

Quarterly Equity Review

Rating **BUY**



Caribbean Cement Company Ltd.

Global

JSE CCC Bloomberg CCC JA

Sector: Manufacturing
Sub Industry: Manufacturing - Building Materials

Q1 2023: Carib Cement Company Ltd. (CCC) records decline in profits amid expansion of processing plant.

Financial Overview (Reading time 5-7 minutes)

Revenue & Profitability

Despite inflationary pressures caused by the COVID-19 pandemic and geopolitical tensions impacting Eastern Europe and other parts of the world, Carib Cement Company (CCC) delivered a solid performance in FY 2022 on the back of the strength of the construction sector and the resulting demand for the company's main product, cement. For the year, the company achieved revenues of J\$25.8 billion, up 8.4% or almost J\$2.0 billion over FY 2021. At the same time, gross profits grew by 12.36% Y-o-Y and gross margin expanded to 44.0%, highlighting the improved efficiency of the business. Operating profits also saw improvement, moving up by 14.0% YoY, while net profit jumped by 24.0% to J\$5.3 billion, marking a record for the manufacturer. Significantly, the cash flow generated from its operations allowed the company to pay out over \$1.3 billion in dividends during the year to shareholders (the first time since 2005). Additionally, CCC completed a successful repayment of its preference shares of \$1.8 billion to its parent company. However, during its recently completed first quarter (Q1) ended March 31, 2023, the company undertook planned maintenance of its major production equipment. As a result, CCC's Q1 results were largely muted as the company incurred higher costs associated with the maintenance project. Revenues for the quarter remained unchanged YoY at around J\$6.8 billion, while cost of sales increased significantly from J\$3.6 billion in Q1 2022 to J\$5.5 billion in Q1 2023. This 50.9% spike was primarily due to increases in remuneration and benefits, maintenance costs, and excess inventory items consumed in raw materials and consumables. The company also experienced lower production levels of clinker and cement during the period, which led to the importation of cement to cover the shortfall.

The knock-on effect of the flat topline growth and steep increase in costs was an 86.4% decline in its operating earnings for the quarter when compared to the equivalent period last year (Q1 2022). Net Profit for Q1 came in at J\$289.4 million, an 81.8% drop when compared to the profits generated in Q1 2022. Notably, despite the earnings per share (EPS) being only J\$0.34 compared to J\$1.87 in the corresponding period of FY 2022, the manufacturer was able to generate over J\$2.0 billion in cash from operating activities. This enabled the company to pay down its debt and make investments (of J\$1.20 billion).

July 12, 2023

Closing price	53.31
Forecast dividend	1.47
Current target price	84.85
Previous price target	n/a
TOTAL RETURN	61.9%

Company Data

Outstanding shares	851,136,591
Market Cap	45,374,091,666
52-Week (Lo/Hi)	50.15/74.00
1Yr Daily Average Volume	55,859
5Yr Daily Average Volume	92,458

Major Shareholders

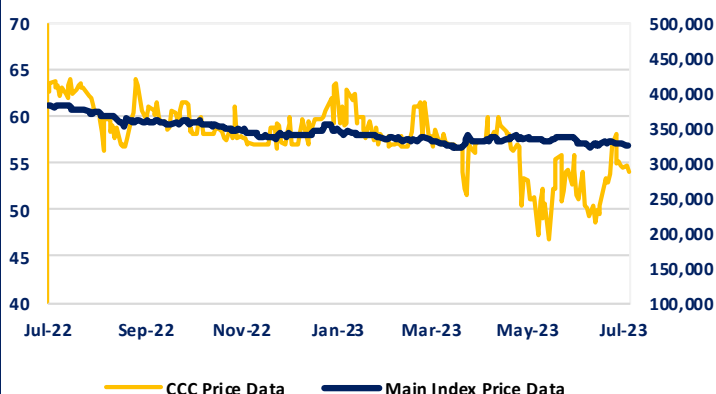
T.C.L.(NEVIS) LIMITED	65.64%
TRINIDAD CEMENT LIMITED	8.44%
CEMEX OPERACIONES MÉXICO, S.A. de C.V.	4.96%

Key Financials

J\$ Mn	FY21	FY22	FY23e	FY24e
Total Revenues	23,840	25,837	27,904	30,974
Operating Profit	6,887	7,864	8,022	9,292
Net Profit	4,342	5,384	5,006	6,267
Net Profit Change (%)	35.8%	24.0%	-7.0%	25.2%
EPS	5.10	6.33	5.88	7.36
Dividend Yield	n/a	2.10%	2.21%	3.55%

Price Performance

	1MTH	3MTH	1YR
CCC	8.4%	-9.5%	-15.4%
Main Index	0.9%	-1.9%	0.0%



Source: Bloomberg; JN Fund Managers Limited

ROE FY22	Asset Turnover	Current Ratio FY22	Gross Margin FY22	Net Margin FY22
26.84% -2.36%	0.86 -1.15%	1.17x +134%	44% 6.62%	20.8% +14.28%
2021: 27.49%	2021: 0.87	2021: 0.50x	2021: 41.2%	2021: 18.2%

Balance Sheet

As at the end of Q1 2023, Carib Cement's Total Assets amounted to J\$29.89 billion, indicating a marginal decrease of less than 1.00% compared to the closing level of FY 2022. Looking at inventory, at the end of FY 2022, CCC's closing inventory's value had grown to J\$5.5 billion. This is likely due to higher carrying prices for the items, as well as the company's decision to produce and maintain higher inventory levels throughout the year in response to the heightened demand in the construction sector. Notwithstanding, in Q1 2023, despite the increase in inventory at the start of the period, the company faced challenges meeting the demand of the local market a scenario likely exacerbated by its maintenance activities within the quarter.¹ Cash and equivalents for Carib Cement remained healthy (J\$709.73 million) at the end of the first quarter, growing by 23.6% over the amount reported (J\$574.46 million) at the end of FY 2022.

Following the liquidation of long-term debt² of over J\$600 million, Total Liabilities dipped modestly to J\$9.64 billion at the end of Q1 2023. This debt represented a drawdown from an unsecured revolving loan facility between CCC and a related party. The revolving loan facility is particularly significant at this time, as it further bolsters the manufacturer's liquidity position by providing access to "ready capital". This will support their financial flexibility and resilience and improve the company's ability to withstand potential tightness in the capital market.

At the end of the Q1 2023, Total shareholders' equity stood at J\$20.3 billion showing a moderate upward move from the J\$20.0 billion on December 31, 2022.

Kiln Expansion

In August 2022, Carib Cement, through its parent company CEMEX, launched a J\$6 billion project to upgrade and increase the capacity of its cement production plant (kiln) in Rockfort, Kingston by up to 30%. This investment is expected to enhance the company's self-sufficiency and enable it to meet the increasing demand for its cement product more effectively. Additionally, it will establish a solid groundwork for supplying other export markets.

FY 2023: Outlook

Market Domination – Carib Cement Company has been in existence for numerous years, consistently delivering high-quality cement, which has resulted in significant customer loyalty in the Jamaican market. As a result, approximately 99% of the company's revenues are generated locally. Additionally, as the sole manufacturer of cement in Jamaica for over sixty years, Carib Cement has maintained a virtual monopoly on the industry. This scenario is unlikely to change over the short term.

Stable Demand – Carib Cement generated record profits in 2022, primarily driven by the continued increase of infrastructure developments within the construction industry and in turn, the high demand for cement. The company is also seeing increased demand from overseas, as markets recover from negative externalities caused by COVID-19 and the Russia-Ukraine conflict.

Expansion of Capacity – Carib Cement has invested heavily into improving its operations in the past year. As such the company's management anticipates maintaining or improving the productivity and efficiency of the kiln moving forward, building upon its robust financial performance.

3M Highlights

Cost of Sales up ~50.0% – For the three months ended March 31, 2023, Carib Cement incurred Cost of Sales of J\$5.5 billion, 50% or J\$1.85 billion greater than Q1 2022. This was primarily due to the planned maintenance of its major production equipment taking place.

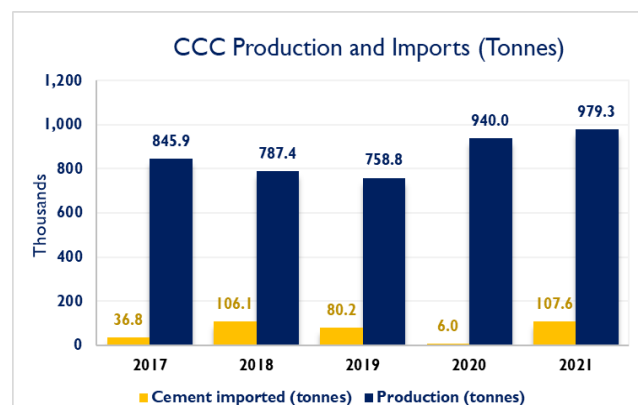
Decline in Profits – Operating Profit for Q1 2023 was J\$317 million, an 86.4% decline compared to the equivalent period in the prior year. Net profits declined to J\$289.4 million, a shortfall of 82.0% when compared to Q1 of the prior year.

Expansion in Productive Capacity – During Q1 2023, Carib Cement undertook the planned major maintenance of its main production equipment. This project is expected to boost the productive capacity of their kiln (cement plant), which would help them to meet the growing local demand and facilitate their export plans.

Risks to monitor:

Lack of Geographical Diversification – Currently 99% of CCC's revenues are generated in Jamaica which means that the success and growth of the company are heavily tied to the prospects of the Jamaican economy.

Recession Fears – With inflationary pressures still high, central banks have tightened monetary policy, increasing the risk of a severe slowdown in economic activities in FY2023/24. A significant slowdown could result in a sustained downturn in the construction sector and a curtailment Carib Cement's revenue and profit growth in the future.



Valuation

I. Relative Valuation Method (Summary)

CCC's historical Average P/E = 14.43x
 CCC's Forward Earning = J\$5.88
 P/E Valuation Est. = J\$84.85

Carib Cement's Average Valuation Est. = \$84.85

¹<https://www.jamaicaobserver.com/news/carib-cement-promises-resumption-of-cement-supply/>

²With this related party agreement, CCC may borrow up to US\$52 million.

Glossary of Terms

Asset Turnover	The asset turnover ratio measures how effectively a company uses its assets to generate revenue or sales.
Current Ratio	The current ratio (current assets/current liabilities) is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year.
Efficiency Ratio	The efficiency ratio shows expenses as a percentage of revenue (expenses/revenue). It essentially calculates how much a business spends to make a dollar.
FY	Financial Year or Fiscal Year
Gross Margin	A profitability measure that looks at a company's gross profit compared to its revenue or sales, expressed as a percentage.
Leverage Ratio (Assets/Equity)	The Asset to Equity ratio is derived by dividing a company's total assets by its shareholders' equity. This ratio is an indicator of the leverage (debt) used to finance the company.
Net Profit Margin	Measures how much net income or profit is generated as a percentage of revenue.
QoQ	Quarter on Quarter (usually used when comparing the financial performance between one quarter of one year to the same quarter of the previous year)
Q1	Quarter 1 or First quarter (usually of a company's financial year or country's fiscal year)
ROE	Return on Equity is a measure of financial performance calculated by dividing net income by shareholders' equity.
YoY	Year over Year (used when comparing the financial performance between two consecutive years)