
Security Review:

Initial Public Offering: GWEST Corporation Ltd.



Prepared by:
JN Fund Managers Ltd.'s Global Investment
Research Unit

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Company Description: GWEST Corporation Limited

GWEST Corporation Ltd. was established by a group of Jamaican medical and business professionals; namely Dr. Konrad Kirlew, Mr. Wayne Gentles, Dr. Ladi Doonquah, Mrs. Elva Williams-Richards, Mr. Dennis Samuels and Mrs. Denise Samuels. The primary purpose of the Company is to provide integrated medical/health care services and facilities. Five medical businesses have been established under the “GWest Medical” brand, for providing specialised and general medical services/facilities. However, for accreditation purposes, one service, an Ambulatory Surgical Centre¹, will be incorporated and operated by a wholly owned subsidiary, GWest Surgery Centre Limited.



GWest owns the GWest Centre, a modern 4-storey multipurpose commercial complex catering primarily to medical professionals and medical services; in which its own services will also be located. The 1st stage of GWest’s strategic expansion began with the construction of the Centre in 2014 and has been outfitted with units that are available for sale and lease. To date, GWest has leased 9 of the available 19 units that it owns in the Centre.



Currently, a number of medical professionals/services operate in leased or purchased spaces in the GWEST Centre. Facilities are available for visiting physicians from elsewhere in Jamaica, the Caribbean and North America. The Company has retained the consulting services of Miami-based Baptist Health International to guide them in designing its physical facilities and organizational structure, in order to operate in line with international best practices and to pursue accreditation by the Joint Commission International (“JCI”) and other international accreditation bodies.

¹ Ambulatory surgery centres (ASC), also known as outpatient surgery centres or same day surgery centres, are health care facilities where surgical procedures not requiring an overnight hospital stay are performed.

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Business Strategy

Given the lack of sustainability of earnings from the sale of investment properties and the revaluation of investment properties, we believe that any sustained future profitability of GWest will rely on the growth of their core business in the provision of medical services. GWest has highlighted that in order to attract patients to their medical facilities, they intend to offer discounts to certain group purchasers of services. A key determinant of future profitability appears to be receiving accreditation from the Joint Commission International and the UK National Health Services. This accreditation would allow GWEST to accept medical health insurance from residents of the US, UK and Canada. Additionally, the Company has indicated its intent to attempt to penetrate the global Ambulatory Surgery and travel insurance markets. Since all visitors from Canada and many European countries are required to obtain travel insurance, GWest has asserted that their provision of such services will put them in a position to tap this market. GWest's business strategy at this point seems to be idealistic and provides limited focus on exactly how and in what timeline they expect to execute their strategy.

Analyst's Outlook

GWest's business model is unlike any other listed company on the local stock exchange. The Company aims to tap into the budding Medical Tourism² market as well as the domestic General Medical Visitation and Ambulatory Surgery markets. GWest has no historical record of generating income in these core segments, having garnered a majority of their income, to date, from the sale of units in their complex. Management has projected that the Company will generate positive earnings from their core operations by FY 2019. These projections are in the context of expectations of a supportive local and global macroeconomic environment characterised by increased tourist arrivals to Jamaica and the increased growth and discretionary spending in developed markets. GWest's success is hinged on how well they can position themselves in the Medical Tourism space particularly given competition from markets such as the Dominican Republic and the Cayman Islands.

For FY 2017 the Company reported earnings of **J\$181M (EPS: J\$0.37)**, which implies a Price-to-Earnings (P/E) Multiple of **6.76X** at the proposed listing price of **J\$2.50**. As at the 2nd quarter ending September 2017, GWest had a book value of **J\$286.52M**, representing a Book Value Per Share (BVPS) of **J\$0.59** and a Price-to-Book (P/B) Multiple of **4.24X**. Due to the low predictability of earnings and the start-up risk associated with the business, it is difficult for us to estimate a Fair Value at this point in time. Given the unique nature of the Company's operations relative to the

² Medical tourism refers to people traveling to a country other than their own to obtain medical treatment.

other companies listed on the local stock exchange, GWest could, however, represent an opportunity for investors with the requisite tolerance for the various risks the company presents to diversify their equity portfolios.

Invitation Details

GWest is seeking to raise an additional **J\$424.22M** in equity capital by issuing up to **169,689,500** in ordinary shares to prospective investors. The Company will be using the funds for various purposes outlined in the table below. If the listing is successful, GWest has stated its intention to distribute an annual cash dividend of not less than 20% after-tax earnings.

Issuer	Gwest Corporation Ltd.
Exchange	The Jamaica Stock Exchange's Junior Market
Offer Period	Opening Date: December 7, 2017 Closing Date: December 21, 2017 Early Applications may be made. Such Applications will be received but not processed until the Opening Date. All early Applications will be treated as having been received at the same time, being 9:00 a.m. on the Opening Date. All other Applications will be received and processed on a first come, first served basis until the Closing Date.
Shares Offered	A total of : 169,689,500 Shares for sale and/or subscription, allocated as follows: 36,000,000 Lead Broker Shares 64,000,000 JMMB Investment Management Shares 19,400,000 Key Partner Reserved Shares 600,000 Company Reserved Shares 49,689,500 Shares for the General Public
Invitation Price	J\$2.50 per share. Payments MUST be made at the time of Application along with a J\$163.10 processing fee.
Use of Proceeds	The Company intends to use the net proceeds from newly issued shares in this Invitation to fund: 1. Complete the build-out and outfitting of the GWest Outpatient Surgery Centre (sometimes referred to herein as the "GWest Surgery Centre" or the "Surgery Centre") and the GWest Inpatient Unit; 2. Working capital support and repayment of short term obligations to contractors and customers; and 3. Payment of the expenses of the Invitation which are not expected to exceed J\$30,000,000.00, inclusive of advisory, lead brokerage fees, legal fees, accountant's fees, Registrar's fees, filing fees, stamp duty fees, initial listings fees, marketing expenses and exclusive of GCT after payment of related expenses.
Proposed Dividend Policy	If the Invitation is successful and the Shares are admitted to listing on the Junior Market, the Board expects to distribute not less than 20% of its after-tax earnings to shareholders, subject to the need for reinvestment in the Company from time to time

Financial Overview

Revenue & Profitability

GWest was incorporated to build the current GWest Centre in Fairview Montego Bay³. As at the date of their prospectus, GWest owned 19 units in the GWest Centre, which will be used to operate its businesses or to be leased to 3rd parties. Of the 19 units, 9 units are currently occupied. For the financial year ended in March 2017,

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	March	March	March	March	March
Financial Summary	In Thousands of JMD except Per Share				
Revenue	-	-	-	-	1,008,834
Cost of Sales	-	-	-	-	838,095
Net Income/Net Profit	26,732	2,273	1,361	(30)	180,584
Total Assets	151,881	223,106	1,213,320	1,773,065	1,439,609
Total Liabilities	125,662	194,614	1,183,467	1,743,242	1,123,998
Total Equity	26,219	28,492	29,853	29,823	315,611
Earnings Per Share**	0.06	0.00	0.00	(0.00)	0.37

**Calculated using 324,848,485 units of ordinary shares

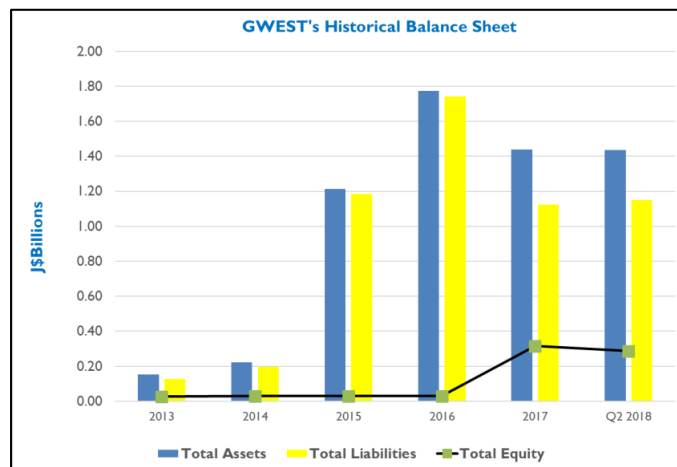
the total income of **J\$1B** reflected primarily the sale of **J\$950M** (realising gain of **J\$132M**) and lease rental income of **J\$58.70B**. Construction costs for the properties sold were realised as cost of sales for the period. This resulted in Gross profits of **J\$171M**. Other gains and losses comprise of fair value gains of **J\$205M** due to the revaluation of the available for sale/lease spaces in the GWest centre. Finance cost of **J\$135M** includes interest charges of **J\$84M** on a **J\$860M** construction loan received from NCB and shareholder's loan interest of **J\$50M**. Consequently, Net Income for FY 2017 stood at **J\$181M (EPS: J\$0.37)**. For the 6-Months ending September 2017, the Company recorded a loss of **J\$29.08M** compared to a loss of **J\$20.69M** for the corresponding period in the last financial year. GWest has attributed this loss to the slowdown in the sale of units as the Company focused its attention on building out its medical services businesses and leasing the remaining units that it owns. GWest's current profitability is heavily reliant on gains made from the revaluation of property and the sale of investment property as well. This doesn't speak well for the quality of the Company's earnings due to lack of sustainability of these sources of income. Going forward, it is important that we see the Company shift more to generating income from its core business in providing medical services.

³ Construction of the GWest Centre commenced in June 2014 and practical completion was achieved end of January 2016.

Balance Sheet

Total Assets, Year to Date (YTD), fell marginally by **J\$3.9M**, to **J\$1.435B** as at the 2nd quarter ending September 2017. However, Total Liabilities, over the same reporting period, rose marginally by **J\$25.17M** to **J\$1.15B**. This increase in liabilities was primarily driven by a **J\$49M** increase in loans from shareholders. Total Equity, YTD, fell by **J\$29M**. This primarily reflected a reduction in retained earnings, likely due to short-term loans borrowed over the past 6-Months due to the loss that the Company has incurred YTD. Total Equity, as at September 2017

increased by **J\$274M**, period over period, compared to the corresponding period last year is compared with that of the corresponding period last year. This increase was due to the revaluation of investments property and gains from the sale of investment properties during the period. There was a significant reduction in non-current liabilities which moved from **J\$1.19B** as at September 2016 to **J\$893M** as at September 2017. This was due to the paydown of **J\$330M** of the NCB construction loan.



Management's Projections

J\$'000	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026
Income									
Net gain on sale of units	5,020	0	0	0	0	0	0	0	0
Lease income	48,418	74,022	86,048	88,598	91,234	93,958	96,706	99,543	102,469
Other income	0	0	0	0	0	0	0	0	0
Medical services	86,392	710,646	1,083,062	1,159,948	1,241,597	1,322,061	1,408,811	1,500,717	1,601,555
Change in fair value of investment property	18,292	18,657	19,031	19,411	19,799	20,195	20,599	21,011	21,432
Total income	158,122	803,325	1,188,141	1,267,958	1,352,631	1,436,214	1,526,116	1,621,271	1,725,456
Operating Expenses									
Advertising and Promotion	294	2,483	3,761	4,080	4,423	4,658	4,911	5,160	5,433
Accounting and other professional fees	1,517	1,593	1,673	1,756	1,844	1,936	2,033	2,135	2,242
Directors' fees	5,952	6,250	6,562	6,890	7,235	7,596	7,976	8,375	8,794
Utilities	3,546	26,373	40,182	43,391	47,326	50,637	54,253	58,092	62,330
Insurance expense	847	10,834	17,959	19,069	20,218	21,263	22,342	23,463	24,664
Lease expense	56,615	57,986	59,993	62,693	65,522	68,484	71,540	74,737	78,083
Maintenance	18,220	20,340	22,370	23,434	24,463	25,431	26,432	27,452	28,536
Meals and Entertainment	0	1,609	3,171	3,596	4,317	4,577	4,865	5,145	5,456
Medical supplies	2,419	27,828	45,591	48,291	51,090	53,993	57,014	60,229	63,698
Other expenses	15,175	101,686	157,993	168,815	180,407	192,976	206,513	221,116	237,190
Professional fees	2,000	2,100	2,205	2,315	2,431	2,553	2,680	2,814	2,955
Salaries and wages	81,374	262,860	333,231	353,321	371,001	389,532	409,336	429,443	450,870
Total operating expenses	187,959	521,942	694,691	737,650	780,276	823,636	869,894	918,163	970,250
Earnings before Income, Taxes, Depr. & Amort. (EBITDA)	(29,836)	281,384	493,450	530,308	572,355	612,578	656,222	703,107	755,206
Depreciation and amortisation	(26,931)	(36,571)	(36,571)	(36,571)	(37,059)	(38,218)	(37,997)	(37,997)	(37,997)
Earnings before Interest and Taxes	(56,767)	244,813	456,879	493,737	535,295	574,360	618,225	665,110	717,209
Net finance income/(costs)	(53,875)	(78,509)	(66,406)	(59,110)	(21,110)	11,784	49,881	75,891	112,905
Profit before Taxation	(110,642)	166,303	390,473	434,627	514,185	586,145	668,106	741,001	830,113
Taxation	(60)	(485)	(1,961)	(2,571)	(2,947)	(35,821)	(42,014)	(47,755)	(54,470)
Profit after Taxation	(110,702)	165,818	388,512	432,055	511,238	550,324	626,092	693,247	775,643
Retained earnings b/f	178,109	67,408	233,226	524,610	848,652	1,206,519	1,591,745	2,030,010	2,515,283
Dividends	0	0	(97,128)	(108,014)	(153,371)	(165,097)	(187,828)	(207,974)	(232,693)
Retained earnings c/f	67,408	233,226	524,610	848,652	1,206,519	1,591,745	2,030,010	2,515,283	3,058,233

As opposed to the Company's current income flow from the sale of units, GWest expects income going forward to increasingly be from Lease income and the provision of Medical Services⁴. The Company is expecting to increase their annual bed capacity to **2,920 beds** by FY 2022 and beyond at an average occupancy rate that is being projected to move from **65%** in 2018 to **85%** in 2022. The ratio of foreign to local patients for shared rooms and rooms with telemetry system⁵ is projected at 1:3 and 1:1, respectively. GWest's Surgery Centre is expected to come online in September 2018, and is expected to see **4,200** cases in FY 2019 and an average of **7,800** cases thereafter. Additionally,

⁴ The **J\$5M** gain on the sale of units in FY 2018 is for a contract that was entered in 2017 and is expected to close in 2018.

⁵ **Telemetry** is an automated communications process by which measurements and other data are collected at remote or inaccessible points and transmitted to receiving equipment for monitoring.

the number of rooms available for General Medical visits is expected to remain at 6, and the growth in this segment is projected to come from an increase in doctors available in FY 2019, which would induce capacity and income. GWest also expects to increase prices in FY 2019 by **16.7%**, after which no further price increase is expected. Thus, GWest's projected profitability seems to be leveraged on an improvement in capacity, while simultaneously tapping into the Travel Tourism, General Practice, and Ambulatory Surgery markets.

Investment Positives and Negatives

Positives

- **Supportive Macro Environment** – The local and international macroeconomic environment have both improved steadily since the Global Financial Crisis. These improvements have led to a more robust global tourism market. Between January and September 2017, **3.09M** tourists visited Jamaica (both landed and cruise passengers). This is **7.34%** or **211K** more than the same 9-Month period last year.
- **Opportunity to Diversify Portfolio**- GWest presents investors with a chance to diversify their portfolio away from the traditional sectors that dominate our local equity markets.

Negatives

- **Start-up Risk**– Investors should note that GWest does not have any historical record of generating operating income in their core segments. The Company expects its core operations to fully reflect on its statements in FY 2018, and even then, management is projecting a net loss in its first year of full operations.
- **Competition** – GWest will face competition both locally and from regional players. Locally, GWest will face competition from 4 public hospitals in Western Jamaica; namely Cornwall Regional, Lucea Hospital, Falmouth Hospital, and Savanna-la-mar Public Hospital and a number of private players, also in Western Jamaica, such a Hospiten Jamaica, BayWest Wellness, The Barnett Clinic, and Fairview Medical. GWest will also seek to compete with other players in the region in the Cayman Islands and the Dominican Republic.

Appendix

Shareholdings of GWEST Pre-IPO		
Name of Shareholder	Issued Share Capital	Percentage Ownership
Konrad Kirlew	62,210,449	19.15%
Karlene McDonnough	6,152,064	1.89%
Bull Investments	35,374,366	10.89%
Wayne Gentles	1,538,016	0.47%
Elva Williams-Richards	30,760,319	9.47%
Cornwall Medical & Dental	92,280,955	28.41%
Leyford Doonquah	61,520,637	18.94%
North coast Imaging	30,760,319	9.47%
Witold Radomski	4,251,360	1.31%
Total Issued Share Capital	324,848,485	100.00%

Shareholdings of GWEST Post-IPO		
Name of Shareholder	Issued Share Capital	Percentage
Konrad Kirlew	62,210,449	12.83%
Karlene McDonnough	6,152,064	1.27%
Bull Investments	35,374,366	7.30%
Wayne Gentles	1,538,016	0.32%
Elva Williams-Richards	30,760,319	6.34%
Cornwall Medical & Dental	82,591,455	17.03%
Leyford Doonquah	61,520,637	12.69%
North coast Imaging	30,760,319	6.34%
Witold Radomski	4,251,360	0.88%
Sub-Total	315,158,984	65.00%
Public (Including Reserved Shares)	169,689,500	35.00%
Total Issued Share Capital	484,848,485	100.00%

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