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LOCAL EQUITY REPORT

JAMAICA BROILERS GROUP LIMITED

Barita Investments Limited
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Company Overview

Jamaica Broilers Group Limited ("JBG" or "the Group") was founded in 1958 and has grown into a multinational entity with operations in Jamaica and the United States, with supporting entities throughout the Caribbean that are committed to providing home-grown products at the international standard. The Group is best described as a vertically integrated poultry business covering the full scope of poultry raising as a means of production. This includes breeder flocks, hatcheries, feed mills, grow-out operations, processing facilities, shipping and logistics services, and more. The company places its core beliefs upon reference to Christian principles that set a framework for the way they do business and is keen on impacting lives.

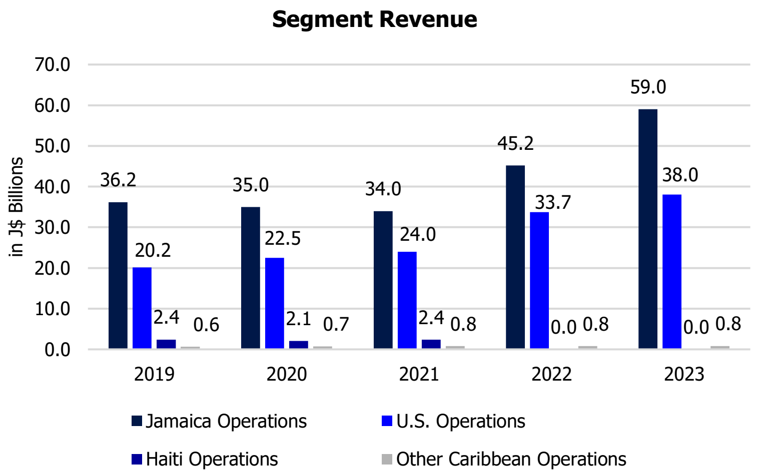
Stock	JBG
Last Closing Price	J$34.60
52 Week High	J$39.99
52 Week Low	J$25.91
YTD Return	11.61%
Target Price	**J$59.20**
Potential Return	71.10%
Trailing P/E	7.81x
Trailing P/B	2.01x
Forward P/E	6.10x
Dividend Yield (TTM)	1.89%
Total Projected Return	**72.98%**
Recommendation	**OVERWEIGHT**
(as at July 28, 2023)	

Executive Summary and Outlook

JBG has continued to grow and expand its revenue and net income while making significant efforts in controlling costs and improving the Group's operating efficiency. As discussed in our previous analysis of JBG, covering the first 6 months of the financial year 2023 (6M 2023), the Group reported both revenue and net profit rising by 30.7% and 119.3% respectively. The momentum continued through the end of FY 2023 with revenue and net profit ending the year with growth of 22.8% and 39.4% respectively. Net profit growing at a faster pace than revenue also highlights an improvement in the Group's operating efficiency, a point management has previously stated has been a focus. Despite increasing debt by $11.3 billion during the year to fund various capital expenditures, JBG's liquidity and solvency position remained adequate, while its return on average equity (ROAE) rose from 15.4% in FY 2022 to 18.4% in FY 2023.

The Group is expected to continue growing as the Jamaican tourism industry continues to expand, production has continued to increase in its United States operation and the Haiti operation has been disposed of. JBG's improved margins, stable liquidity and solvency position and improved ROAE, were achieved despite an over $1 billion loss from the discontinued Haiti operation in FY 2023, which will not be repeated in upcoming financial years.

Notwithstanding, JBG's free cash flow has declined steeply during FY 2023, driven by the low levels of cash flow from operations. However, this is to some degree reflective of the pace at which the company is investing in increasing its inventory for future growth. The Company has managed to protect its operation from the ongoing bird flu outbreak in Iowa, which has so far affected roughly 3% of production in the state. Notably, management does not expect an impact on its operation or its expansion plans in the U.S., with its expanded South Carolina facility opened in Q4 2023. Lastly, as the stock is trading at a material discount to our estimate of fair value, we maintain our **OVERWEIGHT** recommendation on JBG.



Business Overview

A more comprehensive overview of JBG's business segments can be found in our previous report. JBG disaggregates its financial performance between three geographical segments: Jamaica Operations, US operations, Haiti operations and Other Caribbean Operations.

Jamaica

The Company's Jamaican operations are governed under two primary divisions: The Best Dressed Chicken and Hi-Pro.

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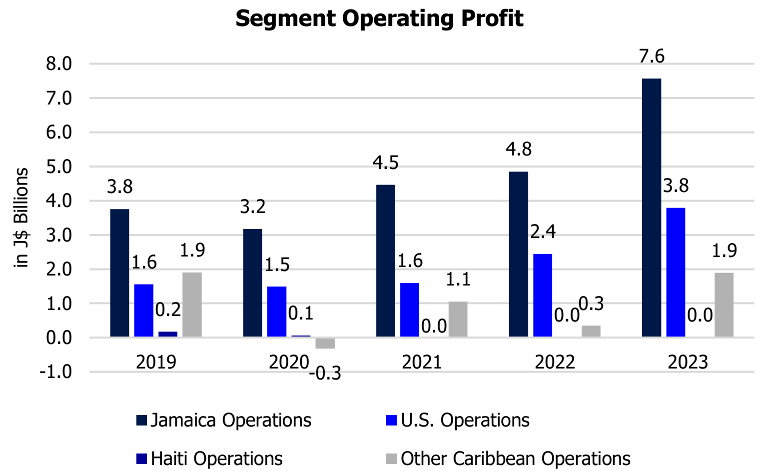
Hi-Pro Division:

The Company's Hi-Pro division has three main revenue-generating lines:

- **Chick & Feed Sales**
- **Jamaica Egg Services Pullet Sales**
- **Hi-Pro Ace Supercentre**



United State operations

Best Dressed Chicken US: As market trends and distribution channels shifted, the Company positioned itself to allow Best Dressed Chicken (BDC) USA to access new markets. The product is offered for sale in supermarkets and is in high demand from South Carolina to California.

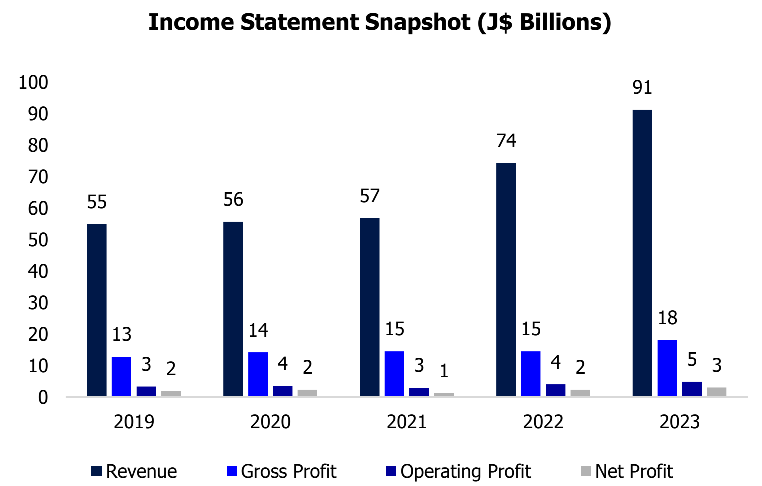
During the 2023 financial year, JBG has embarked on an intensive capital programme, deploying around US$20 million to the expansion of its Best Dressed Chicken Inc South Carolina facility with the aim of doubling production there in the near future.

Haiti operations

The Company's Haitian operations faced persistent headwinds from Haiti's unstable economy, fuelled by a volatile foreign exchange rate and political instability. The Haitian operations were discontinued during the year ending April 29th, 2022.

Financial Performance

Financial Year ended April 29th, 2023



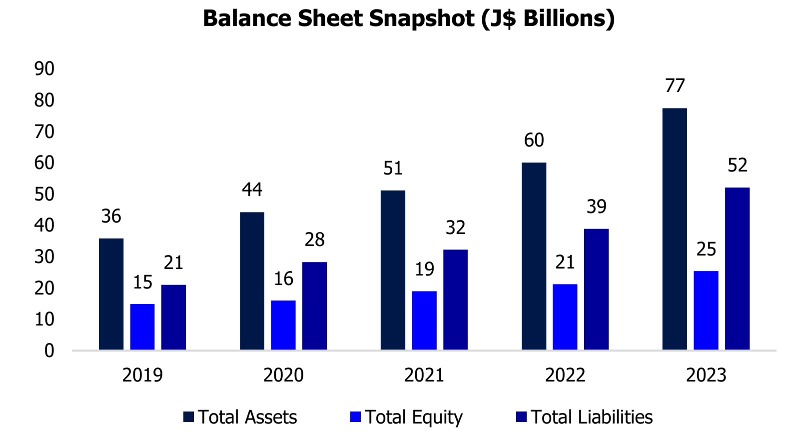
Revenue: Revenue for FY 2023 grew 22.8% YoY, amounting to $91.4 billion. This was largely driven by increased revenue from both its Jamaican and United States operations. In its Jamaican operations revenue growth was driven by increased production and sale of poultry, as well as higher sales of baby chicks to small farmers. The continued recovery of the Jamaican tourism industry also played a part in increasing revenue due to the higher demand from that sector. In the United States operations, revenue growth stemmed from increased production and sales in the Best Dressed Chicken line of products. The Jamaican operations grew revenue by 30.5% to $60.0 billion YoY, while the US operation grew revenue by 12.9% to $38.0 billion YoY.

Gross Profit: The Group recorded a gross profit for the year of $23.4 billion, representing a 28.9% increase compared to the outturn in FY 2022 of $18.2 billion. The cost of sales increased by 20.9% to $68.0 billion, which grew at a slower rate than revenue. Invariably, the Gross profit margin increased from 24.4% in FY 2022 to 25.6% in FY 2023. This margin expansion can likely be attributable to management's decision to permanently cease its loss-making Haiti operation.

Operating Profit: The operating profit for the year surged 77.0%, totalling $8.8 billion compared to $5.0 billion in FY 2022. This was primarily driven by the strong improvement in gross profit as well as management's effective operating cost control. Operating expenses grew 10.8% YoY, while gross profit grew 28.9%. Against this backdrop, the Group's operating profit margin expanded to 9.6% in FY 2023, from 6.7% in FY 2022. The Group's Jamaican operations reported a segment profit of $7.6 billion, representing an increase of 56.2% from the segment profit of $4.8 billion in FY 2022, while the U.S. operations reported segment profits of $3.8 billion, which translated into a

55.0% increase YoY. Both the Jamaican and the U.S operations reported increased efficiency with the segment operating profit margin in the Jamaica operations improving to 12.8% in FY 2023 from 10.7% in FY 2022 and the operating profit margin in the U.S. improving to 10.0% in FY 2023 from 7.3% in FY 2022, again driven by management's cost control efforts.

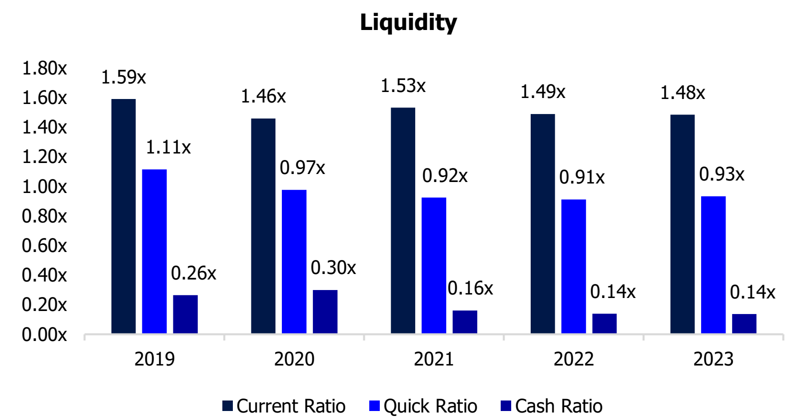
Net Profit: Profit after taxes for the year totalled $4.3 billion, representing an increase of 39.4% YoY, while net profit attributable to shareholders came in at $4.5 billion, representing an increase of 42.1%. Similarly, the net profit margin also expanded, from 4.1% in FY 2022 to 4.7% in FY 2023. Importantly, during Q2 2023, management decided to permanently cease all operations of its subsidiary, Haiti Broilers S.A. and its subsidiary, T&S Rice S.A., effective October 29, 2022. This led to the Group recording a loss from discontinued operations of $1.1 billion for FY 2023. Given that this included the total carrying value of the net assets of Haiti Broilers S.A we are unlikely to see a repeat of such losses related to the entity going forward. Excluding this loss, net profit from continued operations rose to $5.4 billion in FY 2023 from $3.4 million in FY 2022, representing a 56.2% growth rate YoY.



Balance Sheet

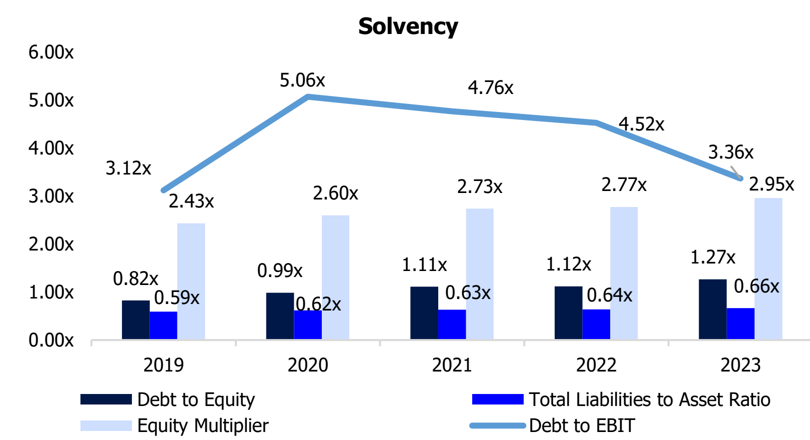
Assets: At the end of FY 2023, total assets stood at $77.4 billion, compared to $66.0 billion at the end of FY 2022, representing a YoY increase of 28.9%. This resulted largely from increases in current asset items, most notably biological assets and inventories, which were up 38.8% to $21.1 billion and 20.6% to $18.8 billion respectively.

Equity and Liabilities: Total Shareholders' Equity at the end of FY 2023 amounted to $25.3 billion, representing an increase of 19.7% YoY. This was driven largely by an 18.2% rise in retained earnings. Total Liabilities rose 34.0% to $52.1 billion at the end of FY 2023 when compared to the end of FY 2022, primarily attributable to total borrowings increasing by 49.4%, from $22.9 billion at the end of FY 2022 to $34.2 billion. Another notable contributor to growth in liabilities was an 11.3% YoY increase in payables to $14.1 billion.



Liquidity and Solvency:

JBG recorded a current ratio of 1.48x at the end of FY 2023 which was slightly below the current ratio of 1.49x at the end of FY 2022, indicating a slight worsening in its liquidity position. However, looking at more conservative measures of liquidity, namely the quick and cash ratios, the Group's liquidity position is slightly improved. The quick ratio increased to 0.93x at the end of FY 2023 from 0.91x at the end of FY 2022, while the cash ratio held steady for both years at 0.14x. Overall, this is characteristic of an adequate liquidity position.



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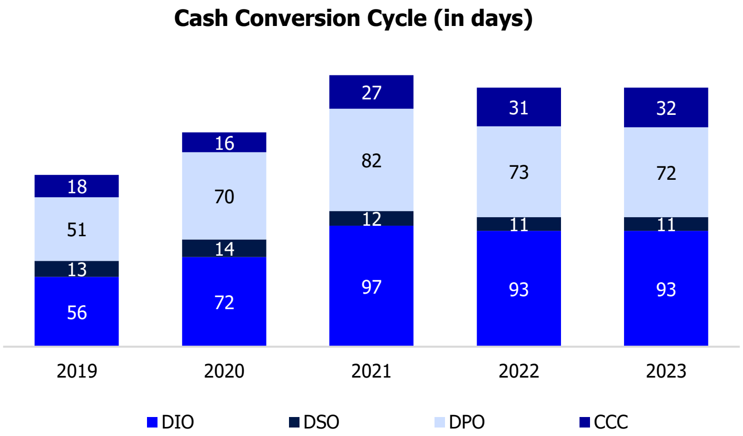
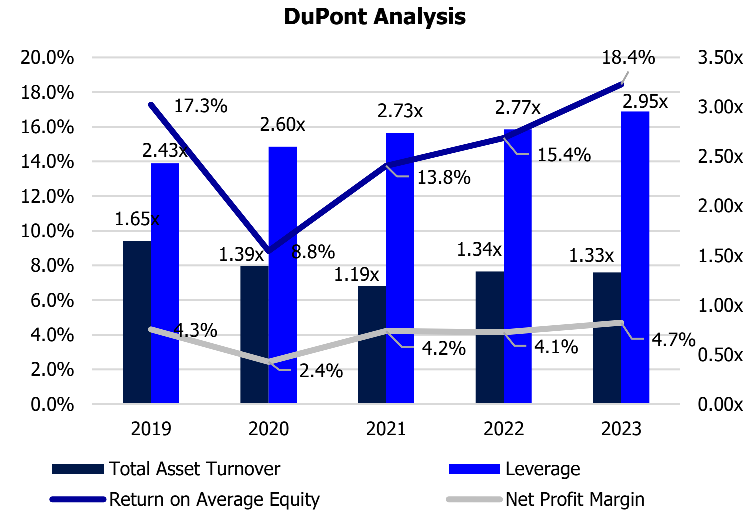
The Group saw a minor increase in leverage with the debt-to-equity ratio rising to 1.27x at the end of FY 2023, from 1.12x at the end of FY 2022, indicative of the additional debt taken on during the financial year.

Cash Conversion: The Group maintained a mostly stable cash conversion cycle during FY 2023 when compared to FY 2022. Days inventory outstanding (DIO) was steady at 31 days for FY 2023 compared to the same outturn in FY 2022. Days Sales Outstanding (DSO) also held steady at 11 days for FY 2023. Days Payables Outstanding (DPO) slightly decreased to 72 days in FY 2023 compared to 73 days in FY 2022. Taken together, this led to a cash conversion cycle (CCC) of 32 days in FY 2023, which means that on average, JBG has stabilized the amount of time it takes to convert the cash paid to suppliers into cash received from the sale of its goods.



DuPont Analysis:

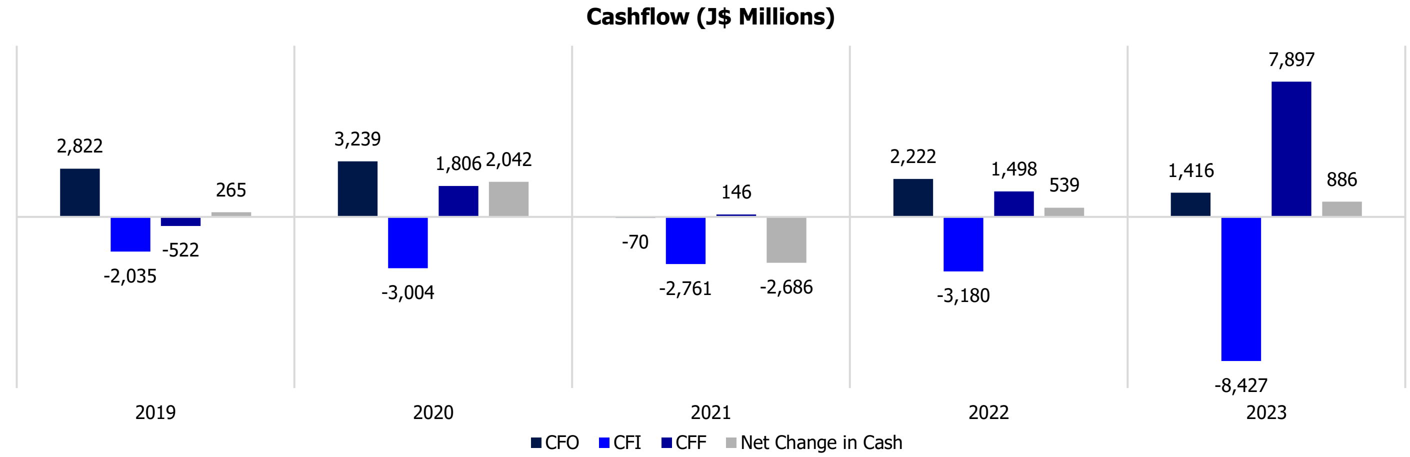
For FY 2023, JBG improved its ROAE to 18.4% from 15.4% in FY 2022. Conducting a DuPont Analysis allows for the inspection of the drivers behind the ROAE. Firstly, the net profit margin (NPM) increased from 4.1% in FY 2022 to 4.7% in FY 2023. This was driven by the increase in efficiency in both its Jamaica and U.S. operation, as well as the shedding of its loss-making Haiti operations. The total asset turnover (TAT) ratio held steady at 1.33x in FY 2023 from 1.34x in FY 2022. Lastly, the Group increased its leverage, shown by the equity multiplier rising to 2.95x in FY 2023 from 2.77x in FY 2022. Taken together, the movement of these factors led to the improvement in the Group's ROAE, which suggests the Group has become more efficient in the use of its shareholders' equity.



Cash Flow

For FY 2023, JBG generated $1.4 billion in operating cash flow, which is a decrease of 36.3% YoY. The reason for this steep decline is management's decision to invest heavily in its inventories and biological assets. On a net basis, JBG spent $3.4 billion on increasing its inventory and $6.1 billion on increasing its biological assets. This is an increase of $711.7 million in cash used on inventories and a $2.3 billion increase in cash used on biological assets when compared to FY 2022.

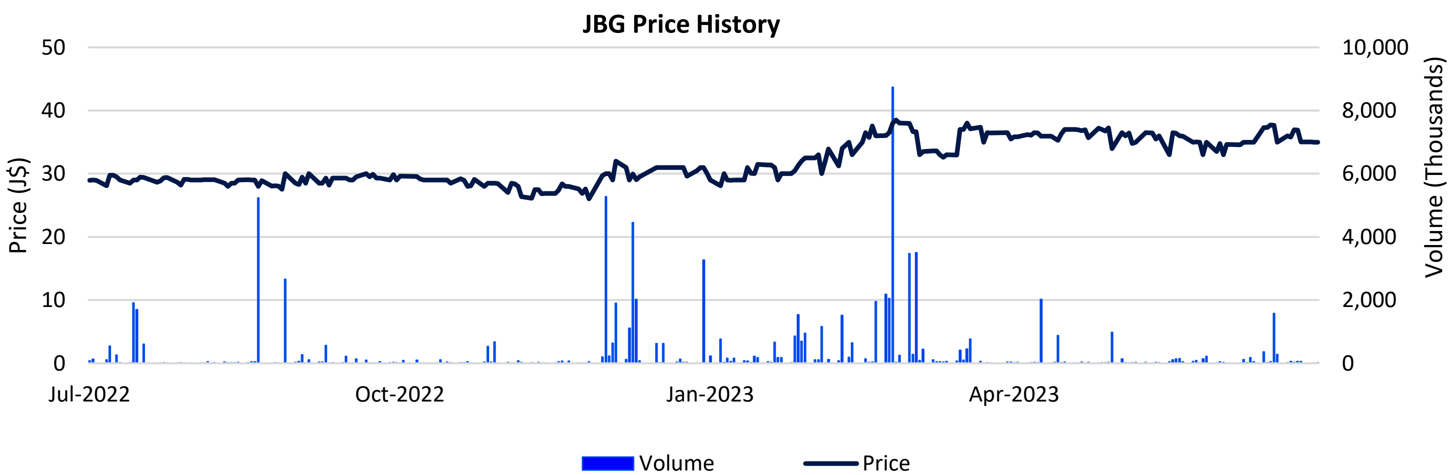
On the other hand, cash used in Investing activities came in higher at $8.4 billion, compared to $3.2 billion in FY 2022. This was largely driven by capital expenditure rising to $8.3 billion in FY 2023 from $2.9 billion in FY 2022.
Net cash flows from financing activities for the year amounted to an inflow of $7.9 billion, which is an increase over the net cash provided of $1.5 billion million recorded in FY 2022. This rise was driven largely by an increase in net borrowing in FY 2023. The Group recorded a net cash inflow from loans of $7.6 billion, versus an inflow of $3.4 billion in FY 2022, which helps to explain how the capital expenditure was financed.



Trading and Ownership Summary

JBG ownership (as at April 29, 2023)

Name	Shares Held	Percentage
JBGL Stockholders Nominee Limited	197,810,899	16.49%
The Robert Levy Family Foundation	100,412,389	8.37%
SJIML A/C 3119	73,920,672	6.16%
National Insurance Fund	64,596,054	5.39%
The REL Trust	52,769,054	4.40%
Mayberry Jamaican Equities Limited	52,425,362	4.37%
Sagicor Pooled Equity Fund	30,176,356	2.52%
NCB Insurance Agency and Fund Managers Ltd. WT109	28,987,667	2.42%
GraceKennedy Pension Fund Custodian Ltd. for GraceKennedy Pension Scheme	21,072,236	1.76%
Guardian Life Ltd.-Blue Chip	16,749,753	1.40%
Total	**638,920,442**	**53.28%**



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JAMAICA BROILERS GROUP LTD (JBG JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out
Float	966,096,955	80.557
Shares Outstanding	1,199,276,400	100.000
Stagnant Shares	233,179,445	19.443

The top ten shareholders of JBG held 638.9 million shares as at April 29th, 2022, which equates to 53.3% of the total shares outstanding. This makes JBG one of the more broadly held stocks on the Main Market of the Jamaica Stock Exchange. Data from Bloomberg indicates that only 19.4% of the total shares outstanding are stagnant while 80.6% are considered the group's float (freely traded shares).

JBG stock has increased 11.6% year to date with a closing price high approaching $39 seen at various points through the first half of 2023 and a low of $26.03 seen in December 2022. The average daily volume amounted to 332,457 units over the past year, coupled with an average price of $32.76, resulting in an average daily value traded of $10.89 million. This is generally sufficient for both retail and high-net-worth investors as well as for institutions.

Valuation & Recommendation

Valuation:

We estimated a price target for JBG using a justified price-to-earnings (P/E) ratio. Under this approach, we estimated a 1-year forward (FY 2024) earnings per share (EPS) of $5.68. The expected growth compared to the outturn of $4.43 per share for FY 2023 is anchored by our expectation of continued strong revenue growth, in both the Jamaican and US segments. Another factor driving our expectations for EPS growth in 2024 is the cessation of its operations in Haiti. Given that the Haiti operation was a loss-making venture, the Group is expected to realize some margin expansion going forward; additionally, the loss from discontinued operations of $1.09 billion in FY 2024, related to the Haiti operations, will not be repeated in FY 2024 improving net income. However, this projected improvement is partially offset by higher finance costs following the refinancing of debt and the addition of additional borrowings by JBG in FY 2023.

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52 Week Low	J$25.91
YTD Return	11.61%
Target Price	**J$59.20**
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Trailing P/E	7.81x
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Forward P/E	6.10x
Dividend Yield (TTM)	1.89%
Total Projected Return	**72.98%**
Recommendation	**OVERWEIGHT**
(as at July 28, 2023)	

To arrive at a discount rate, we utilized the capital asset pricing model (CAPM), which resulted in an outturn of **14.77%**. The long-term growth rate was estimated at 5.19%. **Using these inputs, a justified P/E ratio of 10.43x was derived, resulting in a price target of $59.20, representing a 71.1% upside from the last closing price of $34.60.** The company currently trades at a trailing P/E multiple of 7.81x, significantly below its peer average of 12.79x. Based on its current trading price and our target EPS, the company produces a forward P/E of 6.2-10x.

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