

Quarterly Equity Review

Rating

BUY

Global

Sector: Manufacturing

Industry: Manufacturing & Distribution



Wisynco Group Ltd.

JSE
WISYNCO

Bloomberg
WISYNCO JA

6M 2023: Wisynco records strong results amid its expansion push.

Financial Overview

Revenue & Profitability

Despite starting the year under the cloud of the pandemic, Wisynco reported revenues totalling J\$39.04 billion for FY 2022, which was an increase of 22.72% over the previous year's sales which stood at J\$31.82 billion. This increase was mainly due to heightened demand across all categories as the pandemic effects waned, particularly in the second half of the financial year. The knock-on effect of the strong top-line growth was a jump in Net Profit to J\$4.05 billion, up by J\$981.38 million or 31.94%. The jump in profits was also due to an increase in finance income and a simultaneous decrease in finance costs.

Despite production challenges that kept the company from achieving their production forecasts and sales targets for both the local and export markets, the strong demand for Wisynco's products in all channels allowed them to still report positive growth for the first 6 months of FY 2023. During this period which ended in December 2022, Wisynco reported revenues of J\$24.07 billion an increase of 28.74% or ~J\$5.38 billion over the equivalent period in FY 2022. Gross Profits of J\$8.50 billion were 29.70% greater than the J\$6.58 billion reported in the equivalent period of the prior year. After provision for taxes, Wisynco recorded Net Profits Attributable to Stockholders of ~J\$2.51 billion, or 67c per stock unit for the six-month period, which was 18.00% greater than the J\$2.12 billion or 57c per stock unit earned for the equivalent period in the prior year.

Balance Sheet

At the end of FY2022 total assets increased by 15.76% to J\$25.89 billion from J\$22.36 billion in the previous year. This was due to excess inventories held by the company to minimize disruptions, etc., from possible supply chain delays, such as stock-outs. Additionally, assets grew as a result of approximately J\$600 million of deposits placed for new equipment, as the company moved to expand its production capacity during the financial year ending 2023.

Over the first six months (HI) of FY 2023 Wisynco's Total Assets stood at ~J\$27.10 billion, having increased by 4.66% over the amount reported at FY2022's year-end. This mainly reflected continued increase in capital investment as well as growth in Investment Securities and Receivables. Total Liabilities for HI 2023 stood at J\$6.80 billion, declining by 15.20% over the six-month period. This was largely driven by reductions in Trade and other payables.

Spurred by the company's profit growth, Wisynco's Total Equity expanded to J\$20.26 billion at the end of the HI 2023, which represents a 13.60% or J\$2.40 billion increase over the six months.

March 17, 2023

Closing price	17.36
Forecast dividend	0.46
Current target price	20.68
Previous price target (May, 15 2020)	16.40
TOTAL RETURN	21.8%

Company Data

Outstanding shares	3,756,250,000
Market Cap	65,208,500,000
52-Week (Lo/Hi)	16.0/26.9
1 Yr Daily Average Volume	199,636
5Yr Daily Average Volume	436,856

Major Shareholders

Wisynco Group Caribbean Ltd.	73.91%
ATL Group Pension Fund Trustees Nom Ltc	1.56%
GraceKennedy Pension Fund Custodian Ltd.	0.88%

Key Financials

J\$ Mn	FY21	FY22	FY23e	FY24e
Total Revenues	31,816	39,046	46,855	55,289
Operating Profit	3,791	4,870	6,794	8,846
Net Profit	3,072	4,054	5,423	6,984
Net Profit Change (%)	9.6%	31.9%	33.8%	28.8%
EPS	0.82	1.08	1.44	1.86
Dividend Yield	1.59%	2.61%	2.23%	3.60%

Price Performance

	1MTH	3MTH	1YR
WISYNCC	-18.0%	0.6%	11.9%
Main Index	-0.7%	1.5%	18.1%



Source: Bloomberg; JN Fund Managers Limited

ROE 2022	Exp Ratio 2022	Debt / Equity 2022	Gross Margin 2022	Net Profit Margin
24.65% +12.4%	21.9% -8%	0.1 -10%	33.9% -2.87%	10.38% +7.5%
2021: 21.92%	2021: 23.80%	2021: .09	2021: 34.9%	2021: 9.66%

FY 2023: Expansion Plans

Wisynco is currently undertaking its largest-ever capital expansion this financial year. It already operates 600,000 square feet of space - split among its White Marl, Lakes Pen, and Ferry locations - but it is looking to add another 200,000 square feet. The expansion will see the installation of three new plants in the company's existing facility, along with factory and warehousing space at Lakes Pen. This will include a new line for its bottled water, Wata; a new product line; a power generation plant; and new warehousing for raw material and finished goods. Production should start in early 2024.

In the expansion, the company intends to spend J\$5billion on new machinery and plant upgrades at its St Catherine base of operations and is projecting at least a 30.00% increase in production capacity once upgrades are finalized. This will allow the company to decrease its per-unit costs and improve profit margins. The company will also benefit from this project as it will enable better customer service as business lines with increased capacity are better equipped to respond to large orders, manage seasonal business, and ramp up production in order to maintain current sales levels.

Wisynco is also looking into plans to potentially return some of its production overseas to satisfy growing demand in its export markets. Currently, exports make up less than 5.00% of Wisynco's revenues, a number which Wisynco is seeking to at least double by 2025. The company's biggest export market is the United Kingdom, which when combined with the US market, accounts for greater than 50.00% of total overseas sales. If UK sales continue to grow at the current rate, the company may decide to eventually establish a manufacturing plant in Europe.

Valuation

1. Relative Valuation Method (Summary)

Industry Average P/E = 12.69x
 Wisynco's Forward Earning = J\$1.86
 P/E Valuation Est. = J\$23.59

2. DDM Valuation Method (Summary)

Required rate of return = 12.77%
 g = 5.88%,
 DDM Valuation Est. = J\$17.75.79

Wisynco's Average Valuation Est. = \$20.67

6M Highlights

- **Total Revenue Growth** – Total Revenues for the first half of FY 2023 increased by 28.74% or ~J\$5.38 billion, despite production challenges.
- **Improved Profits** – For the six months ended December 31, 2022, Profit before tax (PBT) was J\$3.2 billion, 14% or J\$394 million greater than the corresponding period of FY2022, while net profit attributable to stockholders was J\$2.5 billion, representing growth of 18% or J\$383million when compared to the corresponding period of the prior year.
- **Export Growth** – Following Wisynco's substantial export market growth in the last financial year, exports for the last six months were also up when compared to the same period of the prior year. The company currently has several initiatives underway to increase production capacity, which bodes well for future growth.
- **Expansion in Productive Capacity** – Wisynco has ramped up expansion activities, with new equipment to arrive later this year and new buildings being constructed. This will boost their productive capacity and facilitate the introduction of new brands and innovations.

Risks to monitor:

- **Raw Material Prices** – The volatility in global markets can have significant consequences for Wisynco's manufacturing and distribution businesses. Unexpected fluctuations in raw material cost and energy, for example, can destabilize markets and supply chains, making it difficult for the company to continue to deliver strong profits.
- **Supply Chain Disruptions** – Supply chain disruptions have affected almost every industry in the global economy since the start of the COVID-19 pandemic. The after-effects of the pandemic, natural disasters, and geopolitical tensions are all factors that increase uncertainty within global supply chains, which can impact Wisynco's supply chains.
- **Recession Fears** – With inflationary pressures still high, central banks have tightened monetary policy, increasing the risk of a severe slowdown in economic activities in FY2023/24. A significant slowdown could curtail Wisynco's revenue and profit growth in the future.