

Quarterly Equity Review

Rating

BUY



Seprod Limited

JSE SEP Bloomberg SEP JA

Sector: Manufacturing
Sub Industry: Food Manufacturing

Q1 2023: Continued boost to revenues and profits following key acquisition.

Financial Overview (Reading time: 5-7 minutes)

Revenue & Profitability

During financial Year (FY) 2022 Seprod acquired 60.0% of Trinidadian consumer products distributor, A.S. Bryden & Sons Holdings Limited (the Bryden Group). This acquisition had an outsized impact on the Group's overall performance pushing Seprod's revenues to J\$79.67 billion, an 82% jump over the amount reported for FY 2021. Additionally, the Group reported a 25.0% growth in exports and introduced new products to the market. As commodity prices and shipping costs declined, the company began to roll back some of its pandemic price increases. Notwithstanding, Gross Profit increased by 90% YoY and Gross Margin ticked up to 26.0% from 24.9% a year earlier.

[In 2020, we highlighted some significant reorganization the Group undertook to streamline its business.](#) It is likely that those changes have started to positively impact the Group's operational efficiency. This was seen in Seprod's efficiency ratio (expense/revenues) which was 18.5% in FY 2022, down from 20.1% a year earlier and from the high of 23.4% in FY 2018. In FY 2022, operating profit was J\$6.6 billion and after the company recorded finance costs of almost J\$2.0 billion and taxation of almost 1.0 billion, its Net Profit came in at J\$3.84 billion, an increase of 92.6% over the previous year.

For the first quarter ended March 31, 2023, Seprod maintained the strong growth in revenue and profits it experienced in FY 2022. The jump in revenue was largely driven by an increase in export sales as well as continued growth in the Trinidad and Guyana markets. The Trinidad market has experienced a strong recovery in demand after the lifting of COVID-19 restrictions on public events, while Guyana's growth trajectory, since its discovery of substantial oil reserves, makes it among the fastest-growing economies in the world. The Group generated revenues of J\$27.1 billion in the quarter, moving up 129.2% over the corresponding period in FY 2022.

July 14, 2023

Closing price	72.88
Forecast dividend	2.67
Current target price	83.25
Previous price target (November 5, 2020)	68.14
TOTAL RETURN	17.89%

Company Data

Outstanding shares	733,546,855
Market Cap	53,460,894,792
52-Week (Lo/Hi)	60.50/80.00
1 Yr Daily Average Volume	57,732
5Yr Daily Average Volume	60,758

Major Shareholders

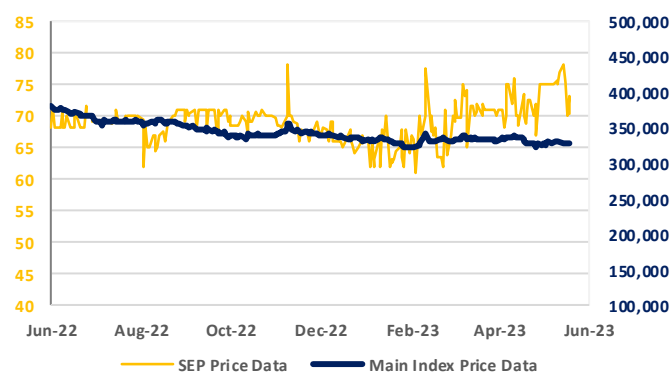
Musson (Jamaica) Limited	31.87%
Coconut Industry Board	22.28%
JCSD Trustee Services Ltd. – Facey Grp Ltd.	17.07%

Key Financials

J\$ Mn	FY21	FY22	FY23e	FY24e
Total Revenues	43,883	79,671	92,419	107,206
Operating Profit	3,599	6,654	10,166	10,721
Net Profit	1,993	3,839	6,208	6,350
Net Profit Change (%)	-30.6%	92.6%	61.7%	2.3%
EPS	2.72	4.03	5.92	6.32
Dividend Yield	2.00%	2.31%	3.42%	3.65%

Price Performance

	1MTH	3MTH	1YR
Seprod	-4.5%	0.3%	-1.5%
Main Index	-2.8%	-2.5%	-14.2%



Source: Bloomberg; JN Fund Managers Limited

ROE FY22	Asset Turnover FY22	Current Ratio FY22	Gross Margin FY22	Net Profit Margin
13.64% +60.47%	1.19 +15.53%	1.99x +23.6%	26% +4.23%	4.82% +6.17%
2021: 8.50%	2021: 1.03	2021: 1.61x	2021: 24.9%	2021: 4.54%

Revenue & Profitability (cont'd)

When compared to the quarter one of the previous year, Seprod's gross margin improved to 25.5% while its efficiency ratio slightly increased from 17.3% to 18.0%. The Group's operational profitability was positively impacted by the transition to Seprod's new distribution campus at Marcus Garvey Drive. This move eliminated over J\$300.0 million of warehousing and logistics costs, which were incurred by the business after the destruction of its main logistics center.

The knock-on effect of Seprod's impressive topline growth and commendable operational improvements is that net profit for the quarter grew by 128.0% to J\$1.36 billion when compared to the first quarter of FY 2022.

Balance Sheet

As expected, following the acquisition of A.S Bryden & Sons Holding Limited, at the end of FY 2022 the Seprod Group reported that its total assets increased by 86.5% to J\$87.5 billion, versus the amount reported at the end of FY 2021. The Group's liabilities also saw a significant movement in the year to reach J\$54.5 billion, as debt climbed to J\$32.5 billion (a 260.0% increase). Seprod's leverage ratio (Assets/Equity) at the end of FY 2022 was 2.65x which was above the industry average of 1.96x.

At the end of Q1 2023, Seprod's Balance Sheet reflected only minor changes from the position at which it closed FY 2022. Total assets stood at J\$87.3 billion, reflecting a slight decline, with deferred tax assets accounting for the lion's share of the movement. Liabilities stood at J\$53.5 billion and total shareholder's equity was at J\$28.7 billion, up almost 2.0% over the FY 2022 year-end figure on the back of the strong profits the Group delivered in the first quarter.

FY 2023: Outlook

The Jamaican economy is recovering at a faster pace than expected with growth of 4.7% reported for fiscal year 2022/23. While we remain optimistic about the relatively high level of employment, strong Net International Reserves (NIR), and relative stability in the FX market, we anticipate that the post-pandemic boost to growth could wane over the short to medium term, especially given the current high level of interest rates.

While the overall economic prospects remain optimistic, it is important to consider certain risks that may affect Jamaica's growth. This includes the potential risk of a global economic downturn and continued monetary tightening by central banks, to ease inflationary pressures.

3M Highlights

Record Q1 Revenues post Bryden acquisition – For the three months ended March 31, 2023, Seprod Group generated total revenues of J\$27 billion, 129% or J\$15.25 billion greater than Q1 2022. This was primarily due to the post-COVID-19 economic recovery locally as well as continued growth in regional markets.

Profits more than double QoQ – Operating Profit for Q1 2023 was J\$2.27 billion, a 128% increase compared to the equivalent period in 2022. Net profits also more than doubled to J\$1.36 billion, an increase of 127%, when compared to Q1 of the prior year.

Unwinding of 3rd Party Warehouses – Seprod is unwinding its use of third-party warehouses which were being utilized in the wake of the destruction of the company's main logistics centre by a fire in 2021. This will result in the company eliminating over J\$300 million in warehousing and logistics costs and contribute to more efficient operations.

Risks to monitor:

Caricom Mandated Tax on Imports – In 2021, Caribbean Community (CARICOM) ruled that Seprod met the threshold to supply at least 75 percent of regional demand for condensed milk and subsequently required member states to implement a Common External Tariff on extra-regional imports. However, to date, less than half of all CARICOM countries have implemented the mandated tax. This presents a risk for Seprod's growth prospects, as the company invested about US\$77 million to meet the production requirements, with the hopes of expanding exports in the region.

Supply Chain Disruptions –The ongoing conflict between Ukraine/Russia and other geopolitical issues have severely restricted global trade, causing supply constraints and increased commodity prices which can negatively impact Seprod's profitability. Several of the raw materials (e.g. wheat) which are used in Seprod's manufacturing process are susceptible to these disruptions and price increases.

Recession Fears – With inflationary pressures still high, central banks have continued to tighten monetary policy, increasing the risk of a severe slowdown in economic activities in FY 2023/24. A significant slowdown could curtail Seprod's revenue and profit growth in the future.

FY 2023: Outlook (cont'd)

Notwithstanding, Seprod, with its well-diversified product offering, appears to be well-positioned to navigate these potential hurdles. Most of the products which Seprod produces/distributes are consumer staples and typically, these goods are less sensitive to economic shocks. Additionally, while Seprod's revenues are primarily generated in Jamaica, it also has operations elsewhere in the Caribbean and exports to the UK, Canada, and Africa. The recent acquisition of the Bryden Group has also extended its footprint in several mainland countries, as well as in CARICOM, making Seprod a juggernaut in the industry.

Valuation

1. Relative Valuation Method (Summary)

Food Manufacturer Industry Average
P/E ratio = 13.04x
Seprod's Forward Earning = J\$5.92
P/E Valuation Est. = J\$77.28

2. FCFE Valuation Method (Summary)

Required rate of return = 16.04%
Sustainable growth rate = 3.60%,
FCFE Valuation Est. = J\$88.97

Seprod's Average Valuation Est. = \$83.13

Glossary of Terms

Asset Turnover	The asset turnover ratio measures how effectively a company uses its assets to generate revenue or sales.
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.
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.
Net Profit Margin	Measures how much net income or profit is generated as a percentage of revenue.
QoQ	Quarter on Quarter (usually 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 is a measure of financial performance calculated by dividing net income by shareholders' equity.
YoY	Year over Year (used when comparing the financial performance between two consecutive years)