
Security Review:

Initial Public Offering: Express Catering Limited



Prepared by:
JNFM Global Investment Research Unit

July 2017

Recommendation	BUY	Implied Price Upside	106.05%
Initial Public Offering Price	JMD 1.50	Implied Dividend Yield	2.37%
Estimated Fair Value	JMD 3.09	Implied Total Return	108.42%

Company Description

Express Catering Limited ('Express' or 'the Company', a subsidiary of Margaritaville St. Lucia Inc. was founded in Jamaica in 2001 with the objective of conducting the food and beverage operations at the Sangster International Airport (MBJ) in Montego Bay. The Company, under a Concession License Agreement with MBJ, is currently the exclusive provider of food and beverage operations in the post-security areas of the Sangster Airport and the majority provider in the pre-security areas. The Concession License Agreement is in force through to 2022 and could be extended for a further ten (10) years if the company meets certain stated financial and customer number targets. Express has franchise arrangements with several proprietary, local and international restaurant brands such as; Bobsled Café, Tastee Patties, Quiznos Subs, Wendy's and Salads, Dairy Queen, Domino's Pizza among others. The Company's franchise contracts with these brands and others have current terms of between 7 and 16 years. Express currently has over 270 permanent employees, employing additional capacity during high traffic seasons.



Analyst's Opinion: Express Catering Ltd.

Express Catering Limited represents a unique value proposition to investors which isn't mirrored by any existing company listed on the local stock markets. The company has demonstrated a proven history of solid execution which is evidenced by the company's strong and consistent growth in revenue and profitability. The company's successful franchise model underpinned by its potential long term Concession License Agreement with MBJ and continued improvements in the local and global economies all bode well for continued growth in the company's profitability. The proposed Initial Public Offering Price (IPO) of **JMD 1.50** per share represents a **10.53X (P/E)** multiple of our projections for FY 2018 Earnings Per Share of **JMD 0.14 (USD 1.75M)** and a **2.98X (P/B)** multiple of projected FY 2018 yearend Book Value Per Share of **JMD 0.50 (USD 6.21M)**. We believe both projected market multiples (P/E and P/B) imply that the company is undervalued as they represent a significant discount to the retail sector of the junior market which trades at P/E & P/B multiples¹ of **25.56X** and **6.40X** respectively. We have estimated a **JMD 3.07** fair value estimate for the company's stock which implies a **106.05%** implied upside from its IPO price². We anticipate that the company will pay out at least **JMD 0.035** in dividends during FY 2018 which represents a **2.37%** dividend yield on the IPO price. This implies a total projected return of **108.42%**. We therefore rate the company as a **BUY** at the current IPO price.

¹ JNFM estimate as at July 6th 2017 adjusted for outliers

² See Valuation section for details on Valuation methods employed.

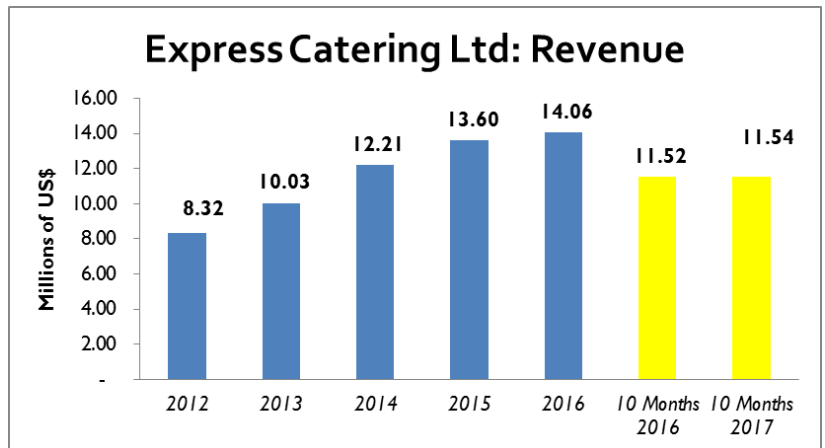
Indicative Offer Details

Issuer	Express Catering Limited
Exchange	The Jamaica Stock Exchange's Junior Market
Selling Shareholder	Margaritaville St. Lucia Inc.
Offer Period	Opening Date: July 12, 2017 at 9:00AM
	Closing Date: July 19, 2017 at 4:00PM
	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	The Selling Shareholder seeks to raise approximately JMD 490 million by inviting Applications for subscription for up to 327,500,000 Shares. 294,875,000 of these shares will be reserved as follows; 16,500,000 Reserved for the Directors 32,750,000 Reserved for Mayberry 245,625,000 Reserved for Key Partners The remaining 32,625,000 shares will be offered to the general public.
Minimum Application	Applications from the general public must request a minimum of 5,000 Sale Shares and be made in increments of 1,000. Applications in other denominations will not be processed or accepted.
Pricing	JMD 1.50 per share (to raise a total of approximately JMD 491.50M). Payments MUST be made at the time of Application along with a JMD 163.10 processing fee.
Use of Proceeds	The Selling Shareholder will use the funds raised in the Invitation for the purposes of the Group's liquidity inclusive of the continued improvement and expansion of the Company's operations, working capital and general corporate purposes. The proceeds of sale will also be used to pay the expenses of the Invitation out of the fundraising, which the Directors expect will not exceed JMD 27.5 million.
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 25% of its after-tax earnings to shareholders in the form of cash dividends.
Acceptable Payments Methods	All Applications must be accompanied by the appropriate payment in the form of either: <ul style="list-style-type: none"> • A manager's cheque made payable to "Mayberry Investments Limited", or • An authorisation from the Applicant on the Application, instructing Mayberry to make payment from cleared funds held in an investment account in the Applicant's name at Mayberry • Transfer in the Real Time Gross Settlement ("RTGS") system to Mayberry, in the case of payments of \$1 million or more. All completed Applications must be delivered to Mayberry at 1 ½ Oxford Road, Kingston 5, St. Andrew.
Refunds	Applicants whose Applications are not accepted, or whose Applications are only accepted in part, may pick up returned cheques at Mayberry's office within 10 working days after the offer closes or as soon as practicable thereafter. Any other persons purporting to collect a cheque on behalf of an Applicant must be authorised in writing to do so. Please note that the JCSD processing fee of \$163.10 will not be refunded to an Applicant in the event that the Company refunds payments received for Shares.

Financial Analysis

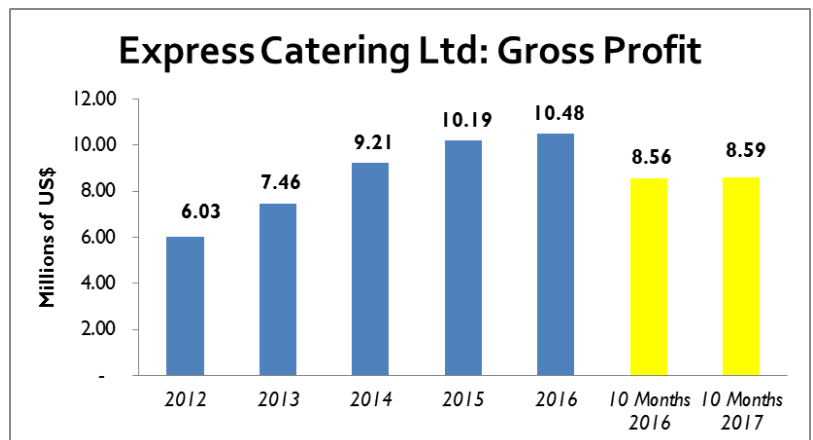
Revenue & Profitability

Between FY 2012 and FY 2016 Express Catering demonstrated an impressive compound average annual growth rate in revenue of **14%**. Growth has however slowed below the four (4) year average in the first 10 months of FY 2017 with revenue remaining relatively unchanged Year-Over-Year (YoY). The company's strong revenue growth since FY 2012 has been the result of strategic



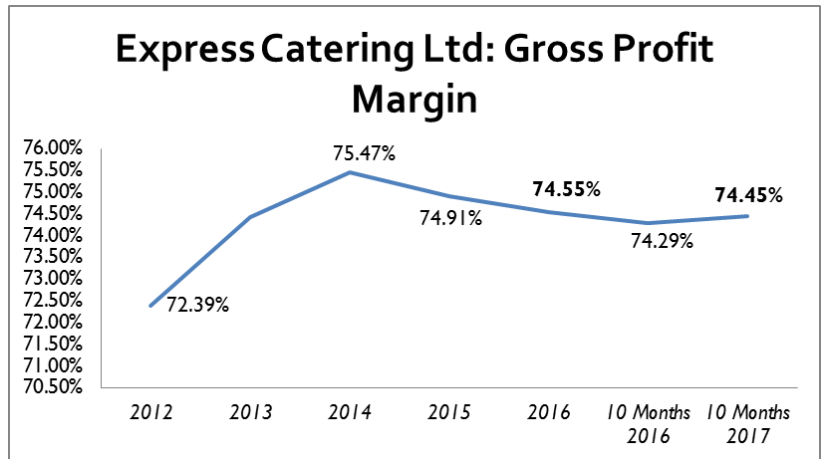
investments in adding several recognizable franchises to its list of operations which has served to increase customer traffic as well as increase average customer spend. Customer spend has risen from approximately US\$5.95 in 2012 to currently over US\$7.30 per passenger. The company has indicated its intention to continue this investment strategy to deepen customer penetration and spend with Starbucks Coffee being Express' latest franchise acquisition. Expected trends in visitor traffic at the Sangster International Airport also support the prospects for Express' continued revenue growth. For the first three months of 2017, MBJ has had 1.13M total passenger arrivals/departures up slightly from 1.11M³ in the comparable period in 2016. The continued improvements in both the local economy as well as the economies of the countries whose residents frequently visit Jamaica should continue to support stability/improvement in visitor arrivals and departures at MBJ in the immediate term.

The trend observed in Revenues between FY 2012 and FY 2016 has translated seamlessly to Gross Profits which rose by a similar compound average annual growth rate of **14.80%** over the period. The slowdown in growth in revenues in the first 10 months of FY 2017 also translated to a similar trend in Gross Profits.

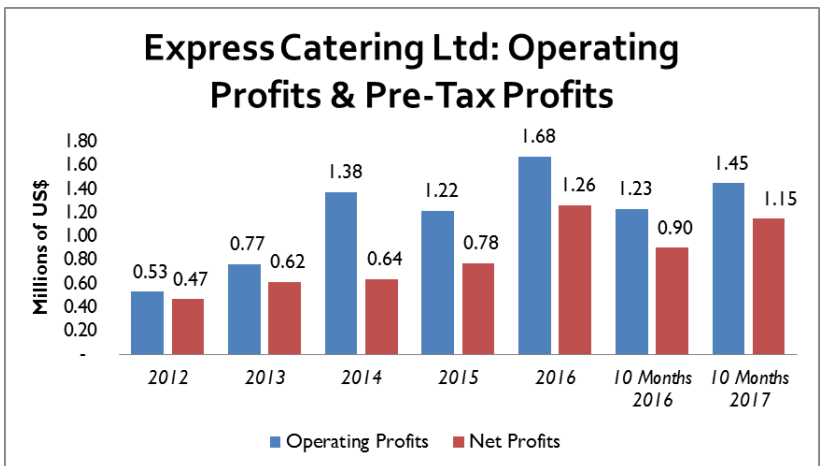


³ Source: MBJ Website

The similarity between the growth rates of revenues and gross profits has resulted in relative consistency in the company's gross margins. Gross margins registered a low of 72.39% (FY 2012) and a high of 75.47% (FY 2014) over the last four (4) FY's. The company's Gross Margin fell slightly to **74.55%** in FY 2016 from 74.91% in FY 2015.



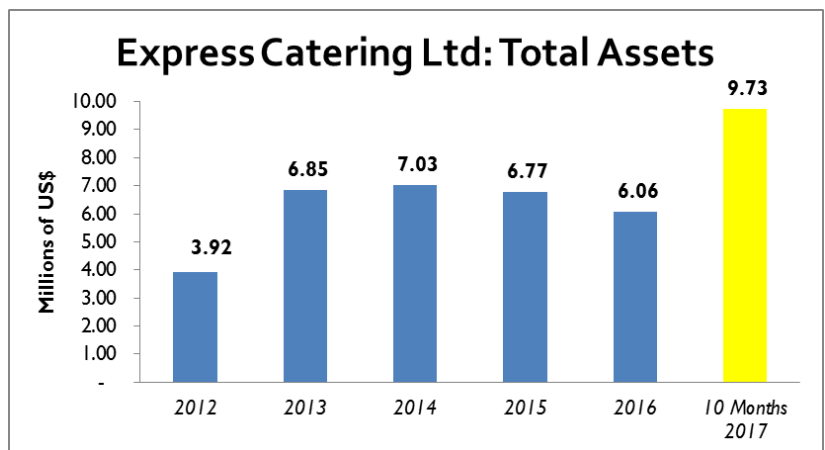
Express has consistently converted its trend of increasing sales into increased profitability with operating and pre-tax profits rising by compound average growth rates of 33.2% and 28.2% respectively between FY 2012 and FY 2016. The trend continued in the first 10 months of FY 2017 as operating and pre-tax profits were up 17.5% and 27.3% respectively relative to the same period in FY 2016. The divergence between the growth rates of



Operating Profits/Net Profits and Revenue/Gross Profits in 10 Month FY 2017 has been the result of effective expense control, favourable foreign exchange translation and reduced finance expenses.

Solvency and Liquidity

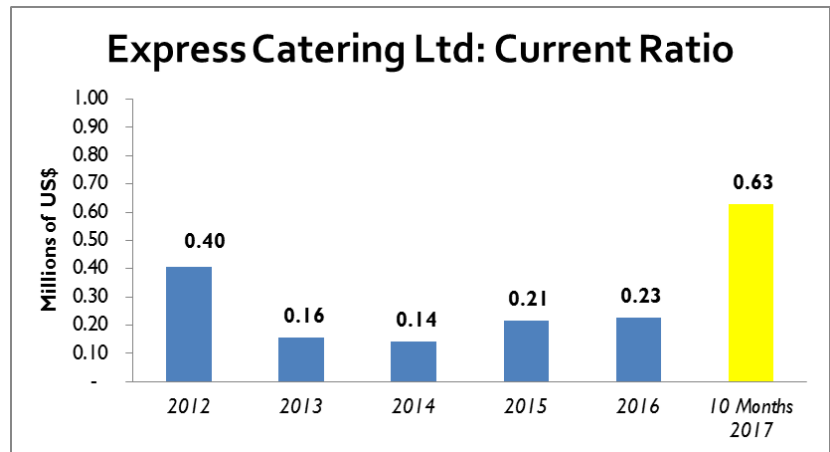
As at March 2017 (the end of 10M FY 2017), Express held Total Assets of USD 9.73M which represented a 60.60% rise over the USD 6.05M held as at May 2016 (FY 2016). The marked rise in Express' asset base is the result of the company raising USD 3.5M through the issuance of Preference Shares during the course of FY 2017. Property, Plant & Equipment, which is largely comprised of



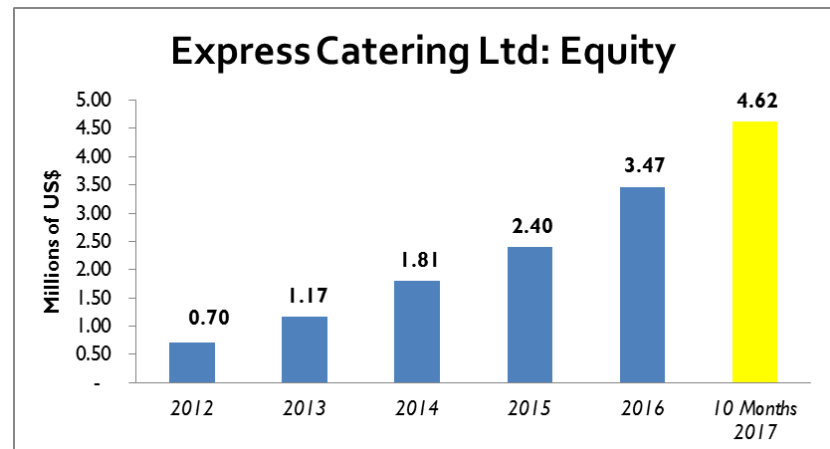
leasehold improvements made to the space the company rents at the MBJ, accounts for the largest singular item that contributes to Express' Asset Base representing just under 46% of it as at 10M FY 2017. Express' business model,

which involves initial investment in franchise arrangements and leasehold improvements, has resulted in significant volatility in the Company's Asset Base due to the subsequent depreciation of these assets.

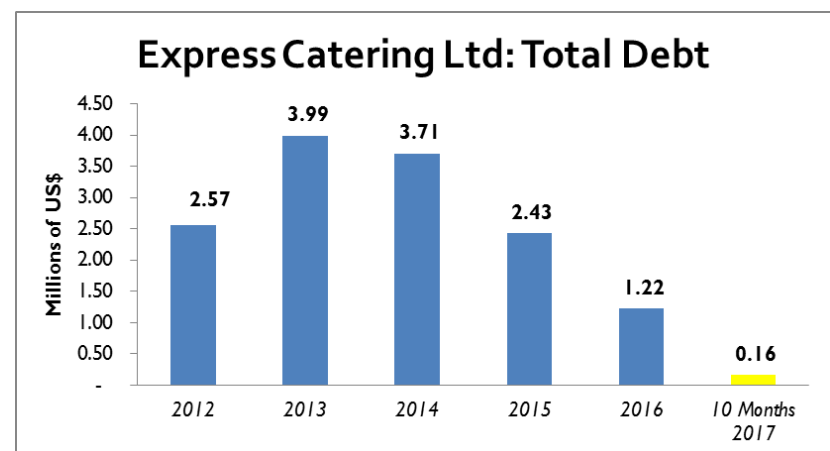
The company's liquidity as measured by its current ratio has been in an improving trend since FY 2014. The ratio, which stood at 0.63X as at 10 months FY 2017 up from 0.23X as at the end of FY 2016, however remains well below the accepted benchmark of 1.00X. The mismatch in Express' current assets and liabilities as evidenced by the current ratio largely results from the company's heavy reliance on short term financing from accounts payables.



Express' rapid and consistent growth in profitability has allowed the company to accumulate equity in a similar fashion. Between FY 2012 and FY 2016 the company's equity grew by a compound average annual rate of 49.10%. Equity has risen a further 33.20% as at 10 month FY 2017 from the end of FY 2016. The company's rapid accumulation of equity has allowed the company to organically reconfigure its capital structure since FY 2012 from predominantly being comprised of debt to being majority equity.



The company's debt load has fallen dramatically since FY 2013 when it peaked at USD 3.99M down to a mere USD 158K as at 10 Month FY 2017. In March 2017 the company added a new element to its capital structure by issuing USD 3.5M in 9.50% 7 year cumulative redeemable preference shares. The proceeds from the issue were earmarked for the construction of the intended Starbucks Coffee outlets at MJB as well as used to settle certain Group obligations.



Investment Positives and Negatives

Positives

- **Positive Earnings Trends** – Express’ financial performance over the past five years has been positive, underpinned by growth in both the top and bottom line in each successive year.
- **Supportive Macro Environment** – The local and international macroeconomic environment has both improved steadily since the Global Financial Crisis. These improvements lend itself to greater discretionary spending, such as travel and dining, which are supportive to Express’ operations.
- **Long Term Concession and Franchise Agreements** – Express has a Concession Agreement with the Sangster’s International Airport which grants it exclusive rights to sell both food and beverages on the premises. This concession agreement will not expire until 2022, and has an option to extend embedded in the agreement. Similarly, the company has long term franchise agreements (most in excess of ten years) with quality franchisers. These long term agreements allows for sustainability and continuity of the company’s business model.
- **Monopoly** – As previously mentioned, the company has exclusive rights to sell food and beverages at the Sangster’s International Airport in Montego Bay. This grants the company a virtual monopoly in the small geographic area, which has a captive audience in the form of workers at the airport and travellers. Additionally, while the Concession Agreement is intact, it serves as an almost insurmountable barrier to entry for potential competitors.
- **The Stock is undervalued** – Our valuation of Express implies a fair value of **JMD 3.09** per share, relative to the offer price of JMD1.50 per share. This implies a potential **106.05%** upside to the stock.
- **Potential Growth** - The Company’s management intends to expand most of its offerings within Jamaica and ultimately, within the Caribbean. Additionally, the company’s listing on the Junior Stock Exchange should help to raise awareness of the company which may help the company in attracting new business.

Negatives

- **Limited Geographic Diversification** – The entirety of the company’s business is confined to the Sangster’s International Airport. This could serve to limit the company’s client base and earnings potential.
- **Cyclical Business** – The Company’s performance is likely to fluctuate with the performance of broader local/global economy.
- **Limited Share Liquidity** – Of the approximately 1.64B shares of the company, only approximately 32.63M, (2.00% of total shares offered) will be made available to the general public, with a further 16.50M share (1.0% of total shares offered) being made available to company employees. This brings the likely to be traded share float to approximately 49.13M shares, or 3.0% of the total shares outstanding. The scarcity of shares could inhibit trading activity which could curtail potential upside.

Valuation:

Key Valuation Assumptions

Based on Express' 10 month unaudited financials up to March 2017, we are projecting full FY 2017 pre-tax profits up to May 2017 of approximately **USD 1.49M** which would represent a 18.29% YoY increase. Projected FY 2017 pre-tax earnings translate to an earnings per share of **JMD 0.12** using the May 31st 2017 USD:JMD exchange rate (JMD 130.14: USD 1.00). We are projecting a further 20% rise in EPS in FY 2018 to **JMD 0.14 (USD 1.75M)** at a JMD 133: USD 1.00 exchange rate). We believe the projected rise is modest in the context of the favourable global macroeconomic environment which is supportive of increased international travel and the company's plans to increase penetration through continued investment in new franchises.

Based on Express' 10 month unaudited financials up to March 2017 we are projecting a Book Value as at the end of FY 2017 of approximately **USD 4.89M**. The FY 2017 year end Projected Book Value translates to a Book Value per Share of **JMD 0.39** using the May 31st 2017 USD:JMD exchange rate (JMD 130.14: USD 1.00). Projected FY 2018 earnings coupled with a forecasted retention ratio of 75% of earnings (the company has indicated an intended dividend policy of 25% of earnings) would produce a FY 2018 yearend book value per share of **JMD 0.50**.

Valuation Methods

Express has a limited history of paying conventional dividends instead remitting payment to its parent company through management fees and financing arrangements. This prevents us from using the Dividend Discount Model as an effective basis for the company's valuation. The company has also historically experienced volatile cash flows resulting from the fact that they are currently in the growth phase of their life cycle. This has inhibited the effectiveness of Free Cash Flow models in valuing the company. We have therefore opted to use market multiples as a basis of valuing the company. We have opted to utilize the Price to Earnings (P/E) and Price to Book (P/B) models to value the company.

P/E Method:

The proposed IPO price of JMD 1.50 represents a **12.64** multiple of FY 2017 Projected Earnings and a **10.53** multiple of projected FY 2018 earnings, which are both considerably lower than the company's comparables which currently trade at an estimated **25.56X⁴** trailing earnings. We estimate Express' fair value to be **23X** (90% of comparables' current P/E) FY 2018 earnings per share which translates to a price of **JMD 3.28** (119% implied upside).

Express Catering Retail Sector Comparables	
Industry or Company	Price Earnings Ratio (P/E)*
Caribbean Producers Jamaica Ltd	13.17
Lasco Distributors Ltd	38.25
Jetcon Corp Ltd	23.34
Medical Disposables & Supplies	15.70
Paramount Trading Jamaica Ltd	37.36
	25.56

⁴ JNFM estimate as at July 6th 2017 adjusted for outliers

P/B Method:

The proposed IPO price of JMD 1.50 represents a **3.86X** multiple of FY 2017 projected year end book value and a **2.98X** multiple of FY 2018 projected year end book value which are both considerably lower than the company's comparables which currently trade at an estimated **6.40⁵** trailing earnings. We estimate Express' fair value to be **5.76X** (10% discount of comparables' current P/B) FY 2018 Book

Express Catering Retail Sector Comparables	
Industry or Company	Price Book Ratio (P/B)
Lasco Distributors Ltd	5.76
Derrimon Trading Co Ltd	3.71
Jetcon Corp Ltd	9.17
Paramount Trading Jamaica Ltd	6.97
	6.40

Value which translates to a price of **JMD 2.90 (93.60% implied upside)**.

The average of both methods produces an estimated fair value of **JMD 3.09** which implies **106.05%** upside from the intended IPO price.

Risk to Valuation:

Key downside risks that could prevent the Express Catering's shares from reaching our fair value estimate include;

1. A downturn in the local and global economies resulting in a decline in discretionary income and a consequent decline in international travel.
2. A general downturn in the broad local equity market which could compress market multiples.
3. Starbucks franchise fails to deepen customer penetration and increase customer spend.
4. The low free share float (3% of overall shares) could adversely impact trading activity which could inhibit the stock from reaching its fair value.

⁵ JNFM estimate as at July 6th 2017 adjusted for outliers

Appendix

Financial Statement Extract:

INCOME STATEMENT EXTRACT							
US\$M (000')						10 Months	
May-31 Year End	2012	2013	2014	2015	2016	Mar-16	Mar-17
Revenue	8,324.81	10,028.53	12,206.42	13,599.07	14,058.05	11,524.24	11,541.16
Gross Profit	6,026.74	7,464.13	9,212.08	10,187.66	10,480.18	8,561.61	8,592.20
Operating Income	531.84	765.48	1,375.93	1,215.71	1,675.41	1,234.98	1,450.88
Profit Before Taxes	467.44	616.49	639.29	775.28	1,262.78	904.14	1,150.56
Profit After Taxes	305.55	465.87	637.58	590.57	1,070.38		

BALANCE SHEET & CASH FLOW EXTRACT							
US\$M (000')						10 Months	
May-31 Year End	2012	2013	2014	2015	2016	Mar-16	Mar-17
Cash and Near Cash Items	88.99	210.70	23.21	169.05	173.00	-	202.96
Total Current Assets	489.77	631.83	585.12	828.76	554.89	-	914.82
Property, Plant & Equipment	2,584.21	5,233.24	5,511.94	5,098.74	4,756.05	-	4,472.99
Total Non-Current Assets	3,433.21	6,222.06	6,442.23	5,938.93	5,504.54	-	8,818.95
Total Assets	3,922.97	6,853.88	7,027.34	6,767.70	6,059.42	-	9,733.77
Total Current Liabilities	1,209.61	4,030.86	4,090.67	3,858.90	2,429.95	-	1,458.39
Total Debt	2,565.04	3,988.02	3,707.15	2,431.10	1,219.33	-	158.24
Total Non-Current Liabilities	2,011.17	1,654.97	1,131.03	512.59	162.89	-	3,658.24
Total Liabilities	3,220.78	5,685.82	5,221.70	4,371.49	2,592.84	-	5,116.62
Total Equity	702.20	1,168.06	1,805.64	2,396.20	3,466.58	-	4,617.14
Total Liabilities and Equities	3,922.97	6,853.88	7,027.34	6,767.70	6,059.42	-	9,733.76

KEY FINANCIAL STATISTICS							
						10 Months	
Total Current Liabilities	2012	2013	2014	2015	2016	Mar-16	Mar-17
Current Ratio	0.40	0.16	0.14	0.21	0.23	N/A	0.63
Return on Equity	43.51%	39.88%	35.31%	24.65%	30.88%	N/A	29.90%*
Return on Assets	7.79%	6.80%	9.07%	8.73%	17.66%	N/A	14.18%*
Gross Margin	72.39%	74.43%	75.47%	74.91%	74.55%	74.29%	74.45%
Operating Margin	6.39%	7.63%	11.27%	8.94%	11.92%	10.72%	12.57%
Pre-Tax Profit Margin	5.62%	6.15%	5.24%	5.70%	8.98%	7.85%	9.97%
Asset Turnover Ratio	2.12	1.46	1.74	2.01	2.32	N/A	1.19
Total Debt/EBIT	4.82	5.21	2.69	2.00	0.73	N/A	0.11
Total Debt/Total Equity	3.65	3.41	2.05	1.01	0.35	N/A	0.03
Total Debt/Total Assets	0.65	0.58	0.53	0.36	0.20	N/A	0.02

*Annualized Profits were used in calculating these ratios

Shareholder Breakdown:

Before Listing

NAME OF SHAREHOLDER	NUMBER OF SHARES BEFORE OPENING DATE	% OF ISSUED SHARES BEFORE OPENING DATE
Margaritaville St. Lucia Inc.	1,637,500,000	100%
Total	1,637,500,000	100%

Subsequent to Listing

NAME OF SHAREHOLDER	NUMBER OF SHARES AFTER CLOSING DATE	% OF ISSUED SHARES AFTER CLOSING DATE
Margaritaville St. Lucia Inc.	1,310,000,000	80.00%
General Public	32,625,000	2.00%
Key Partners	245,625,000	15.00%
Company Applicants	16,500,000	1.00%
Mayberry	32,750,000	2.00%
Total	1,637,500,000	100.00%

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