

JFP Limited (the Company or JFP)



Company Overview

JFP Limited (JFP) is a business to business (B2B) contract furniture manufacturer for its commercial and government clients. The Company manufactures desks, chairs, beds, tables and other furniture items for businesses operating in a variety of industries. JFP, which primarily manufactured fiberglass products in its earlier days, is now capable of manufacturing products from most materials including wood, metal, solid surface, acrylic and various types of upholstery. During the COVID-19 pandemic, the Company even produced testing booths for the Ministry of Health to assist with safe COVID-19 testing.

JFP currently occupies 75,000 square foot of factory space and employs approximately seventy-five (75) persons full time. It enjoys the benefit of full electricity redundancy as it operates fully on solar energy during daytime and has a backup generator for extraneous purposes. Apart from the raw materials used in the production process, JFP is self-sufficient as its able to maintain its own equipment in-house and manufactures most items used in its end-products, with little being outsourced. This allows the company to take control of some aspects of the manufacturing process which gives the advantage of managing its budget and delivery times. With this IPO the company plans to further improve its efficiency and capacity while strengthening its balance sheet.

According to management, JFP has enjoyed significant growth over the years to where it is now one of the largest contract furniture manufacturers in the region. Its export business within the Caribbean and client base could be further testament to its ability to provide quality products at competitive prices by international standards. With its factory being in Jamaica, the Company is centred in the heart of the logistics hub of the Americas. The Caribbean Basin Initiative has given the Company the opportunity to export into the USA duty free and as a result it will be exploring the establishment of agent agreements throughout the USA, CARICOM and South/ Central American markets to capitalize on this opportunity.

IPO



Key Features

Offer Price	J\$1.00
Estimated Fair Value	J\$ 0.68
Implied Premium	48%
Forward EPS	J\$ 0.04

SUMMARY

JFP Limited is seeking to raise J\$280,000,000.

- No of shares offered 280,000,000 Ordinary Shares @ J\$1.00 per share. This offer includes Reserved Shares of 111,600,000
- If successful, the Company will apply to the JSE for the Shares to be admitted to the Junior Market

Contact a Financial Advisor Today!!

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Or

Schedule an appointment

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Invitation Details

JFP Limited is inviting offers for the subscription of **280,000,000** Ordinary Shares (the capital of the Company) at a price of **J\$1.00**. Please see the Summary of the Terms of the Offer for more details. If the offer is fully subscribed, the number issued shares after the successful completion of IPO will be **1,120,000,000**.

Summary of the Terms of the Offer				
Company	JFP Limited			
Arranger / Lead Broker	GK Capital Management Limited			
Shares the subject of the Invitation	280,000,000 Ordinary Shares			
Offer Opens	9:00 A.M. February 21, 2022			
Closing Date	4:30 P.M. February 28, 2022			
	Non-Reserved Share	GK Investments Reserve	Key Strategic Partners	Employees Reserve Share
Price	J\$1.00	J\$1.00	J\$1.00	J\$1.00
Share Allotment	168,400,000	61,600,000	40,000,000	10,000,000
Use of Proceeds	Proceeds will be used to increase its working capital reserves to enable it to mobilize efficiently and take advantage of more opportunities for revenue and profit growth. The Company also intends to use part of the proceeds of the fundraising to pay the expenses of the Invitation.			
Minimum Share Offering	Each application must be for a minimum of 1,000 Shares and in multiples of 1000 Shares thereafter			

Corporate Governance

The board comprises seven (7) members; One (1) Independent chairman, Three (3) Independent Directors, and Three (3) Executive Directors. Approximately **57.14%** of the Board of Directors are independent non-executive Directors. In theory, independent directors will not be subject to pressure, and therefore are more likely to act in the shareholders' interests when those interests run counter to those of entrenched management.

Directors	
Independent	Executive Directors
Ian Kent Levy	Metry Seaga
Dr. Adrian Mitchell	Stephen Sirgany
Marie McMorris	Richard Sirgany
Julie Thompson- James	

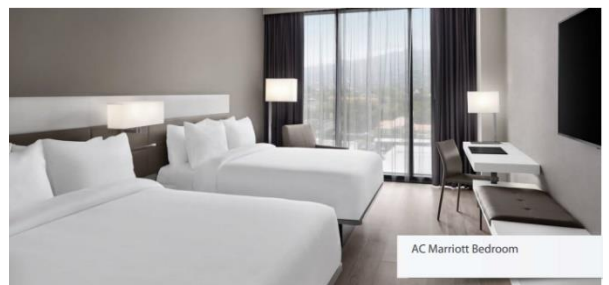
Summary Business Overview and Strategy

For over thirty-six (36) years, JFP has been providing its services to several large companies and agencies, across various industries in Jamaica and the Caribbean. According to the Company, it is typical that once a customer is onboarded, a long-term relationship is made, and they become “customers for life” and this has resulted in a high level of repeat business for the Company. Additionally, the customer satisfaction received by several of the Company’s customers has resulted in the Company being selected as a preferred supplier for many of the quick service restaurants locally and in the Caribbean, including Island Grill, TGIF, Wendy’s, Starbucks and KFC.

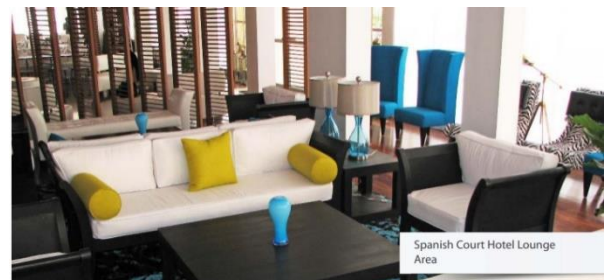
Over the last five years restaurants accounted for approximately 33% of the revenues JFP generated. Combined, restaurants, hotels and government agencies contributed 72% to the manufacturer’s top line, on average, over the last five years. To ensure high levels of satisfaction among its customers, JFP collaborates with its customers and at the end of each year, the Company meets with them to plan for the upcoming periods. According to management, this fosters excellent client relations and allows both the Company and its customers to be aligned in relation to the various deliverables as well as facilitates the Company’s ability to identify any needs the customers may have.



Mother's Dining Area



AC Marriott Bedroom



Spanish Court Hotel Lounge Area

Future Growth

One of the key projects the company expects to execute on in 2022 is works relating to the upgrade at the Sangster’s International Airport. Recently, the Company completed an order with FLOW in relation to its new location in Montego Bay and has indicated that it has several other jobs coming on stream. To grow its exports, JFP recently engaged international sales agents, with a primary focus on the USA and Bahamas, as it seeks to target companies operating in the hotel and restaurant industries.

In its drive to serve its customers using the most recent and innovative technologies, management ensures its staff are appropriately trained. The staff regularly attends trade shows of major restaurant brands and as well as hotel investment conferences. These trade shows, not only allow the Company to garner new business and foster new relationships with suppliers and buyers but also, allow the Company to keep abreast of new techniques, processes, machinery, and equipment which allows the Company to continuously improve its production efficiencies to remain competitive.

Hotels

Following significant declines within the tourism industry in 2020, the sector has seen a commendable rebound in 2021 with the country expected to report over 1.5 million visitors from January to December 2021¹. It is further anticipated that by the third quarter of 2023, Jamaica could see its tourist arrivals climb above the numbers reported for 2019, pre-COVID-19.

Construction within the tourism industry is expected to be boosted over the short to medium term with several marquee developments are expected to come on stream including 2,000 rooms by Princess Hotels in Negril, 1700, rooms at Hard Rock Hotel and Casino in St. James and 950 rooms across the Sandals hotel chain². Given the expansion expected within the tourism industry over the next few years, JFP anticipates that it will benefit from the awarding of several contracts given its experience within the space and its history of delivering quality service.

Quick Service Restaurants

Established restaurant chains such Restaurants of Jamaica (KFC/Pizza Hut), Gara Restaurants Ltd. (Wendy's) and Mother's Enterprises Limited (Mother's) are currently expanding given the competitive environment in which they operate. This is further demonstrated by Caribbean Coffee Baristas Limited, the franchise holders for Starbucks brand, which has been expanding rapidly throughout the region. Caribbean Coffee Baristas Limited which has twelve Starbucks outlets across Jamaica, intends to add a further 3 by the end of 2023 and it may be expected that JFP would be in pole position be awarded the contracts for these additional outlets given that, according to JFP, they are currently their preferred furniture supplier, and they currently enjoy a good working relationship.

¹ https://www.jamaicaobserver.com/news/Tourism_recovery_projected

² <https://jis.gov.jm/7500-hotel-rooms-coming-on-stream/>

Financial Analysis

Revenue & Profitability

For FY 2020, JFP reported revenues of J\$442.8M but this was 12.1% below the revenue outturn for the year preceding. In FY 2019, the company benefited from significant uplift in revenues from major projects within the tourism sector. However, in 2020, the COVID-19 pandemic limited the manufacturer's capacity due to the lockdowns and restrictions the government implemented to combat the pandemic. Additionally, as the pandemic was particularly severe on the tourism industry, it is likely that many of the players within that space opted to delay expansion plans, as they developed their strategy to navigate through the challenges of the pandemic.

For the 9M period ending September 30, 2021, the company reported revenues of J\$209.7M which was 33% below the amount generated in the similar period of previous year, as the challenges first experienced in FY 2020 rolled over into FY 2021 and resulted in unforeseen contract delays. JFP now anticipates that the projects which were delayed in 2021 will be carried forward to the 1st quarter of 2022 and those delayed projects should amount to around J\$81M.

JFP's Gross profit was relatively flat in FY 2020 (J\$232.7M) when compared to the J\$234.2M reported for the year before. Over the 9M period which ended September 30, 2021, gross profits amounted to J\$92.9M. Over the period (FY 2016 to FY 2020) JFP's gross margin fluctuated between 46% and 62% with an average of 52%. Despite the effects of the pandemic on the Company's operations, in FY 2020, JFP achieved a gross margin of 53% which was slightly above the five-year average. However, over the 9M period end September 30, 2021, its gross margin was only 44% and well below its 5-year average.

Total Operating Expenses amounted to J\$147.7M in the FY ended December 2020 and was below the previous year by 8.8%. During FY 2020, JFP reduced its staff level to 78 from 90 members, and this accounted for the lion's share of the decline. The Company also used the opportunity to streamline its operations which resulted in greater efficiencies, by reducing time spent on certain tasks and lowered human errors in the manufacturing process. The improvement in efficiencies was reflective in terms of the company's efficiency ratio. As most of JFP's cost are fixed and they have expanded revenues over the last five years, its efficiency has shown an improvement and reached 33% at the end of FY 2020, from 46% in FY 2016 and below the five-year average of 43%. For the 9-month period ended September 30, 2021, the company reported operating expenses of J\$101.2M which was 4.8% below the amount generated in the previous year. However, as a result of the declining revenues for the 9-month period ended September 30, 2021 the efficiency ratio deteriorated to 48% for the period.

The Company reported profits before taxes of J\$83.0M for FY 2020 which represented an increase of 20.4% when compared to the J\$69.0M it earned in the prior FY. The increased profits generated in FY 2020, despite the decrease in revenues, is said to be the culmination of strategic plan to improve efficiency according to management. This strategic plan was successfully implemented by the Company during the COVID-19 pandemic which allowed it to remain profitable despite the pandemic adversely impacting several companies within the manufacturing sector. In the 9-month period to September 30, 2021, profit before tax was J\$4.8M which was approximately 94% below the profits generated over in the similar period in FY 2020.

Balance Sheet

At the end of the Q3 2021, September 30, 2021, JFP reported Total Assets of J\$362.7M which was 11.7% or J\$48.1M below the amount reported at the end of FY 2020. The main driver of the reduction in Total Assets between the FY 2020 year's end and the end of the 9-month period was J\$95.4M drop in cash and cash equivalents which was partially offset by a J\$41.6M increase in Receivables.

Total Liabilities at September 30, 2021 was J\$155.9M, which reflected a decline of 24.9% when compared to the amount reported at the end of the most recently completed, FY 2020. Driving the decline in Total Liabilities were Payables which was reduced by J\$49.3M, Taxation which declined by J\$10.4M and Long Terms Loans which fell by J\$14.3M. These were partially offset by a spike of J\$15.2M in Bank Overdraft. Shareholder's equity ticked up slightly by 1.7% to J\$206.8M at the end of September 2021.

Subsequent Event

1. Sale of Property

After the end of the third quarter of 2021, JFP sold building located at 155 Spanish Town Road to JFP Property Investments Limited, a related company for J\$124M and used J\$64.6M of the proceeds to settle outstanding mortgages with NCB Jamaica Ltd. A gain of J\$41.8M was recognized on the sale of the property.

2. Declaration of Dividends

On October 28, 2021, JFP declared a cash dividend of J\$108.2M to the shareholders at the time. On the same date, the Company also declared a dividend in specie in relation to securities held by the Company in an investment portfolio with a market value of J\$47M to the shareholders at that date.

3. Directors Loan Account

All Directors loans (Total J\$56.9M) which were in existence at the close of the third quarter were closed in the fourth quarter of 2021.

4. Lease Arrangement

JFP entered a lease agreement with JFP Property Investments Limited to which the Company recognized a right of use asset of J\$102.1 million and a right of use liability of the same amount.

5. Shareholders' Loan

As at the date of this Prospectus, the Company had a shareholders' loan of J\$16 million collectively, due to Richard Sirgany, Eurobian Limited and JKZ Limited.

6. Purchase of Property

The Company is currently engaged in purchasing a parcel of land located at 155 Spanish Town Road from the government for future development and expansion.

Valuation Analysis

To arrive at a fair price for the JFP shares we used the Price to Earnings (P/E) method. As the company is in the business of manufacturing, the industry's average was derived by using the P/E of the manufacturing companies listed on the junior market³. The industry average P/E for Junior Market listed manufacturers is 16.94x. JFP's forward earnings per share is estimated at J\$0.04 and when multiplied by the industry's P/E produces a fair value of J\$0.68. As the share are being offered to the public at J\$1.00 per share, the shares on offer at IPO are overvalued.

Analyst's Opinion

JFP Limited is a manufacturer and supplier of furniture for its hospitality clients and offices in Jamaica and the Caribbean. Over its 36-year history, the company has developed a reputation for its dynamic manufacturing capabilities, high quality products and a growing export business. As the company sets its sights on the USA, CARICOM and South & Central American markets, the proceeds from its IPO will be used to augment its capabilities in terms of product offerings and improve its working capital.

The outlook for the company is relatively positive as we expect the Company to grow its revenues as the economy returns to normality, its full sleight of projects come back on stream and as it captures new businesses in the export markets. However, the pace and consistency of future growth for JFP remains highly uncertain given its performance as reported over the last five years ending in FY 2020 and the 9-month period ended September 30, 2021. While over the five-year period to FY 2020, JFP reported revenue growth at a compounded annual growth rate of 11.6% and record profits of J\$71M in FY 2020, its pipeline of projects does not appear to be robust enough to support that level of revenue growth and profitability in either the short to medium term to make its offer price justifiable.

³ Industry Average derived using the junior market manufacturing companies and adjusted for outliers

With forward earnings of J\$0.04, and industry P/E of 16.94x, we have an estimated fair value of J\$0.68 for the JFP stocks, implying that the shares are overvalued and investors who chose to invest at the IPO would pay a premium 48%. Based on the foregoing we **DO NOT RECOMMEND** this offer.

Appendix

Income Statement



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	9-Month 2020	9-Month 2021
Revenue	285,475,000	277,895,000	244,425,000	503,747,084	442,760,103	312,306,728	209,733,098
Cost of sales: direct expenses	(142,038,000)	(144,700,000)	(92,486,000)	(269,583,551)	(210,091,709)	(114,013,264)	(116,877,566)
Gross Profit	143,437,000	133,195,000	151,939,000	234,163,533	232,668,394	198,293,464	92,855,532
Other income	2,520,000	374,000	9,241,000	7,454,675	8,342,178	3,052,311	20,131,097
	145,957,001	133,569,000	161,180,001	241,618,208	241,010,573	201,345,776	112,986,629
Total Expense	130,511,000	118,699,000	148,231,000	161,933,898	147,652,504	106,261,713	101,158,744
Operating profit	15,446,001	14,870,000	12,949,001	79,684,310	93,358,069	95,084,063	11,827,885
Net interest cost	(9,407,000)	(12,820,000)	(14,953,000)	(10,682,620)	(10,311,785)	(8,304,894)	(6,999,183)
Operating profit before taxation	6,039,001	2,050,000	(2,003,999)	69,001,690	83,046,284	86,779,169	4,828,702
Taxation	(1,138,000)	(1,516,000)	929,000	(11,544,234)	(11,599,987)	(8,699,990)	(1,300,122)
Net profit, being total comprehensive income for the year	4,901,001	534,000	(1,074,999)	57,457,456	71,446,297	78,079,179	3,528,580

Balance Sheet



	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	9-Month 2020	9-Month 2021
Non-current assets:							
Total non-current assets	157,926,000	148,578,000	181,559,000	170,492,965	181,375,302	150,645,106	177,618,319
Current assets:							
Total current assets	100,089,000	105,827,000	214,768,000	138,114,572	229,468,945	197,372,600	185,155,681
Total assets	258,015,000	254,405,000	396,327,000	308,607,537	410,844,247	348,017,706	362,774,000
Non-current liabilities							
Total non-current liabilities	86,512,000	86,185,000	93,111,000	81,244,122	54,428,508	59,871,387	37,745,891
Current liabilities:							
Total current liabilities	98,117,000	94,301,000	230,371,000	95,500,158	153,106,191	78,203,888	118,189,981
Net current assets	1,972,000	11,526,000	(15,603,000)	42,614,414	76,362,754	119,168,712	66,965,700
Total liabilities	184,629,000	180,486,000	323,482,000	176,744,280	207,534,699	138,075,275	155,935,872
Shareholders' equity:							
Total Shareholders' equity	73,386,000	73,920,000	72,845,000	131,863,257	203,309,548	209,942,431	206,838,128
Total equity and liabilities	258,015,000	254,406,000	396,327,000	308,607,537	410,844,247	348,017,706	362,774,000

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