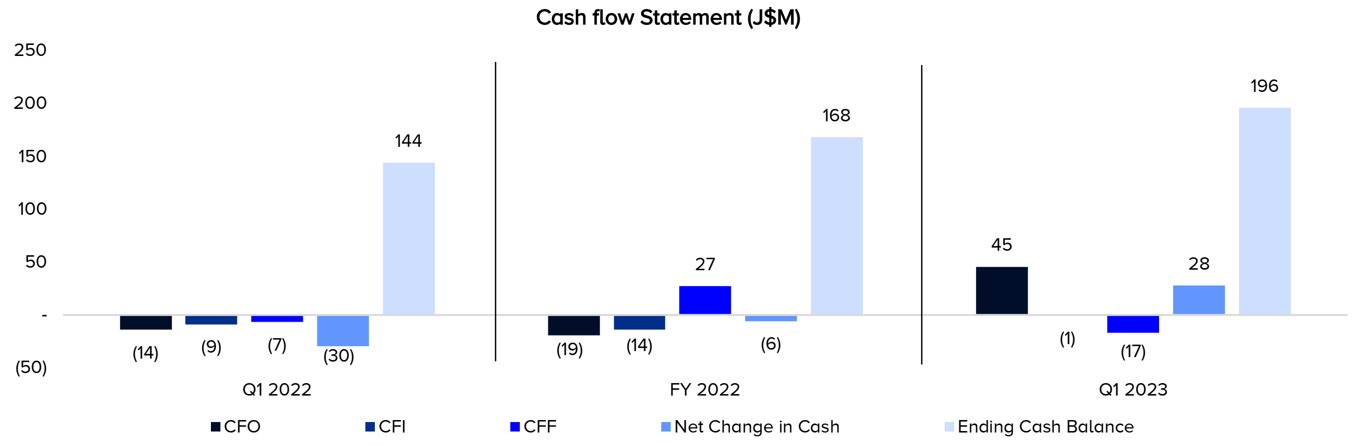
The Group's ROAE Increased to 19.1% in the trailing twelve-month period ended December 31, 2022 (TTM December 2022), compared to 15.4% in a similar period in the prior year (TTM December 2021). The Increase Is primarily due to increases in the net profit margin and asset turnover to 7.1% and 1.22x, respectively. The leverage ratio decreased to 2.21x at the TTM December 2022, from 2.66x in TTM December 2021.

The company's cash conversion cycle (CCC) for the three months ended December 2022 (trailing twelve months) improved to 126 in Q1 2023 from 11 in Q1 2022 but fell from the 2022 FY end CCC of 137. Days Sales Outstanding (DSO) for the period fell to 54 days from 55 days at the 2022 FY end and Days Inventory Outstanding (DIO) increased to 185 days from 157 days at the FY end due to increases in inventory levels to offset global shipping and logistics problems. Days Payables Outstanding (DPO) increased to 112 days from 85 days at the 2022 FY end.



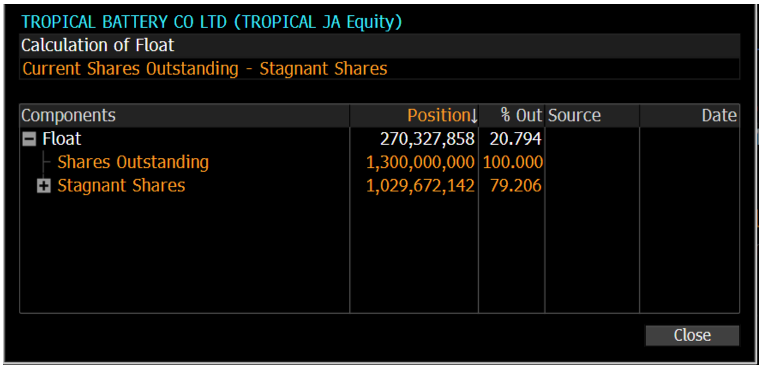
Cashflow Statement

Cash flows from Operations (CFO) moved from a cash outflow of $14 million in Q1 2021 to an inflow of $45 million in Q1 2022. This was primarily due to a decrease in cash spent on inventories and a reduction in account payables incurred for the quarter. Also contributing to the positive CFO during the quarter was the cash inflow of $23 million from accounts receivables, compared to the $46 million outflow in Q1 2021. Cash flows from Investing Activities (CFI) saw an outflow amounting to $724,000, an increase of 91.8% over the prior year's outflow of $9 million. The company recorded a cash outflow of $4 million from the purchase of property, plant and equipment in FY 2022 compared to an outflow of $9 million in FY 2021. The company also had $2 million in proceeds from the sale of purchase of property, plant for the quarter. Cash flows from Financing Activities (CFF) saw an outflow of $17 million, compared to the prior year's outflow of $17 million. This is a result of a repayment of $10 million in long-term loan made in the quarter and a $7 million in payment in lease liability. This resulted in $28 million net change In cash and a ending cash balance of $196 million.



Trading Summary and Liquidity

It is important to factor in the liquidity of the stock, as it is tightly held, with 79.21% of the outstanding shares being regarded as stagnant shares, resulting in a market float of 270.33 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 123,072 with a median volume of shares of 28,485 implying the stock is relatively thinly traded daily. Due to the limited supply, the stock has seen some volatility around the price.


TROPICAL BATTERY CO LTD (TROPICAL JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out	Source	Date
Float	270,327,858	20.794		
Shares Outstanding	1,300,000,000	100.000		
Stagnant Shares	1,029,672,142	79.206		

Close

The company's stock has traded on the market between the price ranges of $2.50 and $3.70 over the last 52 weeks.

Tropical Battery 52 week Price History

Valuation and Recommendation

Stock	TROPICAL
Current Price	$1.93
Estimate Fair Value	$2.30
YTD Return	-11.76%
Trailing P/E	13.60x
Forward P/E	12.71x
Dividend Yield	1.03%
Potential Upside	19.12%
Total Return	20.15%
Recommendation	OVERWEIGHT
as at April 18, 2023	

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 intentional increase in inventory levels is successfully able to overcome the company's supply logistics and supply chain issues and some contributions to profits from the company's acquisition, improving on the Q1 2023 performance for a slight 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 **$0.15** which compares to the 2022 EPS of $0.14. We then arrived at a justified P/E of **17.26x**, using a discount rate of **14.43%** and paired with a growth rate of **8.63%**. Based on this justified P/E, of which we applied to our 2023 EPS forecast, we arrived at a fair value price of **$2.63.** Our Price to Book Valuation utilized a justified P/B of **2.10x**, along with our 2023 financial year-end expected book value of **$0.94**. This resulted in a valuation of **$1.98**. Averaging our P/E and P/B estimates, we arrived at a price target of **$2.30**, a **19.12%** upside to the April 18, 2023, price of **$1.93**,

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suggesting the stock is undervalued. In light of this fair value estimate and expected financial performance going forward, we recommend investors OVERWEIGHT the stock.

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	1,381,125,146	1,345,388,167	1,447,491,788	1,741,853,744	2,039,707,327
Cash & Cash Equivalent	78,576,976	143,238,834	262,502,567	173,828,917	168,121,344
Accounts Receivables	286,202,978	282,229,637	299,986,594	351,235,981	398,821,383
Inventory	478,456,702	450,133,458	299,609,370	608,593,378	795,126,010
Long Term Loan	654,823,903	585,645,756	307,668,546	310,028,468	452,051,258
Total Debt	654,823,903	585,645,756	583,507,170	571,451,861	637,617,968
Account payables	211,966,289	192,519,411	115,511,333	327,676,037	380,700,793
Stockholders' equity	502,210,193	547,077,808	735,045,902	825,873,102	1,007,810,374
PROFIT AND DIVIDENDS					
Operating profit	74,661,336	114,273,908	122,410,046	169,160,302	264,147,074
Operating expenses	-374,694,068	-399,751,560	-446,501,079	-450,275,765	-511,900,970
Profit before tax	44,890,868	86,583,983	60,576,068	87,524,906	197,475,677
Net profit	30,977,828	62,897,701	29,336,294	88,332,950	197,013,522
Dividends paid	-	-	-	13,000,000	25,264,557
FINANCIAL RATIOS					
Earnings per stock unit (J$)	$0.00	$0.08	$0.03	$0.07	$0.15
Dividends per stock unit (J$)	-	-	-	$0.01	$0.02
Dividend pay-out ratio	0.00%	0.00%	0.00%	14.72%	12.82%
Return on shareholders' equity	6.48%	11.99%	4.58%	11.32%	21.49%
Return on assets	2.24%	4.61%	2.10%	5.54%	10.42%
Book value per stock unit (J$)	-	0.42	0.57	0.64	0.78
Efficiency ratio (Op. Exp / Revenues)	25.50%	22.94%	23.91%	22.55%	19.50%

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