



JAMAICA PRODUCERS GROUP LTD. (JP)

Company Overview:

JP is a holding company with assets operating in countries across the Caribbean, the Americas and Europe. As a holding company, from time to time JP buys and sells assets. Typically, the Group's assets either fit in the foods business (the JP Food & Drink Division) or the Logistics & Infrastructure Division.

JP's Divisions

- + **JP Food & Drink Division** – vertically integrated companies engaged in farming, food processing, distribution and retail of food and drink, operating in Europe, the Caribbean and the United States. The range of speciality food and drink products includes fresh juices, tropical snacks, fresh fruits, Caribbean rum and rum-based food items.
- + **JP Logistics & Infrastructure Division** – businesses engaged in terminal operations, logistics, freight forwarding and logistics-centred property management in the Caribbean and Europe. The division is comprised of JP's holdings of Kingston Wharves Limited, JP Shipping Services Limited and Shipping Association of Jamaica Property Limited.

JP's Recent Activity

- + **September 22, 2020** – JP agrees to sell its **22%** stake in SAJE Logistics Infrastructure Ltd. The gross consideration for the sale is **J\$1.9 billion** and JP will use the proceeds to invest in strong businesses fitting into its two divisions.
- + **June 30, 2020** – JP posted revenues of **J\$9.5 billion (6% lower than 2019)** and profits of **J\$347.0 million (45% lower than 2019)** for the 6-month period.

Key Features

Current Price	J\$20.18
Target Price	J\$22.77
Implied Upside	12.83%
52 Week High	J\$28.5
52 Week Low	J\$15.0
YTD Gain/Loss	-25.96%
Current P/E (x)	17.93
Market Capitalization	J\$23.01B

BUY

 Target Price:
J\$22.77

 Implied Upside
12.83%

MEDIUM RISK

MAIN ACTIVITIES

The main activities of the Group are:



Port terminal operations



Logistics



The cultivation, marketing and distribution of fresh produce

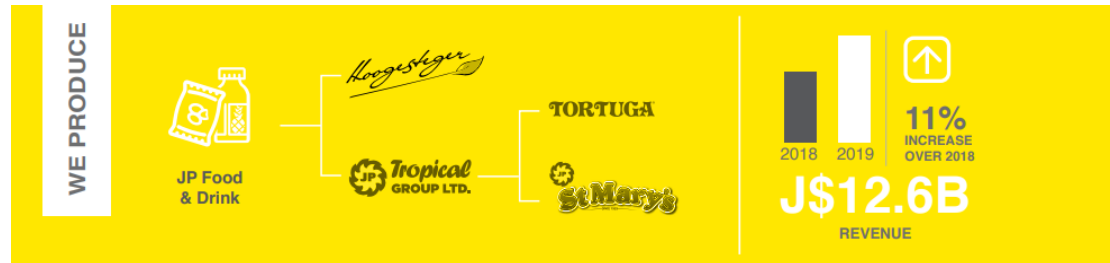


Food and juice manufacturing



Land management and the holding of investments.

JP's Food & Drink business includes premium products, travel retail products, as well as everyday snacks and basic food items. These products are oriented to consumer trends such as health and convenience. The company serves diverse markets in the Caribbean diaspora, Northern Europe and the full range of US cruise and stopover tourist destinations in the Caribbean, Mexico and Florida. Its Food & Drink business is largely vertically integrated with the food processing business lines being complemented by the JP's St Mary's banana, pineapple and coconut farms which are Jamaica's market-leading producers of tropical fruits.



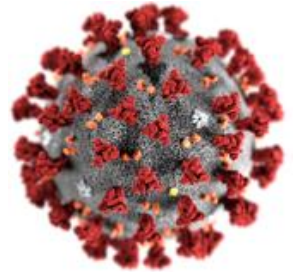
The logistics businesses in JP's portfolio operates in Europe and the Caribbean. The company handles a wide range of cargo types and service many origins and destination markets. They provide services ranging from freight forwarding to stevedoring, terminal operations, warehousing, cold storage and logistics. Anticipating Jamaica's policies towards trade and investment becoming more flexible and open, JP continues to look forward to those changes that it expects will strengthen the country's growth prospects and has positioned its business to fully participate the opportunities that will naturally arise.



The diversity of the business is one of its strengths as while it provides resilience to its income, it also positions JP to consider business development and acquisition opportunities in a wide range of markets. Fortunately, the company has shown that it has the expertise, capital and liquid assets to effectively consider a broad range of growth and investment possibilities while being highly selective and able to focus its attention and resources on the prospects that can generate attractive long-term shareholder returns.

Impact of COVID-19 on JP

The unprecedented spread of COVID-19 has created a global health crisis. Its spread around the world has caused businesses around the globe to be counting losses and wondering what the recovery would likely be. Global lockdowns in response to the virus have resulted in economic turmoil only comparable to the Great Depression in the 1930s. Many people have lost jobs and consequently, unemployment rates remain at historically high levels in many economies, despite economies gradually emerging from the severe lockdowns imposed between late March and early June 2020.



Financial market assets have largely rebounded since hitting their lows in the first quarter, helped by the massive stimulus packages launched by governments globally and the “restart” of those economies. The unprecedented fiscal and monetary stimulus packages have acted as a buffer to augment losses in business and household incomes as well as provide help for businesses whose cash flows have been disrupted. The S&P 500 index which fell to **2,237.40** points on March 23, 2020, a decline of over **30.0%** from the start of the year, experienced a turnaround as it closed October 29, 2020, at **3,269.96** points up by almost **1.22%** year to date. Credit spreads which widened aggressively in March 2020, when the spread between US 10-year Treasury and US High Yield Corporates spiked to **10.9%**, have cooled and was at approximately **4.91%** on October 29, 2020¹. Also, although Oil has lost over **40.0%** year to date, the West Texas Intermediate (WTI) and Brent Crude at **US\$35.79** and **US\$37.94** respectively at the close of October 29, 2020, represent a remarkable turnaround from when the WTI hit negative territory in April 2020.

However, as the number of COVID-19 cases continues to increase globally, many economies are re-imposing lockdowns measures. While an increase in positive cases may be as a result of increase testing, given that many countries never had the capacity to carry out such tests in the first part of the year, it does not take away from the fact that countries are generally facing an uptick in cases which may lead to increase hospitalization and deaths. The initial post-lockdown recovery in consumption was strong in many developed economies globally, but with the enhanced unemployment benefits expiring in the US and ongoing physical distancing restrictions still weighing on services spending in the US and elsewhere, consumption growth appears to be losing momentum.

Unsurprisingly, most economies are projected to contract in 2020. According to the International Monetary Fund (IMF), the global economy will contract by **4.4%** in 2020. Developed economies are expected to see a contraction of around **5.0%** while emerging markets and developing economies are projected to see a smaller contraction of **3.3%**, helped by the fact that China is projected to grow at **1.9%** in 2020. In Latin America and the Caribbean, most countries are struggling to contain infections. The two largest economies, Brazil and Mexico, are projected to contract by **5.8%** and **9.0%** respectively, in 2020. For Jamaica, the IMF projects that it is likely to contract by **8.6%** in 2020.

Global growth is projected to start the recovery process in 2021 with growth in that year projected at **5.2%**, according to IMF. Social distancing is projected to continue into 2021 but expected to gradually fade over time as vaccines are available and therapies

¹ Source: BarCap US Corp HY-1010Yr, Bloomberg October 29, 2020

improve. After the rebound in 2021, IMF projects global growth will slow to around **3.5%** over the medium term. An increase in unemployment in Jamaica will likely lead to periods of depressed consumption due to low consumer demand locally. Additionally, this is likely to further exacerbated by the fact that external demand for Jamaica's goods and services will also be muted as the country's main trading partners struggle with the negative impact of COVID-19. The United States (US), Jamaica's main trading partner and contributor of over **60.0%** of remittance flows to Jamaica, is projected to contract by **4.3%** in 2020 before growing by **3.1%** in 2021².

JP's Food and Drink subsidiaries serve several markets which include Europe, the US and the Caribbean. COVID-19 has impacted each of JP's business segments in different ways and as such, the outlook for the remainder of 2020 will vary for each. So far, its food businesses have managed to maintain its sales to supermarkets, but sales to foodservice channels, roadside channels in the Caribbean, travel and hospitality sectors have been adversely affected in the second quarter. In addition to lower sales, the business incurred higher raw material costs, particularly in the global supply of fresh fruits to its European juice business. Its European juice operation is primarily done through its subsidiary, Hoogesteger, that supplies its products to over 10 European countries including France, England and Germany from its Dutch base, and is a leading producer of fresh juices in Northern Europe.

The challenges faced by the food and drink business due to COVID-19 are likely to continue over the short term even as the company restructure its business to reduce costs and develop new sales channels – particularly for those businesses that were most dependent on the travel and hospitality sectors. Due to the nature of the virus, the travel and hospitality sectors have been acutely impacted. So far, the company's initiatives have shown early signs of success including, its Tortuga rum cakes which have seen increase business through e-commerce and US mainstream retail channels.

JP's logistics business is exposed to the range of factors that affect the level of trade between Jamaica and its key trading partners. Consequently, its shipping operations were affected by the overall slowdown in the level of global trade. According to the World Trade Organisation (WTO), world trade is expected to decline by **13.0%** to **20.0%** in 2020 due to the disruption in normal economic activity caused by COVID-19³. During the second quarter, JP experienced reduced volumes related to challenges in organising shipments due to lockdowns in the US and the UK and deferred purchases of some classes of durable goods such as vehicles and heavy equipment and goods that directly service affected industries such as tourism. The response to these challenges includes the implementation of several measures and technological solutions to better facilitate the clearing and handling of cargo under the current conditions. The company has also taken steps to reduce costs and maintains its strong competitive position in the market for the services it offers. Over the medium term, it plans to further strengthen the business by improving its capacity to handle a wider range of cargo types and this is expected to drive business growth in the future.

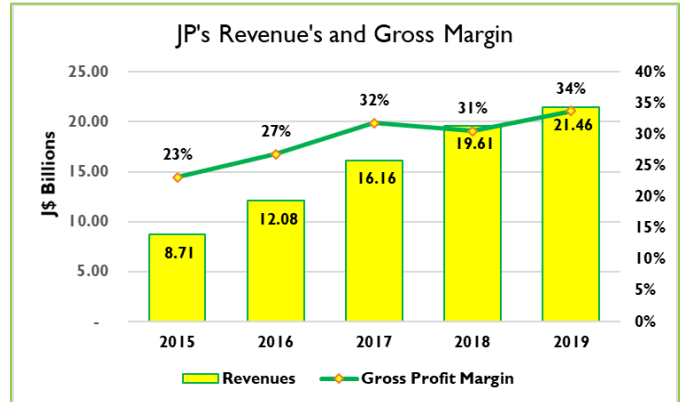
² IMF-World Economic Outlook, October 7, 2020 p.9

³ https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

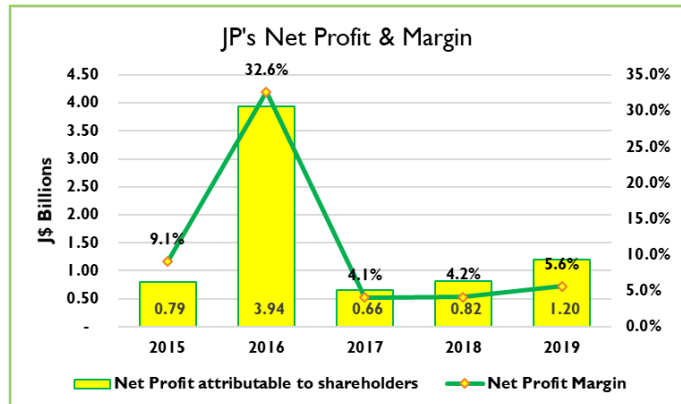
Summary of Financial Analysis

Revenue and Profitability

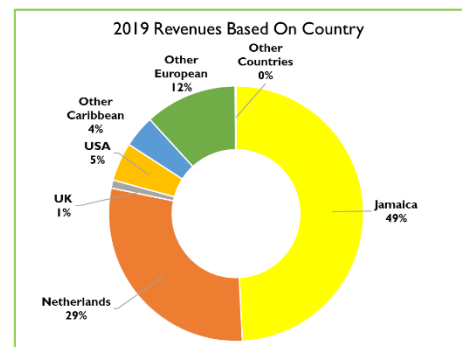
Over the last five years (2015 to 2019) JP delivered strong results across its business. Over the period, the conglomerate's revenue grew by a compound annual growth rate (CAGR) of almost **20%** to reach in excess of **J\$21.0 billion** in 2019. JP's Fruit and Drink (F&D) Division, the largest contributor to revenues, accounted for **J\$12.6 billion** of its 2019 revenues. The F&D Division comprises its portfolio of subsidiaries that are engaged in farming, food processing, distribution and retail of food and drink products. It has production facilities in Europe and the Caribbean and operates a distribution centre in the United States. In 2019, the company entered an arrangement with the Wisynco group Ltd. (Wisynco), where the Wisynco Group became a **30%** shareholder in JP Snacks Caribbean Limited as well as the distributor of JP St. Mary's brand of snacks. The agreement was strategically initiated to benefit from Wisynco's expertise in marketing, manufacturing and their local distribution network.



The company's net profits attributable to shareholders was **J\$1.20 billion** in 2019 which was over **48%**, higher than the profit posted in the prior year. The year also saw JP increasing its net profit margin to **5.6%** for its third consecutive year of increase. In 2016, JP's profits attributable to shareholders was **J\$3.94 billion** as it benefited from extraordinary income of over **J\$3.0 billion** due to gains on the recognition of a subsidiary and gains on the disposal of a joint venture.



While JP's F&D division contributed the majority of its revenues, its Logistics & Infrastructure (L&I) Division accounted for the larger share of its net assets and its profits. The L&I Division comprises Kingston Wharves Limited and JP Shipping Services Limited. Although JP has a diversified operation, close to 50% of its revenues is generated in Jamaica. Notwithstanding, JP views its diversity as a strength. In addition to providing some resilience to its operating income, it also positions JP well to consider business development and acquisition opportunities in a wide range of markets.



For the six months ended June 30, 2020, JP generated revenues of **J\$9.5 billion** which was only **6.0%** lower than the amount recorded in the comparable period a year earlier. However, the company's net profit attributable to shareholders which came in

at **J\$346.97 million** suffered a much larger decline, of almost **45.0%**; as the COVID-19 pandemic resulted in higher cost being incurred by the business contemporaneously with declining revenues.

Asset Quality and Solvency

JP exited 2019 in a strong financial position based on several financial metrics. The company's cash and liquid assets, which almost doubled year over year, amounted to **J\$1.65 billion**; while securities purchased under resale agreements stood at **J\$5.38 billion** at the end of the year as total assets climbed **10.0%** to **J\$38.60 billion**. At the same time, the company's debt stock moved down from **J\$4.52 billion** in 2018 to **J\$4.39 billion**. At the end of 2019, JP's Total liabilities was **J\$11.01 billion** up **7.2%** from a year earlier, while Shareholders' equity amounted to **J\$13.84 billion** after registering a growth of **14%** year-over-year.

Despite the pandemic, JP's financial position has so far remained relatively strong. With **J\$6.86 billion** in cash and liquid securities and repurchase agreements, JP is very liquid and is in a very good position to take advantage of opportunities created by COVID-19. Earlier this year, the group's CEO highlighted the Company's readiness to acquire assets it believes are undervalued and are either in the foods or logistics businesses. The sale of its stake in SAJE Logistics Infrastructure Ltd., expected to be completed in the third quarter, will put the group in an even stronger position to acquire assets in Jamaica, a market in which they remain very bullish.

JP's equity position also continued to improve over the six months ended June 30, 2020. Despite the decline in profits due to COVID-19, its equity attributable to equity holders of the parent moved to **J\$14.48 billion** an increase of **7.3%** above its December 31, 2020 level. Generally, a large equity base signals a company's capacity to withstand shocks to its business and is a very important metric, especially given the COVID-19 pandemic.

JP's multi-national structure, with over **90%** of revenues based on currencies other than the Jamaican dollar and over **70%** of revenues coming from customers outside of Jamaica, is a strength of its business. The business generates shareholder returns from revenues denominated in the world's major reserve currencies including the euro, the US dollar and the British pound sterling. This is possible through its diversified revenue platform whilst providing access to a range of international capital sources.

Positives	Negatives/Risks
<p>Strong Brand in the Food Segment: JP has been in operation for over eighty years. Over that period the company has produced products and brands known for consistently high quality. Having a strong, well-known brand enhances JP's credibility, builds recognition, and increases its competitiveness. Ultimately, its strong brand leads to loyalty, which enhances its resilience.</p>	<p>Weak Macroeconomic Environment: Jamaica's economy has contracted in 2020 due to adverse effects of social distancing measures used to combat the spread of the COVID-19 virus. This has been the situation globally and placed severe restrictions on much of the productive capacity of the country and is likely to result in reduced consumption of good and services and global trade. However, COVID-19 pandemic is not expected to be a permanent phenomenon and we expect that the restructuring of the company will put JP on a growth path.</p>
<p>Large Ownership of Key Infrastructure Asset: JP is currently the largest shareholder in Kingston Wharves (KW) with share ownership of over 40%. KW is the Caribbean's leading multi-purpose port terminal and logistics provider. This infrastructure is critical to the country's strategic goals and is integral to the facilitation of global trade in the region.</p>	<p>Reduction in Global Trade: JP Logistics & Infrastructure division accounts for approximately 40% of the firm's revenues. This division depends heavily on world trade and is therefore exposed to a range of factors that affect the level of trade between Jamaica and its trading partners. Consequently, the reduction in trade due to COVID-19 has had a negative impact on the business and likely to continue over the short-term. The company is responding to the challenges however and will be in a good position to benefit once trade picks up in the future.</p>
<p>Strong Equity Base: As at the end of June 2020, JP's equity attributable to equity holders stood at over J\$14 billion. Between 2014 and 2019 the company's equity base expanded by a CAGR of 18.73%. Between December 2019 and June 2020, JP's equity expanded by ~10.00% on an annualized basis. The company's strong and growing equity base is an indication of its capacity to withstand shocks, especially during COVID-19.</p>	
<p>Diversified Business Operations: JP, which began in Jamaica now has a diversified global operation. Currently, the company operates in seven (7) countries across Europe and the Americas and fulfils direct customer orders from over fifteen (15) different countries. This diversification facilitates the minimization of the risk of loss by lowering the dependence on any one segment or geography.</p>	
<p>Strong Cash Position/Liquidity Position: As at June 2020, the JP Group had close to J\$7.0 billion in cash and securities. Having enough liquidity is extremely important especially due to COVID-19, as it provides JP with the flexibility it needs to manage economic shocks or capitalize on opportunities presented.</p>	
<p>High Exposure to Non-Jamaican Income: Investors in JP will benefit from its high exposure to Non-Jamaican currencies. In 2019, the company generated more than 90% of its revenues in foreign currencies which included Pounds, Euros and US dollars. To the extent that potential investors want exposure to currencies other than JMD, this may be a way to get indirect exposure especially given the outlook for the JMD over at least the short term. Over the short term, the JMD could likely continue to depreciate against major currencies given the reduction in foreign currency flows due to Covid-19.</p>	

Valuation and Analysis

The estimated fair value of JP's stock was computed utilizing a Free Cash Flow to Equity (FCFE) method. The Company is projected to earn Free Cash Flow of **J\$1.30** billion in financial year 2020. JP's required return on equity is **11.82%** while its sustainable growth rate is **6.56%**. Based on these, the company's one-year target price estimate is **J\$22.77**. With a current price of **J\$20.18⁴** the price target suggests a potential one-year capital gain of **12.83%**. With a projected dividend yield of **0.78%**, our year total return on this stock is projected to be approximately **14%**.

Analyst Opinion

JP is one of Jamaica's premier companies with over 80 years of expertise. As an agro-processor, the company has been leading the way locally in new approaches to cultivate several crops efficiently. Over the period, the company has become, not only a fully integrated agro-processor but a large Jamaican conglomerate, which also generates significant income from key infrastructure assets with huge strategical importance to the growth and development of Jamaica. JP has enjoyed a strong presence in the markets it operates and currently generates more than **90%** of its revenues in non-Jamaican currencies.


Undoubtedly, COVID-19 has had a negative impact on aspects of the business and is likely to continue to weigh on those segments for the remainder of this year, even as the company adjusts its operations to deal with the pandemic. Some segments have remained strong; however, the pandemic has created opportunities for new retail channels to offset the downturn seen in some segments. Importantly, JP is further seeking to strengthen its business over the medium term to improve its capacity, to drive long term growth at the same time it continues to invest in strong food and logistics businesses.

Despite COVID-19, JP remains strong with several key financial metrics, including its large and growing cash and securities balance, providing the group with the flexibility to manage and execute on strategies of acquiring undervalued assets. Our valuation puts the company's stock at **J\$22.77** while the company's stock price is currently **J\$20.18** which implies a **12.83%** upside. We therefore assign a **MEDIUM** risk rating to the security and recommend that clients with a medium to long term time horizon **BUY** JP's stock.

⁴ JSE – JP's close price on October 30, 2020

APPENDIX

Balance Sheet							
	2015	2016	2017	2018	2019	Q2 FY 2019	Q2 FY 2020
	'000	'000	'000	'000	'000	'000	'000
CURRENT ASSETS							
Cash and cash equivalents	361,091	632,914	885,254	836,176	1,407,847	792,105	1,000,783
Short-term investments	-	828,920	-	19,632	239,240	25,947	179,266
Securities purchased under resale agreements	355,500	2,830,027	3,805,031	4,467,950	5,380,567	5,233,512	5,857,796
Accounts receivable	1,071,138	1,857,690	2,450,355	2,245,045	2,949,230	2,791,537	2,782,276
Other financial assets	-	-	-	470,000	-	470,000	-
Taxation recoverable	10,065	32,745	23,944	30,638	23,696	28,865	57,336
Inventories	374,536	731,510	765,220	890,199	978,925	955,283	1,128,425
Total current assets	2,172,330	6,913,806	7,929,804	8,959,640	10,979,505	10,297,249	11,005,882
CURRENT LIABILITIES							
Credit facilities	84,821	-	-	-	-	-	-
Accounts payable	1,411,980	2,530,926	3,432,056	3,965,549	3,903,231	3,296,089	3,485,696
Taxation	56,019	89,727	173,250	151,423	191,714	208,790	163,816
Current portion of long-term loans	194,013	1,213,145	772,256	780,242	899,690	850,826	889,092
Lease liabilities	-	-	-	-	192,221	176,470	175,022
Total current liabilities	1,746,833	3,833,798	4,377,562	4,897,214	5,186,856	4,532,175	4,713,626
WORKING CAPITAL	425,497	3,080,008	3,552,242	4,062,426	5,792,649	5,765,074	6,292,256
NON-CURRENT ASSETS							
Biological assets	135,534	151,934	119,785	81,140	68,318	80,573	51,018
Interest in associated companies and joint venture	4,652,062	579,122	625,664	803,747	733,754	789,235	684,022
Investments	280,766	109,190	97,813	88,311	108,079	107,870	103,453
Intangible assets	1,174,643	1,699,185	1,635,472	1,513,082	1,486,347	1,535,510	1,523,561
Deferred tax assets	956	3,347	2,245	3,730	7,929	5,271	16,501
Property, plant and equipment	1,831,912	19,487,117	21,083,079	21,624,039	21,839,445	21,558,029	22,271,386
Investment property	-	-	-	-	568,619	-	564,660
Employee benefit asset	-	936,177	1,174,675	1,985,258	2,071,885	1,985,258	2,071,885
	-	-	-	-	740,007	1,527,429	690,863
Total non-current assets	8,075,873	22,966,072	24,738,733	26,099,307	27,624,383	27,589,175	27,977,349
Total assets	10,248,203	29,879,878	32,668,537	35,058,947	38,603,888	37,886,424	38,983,231
Total assets less current liabilities	8,501,370	26,046,080	28,290,975	30,161,733	33,417,032	33,354,249	34,269,605
EQUITY							
Share capital	18,702	112,214	112,214	112,214	112,214	112,214	112,214
Reserves	6,380,304	10,306,274	11,148,619	11,997,858	13,724,240	13,377,698	14,368,295
Attributable to equity holders of the parent	6,399,006	10,418,488	11,260,833	12,110,072	13,836,454	13,489,912	14,480,509
NON-CONTROLLING INTEREST	161,458	10,779,986	11,484,023	13,760,645	12,675,000	13,209,426	14,224,791
Total equity	6,560,464	21,198,474	22,744,856	25,870,717	26,511,454	26,699,338	28,705,300
NON-CURRENT LIABILITIES							
Deferred tax liabilities	-	1,186,280	1,183,851	1,307,140	1,410,804	1,306,268	1,394,102
Long-term loans, being total non-current liabilities	1,940,906	3,384,564	4,004,476	3,742,739	3,493,519	3,673,890	3,284,625
Retirement benefit obligations	-	276,762	357,792	326,782	370,149	326,782	370,149
Lease liabilities	-	-	-	-	545,461	1,347,971	515,429
Total Non-current Liabilities	1,940,906	4,847,606	5,546,119	5,376,661	5,819,933	6,654,911	5,564,305
Total Liabilities	3,687,739	8,681,404	9,923,681	10,273,875	11,006,789	11,187,086	10,277,931
Total equity and non-current liabilities	8,501,370	26,046,080	28,290,975	31,247,378	32,331,387	33,354,249	34,269,605

Income Statement 							
	2015	2016	2017	2018	2019	Q2 FY 2019	Q2 FY 2020
	'000	'000	'000	'000	'000	'000	'000
Gross operating revenue	8,705,924	12,075,623	16,156,712	19,611,169	21,464,068	10,155,181	9,516,705
Cost of operating revenue	(6,691,496)	(8,833,215)	(11,013,714)	(13,622,784)	(14,222,306)	(6,651,926)	(6,707,183)
Gross profit	2,014,428	3,242,408	5,142,998	5,988,385	7,241,762	3,503,255	2,809,522
Other income	514,122	164,792	74,324	142,481	322,392	162,678	360,412
Selling, administration and other operating expenses	(2,261,874)	(2,578,009)	(2,931,669)	(3,448,973)	(3,849,878)	(1,831,045)	(1,862,534)
Profit from operations	266,676	829,191	2,285,653	2,681,893	3,714,276	1,834,888	1,307,400
Share of profit in associated companies and joint venture	688,371	446,688	3,784	120,306	26,821	5,830	(4,158)
Gain on disposal of joint venture	-	-	-	-	-	-	-
Gain on recognition of subsidiary	-	-	-	-	-	-	-
Profit before finance cost and taxation	955,047	1,275,879	2,289,437	2,802,199	3,741,097	1,840,718	1,303,242
Finance cost - interest	(206,664)	(309,587)	(308,805)	(366,823)	(307,153)	(156,212)	(148,943)
Profit before taxation	748,383	966,292	1,980,632	2,435,376	3,433,944	1,684,506	1,154,299
Taxation charge	(133,808)	(222,950)	(356,661)	(450,185)	(701,993)	(341,485)	(216,108)
Profit for the year	614,575	743,342	1,623,971	1,985,191	2,731,951	1,343,021	938,191
Attributable to:							
Parent company stockholders	792,256	3,940,446	661,884	815,621	1,204,338	629,288	346,972
Non-controlling interest	(177,681)	369,675	962,087	1,169,570	1,527,613	713,733	591,219
	614,575	4,310,121	1,623,971	1,985,191	2,731,951	1,343,021	938,191

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