

Quarterly Equity Review

Rating

BUY

Sector: Manufacturing

Sub Industry: Food Processing



JSE
JBG

Bloomberg
JBG JA

6M-2024: JBG Experiences Double-Digit Growth in US Operations and Anticipates Advantages from Regional Expansion, Amid Favorable Poultry Market Prospects.

(Reading time: 8 minutes)

Investment Rationale

Jamaica Broilers Group Limited (“the Group” or “JBG”), formed to pioneer a sustainable poultry industry in Jamaica is now over 65 years old. Since then, the Group has expanded to satisfy markets around the region and its operations have extended to the United States. Today, JBG is a vertically integrated poultry business, with operations spanning the full spectrum of poultry rearing and food production. This includes breeder flock operations, hatcheries, feed mills, grow-out operations, processing facilities, logistics, and more. The streamlining of all these various segments of production is key to the Group’s strategy for maintaining innovation and quality control.

Over the years JBG has expanded its operations by acquiring businesses that support or pair well with poultry rearing and broiler meat sales. Today, the Group operates a more efficient food manufacturing platform having exited the troubled Haitian market in 2022. Building on this strong foundation, JBG has entered six new Caribbean markets in the past year and is now looking to both its regional and US segments to drive growth in the medium to long term.

Despite recording a loss of over \$1.0 billion from the Haiti exit, the Group still managed to improve its profit margins in FY 2022 when the loss was realized, and saw further improvement in FY 2023. Additionally, so far in FY 2024 (6M 2024), its continued good performance is evident in the improvements in a wider range of profitability metrics, when compared with the same period in FY 2023.

Over the next decade, the projection for increased poultry consumption is relatively high. In fact, the Food and Agriculture Organization estimates that poultry consumption will average 15% annual growth up to 2032. We believe that the Jamaica Broilers Group (JBG) is well positioned to capitalize on these growing market dynamics. With its solid fundamentals including strong local foothold, growth trajectory - especially in the US where there are current grain production surpluses - and expanding regional influence, we recommend the stock at this time.

March 4, 2024

Closing price	34.72
Forecasted dividend	2.94%
Current target price	53.82
Previous price target (Dec. 2019)	46.79
TOTAL RETURN^{proj.}	55.1%

Company Data

Outstanding shares	1,199,276,400
Market Cap	41,638,876,608
52-Week (Lo/Hi)	28.00/39.99
1Yr Daily Average Volume	193,451
5Yr Daily Average Volume	214,614

Major Shareholders

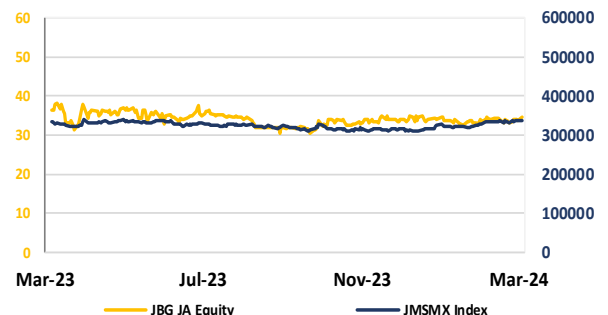
JBGL STOCKHOLDERS NOMINEE LIMITED	16.49%
THE ROBERT LEVY FAMILY FOUNDATION	8.37%
SJIML A/C 3119	6.16%

Key Financials

J\$ Mn	FY22	FY23	FY24e	FY25e
Total Revenues	74,390	91,365	95,934	102,649
Operating Profit	4,957	8,775	8,332	9,223
Net Profit	3,131	4,451	4,815	4,876
Net Profit Change (%)	34.1%	42.1%	8.2%	1.3%
EPS	3.11	4.43	4.01	4.07
Dividend Yield	1.83%	3.00%	2.89%	3.62%

Price Performance

	1MTH	3MTH	1YR
JBG	3.5%	2.1%	-4.4%
Main Index	2.2%	6.8%	0.7%



Source: Bloomberg; JN Fund Managers Limited

Net Profit Margin	Return on Assets	Return on Equity	Asset Turnover Ratio
6M-2024: 5.41% +0.89%	6M-2024: 3.23% +0.11%	6M-2024: 9.19% +0.22%	6M-2024 0.60 -0.09
6M-2023: 4.52%	6M-2023: 3.12%	6M-2023: 8.97%	6M-2023: 0.69

Financial Overview

Revenues & Profitability

Following FY 2023, which was characterized by strong growth across both its Jamaica and US operations, Jamaica Broilers Group continued to improve its profit margins over the first half of FY 2024 (May-Oct 2023) as it continued to see the early payoffs of its decision to discontinue its Haiti business. Despite only moderate topline growth in the period, profitability improved year over year in the period. With the third quarter covering the festive season, in which the macro-economic factors were reasonably supportive and consumer confidence was high, it is anticipated that the Group will report another strong quarter.

For the 6 months ending October 28, 2023, JBG's revenues reached J\$46.77 billion, for a modest 2% growth, compared to the same period a year earlier. The uptick in revenues can be primarily attributed to its Jamaica operations, which reported a topline increase of 3% in the period, due to increased production and export of its poultry products. The US segment saw a better performance overall, as it reported increased production of poultry meat and eggs in the period, along with the implementation of several initiatives to drive efficiency into the future. Gross profit for the Group was J\$11.48 billion, up 3%, while the gross profit margin saw a slight move upwards to 24.54% compared to the 24.20% recorded in the same period a year earlier.

Distribution and Administration costs increased by 5.10% and 5.24% respectively and operating profit was almost unchanged at \$4.46 billion versus \$4.45 billion in the same period in FY 2023. Finance Income saw a significant jump over the period climbing from under \$5.00 million to reach almost \$60.00 million. This can be attributed to the prevailing high level of money market rates locally, with some companies taking the opportunity to reinvest at these higher yields. Additionally, in CY 2023 the Jamaica Dollar depreciated against the US Dollar (~2.00%) following an appreciation in the previous year. Given the Group's net long exposure to the American currency, the depreciation in the Jamaica Dollar in the first six months in FY 2024 versus the appreciation in the previous year saw the Group generating increased FX Gains (foreign exchange) in the most recent 6-month period.

As the Group took advantage of favourable money market conditions, it structured its capital to align with its strategic objectives. As a result, the majority of its debt is denominated in Jamaican currency and at a fixed rate, thereby mitigating foreign exchange and interest rate risks. Notwithstanding, the Group's finance costs jumped to \$1.37 billion in 6M-2024 from \$756.49 million in the same period in the prior year. This followed the expansion of the US operations' processing plant, as the Group sought to fund its working capital needs, in anticipation of producing additional volumes. Over the period, the US segment results reflected a 22.00% jump.

6-Months Highlights

New Caribbean Markets – Jamaica Broilers Group entered six new markets over the last 12 months and is now looking towards future growth from both its regional and US segments. New regional markets include the Cayman Islands, Turks & Caicos Islands and Barbados. More recently, in the first quarter of 2024, JBG also started exporting to Trinidad & Tobago.

Expansion of US Operations – Jamaica Broilers Group recently opened its expanded chicken processing plant in South Carolina. It currently produces over 600,000 whole chickens/week and now operates at 85%-90% capacity. This expansion enhances JBG's production capabilities and positions the Group for further growth in the USA, particularly on the East Coast where its brand is gaining traction.

Double digit growth from US Operations/Best Dressed brand gains traction – Following expansion at its US facilities, the Group continued to post strong segment results in the USA. Over the 6-month period, that segment reported earnings of \$2.20 billion, 22.00% above the prior year's segment result. This was driven by higher volumes of poultry and eggs as well the implementation of cost management initiatives.

Risks to Monitor

Supply Chain Disruptions – Difficulty in navigating regulations/bureaucracies across the Caribbean may lead to delays in getting its products to market and ultimately increase costs. Further, with the war in Ukraine ongoing, an escalation has the potential to significantly disrupt markets such as corn and wheat, which are key commodity inputs for JBG.

Recession Fears – Most central banks have tightened monetary policy and committed to keeping rates high for an extended period, to combat high inflation. This could lead to a severe slowdown in economic activities in FY 2024 and beyond. A significant economic downturn could curtail Jamaica Broilers' revenue and profit growth, as well as expansion plans for the short to medium term.

Climate Change – Excessive heat and other climate change issues can reduce crop yields, nutritional content and increase the risk of pests, pathogens, and weed outbreaks. Rising temperatures may also lead to lower fertility and hatchability, affecting the overall health and reproductive performance of chickens. Extreme heat can also impact the expression of genes related to growth, feed efficiency, and resistance to diseases.

Financial Overview

Revenues & Profitability contd.

Net profit from continuing operations of J\$2.53 billion, was 16.32% down from the J\$3.02 billion reported for the same six-month period in the prior year. However, unlike the previous year in which \$1.11 billion was reported as loss from discontinued operations, therefore lowering Net profits to \$1.91 billion, no loss from discontinued operations was reported in 6M-2024. Consequently, JBG's 6M-2024 Net profit was \$2.53 billion and 32.36% better than the amount reported in the similar period in the prior year.

Given the improvement in profitability, several key metrics for JBG reflected the positive result. These include its Net profit margin which improved to 5.41% from 4.17% and Return on Equity which moved to 9.19% from 8.97% recorded in 6M-2023.

Balance Sheet

JBG's asset base reflected significant growth of 28.93%, at the end of the end of FY 2023 when it stood at \$77.41 billion, compared to the \$60.04 billion at the end of FY 2022. Between those years, JBG expanded its operations in the US, including investing in working capital to facilitate the increased production at its factories. Since the end of FY 2023, the Group's Total Assets showed a moderate growth rate, with further investment in inventories the catalyst for 1.31% uptick. Of note, Biological Assets, which represents live animals, reached \$21.64 billion at the end of the 6M-2024 period, representing a 2.44% increase. JBG's investment in its Biological Assets, particularly its breeding stock, indicates its capacity to increase production and improve efficiency in the future.

At the end of FY 2023, JBG's total liabilities stood at \$52.07 billion, or 33.96%, above the level it was at the end of FY 2022. This spike in liabilities mainly stemmed from a jump in the Group's debt load following a net addition of approximately \$11.00 billion in loans. Over the last couple of years, JBG invested its capital to expand the capacity of its plants – particularly in the USA. The Group has relied heavily on debt to finance the increased production capacity as well as the expansion in its asset base over the years. Consequently, as the Group grew, its leverage¹ increased, moving from 0.92x in FY 2019 to 1.49x at the end of FY 2023. For that period, JBG's debt climbed to J\$34.54 billion and further to \$35.94 billion at the end of 6M-2024.

Total shareholders' equity was J\$25.35 billion at the end of FY 2023. This reflected an increase of \$4.27 billion or 20.26% when compared to the end of the previous year and arose from strong profitability generated by the Group in that year (FY 2023). In the first six months of FY 2024, JBG's equity position expanded further, reaching \$27.53 billion on the back of one of its most profitable half-year performance on record.

Valuation Summary

1. Relative Valuation Method (Summary)

Industry Average P/E = 13.92x
 JBG's Frwd. EPS = J\$4.07
 P/E Valuation Est. = J\$56.59

2. FCFE Valuation Method (Summary)

Required rate of return = 12.74%
 g = 3.73%, FCFE_{0.5}=\$6.52 billion, FCFE_{1.5}=\$12.56 billion, FCFE_{2.5}=\$9.78 billion, FCFE_{3.5}=\$5.12 billion
 FCFE Valuation Est. = J\$51.09

JBG's Average Valuation Est. = \$53.84

¹Leverage - Debt/Equity

Glossary of Terms

Asset Turnover	The asset turnover ratio measures how effectively a company uses its assets to generate revenue or sales.
Bank of Jamaica.....	The Bank of Jamaica is the central bank of Jamaica located in Kingston. It was established by the Bank of Jamaica Act 1960 and was opened on May 1, 1961.
Contractual Service Margin (CSM).....	The contractual service margin (CSM) is a fundamental concept introduced by IFRS 17. It represents the unearned profit that an entity expects to earn as it provides services.
Current Ratio	The current ratio (current assets/current liabilities) is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year.
CY.....	Calendar Year (January to December)
D ₁	Next year's expected dividend
DTI – Deposit Taking Institutions	Financial institutions that are authorized to accept deposits from customers and provide various banking services.
Efficiency Ratio	The efficiency ratio shows expenses as a percentage of revenue (expenses/revenue). It essentially calculates how much a business spends to make a dollar.
FY.....	Financial Year or Fiscal Year
Gross Margin	A profitability measure that looks at a company's gross profit compared to its revenue or sales, expressed as a percentage.
Leverage Ratio (Assets/Equity)	The Asset to Equity ratio is derived by dividing a company's total assets by its shareholders' equity. This ratio is an indicator of the leverage (debt) used to finance the company.
NIR - Net International Reserve	Net reserves are defined as that portion of the gross reserves attributable to MOST's interests after deducting royalties and interests owned by others.
NOI - Net Operating Income.....	Earnings reported by a bank or bank holding company, after deducting normal operating expenses, but before taking gains or losses from sale of securities, other losses and charge-offs, and additions to the reserve account for possible loan losses.
Net Profit Margin	Measures how much net income or profit is generated as a percentage of revenue.
NPL - Non-performing Loans	Non-performing loans are loans as to which there have been no payments of principal or interest for 90 days or more.
Non-performing Loans (NPL) ratio	Non-performing loans as a percentage of gross loans and advances
QoQ - Quarter on Quarter	Used when comparing the financial performance between one quarter of one year to the same quarter of the previous year
Q1	Quarter 1 or First quarter (usually of a company's financial year or country's fiscal year)
ROE - Return on Equity	Return on Equity is a measure of financial performance calculated by dividing net income by shareholders' equity.
YoY - Year over Year	Used to compare data or performance for a specific metric from one year to the same period in the previous year
YTD - Year to date	The period of time from the beginning of the current calendar year up to the present date.

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