

Quarterly Update

Rating

BUY

LATAM (Caribbean)

Sector: Transport, Logistics

Industry: Infrastructure



JSE

Bloomberg

TJH

TJH JA

9M-2023: TJH's 2023 Recovery Anchored in Increased Traffic Flow and Cost Optimization.

(Reading time: 8-10 mins)

Rationale

Transjamaican Highway (TJH) is the concessionaire for 'Highway 2000 East-West' (Toll Road), Jamaica's first toll road and the largest infrastructure project in the English-Speaking Caribbean. Its core business activity revolves around the development, operation, and maintenance of Highway 2000 East-West for the duration of its 35-year concession agreement - with the option of renewing for an additional 35 years when the initial concession ends.

This road network connects four of Jamaica's most densely populated parishes and is a key infrastructure asset facilitating the flow of cargo and people across the island. To widen its footprint, TJH anticipates concluding negotiations to manage and operate the newly constructed Phase 1C segment of the Highway 2000 East-West road network, which also forms part of the amended concession agreement. This segment opened in September 2023 and spans 28 kilometres, running between May Pen and Williamsfield. If negotiations are successful, TJH will control approximately 78 kilometres of toll routes and as a result would be expected to see an increase in revenue and profitability from the addition.

In 2022, TJH embarked on a substantial transformation of its cost structure with the acquisition of Jamaican Infrastructure Operator (JIO). This subsidiary operates the road network under an Operations & Maintenance (O&M) Agreement. The strategic acquisition strengthens TJH's business model as it means that the operator currently bears a greater portion of the traffic flow risk, and so TJH now enjoys a significant reduction in the gross fees payable to JIO which thus fortifies the company's financial stability, improves its operational efficiency and ultimately improves its ability to continue return cash to its investors.

Investing in TJH is advantageous due to anticipated strong traffic flows and the expectation that motorization and housing development trends in the surrounding areas will persist. Additionally, as infrastructure assets display lower correlation to other asset classes it provides great diversification benefits in a portfolio scenario. Further, as the Concession Agreement includes an indexation to the US CPI, it may also provide a hedge against inflation.

22-Nov-23

Current price	2.590
Forecasted Dividend	0.198
Current Target price	3.352
Previous Target price (Feb 14, 2020)	1.890
TOTAL RETURN	37.1%

Company Data

Outstanding shares	12,501,000,000
Market Cap	32,377,590,000
52-Week (Hi/Lo)	\$2.95/\$1.35
1Yr Daily Average Volume	3,186,508
3Yr Daily Average Volumes	2,627,449

Major Shareholders

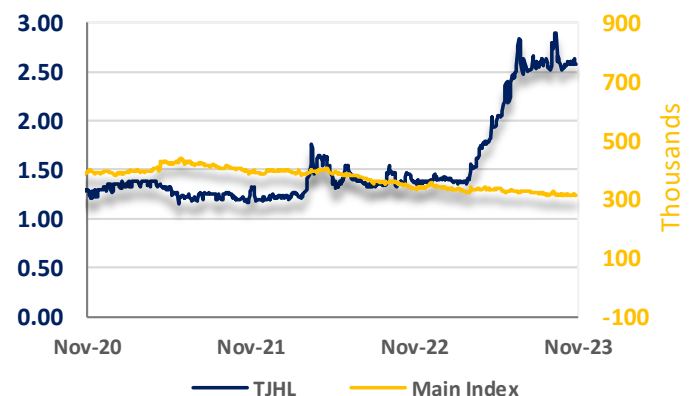
National Road Operating & Const. Co. Ltd.	20.01%
NCB Capital Markets (Cayman) Ltd	7.86%
Musson Investments Ltd	6.14%

Key Financials

US\$ Mn	FY21	FY22	FY23e	FY24e
Total Revenue	52.76	65.01	73.32	78.02
Operating Profit	20.625	24.395	43.07	45.77
Net Profit	3.99	(7.14)	23.39	25.60
EPS	0.0003	-0.0006	0.0019	0.0020
Dividend Yield	6.2%	6.9%	13.3%	7.7%

Price Performance

	1MTH	3MTH	1YR
TJHL	1.6%	0.8%	85.6%
Main Index	0.3%	-3.6%	-7.5%



Source: Bloomberg; JN Fund Managers Limited

Actual Traffic FY 2022	Highway Revenues FY 2022	Return on Equity FY 2022	Net Profit Margin FY 2022
25.9 Millions +12.9%	65.0 Millions +23.1%	16.9% +9.5%	30.4% +23.7%
FY 2021: 22.91 Millions	FY 2021: 52.8 Millions	FY 2021: 7.4%	FY 2021: 6.7%

Financial Overview

TJH's Revenue & Profitability

Following 2022, when TJH reported a US\$7.14 million net loss¹, the Group reported results for the 9-month period ending September 2023 which showed topline growth of ~17.78% and net profits which was 298.06% higher than the amount reported in the period a year earlier.

In the first three quarters of FY 2023, the TJH Group posted core revenues of US\$55.37 million which was US\$8.35 million above the amount posted in the same period in FY 2022. Non-core revenues was US\$1.4 million and this includes gains generated from TJH's activities in the financial markets (investments), FX gains and income generated from the commercial utilization of the areas adjacent to the Toll Road.

Operating expenses includes the costs of operation and maintenance of the Toll Road whilst Administrative expenses are comprised mainly of staff costs, depreciation, taxes and other miscellaneous expenses. Over the 9-month period the company reported operating expenses of US\$16.58 million, lower by 43.09%, when compared to the US\$29.14 million spent in the same period the year before. This decrease is the realization of cost savings following the JIO acquisition which enabled TJH to modify its fee structure, resulting in the reduced operating costs.

Conversely, Administrative expenses reached US\$6.03 million after increasing by almost 500.00% for the comparable period. This was due to increased consultancy fees reported for the period as well as the acquisition of the toll operator (JIO), which means that TJH now bears staff cost and other related expenses for the newly acquired subsidiary. Finance costs showed a modest decline of 2.18% to US\$10.94 million over the period, reflecting the moderate change in interest cost on its Long Term Bond³ which is amortizing in nature and fully matures in 2036.

The Company's improved top-line results and cost optimization, culminated with a significant improvement in profits. In its most recent quarterly report Profit before tax was US\$23.24 million versus US\$5.84 million over the same 9-month period. Further, with a lower effective tax rate of 24.83% versus 29.10% in the previous year, Net profit came in at US\$17.47 million, up over 300.00%. With the increase in Net profits its profitability metrics also improved, including its Net Profit margin which moved to 31.55% up from 8.80%.

¹ TJH reported a net loss which was due to it recording a loss on acquisition of JIO. If TJH's results are adjusted, to nullify the effect of the loss on acquisition, the Normalized profits for FY 2022 would be approximately US\$6.74 million.

² On February 18, 2020, the Company issued US\$225 million Senior Secured Debt Notes which are listed on the Singapore Exchange Securities Trading Limited. The Notes pay interest quarterly at 5.75% per annum and matures October 2036.

Outlook & Strategy

Originally established to oversee the concession agreement for Highway 2000 East-West, TJHL has proven its capability in executing its business model. Consequently, management is confident that in the short and medium to long term, TJH is well-positioned to pursue substantial opportunities within and beyond Jamaica to foster growth. To that end:

- i. TJH formally expressed its interest in bidding for the Montego Bay bypass³ toll road in St. James, for which construction is delayed.
- ii. The Group intends to seek approval for several new interchanges along the Highways and these are expected to lead to enhanced traffic flow and increased connectivity. Construction of the first of these interchanges was set to begin in 2023.
- iii. Lease agreements have been signed with the Port Authority to secure land for the construction of a second gas station, adjacent to the Portmore toll plaza. RUBIS Energy Jamaica was selected as the preferred operator of that gas station.

Valuation Summary

I. FCFE Valuation Method (Summary)

Required rate of return = 15.71%
 FCF₁=\$36.0m, FCF₃₀= US\$53.1m, FCF₃₆=\$85.6m
 FCFE Valuation Est. = J\$3.35 per share

TJH's Valuation Est. = \$3.35

³ <https://www.jamaicaobserver.com/business/tjh-will-bid-for-montego-bay-bypass-toll-road/>

TJH's Balance Sheet and Cash Flow

Over the first nine months of FY 2023 the Group's net cash generated from operations amounted to US\$30.31 million, higher than the amount generated in 9-month 2022 as well as all of FY 2022. The level of operating cash flows generated by TJH demonstrates that the business is producing enough cash from its core operations to cover its expenses and invest in future growth. The most recent example of investing for the future would have been its acquisition of JIO which was completed in FY 2022.

As at the end of 9-Month 2023 (September 30, 2022), TJH's Total assets amounted to US\$301.63 million after growing 4.68% above the level at which it closed FY 2022 (US\$288.14 million). TJH's largest asset holding is its Intangible assets which gives them the right to collect toll fees up to 2036. At the end of the 9-month period the balance on its Intangible Asset was US\$201.34 reflecting a decline of 5.1% from the amount at the end of FY 2022, in connection with its normal annual amortization. Essentially, TJH is a cash-generating platform and the growth observed over the first three quarters is reflected in the increase of its cash balances⁴ which grew by over US\$25.09 million or 45.81% since the start of the period. This platform was reinforced at the end of FY 2022 when TJH added its first subsidiary JIO, which improved its cost optimization.

As at September 2023 TJH's Total Liabilities reached US\$259.17 million, up from the US\$248.15 million at which it ended FY 2022, a 4.44% growth. Over the 9-month period, Current liabilities grew by US\$15.8 million and was mainly influenced by dividends payable of US\$15.00 million. At its Board meeting held on September 26, 2023, an interim dividend of \$0.1866 per share was declared⁵. This dividend was more than twice the amount paid in the prior year and underscores the Group's commitment to consistently return cash to its shareholders. Current shareholders who had the stock at the end of FY 2022 would have seen a dividend yield of approximately 13.30% YTD.

Total shareholders' equity was US\$42.46 million following a move up from US\$39.99 at the end of the last completed financial year. The Group's Total equity comprises of US\$27.00 million in share capital and accumulated profit of US\$15.46 million. TJH's shareholders' equity fluctuates based on profits generated and dividend payments made each period.

⁴ Cash balances include cash and bank balances plus restricted cash)

⁵ TJH's dividend was scheduled to be paid October 25, 2023.

Risks to Monitor

Health Outbreak – Despite the substantial enhancement in global health, global health crises could lead to significant disruptions in TJH's operations, potentially limiting economic growth, impacting the company's profitability, and exerting additional pressures on its resources.

High Interest Rate – The relatively high interest rate environment has increased the cost of funding which may make it harder for TJH to return to the capital markets for debt financing for its expansionary activities.

Slower Economic Growth – With the post pandemic boost to growth now subsiding, the Jamaican economy, which advanced by 2.3% in the second quarter of CY 2023, could slow even further going forward. Lower economic activity could lead to reduced traffic on the toll roads, given the expected high correlation between GDP growth and traffic performance. However, Jamaica's relatively high levels of employment, NIR and stable FX market could help to keep growth positive in the short run.

Disaster Risk - Natural disasters, catastrophic events and unfavourable weather conditions may damage the Toll Road and otherwise reduce its revenue generating potential. However, TJH maintains insurance in accordance with the Concession Agreement, with the indenture and industry standards to protect against natural disasters.

Lower Toll Increases - If the actual increase in toll rates falls short of the company's requirements, it could potentially affect profitability, notwithstanding the compensation clause of the Concession Agreement.

Glossary of Terms

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.
CY.....	Calendar Year (January to December)
DI.....	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
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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