

## Quarterly Equity Review

Rating  
**BUY**

Global

Sector: Conglomerate  
Industry: Insurance, Banking, Retail, Distribution, Manufacturing

**GraceKennedy GROUP**  
**100**  
GraceKennedy Limited

JSE GK  
Bloomberg GK JA

### FY 2022: Outlook optimistic despite mixed results for GraceKennedy

## Financial Overview

### Revenue & Profitability

As the GraceKennedy (GK) Group celebrates its 100th year, it has been strategically positioned to be a stronger and more robust platform for the future. The FY-2022 performance demonstrates GK's capacity to produce commendable results even under very challenging circumstances. Over the period, the Group achieved revenues of J\$142.9 billion, up 10.5% or J\$13.6 billion over the equivalent results for FY 2021. Operating Profit however suffered a 14% drop reflecting mixed results reported across its various business segments.

The current macroeconomic environment is proving to be increasingly challenging for most companies, including GK. High global inflation, intermittent supply chain issues, monetary tightening, and recession fears are some of the challenges the Group currently faces. Additionally, ongoing global geopolitical tensions continue to impact global food prices, production costs and many of GK's supply channels, inflating distribution costs and compressing margins.

Due to high global inflation, the disposable income of remittance customers in the major source markets have been negatively impacted which has led to reduced foreign currency inflows to Jamaica and lowered GK's remittance business. In response, GK has redoubled its cost containment efforts and implemented strategies to grow revenues and profits sustainably. Notwithstanding the headwinds, it remains cautiously optimistic about the future and expects that its strategic approach, which will see GK becoming a more diversified group, will help the Group manage the headwinds and continue to prosper.

The knock-on effect of declining margins over the period was that profit before tax (PBT) came in at J\$10.2 billion or 12.4% lower than in FY 2021, while net profit after tax was ~J\$7.6 billion, a decline of 15.1% compared to the prior year. It's important to note, however, that GK recorded non-recurring gains of J\$895 million in FY 2021 (compared to J\$170 million in 2022). Excluding these gains, the decline in net profit this year would have been 7.7%. Profit attributable to shareholders was J\$7.0 billion, 14.2% lower than the last financial year. Earnings per share for the period was J\$7.09, ~14% below the amount posted in the previous year.

March 10, 2023	
Closing price	82.03
Forecast Dividend	2.06
Target price	94.32
Previous recommended price (Sept 14, 2022)	101.8
<b>TOTAL RETURN</b>	<b>17.5%</b>

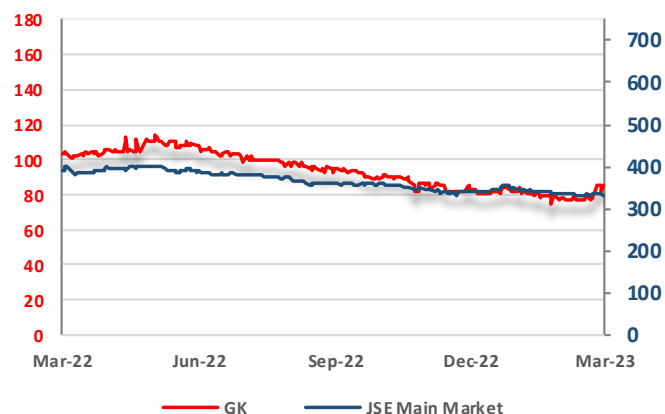
Company Data	
Outstanding shares	995,128,505
Market Cap	81,630,391,265
52-Week (Lo/Hi)	74.5/115.0
1 Yr Daily Average Volume	208,560
5Yr Daily Average Volume	221,784

Major Shareholders	
NCB Insurance Agency & Fund Manager A/C \	5.47%
National Insurance Fund	4.63%
GraceKennedy Ltd Pension Scheme	4.51%

Key Financials				
J\$ Mn	FY21	FY22	FY23e	FY24e
Total Revenues	115,437	129,310	155,081	167,487
Operating Profit	9,829	11,902	11,786	14,236
Net Profit	6,857	8,940	9,016	10,622
Net Profit Change (%)	34.5%	30.4%	-15.1%	18.7%
EPS	6.28	8.27	8.33	9.82
Dividend Yield	2.99%	1.98%	2.51%	3.08%

## Price Performance

	1MTH	3MTH	1YR
GK	9.0%	6.3%	-17.5%
Main Index	-0.9%	-2.2%	-14.7%



Source: Bloomberg; JN Fund Managers Limited

Revenues - Jamaica 2022	Revenues - UK 2022	Revenues - USA 2022	Revenues - Canada 2022	Revenues - Other
<b>J\$79.86B</b> +15%	<b>J\$15.62B</b> -2%	<b>J\$27.72B</b> +10%	<b>J\$9.39B</b> +4%	<b>J\$10.33B</b> +6%
2021: \$69.27B	2021: \$15.97B	2021: \$25.29B	2021: \$9.03B	2021: \$9.74B

## Financial Overview Cont'd.

### Balance Sheet

At the end of FY2022, GK's Total Assets stood at ~J\$201.0 billion, having increased by slightly more than half of a percent Year over Year (YoY). This mainly reflected increases in Investment Securities (up J\$7.0 billion or 17.35%), Accounts and Loans Receivables, Inventories, and Fixed Assets, partially offset by reductions in Pledged Assets (which decreased by J\$9.3 billion or 99.7%), Cash and Deposits and Pension Plan Assets.

Total Liabilities for FY 2022 was J\$125.2 billion, declining by 2.7% over the FY 2021 period. This was driven by reductions in post-employment obligations and securities sold under agreement to repurchase (repo). However, driven by its profitability, GK's total equity continued to expand to reach ~J\$75.7 billion at the end of the FY 2022, while equity attributable to owners of the company was ~J\$72 billion, up from the J\$67.6 billion reported at the end of the previous year.

### FY 2022: Segment results at a glance

**Food Trading:** For FY 2022, GK's Food Trading revenues grew 11.5% or ~J\$11.7 billion. Profit Before Tax (PBT) also reported growth, though marginal, of 2.5% or just J\$135.0M over the 12 months. Results across the segment were mixed when assessed geographically. For example, its Jamaican food distribution business reported double-digit revenue and PBT increases spurred by commendable performances from many of its flagship brands. However, on the manufacturing side, profits were impacted by shipping delays and increased packaging costs. Its international foods business saw revenue growth, but PBT was negatively affected by high distribution costs. **GK Foods USA** achieved top-line growth when compared to the same period in the prior year, however, it was challenged in the first quarter by high demurrage and shipping cost which have now been settled. High freight costs and sustained high inflation compressed margins at **Grace Foods Canada**, which reported revenues above the prior year. However, the improved availability of key products helped to bolster performance as the period progressed. Notwithstanding the recent political instability in the UK, **GK Foods UK Ltd.** Continued to perform well, however, this performance was tempered by the significant devaluation of the British pound against the Jamaican dollar, when the company's results were converted to the home currency.

**Financial Services:** GK's Banking & Investments revenues grew 12.2% or ~J\$868 million compared to FY 2021. P before tax also grew over the period, recording a 52.8% or J\$390 million increase YoY. GK Capital reported a commendable performance for FY 2022, with revenues and PBT growing significantly compared to the same period last year. This positive performance was largely buoyed by the successful execution of three initial public offerings (IPOs) during the year. First Global Bank recorded high double-digit growth in its loan portfolio in 2022 when compared to the prior year however, high interest rates have been posing challenges to net interest margins. SigniaGlobe<sup>2</sup> Financial Group Inc. closed the year with increased revenues and profit before tax BT. The company has now finalized regulatory and operational parameters and launched its mutual fund offerings, in partnership with the Trinidad and Tobago Unit Trust Corporation,

## 12M Highlights

- **Total Revenue Growth** – GK continued its upward trend of revenue growth, recording 7.94% CAGR over the last 5 years. Total Revenues increased 10.53% or J\$13.6 billion in FY 2022 vs FY 2021.
- **Decline in Profits** – Profit before tax (PBT) was J\$10.2 billion, a 12.46% or J\$1.4 billion decline compared to the 2021 period, while net profit after tax was J\$7.59 billion, a decline of 15% or J\$1.34 billion compared to the prior year. Net profit attributable to stockholders was J\$7 billion, 14.2% or J\$1.16 billion lower than the corresponding period of 2021.
- **Mergers & Acquisitions** – In February 2023, GK completed the acquisition of an additional stake in Catherine's Peak Bottling Company Limited, increasing its stake in the spring water company from 35% to 70%. GK is also awaiting regulatory approvals to complete its 100% acquisition of Scotia Insurance Caribbean Limited, which was announced in August 2022.
- **GK Insurance's Performance** – GK's Insurance segment showed robust growth in revenues, however profits declined, due mainly to lower than projected returns on investment income and higher than anticipated claims costs, related to inflation.
- **GK Money Services** – GKMS reported a decline in revenues and PBT, primarily attributed to lower transaction volumes and reduced foreign exchange gains.

## Risks to monitor

- **Raw Material Prices** – The volatility in global markets can have significant consequences for GK's manufacturing and distribution businesses. Unexpected fluctuations in raw material cost and energy, for example, can destabilize markets and supply chains, making it difficult for the conglomerate to continue to deliver strong profit.
- **Uncertain Financial Markets** – Increased volatility in financial markets could make generating income from GK's investment portfolios extremely challenging in the periods ahead.
- **Recession Fears** – With inflationary pressures mounting, central banks have tightened monetary policy, increasing the risk of a severe slowdown in economic activities in FY2023/24. A significant slowdown can curtail GK's revenue and profit growth in the future.

<sup>2</sup> SigniaGlobe is a merchant bank jointly owned by GK in Barbados.

ROE 2022	BPS 2022	Debt / Equity 2022	Productivity/Emp 2021	Employee 2021
10.88% -15%	70.14 +8.9%	37.60% -9.2%	US\$27.39 +21.3%	1,984 +2.6%
2021: 12.80%	2021: 64.40	2021: 41.40%	2020: US\$22.63	2020: 1,934

## FY 2022: Segment results at a glance cont'd.

The recent acquisitions/joint ventures within its insurance business, continue to work well with the rest of the GraceKennedy Group. As a result, GK's Insurance showed strong top-line growth in FY 2022, recording revenue growth of 15.6% or J\$1.85 billion compared to FY 2021. Notwithstanding, profits declined, due mainly to higher than anticipated claims costs related to inflation. Profit Before Tax reported a 9.6% or J\$129 million decline over the 12 months. Recently acquired GK Life Insurance Eastern Caribbean Ltd generated strong first-year premium revenues and profits along with a favourable claims loss ratio. Key Insurance Company Limited and Canopy Insurance Limited continued to produce positive results with both recording strong growth revenues, however they were both negatively impacted by increased claims costs.

GraceKennedy Money Services (GKMS) is the umbrella unit for the services offered by Western Union (money transfer services), FX Trader (cambio operations) and Bill Express (bill payment services). GraceKennedy Money Services (GKMS) reported a decline in both revenue and PBT for the period, primarily attributed to lower transaction volumes and reduced foreign exchange gains. Revenues fell by 6.7% or ~J\$652 million compared to FY 2021 and PBT decreased by 19.5% or J\$785.5 million. Bill Express and FX Trader continue to perform well, and recorded growth in both revenues and PBT compared to the prior year.

## FY 2022: Other noteworthy developments

### GK Increases stake in Catherine's Peak

In February 2023, GK increased its stake in Catherine's Peak Bottling Company Limited, that owns the Catherine's Peak pure spring water brand, to 70%. This acquisition is a part of GK Food division's growth strategy which sees it acquiring solid Jamaican brands with broad consumer appeal and capacity to grow locally and internationally. The total purchase consideration for the additional 35% stake was J\$612.5M.

This acquisition further cements GK as a major player in the spring water ecosystem, having made its original (35%) stake in Catherine's Peak in late 2018 and after acquiring the 876 Spring Water brand in 2021.

### GK awaits approval to complete the 100% takeover of Scotia Insurance

In August 2022, GK announced that it has an agreement to acquire 100% of Scotia Insurance Caribbean Ltd (SICL). This announcement came about a year after Grace's acquisition of Scotia Insurance Eastern Caribbean Ltd. (SIECL). This acquisition, if approved by the regulators, will see GK making a further step to fulfill its strategy to grow its insurance business in the Caribbean as it seeks to widen the footprint of its Financial Group in the region.

## Valuation Summary

### 1. Relative Valuation Method (Summary)

Industry Average P/E = 12.36x  
 GK's Forward Earning = J\$8.25  
 P/E Valuation Est. = J\$101.92

### 2. Discounted Dividend Method (DDM) Method (Summary)

Required rate of return = 9.94%  
 g = 6.45%,  
 LT retention rate = 60%  
 DDM Valuation Est. = J\$86.70

**GK's Estimated Fair Price = \$94.31**

