Barita

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Equity Analysis

MASSY HOLDINGS LIMITED

Barita Investments Limited
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Company Overview

Massy Holdings Limited. (Massy), together with its portfolio companies, engages in trading, manufacturing, distribution, and service industry businesses throughout the Caribbean region. The company operates through three portfolios: Integrated Retail, Gas Products, Motors, and Machine and two business lines: Financial Services, and Strategic and Other Investments. In the 2021 financial year, Massy transitioned from a conglomerate to an investment holding company, following several years of planning. By so doing, Massy's strategy has changed, with the Group focusing mainly on its three portfolios: Integrated Retail, Gas Products, and Motors and Machines. These areas of the business represent Massy's competitive advantages, are well-positioned to scale, and are therefore expected to drive strategic growth going forward. Below we briefly describe each portfolio and business line:

Stock	Massy
Last Closing Price	J$101.00
52 Week High	J$105.00
52 Week Low	J$74.00
YTD Return	26.30%
Target Price	**J$115.82**
Potential Return	14.67%
Trailing P/E	10.02x
Trailing P/B	1.16x
Forward P/E	10.31x
Dividend Yield (TTM)	3.58%
Total Projected Return	**18.26%**
Recommendation	**OVERWEIGHT**
(as at September 1st, 2023)	

The **Integrated Retail Portfolio (IRP)** portfolio is involved in the sale of retail and wholesale distribution of pharmaceuticals, foods, and general merchandise.

The **Gas Products (GP)** portfolio sells liquified petroleum gases and other industrial and medical gases, as well as the provision of maintenance services and execution of construction projects for oil, gas, and mining clients in Colombia.

The **Motors and Machines (M&M)** portfolio sells new and used vehicles, spare parts, industrial equipment, and lubricants; and engages in short- and long-term vehicle, and equipment rental business.

The **Financial Services** segment includes a financing company that accepts deposits for fixed terms and grants instalment credit secured by assets. This segment also includes the Group's Remittances service companies in Guyana, Trinidad, Barbados, St. Lucia and St. Vincent.

The **Strategic and Other Investments** business line was involved in manufacturing pre-stressed concrete operations, property sales, rentals, brokerage, and engineering, maintenance, and construction services for oil, gas, and petrochemical clients. At the close of the 2022 financial year, the Strategic & Other Investments Line of Business was dissolved, and any further divestments, wind-ups, or amalgamations of non-core investments, assets, and properties will be managed by the Group's Corporate Office. Going forward, the Real Estate and Property Management businesses will be managed by the Corporate Office and the Energy Services businesses will be managed through the Gas Products Portfolio.

The company was formerly known as Neal & Massy Holdings Limited and changed its name to Massy Holdings Ltd. in July 2014. Massy Holdings Ltd. was founded in 1923 and is headquartered in Port of Spain, Trinidad, and Tobago.

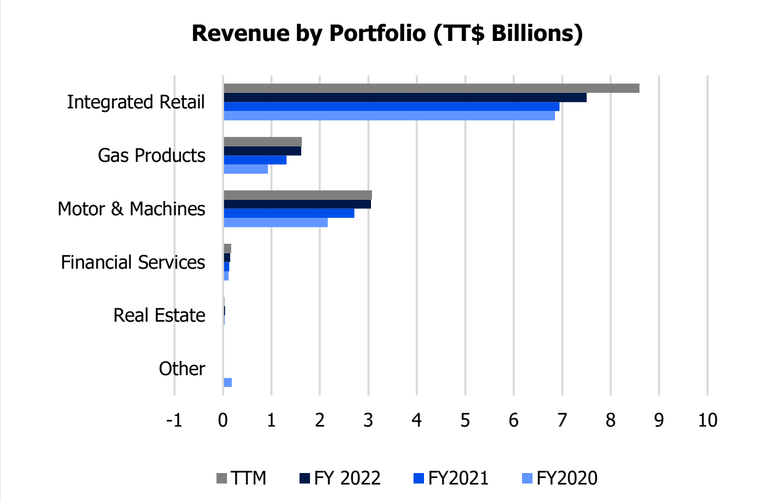
Analyst Outlook

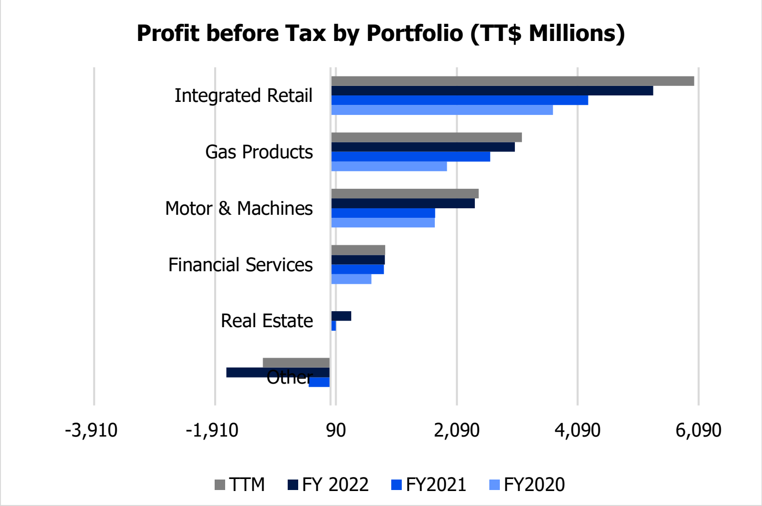
Prior to FY 2021, Massy Holdings Limited operated as a traditional conglomerate. In FY2021, the Group underwent a corporate restructuring. Now, the ultimate parent company, Massy, functions as a holding company, while the various business segments operate as decentralized portfolio companies. We expect that the restructuring undergone in FY2021 will benefit the overall Group on the back of greater autonomy within each portfolio company. Moreover, the current sale of companies and assets represents strategic sales targeted at assets that were delivering returns below Massy's Weighted Average Cost of Capital (WACC). Consequently, with the sale of these assets, Massy now has a significant cash and cash equivalents reserve which can be deployed towards assets that provide returns above its WACC and are also scalable. Scalability is important as it supports the Group's strategic imperative to become a global business.

In the calendar years 2022 and 2023 year-to-date, Massy has been active in completing such acquisitions. In November 2022, the board of Massy approved the purchase of Air Liquide Trinidad and Tobago Ltd. On December 7, 2022, Massy announced the purchase of Rowe's IGA Supermarkets in Jacksonville, Florida. The transaction was a 100% equity acquisition worth US$47 million. On December 19, 2022, Massy announced the purchase of I.G.L. (St. Lucia) IBC Limited. The transaction was a 100% equity acquisition worth US$140.3 million. On May 17, 2023, Massy completed the acquisition of IGL Jamaica after signing a consent agreement with the Jamaica Fair Trading Commission (FTC) and the deal is anticipated to increase group assets, as at FY 2022, by 7.3% and will increase profit before tax by approximately 7.1%. Under the new framework, each portfolio company's management is expected to drive growth through the means most suitable for that portfolio. Thus far, this framework has added value, as return on equity (ROE) has been sustained at a level of around 10%.

Business Overview

Massy Holdings Limited operates under four primary Portfolio segments including Integrated Retail 52.4% of Profit before tax ('PBT')), Gas Products (27.6% of PBT), and Motors and Machines (21.4% of PBT). Massy also operates additional business lines that ultimately support Group profitability, but these areas are not core to the Group's strategic vision. They include Financial Services (7.9% of PBT), and Real Estate (0.4% of PBT) and Other (Operated at a loss on a trailing basis). The charts below provide a summary of the Group's various business segments:





As shown in the charts above, Integrated retail, Gas Products, and Motors and Machines are the largest portfolios by revenue and profit before taxation. These portfolios are instrumental to Massy's long-term strategic plans and growth. A more detailed review of the various segments can be found in our previous analysis of Massy Holdings Ltd.

Integrated Retail Portfolio

The Integrated Retail Portfolio (IRP) of Massy Holdings Limited is involved in the sale and distribution of retail and wholesale foods, pharmaceuticals, and general merchandise. Within this portfolio, Massy Stores operate an extensive network of 57 retail stores, utilizing 14 distribution warehouses across five Caribbean territories.

Under this portfolio, Massy offers its customers different formats to access its products such as supermarkets, superstores, pharmacies, home stores, and discounters. Given its massive size and reach, Massy leverages its regional volume and scale which enables strong buying power that, in turn, results in Massy providing competitive prices for the benefit of customers which makes the IRP very competitive within its various business segments.

On December 7, 2022, Massy announced the purchase of Rowe's IGA Supermarkets in Jacksonville, Florida. The transaction Is a 100% equity interest worth US$47 million.

Financial Performance

For the nine months ended June 30, 2023, the IRP reported total revenue of TT$6.7 billion, representing an increase over the prior year's comparable period of 19.3% and accounting for 65.0% of total Group revenue. Profit before tax from the portfolio amounted to TT$432.5 million, representing growth of 18.7% relative to the similar period of the prior year and accounting for approximately 57.2% of total Group earnings.

The Retail businesses achieved growth, driven by investment in footprint development in recent years, improved merchandising and product selection at stores and the rebound of tourism in Barbados and the Eastern Caribbean.

The distribution businesses achieved double-digit PBT growth over FY2022, driven by the acquisition of significant new agencies, the reopening of the hotel, restaurant and cafe (HORECA) and entertainment sector, and effective logistics management to ensure the availability of key items throughout the pandemic-affected period.

Gas Products

The Gas Products portfolio of the Massy Group derives its revenue from the sale of liquified petroleum gases and industrial gases including nitrogen, oxygen, and carbon dioxide. In line with this, the portfolio also derives revenue from the provision of maintenance services and the execution of construction projects for oil, gas, and mining clients in Colombia.

This segment represents a higher profit margin business than Integrated Retail and Motor and Machines. Consequently, while the portfolio only accounts for 12.1% of Massy's revenue, it represents 27.6% of the Group's profit before taxation.

Financial Performance

During Q1 of FY2023, the Gas Products portfolio reported revenue of TT$1.2 billion, a 1.0% increase relative to the first nine months of FY2022. Profit before tax grew by 5.5% to TT$223.2 million.

Motor and Machines

The Motor and Machines segment derives its revenue primarily from the sale of new and used vehicles, spare parts, industrial equipment, lubricants and long-term vehicle and equipment rentals.

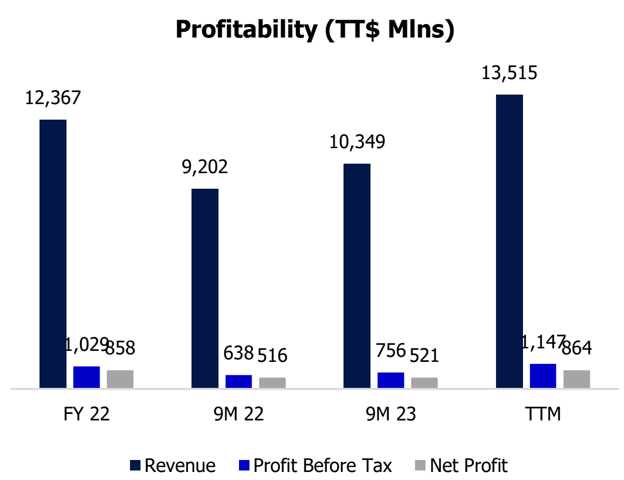
The portfolio provides service and equipment rental to customers in the marine, energy, and power generation sectors and is the Caterpillar dealer for Trinidad and Tobago, the importer for Nissan in 10 territories and the distributor for Shell lubricants in 19 territories in the region. The portfolio currently has auto dealerships in three territories, Trinidad and Tobago, Colombia, and Guyana.

Financial Performance

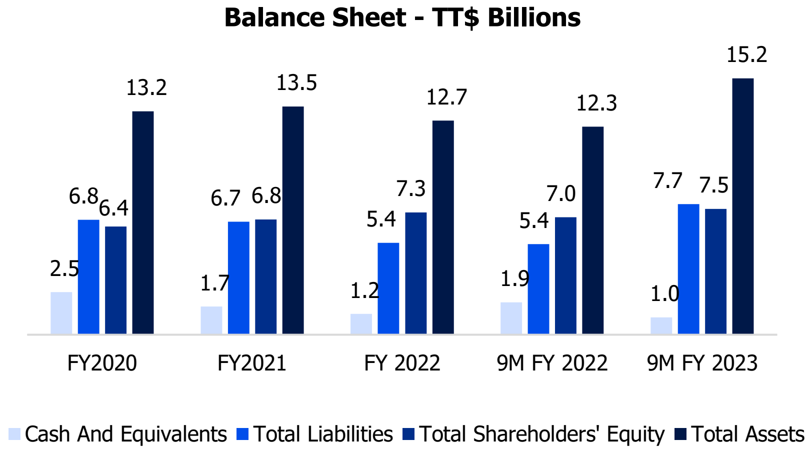
For the nine months ended June 30, 2023, The Motor and Machines (M&M) portfolio reported revenue of TT$2.3 billion, representing a YoY increase of 0.9%. Despite the flat revenue, profit before tax grew by 4.7% to $141.8 million. **The Motors and Machines Portfolio took a full write-down on the value of its investment in the online used car platform, Curbo, of $14.8 million (US$2.2 million).**

Group Financial Performance (Nine Months ended June 30, 2023)

(Dollar Values ($) represent Trinidad and Tobago Dollars unless otherwise stated)

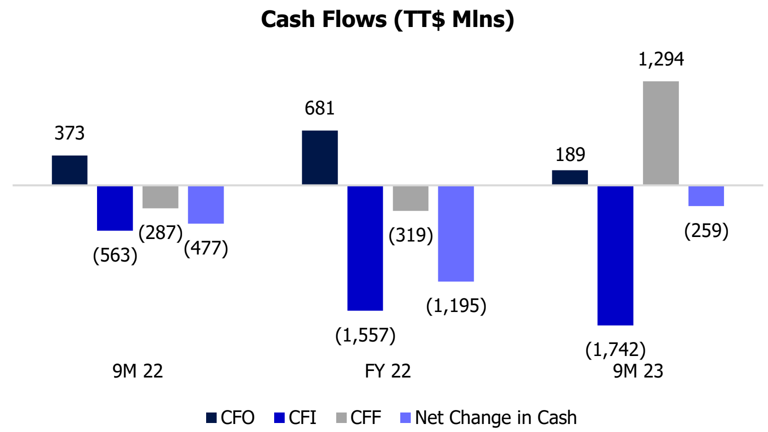


Income Statement: For the nine months ended June 30, 2023 (9M 2023), the Group reported revenue of $10.3 billion, representing an increase of 12.5% over the prior comparable period of FY 2022. Operating profits after finance costs totalled $754.3 million, a 22.7% increase over the prior year's comparable period. The operating profit margin improved to 7.3% from 6.7% in the 9M 2022, indicating that the operational efficiency was strengthened as revenue improved. The increased income was attributed primarily to increased sales in the Integrated Retail which is benefiting from its acquisition of Rowe's IGA supermarkets in December 2022.



Earnings before taxes for the 9M 2023 were $756.5 million, which was 20.3% higher than in the 9M 2022. Income tax grew 14.9% resulting in net profits from continuing operations of $514.4 million, 20.3% higher than the first nine months of FY 2022. Considering discontinued operations and profit attributable to non-controlling interests, the total profit for the 9M 2023 was $521.4 million.

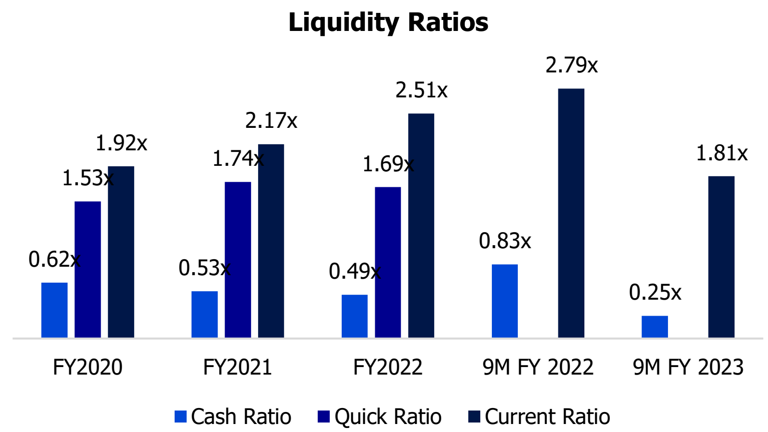
Balance Sheet and Cashflow: Total assets as at June 30, 2023, came in at $15.2 billion, representing an increase of 19.7% over the total assets at September 31, 2022. The increase in total assets was the result of higher property, plant and equipment which grew by 29.1%, amounting to $3.3 billion. Shareholders' Equity at the end of the quarter totalled $7.5 billion, 2.9% more compared to the year ended September 30, 2022. The company also maintained a trailing twelve-month ROE of 11.2%, compared to 11.5% at the end of FY 2022.



The Company saw a net decrease in cash of $259.1 million, compared to the 9M 2022 outturn of a decrease in cash of $477.3 million. Massy had positive operating cash flow for the period of $188.9 million, representing a decrease of 27.7% year over year. There was also cash used in investing activities of $1.7 billion, representing an increase of 209.4%, while cash flows from financing activities was an inflow of $1.3 billion, compared to $287.2 million used in the comparable period last year. Cash and cash equivalents at the end of the period amounted to $913.9 million, compared to the 2022 financial year-end result of $1.23 billion.

Liquidity

Over the last five years, MASSY has maintained current and quick ratios above 1.00x, indicating that the Group's current assets have been sufficient to meet its current liabilities. However, for the 9M 2023, the Group saw a decrease in its current ratio, which moved from 2.51x as at the end of FY 2022 to 1.81x. The current ratio fell due to an increase in short-term borrowings to $1.5 billion from $239.8 million at the end of FY 2022. During the 2023 financial year-to-date, the cash outflow from investing activities was most likely



Definitions:
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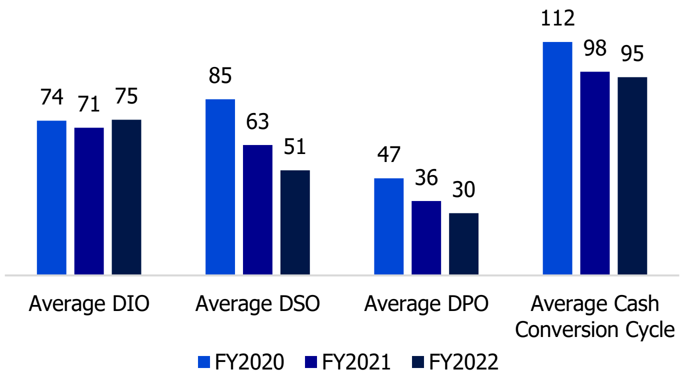
related to additions to property plant and equipment. Consequently, Massy's cash ratio fell from 0.49x as at the end of FY 2022 to 0.25x as of June 30, 2023.

Cash Conversion Cycle

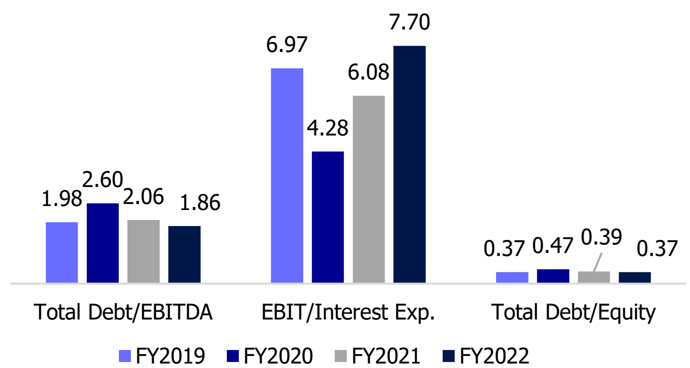
While not enough detail was provided to examine the quarter, recall that the Group's average Cash Conversion Cycle (CCC) improved in FY2022, falling from 98 days in FY2021 to 95 days. This indicated that Massy improved the management of its working capital and was generating cash from the business at a faster rate, representing a significant improvement from FY2021 which marked the most severe period of the pandemic's effect on the Group.

In decomposing the CCC into its components, we observed that the average days sales outstanding and average days payables outstanding decreased in FY2022. The reduced number of days sales outstanding indicates that Massy converted cash from receivables (credit sales) at a faster pace in 2022. The decreased days sales outstanding offset a slightly higher days inventory outstanding which climbed from 71 to 75 days. Consequently, the Group's cash conversion required fewer days in FY2022. While average days payable outstanding did increase, which would contribute to a higher CCC, an overall reduction relative to the previous year is a positive development, indicating that Massy simply had enough cash on hand to repay creditors quickly.

Cash Conversion Cycle (in Days)



Solvency and Coverage Ratio (x)



Solvency and Coverage

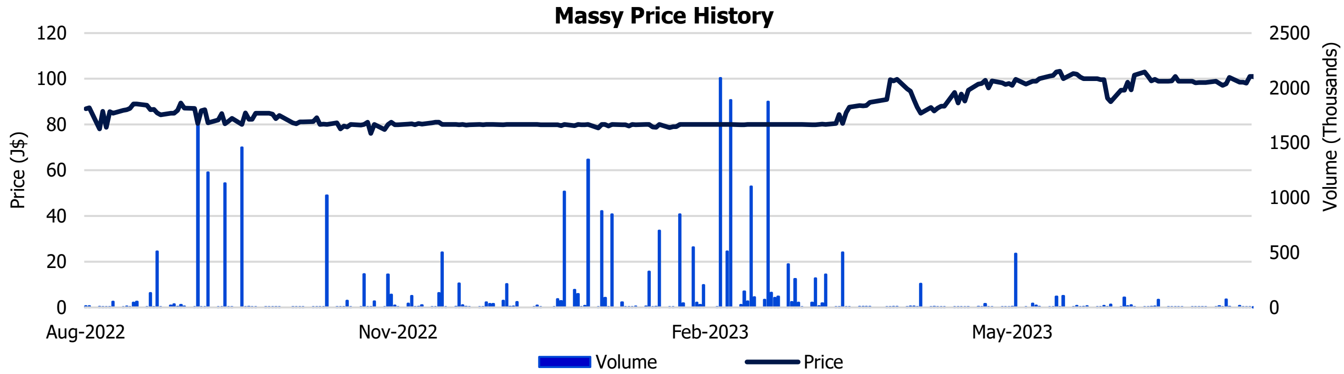
Recall that the Company saw its overall solvency measures improve over FY 2022. For the year, total interest-bearing debt and finance leases to equity decreased to 0.37x from 0.39x in the prior year; this ratio increased to 0.42x as at June 30, 2023, due to a 26.6% rise in borrowings in line with the Group's strategy of execution on its acquisition pipeline. As at September 30, 2022, the group's Debt to EBITDA was 1.86x, lower than the FY2021 outturn, while interest coverage had also improved, with an EBIT/Interest Expense of 7.70x relative to 6.08x in the prior year.

Trading and Ownership Summary

MASSY ownership (as at June 30, 2023)

Name	Shares Held	Percentage
National Insurance Board (Trinidad and Tobago)	396,021,020	20.01%
RBC Nominee Services (Caribbean) Limited	215,785,464	10.90%
Republic Bank Limited	126,172,964	6.37%
RBC/RBTT Trust Limited	119,414,324	6.03%
T&T Unit Trust Corporation	89,174,706	4.51%
Kiss Baking Company Limited	78,542,966	3.97%
Trintrust Limited	64,299,662	3.25%
Guardian Life of the Caribbean	62,519,088	3.16%

National Insurance Board (Barbados)	56,007,440	2.83%
First Citizens Asset Management Ltd.	50,740,860	2.56%
Total	**1,258,678,494**	**63.59%**



MASSY HOLDINGS LTD (MASSY JA Equity)		
Calculation of Float		
Current Shares Outstanding - Stagnant Shares		
Components	Position	% Out
Float	1,602,731,886	80.971
Shares Outstanding	1,979,384,540	100.000
Stagnant Shares	376,652,654	19.029

Massy is a freely traded stock with only 19.03% of outstanding shares considered to be stagnant shares. These are shares that are not readily/typically traded on the market. Massy's float comprises 80.97% of the total shares outstanding. Trading volume is large, with an average volume of 115,357 units representing a dollar value of roughly J$9,366,335 using a weighted average 1-year share value of $81.19. Market Liquidity is generally sufficient for retail and institutional traders.

Valuation

To arrive at our price target for MASSY, a combination of a Justified Price-to-Earnings (P/E) model and a Relative P/E was used. Our estimate for the 2023 Financial year-end EPS, considering the year-over-year growth in sales and net profit margin seen through the current period of the 2023 financial year amounted to **$9.79.** To arrive at a discount rate, we utilized the capital asset pricing model (CAPM), which resulted in an outturn of **13.93%**. The long-term growth rate was estimated at 6.76%, taking into consideration factors including the company's profit margin, leverage, and asset utilization.

Using these inputs, a justified P/E ratio of **13.95x** was derived, resulting in a price target of **$136.65**, representing an upside of **35.29%** from the last closing price of **$101**. Lastly, we determined a peer average P/E of conglomerates listed on the Main Market of **9.70x**, which when applied to our forward EPS resulted in a price target of **$95** a **5.95%** downside from the last closing price. **We then took the average of these results as our final target price, resulting in a target of $115.82, 14.67% above the current stock price.**

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Dividend Yield (TTM)	3.58%
Total Projected Return	**18.26%**
Recommendation	**OVERWEIGHT**
(as at September 1st, 2023)	

Our previous target was based on slightly lower expectations for revenue and net income growth following the results of the first quarter of FY 2023, resulting in a price target of **$106.83**. The company currently trades at a trailing P/E multiple of 10.02x. The company based on its current market price along with our target EPS produces a forward P/E of 10.31x. Additionally Massy consistently pays out dividends at a rate of 35%-40% of net income giving us a trailing dividend yield of 3.58%. **Given the factors above, we recommend investors OVERWEIGHT MASSY in their portfolios.**

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