

Wisynco Group Limited (WISYNCO)

Company Profile

Wisynco Group Limited (“Wisynco” or “the Company”) in its current form was established in 2005 as an amalgamation of several, multi-generational family businesses created by four Mahfood brothers.

Today, Wisynco is a prominent manufacturer and distributor of beverages and food items in Jamaica. The company owns, manufactures and distributes a portfolio of popular beverage brands led by WATA, BOOM Energy Drink and BIGGA Soft Drink. In addition to their owned brands, they are the exclusive bottler for the Coca-Cola Company in Jamaica and manufacture third-party beverage brands including SqueezZ and Hawaiian Punch. Wisynco’s beverage portfolio is completed by Red Bull, Tru-Juice Freshhh, Welch’s, Mott’s and Snapple. Whereas they don’t manufacture these brands, they distribute them across Jamaica through distribution partnerships with their brand owners. In addition to the beverage portfolio, the company also distributes a wide array of grocery products from reputable entities including grocery brands such as Kellogg’s, General Mills, Hershey Company, Butterball and Herr’s, as well as local brands such as Kremi among others.

With one of the largest sales forces in Jamaica comprised of more than 700 sales-related employees, Wisynco boasts a sales and distribution infrastructure that has a significant presence in the marketplace. With that in mind, Jamaica Producers Group Limited (JP) and Wisynco Group Limited (Wisynco) formed a distribution partnership in April 2019 which saw Wisynco acquiring a 30% stake in JP Snacks Caribbean Limited (‘JP Snacks’), and the parties working together to improve distribution arrangements for JP St. Mary’s snacks globally.

Product Category	Wisynco's Market Share
Carbonated Soft Drinks	42%
Non-carbonated Beverage	40%
Bottled Water	60%
Juices	50%
Energy Drinks	85%

May 2020



Key Features:

Current Price	J\$17.52
52 Week High	J\$30.00
52 Week Low	J\$11.50
YTD % Gain/Loss	-24.85%
Current P/E (x)	21.69x
TTM Net Income (J\$M)	J\$3.03B
TTM EPS (J\$)	J\$0.81
Market Capitalization (J\$B)	J\$65.68B

HOLD

Target Price: J\$16.40

Implied Downside -6.39%

Low to Moderate RISK

WISYNCO'S BRANDS

Global Investment Research Unit

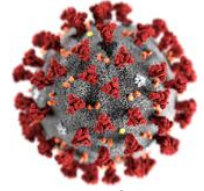
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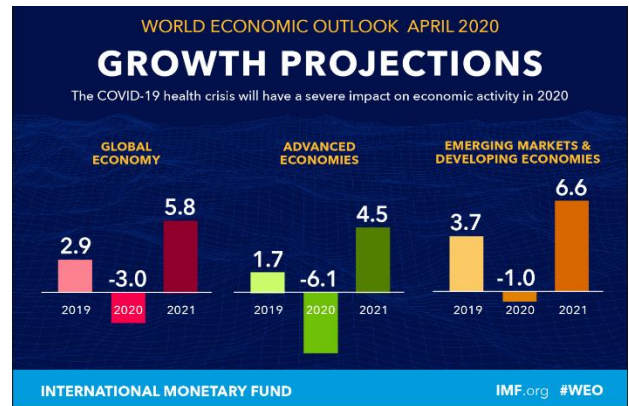
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Impact of COVID-19 on Wisynco

The unprecedented spread of COVID-19 has created a global health crisis. Each day presents new developments as countries around the world seek to “flatten the curve” by practicing social distancing which is significantly reducing economic activity around the world. According to the International Monetary Fund (IMF), the COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is projected to contract sharply by **-3.0%** percent in 2020, much worse than during the 2008–09 financial crisis. In the IMF’s baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% in 2021 as economic activity normalizes, helped by policy support. The risks for even more severe outcomes are substantial.



However, while the IMF is projecting a contraction of only **-1.0%** for emerging and developing economies, Latin America and the Caribbean economies are projected to contract by **-6.8%** in 2020, with Jamaica projected to see a contraction of **-5.6%**. With a contraction of **-5.6%**, Jamaica’s GDP would be equivalent to its 2013 GDP levels.



Considering the outbreak of the coronavirus pandemic, which has led to the shuttering or significant slowing in many sectors, we expect business and consumer confidence to be significantly lower in the second and third quarters of 2020 and possibly beyond. Considering the coronavirus outbreak, the Government of Jamaica announced a raft of measures to support the business and individuals likely to suffer from the fallout of the virus¹. Notwithstanding, with the current outbreak, it is likely that Jamaica will realize negative growth in 2020. The severe disruption which is affecting most sectors of the economy has led to numerous business closures and job losses. Wisynco has a direct customer base of over 12,000 customers. This is made up primarily of restaurants, supermarkets, retail and wholesale channels, schools and food service outlets. It offers its products through distributors in Jamaica as well as others throughout the Caribbean, UK and USA. Consequently, given its direct exposure to the retail trade, we expect Wisynco’s revenues and profits to be significantly negatively impacted in 2020 and beyond as the economy goes through a period of depressed consumption partly from social distancing measures but ultimately from a reduction in consumer’s ability to spend.

Summary Financial Analysis

In FY 2109, Wisynco achieved record revenues of **J\$28.4B**, **~16.00%** over the revenues reported in FY 2018. Income from other sources grew in the period, primarily from rebates and bad debt recovered, totalling **J\$288.7M** up from **J\$92.2M** in the prior year. Selling and distribution costs grew **13%** to **J\$6.1B** while administrative expenses grew **14.7%** to **J\$1.1B**. Finance costs was largely stable at **J\$230.2M**. The knock-on effects of the improved performance was that Net Profits increased **~28%** over FY 2018 to reach **J\$2.9B** in FY 2019.

¹ <https://mof.gov.jm/mof-media/media-centre/press/2633-fiscal-stimulus-response-to-the-covid-19.html>

Wisynco ended FY 2019 with **J\$11.1B** in equity up from **J\$8.7B** a year earlier due to the growth in retained earnings arising from the increased net profit.

For the 9-Month period ended March 31, 2019, Wisynco's revenues amounted to **J\$25.19B** or **~28%** over the amount reported for the same period a year earlier and profits of **J\$2.34B**. Wisynco completed approximately eight months in FY 2020 prior to the onset of COVID-19 and posted results for the 9-Month period displaying minimal impact from the virus. Over the period however, its gross margin declined from **39%** in 9-Month FY 2019 to **~35%** FY 2020 due to the sale of lower margin items as sales slowed in March 2020 after the restrictions were imposed.

Notwithstanding, the strong revenue outturn in the 9-Month FY 2020, we estimate that for the period April – June 2020 Wisynco's revenue will contract by as much as **25%** relative to the same period a year earlier. The result is that the Company's revenue grows to **J\$31.68B** before declining to **J\$26.93B** in FY 2021 and further to **J\$25.58B** in FY 2022. The contraction in revenue is inline with our view that consumer demand will likely be depressed over the period as the country goes through a period of negative growth and higher unemployment. The result shows that net profits could decline to **J\$2.11B** for FY 2022 before returning to growth in 2023 and ultimately to pre-Covid-19 levels in FY 2024/FY 2025.

Investment Positives

Investment Negative/Risks

Strong Brand – Wisynco currently owns and distribute some of Jamaica's strongest consumer brands, which builds customer recognition. Having a strong brand makes it easier for the company to introduce new products to grow revenues, among other advantages.

Lack of Geographic Diversification – Currently over 95% of Wisynco's revenues are generated in Jamaica this means the success and growth of the company is heavily tied to the prospects of the Jamaican economy.

Strong Distribution Network – The company operates from a modern centralized 360,000 square foot warehouse space and commands a fleet of close to 500 vehicles that deliver product directly to a vast customer base. Its in-trade assets include over 8,600 coolers and 2,400 freezers which help to ensure the ready-to-serve availability of their products

High Competition Among Competitors – Most of the products Wisynco produces have relatively close substitutes which are produced and distributed by its competitors. As a result, the competition for most of its products is fierce and usually make capturing and retaining market share very difficult. Notwithstanding, Wisynco commands majority market share across several of the product categories.

Strong Balance Sheet – In the time of a crisis companies with relatively stronger balance sheets are expected to do better than those with weaker balance sheets. A strong balance sheet suggests that a company is better able to absorb the shocks a financial crisis presents. Wisynco's current and quick ratios stood at **2.32X** and **1.57X** as at the end of FY 2019 having increased year over year. At the same time the company's debt to assets stood at **0.15x** while its Debt to Equity was **0.24X**. Wisynco's equity was **J\$11.01B** at the end FY 2019.

Weak Macroeconomic Environment – The Jamaican economy will contract in 2020 as the Covid-19 social distancing measures have placed severe restrictions on much of the productive capacity of the country. As a result of the shuttering of many businesses especially in the hospitality sector, many jobs have been lost. The expected spike in unemployment and the expected reduced flows from remittances will result in depressed consumption in the short to medium term.

Experienced Management Team – Wisynco's management team has a combined experience of over 100 years in manufacturing and distribution. Additionally, over the last 50 years the company has invested in the development of its staff to ensure business sustainability and longevity.

Supply Chain Disruptions – With most economies across the globe forced to work under restrictions, the normal flow of goods and services have been disrupted and could see further disruption as restrictions are adjusted globally. Wisynco imports raw material for products it manufactures and finish products it distributes which could be impacted by these restrictions. If supply chain disruptions affect the company, its cost may increase which could threaten its profitability.

Valuation Analysis

The estimated fair value of Wisynco stock was computed utilizing a Free Cash Flow to Equity (FCFE) method. Wisynco is projected to earn Free Cash Flow of **J\$3.41B** for financial year 2020 before falling to an average of **J\$2.70B** over the two years 2021 and 2022 as the economy goes through a period of depressed consumption owing to the forecasted increase in unemployment and a decline in consumer confidence which is likely to be compounded by the forecasted slowing of remittance flows - which historically, has helped to cushion the impact of Jamaica's slow growth.

In our valuation, we are projecting a FY 2025 Free Cash Flow of **J\$4.25B**. With a required return on equity **13.38%** and a sustainable growth rate of **9%** Wisynco's target price estimate is **J\$16.40**.

Valuation Method	One Year Price
	Target
FCFE	\$16.40

Analyst Opinion

Like most companies locally, the next couple of years will likely prove to be a challenge for the Wisynco Group Ltd. to continue its impressive revenue and profitability growth displayed over the last years. With Jamaica projected to contract in 2020² due to the economic fallout from the COVID-19 and the resulting spike in unemployment, the country is expected to go through a period of depressed consumption. To add further context, if the IMF's projection of a contraction of **-5.6%** is realized in 2020, Jamaica's economy would be set back to 2013 levels.

Wisynco's customers typically include restaurants, supermarkets retail and wholesale outlets, schools and other food service outlets. As a result of the social distancing orders being enforced by the government to curb the spread of the virus, the operations of the company's customers base have been severely disrupted. We acknowledged, however, that the company's strong brand presence in the food manufacturing and distribution sector, strong balance sheet and distribution network will go a far way to ensure the Wisynco remain resilient over the long-term. We believe that the Management's experience in distribution and the company's investment in Innovation will be huge drivers of equity return over time. Notwithstanding, over the short to medium term (up to three years) Wisynco's profitability will be challenged as over 95% of the company's revenues are generated locally and local consumer demand has declined and likely to remain subdued over the short to medium term. In our scenario, the company is projected to return to pre-COVID state in the FY 2024/FY 2025. Wisynco's stock is currently trading at **J\$17.52** while our one-year price target is **J\$16.39** and as a result we recommend that clients **HOLD** the stock and assign a **Low** to **MODERATE** risk rating to the security.

² <https://www.imf.org/en/Countries/JAM>

Financial Statement Extracts

Income Statement							
	2013	2014	2015	2016	2017	2018	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	12,573,537	14,229,683	17,150,482	19,413,691	21,381,665	24,544,049	28,412,414
Cost of sales	(8,225,039)	(9,384,206)	(10,945,181)	(11,676,741)	(13,973,617)	(15,421,144)	(17,878,208)
Gross Profit	4,348,498	4,845,477	6,205,301	7,736,950	7,408,048	9,122,905	10,534,206
Impairment of inventory and property, plant and equipment	-	-	-	(1,317,390)	-	-	-
Other operating income	96,515	62,609	57,408	1,530,045	743,538	92,157	288,656
Selling and distribution expenses	(2,772,173)	(3,152,132)	(3,489,090)	(4,151,836)	(4,708,190)	(5,412,601)	(6,124,947)
Administration expenses	(553,542)	(651,369)	(807,662)	(774,564)	(891,676)	(956,683)	(1,097,978)
Operating Profit	1,119,298	1,104,585	1,965,957	3,023,205	2,551,720	2,845,778	3,599,937
Finance income	86,207	32,936	68,334	124,347	159,965	130,837	119,218
Finance costs	(107,517)	(135,105)	(176,717)	(146,768)	(169,746)	(211,411)	(230,205)
Net Finance Cost/Income	(21,310)	(102,169)	(108,383)	(22,421)	(9,781)	(80,574)	(110,987)
Share of results of associates	-	-	-	-	-	-	7,792
Profit before Taxation	1,076,678	900,247	1,749,191	2,978,363	2,532,158	2,684,630	3,385,755
Taxation	(296,328)	(153,518)	(380,551)	(702,083)	(286,312)	(513,834)	(567,420)
Profit for the year from continuing operations	780,350	746,729	1,368,640	2,276,280	2,245,846	2,170,796	2,818,335
Profit from discontinued operations	-	-	-	-	190,845	41,555	-
Net Profit	780,350	746,729	1,368,640	2,276,280	2,436,691	2,212,351	2,818,335

Statement of Financial Position							
	2013	2014	2015	2016	2017	2018	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-Current Assets							
Property, plant and equipment	2,614,102	2,579,066	2,866,621	3,147,581	5,175,738	6,775,727	6,724,278
Investments in subsidiaries	157,934	157,934	157,934	164,434	-	-	-
Investment in associates	-	429,498	429,498	429,498	664,854	-	593,961
Loans receivable	-	-	-	-	-	-	165,545
Investment securities	14,630	13,217	23,266	229,426	293,452	215,760	379,060
Deferred tax asset	-	-	-	-	52,156	-	-
Investment property	-	-	-	-	13,449	-	-
Intangibles	25,606	11,639	-	-	56,786	-	-
Loans to related parties	18,633	-	-	-	-	-	-
Total Non-Current Assets	2,830,905	3,191,354	3,477,319	3,970,939	6,256,435	6,991,487	7,862,844
Current Assets							
Inventories	1,624,285	1,765,222	1,427,837	1,577,331	1,957,852	2,199,273	3,225,686
Loans to related parties	1,509	-	-	-	-	-	-
Receivables and prepayments	1,377,828	1,672,403	1,683,770	2,454,993	1,910,075	2,302,693	2,585,519
Investment securities	-	-	-	-	184,386	269,530	130,385
Cash and short-term deposits	1,188,193	1,473,120	2,489,778	3,740,479	3,385,944	3,968,075	3,974,545
Total Current Assets	4,191,815	4,910,745	5,601,385	7,772,803	7,438,257	8,739,571	9,916,135
Current Liabilities							
Trade and other payables	1,979,734	1,898,473	2,153,505	3,363,517	3,186,245	3,873,904	3,336,064
Short-term borrowings	333,165	479,609	512,103	341,012	432,840	376,686	485,724
Taxation payable	113,645	215,007	307,897	532,623	177,797	362,940	444,969
Due to parent company	-	-	-	-	259,745	-	-
Total Current Liabilities	2,426,544	2,593,089	2,973,505	4,237,152	4,056,627	4,613,530	4,266,757
Net Current Assets	1,765,271	2,317,656	2,627,880	3,535,651	3,381,630	4,126,041	5,649,378
Equity							
Capital and reserves attributable to the company's equity holders							
Share capital	57,927	57,927	57,927	57,927	57,927	1,192,647	1,192,647
Capital reserve	108,946	107,533	112,323	121,441	116,218	119,946	130,832
Translation reserve	-	-	-	-	3,233	30,086	29,048
Retained earnings	2,952,616	3,635,827	4,546,353	5,942,963	7,377,182	7,347,482	9,733,054
Total shareholders' equity	3,119,489	3,801,287	4,716,603	6,122,331	7,554,560	8,690,161	11,085,581
Non-controlling interest	-	-	-	-	5,740	-	-
Non-Current Liabilities							
Due to parent company	259,745	259,745	259,745	259,745	-	-	-
Deferred tax liabilities	403,052	285,409	240,103	252,465	215,015	257,430	213,511
Borrowings	813,890	1,162,569	888,748	872,049	1,862,750	2,169,937	2,213,130
Total Non-Current Liabilities	1,476,687	1,707,723	1,388,596	1,384,259	2,077,765	2,427,367	2,426,641
Equity	4,596,176	5,509,010	6,105,199	7,506,590	9,638,065	11,117,528	13,512,222

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