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CEO CORNER

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As is customary for the January edition of our monthly Investor Forum, we were joined by the Minister of Finance and Public Service, The Hon Audley Shaw. He gave our audience an economic review of 2017 and outlook for 2018.

BUY·HOLD·SELL

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FEBRUARY 2018 CEO CORNER

A Company's Stock Price: What does it mean?

form of dividends, which are usually paid once to twice a year to shareholders. This is generally paid when a company is making substantial amounts of profits.

Many companies have faced challenges in becoming undermined with the value of share price. This occurs when management is unable to utilise the funds raised to increase future earnings with the value of the business. There are conditions that the company must undergo in making its share price beneficial for all stakeholders: it is imperative that the business is a reputable entity with steady profit growth where the increase in share price is aligned with the increase in the value of the business or employ corporate strategies that aids in increasing the added value of the company. Invariably these elements will be advantageous in increasing shareholders' value.

Good management must have a vision for its company in taking advantage of its share price to expand and grow the business. Once the value of the stock price has increased, it will provide alternative opportunities to develop the future of the company and its stakeholders. This will furthermore attract potential investors as well as build strong strategic partnerships.

Companies enter the stock market either to issue or sell shares after their initial public offering (IPO), which a company usually does to raise more capital for expanding their operations. Studies have proven, over time, that shares or equities are one of the best long-term investments in the financial marketplace and therefore, can be a measure of the overall strength and well-being of a company's performance.

The stock price of the company is varied to change in its value; investing in equities involves the taking of risk once the investment has been made. Nonetheless, over the long term they can generate good returns. Investors receive two types of returns from the purchase of shares they buy: long-term capital growth and annual income, where shares offer income in the



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IPO

Expect the IPO storm to continue in 2018



Damali Morgan
Assistant Manager
Asset Management

An initial public offering, or IPO as we call it, is the original sale of stock issued by a company to the public. Before an IPO, the company is considered a private company, made up of primarily initial investors. There is a myriad of reasons why companies may decide to go public. The most common among these include debt reduction, expansion of current business and for business continuity in the case of family-owned businesses. Jamaican companies can list on the Jamaica Stock exchange in one of three markets i.e the Junior Market, the Main Market or the US Dollar Equities Market. The US Dollar Equities Market allows companies to list their stock in US dollar currency and allows for the trading and settlement of these shares in US dollars.

According to the JSE Rule Book "An eligible company shall, for the purposes of its initial admission, issue participating voting shares by way of an Initial Public Offering subject to a prospectus, seeking a minimum subscription of new shares (or sale of existing shares) of not less than J\$50 million and not more than J\$500 million only on the Junior Market". Main market listings would, however, require a minimum subscription of greater than or equal to J\$500 million.

In recent times the Jamaican Market has seen 4 IPO's between December 1, 2017, and February 1, 2018. The companies listed were a mixture of Main Market and Junior Market companies (VMIL, WISYNCO, GWEST, FOSRICH). All four companies saw their offer being oversubscribed and are currently trading above their subscription price. The companies raised a total of over JMD \$7 billion on the market during the month of December.

This shows the increasing appetite for purchasing equity in the Jamaican market. This increased appetite for equity has also enabled the market to continue its robust growth over the last three years. With increased confidence in the stability of Jamaican Economy and investor confidence at a high, it is expected that we are to see more IPO's in the 2018 calendar year. That being said we have already seen one IPO in 2018; Elite Diagnostic issued its prospectus with a subscription price of J\$2.00 per share for its 70.68 million issued shares. The IPO opened February 5, 2018, and was closed on the same day with joint brokers National Commercial Bank Group Limited and Sagicor Group Jamaica Limited stating that the IPO was oversubscribed. Another successful IPO should send signals to the market that capital is still available even after the over \$7 billion raised in December 2017.

This means well for investors as IPO's are generally listed at discounted prices and tend to appreciate much faster than stocks already listed. Recent examples of IPO's can be seen in the table below:

Company	Initial Listing Price	Price February 16, 2018	Price Change
Main Event Entertainment Group	\$2.00	\$5.98	199%
Express Catering Limited	\$1.50	\$4.63	209%
Stationary and Office Supplies Limited	\$2.00	\$5.00	150%

Although the results shown above are extremely positive, investors are however warned to assess these public offerings and ensure these companies are sustainable and capable of growth. If an investor has limited knowledge in assessing companies, they should speak to their broker or money manager for their professional opinion and remember "not all that glitters is gold".

RULED BY DESIRE



EXTRAVAGANZA



TRAPICHE
ARGENTINA

COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



GK's Projection for 2017 Financial Year

We anticipate a growth in GK's net profit for the following reasons:

- Total revenue is projected to have an increase of 5 per cent for the 2017 FY underpinned largely by improved performances from the food trading, banking and finance and remittance segments. The acquisition of Consumer Brands is expected to have a positive impact on revenue growth. However, the Group's revenue growth is expected to be tempered by the performance of the insurance segment as a result of increased claims activity from Caribbean territories which were affected by hurricanes in September 2017.
- Expenses over the past five years expenses reflect an upward trend, growing at a CAGR of 9.8 per cent from 2012. The direct expense (cost of revenue) margin for the 2016 FY was 96 per cent, while the average for the past five years was approximately 95.6 per cent. As such a margin of 96 per cent was used to project direct expenses for the full 2017 year.
- Consequently, gross profit is expected to increase by 3 per cent in the FY 2017 to \$3.71 billion.
- Other income, to date contracted by 13 per cent to \$1.69 billion compared to \$1.95 billion, while for the third quarter; an 89 per cent jump was recorded to \$789.30 million (2016: \$416.95 million). This was due to the inclusion of a gain on the acquisition of subsidiary of \$418.46 million (2016: Nil) and a gain on the disposal of investments of \$45.70 million (2016: \$608.69 million). This of course is expected to have a positive impact net income.
- GK's profitability is estimated to increase by 2 per cent for the full 2017 FY, driven by the continued growth from the various segments and the inclusion in other income due to the gain on acquisition of subsidiary. As such, EPS for the 2017 FY is estimated

at \$4.08 compared to \$4.03 booked for the 2016 financial year. Using an industry Price to earnings ratio (P/E) of 12.89 times, GK's stock price is valued at \$52.75. Additionally, the stock price traded at \$43.36 on February 16, 2018, which is below its valuation and is recommended as a HOLD.

Conclusion

GraceKennedy reported revenues of \$88.27 billion for the 2016 FY and profit attributable to shareholders of \$4.0 billion. The company has shown an improvement in efficiency as well increases in sales over the past five years. GK's EPS depicts an increasing trend moving from \$3.50 in 2012 to \$4.03 in 2016. The company's cash conversion cycle of 19 days is relatively low compared to its peers.

GK's EPS is projected at \$4.08 for the 2017 FY end, with the stock valuing \$52.75 over the medium term based on expected earnings. The stock price closed the trading period on February 16, 2018 at \$43.36 and as such could be considered a HOLD at this time.

Disclaimer

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COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



Executive Summary

GraceKennedy is one of the Caribbean's largest and most dynamic corporate entities. In 1995, GraceKennedy developed a 2020 Vision, with an objective of transforming the company from a Jamaican trading company to a global consumer group with roots in Jamaica. On this journey, the company became substantially larger and stronger, measured by the growth in revenues, productivity, profits and market value. GraceKennedy's mission continues to be, "To satisfy the unmet needs of Caribbean people wherever we live in the world".

GK is the parent company of a Group of subsidiaries operating within the financial and food services industries. The Group's operations involve food processing and distribution, banking and finance, insurance and remittance services. Additionally, on July 7, 2017, the Group announced that it had reached an agreement to acquire full ownership of Consumer Brands, a large player in the Jamaican distribution market. Consumer Brands, a subsidiary of the GraceKennedy Group, operates under GraceKennedy Foods. Furthermore, GK Investments Limited, a subsidiary of GraceKennedy has acquired a 33 1/3 per cent stake in Gray's Pepper Products Limited, one of Jamaica's largest processors of seasonings and sauces. According to GK, "This investment in Gray's Pepper Products is in keeping with our continued commitment to Jamaica's agro-processing industry". This will allow for the investment to grow the business's current product portfolio locally and internationally.

For the 2016 financial year (FY), the company's net profit increased by 50 per cent due to a 11 per cent and 52 per cent growth in revenue and other income respectively. GK's revenue grew over the past five years at a compounded annual growth rate (CAGR) of 9.5 per cent from 2012. For the nine months ended September 30, 2017, GK reported revenue growth of 4 per cent, while total expenses grew by 4 per cent. The company posted marginally improved net profits for the nine months ended September 2017, growing by 1.39 per cent. Within the quarter, profits jumped 57 per cent from \$998.25 million in 2016 to \$1.57 billion.

The earnings per share (EPS) for the 2017 FY is estimated at \$4.08 compared to \$4.03 booked for the 2016 FY. GK's stock price could be valued at \$52.75 over the medium term based on expected earnings. Additionally, the stock price traded at \$43.36 on February 16, 2018, below its valuation and is recommended as a HOLD.

Economic Overview

Grace Kennedy's product and services are affected by the economic conditions locally and internationally as well as consumer's disposable income. With that said, for the year

2017, the economic indicators have been moving in a positive direction.

According to the Statistical Institute of Jamaica (STATIN), "The Jamaican economy grew by 0.8 per cent when compared to the prior year. Within the year 2017 the total value added at constant prices for the Jamaican economy was \$186,004 million. This increase was attributed to improved performances in both the services industries (1.0 per cent) and the goods producing industries (0.3 per cent)".

Inflation rate for the 2017 calendar year (January 2017 – December 2017) was 5.2 per cent, the fiscal year-to-date movement was 4.2 per cent and the point-to-point movement was 5.3 per cent according to the STATIN. This fell within the Bank of Jamaica's (BOJ) target rate. The bank at its quarterly press briefing held November 2017 remarked, "With this in mind, we can together take note of the significant milestone passed in September 2017, with the approval by the Minister of Finance and the Public Service for the first time of a medium-term inflation target for BOJ". The target has been set by the Minister at 4.0 per cent to 6.0 per cent.

Unemployment rate as at July 2017 was 11.3 per cent which is a decrease by 1.6 percentage points from 12.9 per cent in July 2016. During this period the economy added 29,200 (2.5 per cent) new jobs that were created as compared to the prior year. According to BOJ, "This represents the lowest unemployment rate since July 2009 and suggests that employment is growing faster than the labour force. While these numbers are heartening, they also suggest that Jamaica is beginning to approach its capacity limits in terms of skilled labour. It is therefore becoming critical for the country to increase the pool of skilled workers in order to facilitate sustained economic growth without igniting faster inflation". Mr. Brian Wynter, Governor of BOJ, went on to further say, "These and other developments point to an improving economy where macroeconomic stability as a foundation for growth appears to be entrenched. This is underpinned by the remarkably strong performance recorded to date under the IMF-supported economic programme. The stable outlook for inflation and continued fiscal consolidation encourages continuation of the bank's accommodative policy stance in support of further improvements in domestic output and employment".

Company Background

GraceKennedy Limited (GK) is one of the largest and most dynamic enterprises within the Caribbean. The company is publicly listed on the Stock Exchanges of Jamaica and Trinidad and Tobago. GraceKennedy Limited began its operations in Jamaica on February 14, 1922 and is the parent company of a Group of subsidiaries operating within the financial and food

COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



services industries. The Group's operations involve food, trading and financial services.

The food trading segment involves the business of food manufacturing through their own factories as well as through external suppliers, the distribution of Grace and Grace owned brands in Jamaica and internationally, and the operation of retail outlets through the Hi-Lo Supermarket chain in Jamaica. GK Foods manufactures and distributes third-party brands in Jamaica and internationally. GK introduced their juice drink, "This is Really Great Yogurt", and "Lishous", into the Jamaican market in 2016 which recorded strong growth, while the "Tastee" Cheese and Soups segment grew exports to the United States. The Group operates primarily in Jamaica, the Caribbean, Central America, North America, Africa, the United Kingdom (UK), and other European countries.

The Financial services segment include commercial banking, general insurance, insurance brokerage, investment banking, remittance, cambio and payment services businesses. These financial services companies presently operate within the English-speaking Caribbean. The FX Money Services extends cambio services in Jamaica and Trinidad and Tobago under the FX trader brand.

Within the Banking and Investments segment, First Global Bank (FGB) reported strong growth in revenues which was greatly influenced by a 13.5 per cent increase in loan portfolio. FGB continued to pursue its strategy of convenience enabled by technology with the opening of a new high-tech branch in Ocho Rios and the relocation and upgrade of the Liguanea branch. GK Capital Management Limited (GKCM) solidified its position in the investment advisory space, having completed a number of transactions during the year valued at over \$3 billion.

"The insurance segment's revenue growth was driven primarily by our underwriter in Jamaica, GK General Insurance Company Limited (GKGIC)". GKGIC also continues to innovate through its microinsurance portfolio resulting in the revenue generated from this portfolio doubling year over year. Allied Insurance Brokers Limited, insurance broker in Jamaica has been a major contributor to the growth in profitability and has recorded strong revenue growth over last year. Underwriters in St. Lucia, GK Insurance (Eastern Caribbean) Limited, is now licensed to operate in three additional territories: St Vincent & The Grenadines, Antigua and Barbuda and Grenada. In February 2016, GKMS expanded its operations into the Turks and Caicos market through the establishment of a new subsidiary, GraceKennedy Money Services (Turks & Caicos) Limited; this represents the 11th market in which the company operates.

In December 2016, the BOJ approved the GK Money Services' mobile wallet application, GK MPAY, in Jamaica. GK MPAY was

launched in the Jamaican market in February 2017, providing the convenience for users to make payments and other money services transactions on their mobile phones.

SWOT

STRENGTHS:

- Strong brand recognition.
- Wide revenue base from the various goods and services.
- One of the largest Jamaican companies with multi-national operations.
- Rapid growth in the food division in Europe and Africa.

WEAKNESSES:

- Majority of the company's revenue is generated in one economy.
- Reduction of the UK food business due to the depreciation of the Pound sterling.

OPPORTUNITIES:

- Increased technological improvements GK Pay App.
- Expansion in new markets.

THREATS:

- Less growth within the food market due to competition.

Operational Analysis

Grace Kennedy Limited	GK 5 Year Financial Performance						Change %	5 Year CAGR
	Dec. 2012 \$'000	Dec. 2013 \$'000	Dec. 2014 \$'000	Dec. 2015 \$'000	Dec. 2016 \$'000			
Revenues	61,340,268	67,257,502	77,970,073	79,742,230	88,267,589	11%	10%	
Expenses	(58,178,779)	(63,913,042)	(74,879,998)	(76,949,188)	(84,684,563)	10%	10%	
	3,161,489	3,344,460	3,090,075	2,793,042	3,583,026	28%	3%	
Other Income	1,035,734	1,710,632	1,820,990	1,571,132	2,383,733	52%	23%	
Profit from Operations	4,197,223	5,055,092	4,911,065	4,364,174	5,966,759	37%	9%	
Interest Income - non-financial	349,613	302,471	394,244	339,154	372,276	10%	2%	
Interest expense - non-financial	(618,439)	(542,539)	(688,416)	(715,706)	(676,856)	-5%	2%	
Share of results of associated co	174,007	260,175	230,906	316,191	441,151	40%	26%	
Profit Before Taxation	4,102,404	5,075,199	4,847,799	4,303,813	6,103,330	42%	10%	
Taxation	(316,072)	(1,281,135)	(1,048,672)	(1,271,291)	(1,568,468)	23%	49%	
Net Profit	3,786,332	3,794,064	3,799,127	3,032,522	4,534,862	50%	5%	
EPS	3.50	3.24	3.30	2.77	4.03			
Net Profit/Loss Attributable to:								
Stockholders of the Company	3,478,888	3,221,634	3,285,174	2,759,498	4,004,539	45%	4%	
Non-controlling interest	307,444	572,430	513,953	494,522	530,323	7%	15%	
Total	3,786,332	3,794,064	3,799,127	3,254,020	4,534,862	39%	5%	

The company's revenues have steadily increased over the five-year period, moving from \$61.34 billion in 2012 FY to \$88.27 billion in the 2016 FY, growing at a compounded annual rate (CAGR) of 8 per cent. Revenues increased 11 per cent year over year for the most recent FY from \$79.74 billion in 2015 to \$88.27 billion in 2016.

The Group's revenue growth was influenced by the increase in all of its divisions. The highest growth rate was from the money services segment of 19.3 per cent, followed by Banking & Investments, Insurance, and Food Trading, which showed growth rates of 11.5 per cent, 9.9 per cent and 9.8 per cent respectively. Food trading still is the major contributor accounting for 78 per cent of the Group's total revenue.

COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



Direct expenses have increased by 10 per cent year over year closing at \$84.68 billion (2015: \$76.95 million). The company's direct expense has grown at a CAGR of 9.8 per cent for the last 5 years. Interest income increased by 10 per cent over a one-year period from \$339.15 million in 2015 to \$372.28 million in 2016, growing at a (CAGR) of 1.6 per cent.

Pre-tax increased by 42 per cent mainly because of the improvement of the operational performance from the subsidiaries and non-recurring gains, despite the rise in post-employment benefit expenses. This was further shown in the reported net profit for the Group which increased by 39 per cent.

Other income increased by 52 per cent during the year, largely attributable to non-recurring gains realised on the liquidation of certain dormant subsidiaries and foreign exchange gains.

Consequently, net profit attributable to stockholders increased by 45 per cent from \$2.76 billion in 2015 to \$4 billion in 2016, while non-controlling interest increased 7 per cent from \$494.52 million to \$530.32 million.

EPS for 2016 were reported at \$4.03, a strong increase as compared to the prior year \$2.77.

GK's 5 Year Balance Sheet

GK's 5 Year Balance Sheet							
Balance Sheet	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Change	5 Year
	\$'000	\$'000	\$'000	\$'000	\$'000	%	CAGR (%)
Assets							
Cash and Deposits	10,989,655	9131888	9,508,980	9,901,417	12,276,647	24%	3%
Investment Securities	16,308,785	20,883,838	20,593,899	21,760,103	23,874,246	10%	10%
Pledged Assets	29,431,618	27,140,200	9,452,340	11,107,139	15,419,427	39%	-15%
Receivables	8,507,124	9,094,326	11,466,142	11,578,568	13,688,237	18%	13%
Inventories	6,569,375	8,345,097	10,797,175	10,041,196	11,461,283	14%	15%
Loans Receivables	13,881,176	16,238,507	18,364,429	22,595,591	25,928,057	15%	17%
	104,119,444	108,643,306	101,859,529	108,693,454	126,479,149	16%	5%
Liabilities							
Deposits	15,768,039	17,768,017	21,197,427	24,258,437	30,653,888	26%	18%
Securities sold under repurchase agreements	27,711,820	25,074,089	7,528,474	8,641,978	12,343,432	43%	-18%
Bank and other loans	10,338,328	11,571,790	11,064,160	13,936,107	13,242,037	-5%	6%
Payables	13,510,563	15,226,874	19,052,694	17,216,263	20,325,181	11%	11%
	72,251,095	74,409,922	63,614,557	69,320,392	82,940,541	20%	4%
Equity							
Share capital	808,079	643,074	588,533	567,789	534,249	-6%	-10%
Capital and fair value reserve	4,695,304	4,356,384	5,185,628	5,132,759	5,805,054	13%	5%
Retained earnings	20,714,969	22,544,646	25,092,735	25,971,707	29,333,152	13%	9%
Banking reserves	2,000,704	2,077,782	2,083,726	2,588,019	2,772,209	7%	8%
Other reserves	2,483,781	3,143,798	3,582,479	3,787,167	3,619,261	-4%	10%
	30,702,837	32,765,684	36,533,101	38,047,441	42,063,925	11%	8%
Non-controlling Interest	1,165,512	1,467,700	1,711,871	1,325,621	1,474,683	11%	6%
	31,868,349	34,233,384	38,244,972	39,373,062	43,538,608	11%	8%
Total Equity & Liabilities	104,119,444	108,643,306	101,859,529	108,693,454	126,479,149	16%	5%

Balance Sheet Analysis

SGK's assets increased to \$126.48 billion in 2016 (2015: \$108.69 billion). Over the last five years, total assets have grown at a CAGR of 5 per cent from \$104.12 billion in 2012. In 2016, the increase in the Group's asset base was mainly attributable to an increase in investment securities and pledged assets due to growth in First Global Bank's (FGB) customer deposits. Notably pledged assets had a 39 per cent year over year from \$11.12 billion in 2015 to \$15.42 billion in 2016. Other areas of growth included,

loans receivables, resulting from growth in FGB's customer loan portfolio and working capital items including receivables from the financial services companies and inventory from our Food companies.

Total liabilities increased by 20 per cent in 2015 from \$69.32 billion to \$82.94 billion. This is a 4 per cent increase over a 5-year period. Taxation had a significant increase of 84 per cent over a one-year period closing at \$572.33 million in 2016 (2015: \$311.60 million).

The Group reduced its use of debt in 2016 by 5 per cent from \$13.94 billion in 2015 to \$13.24 billion. This was due to a reduction in external financing for FGB due to increased funding from deposits. Deposits grew by 26 per cent to total \$30.7 billion. The growth in deposits is in line with FGB's strategy to grow its deposit base.

The Group's equity base increased by 11 per cent during the year to be totalled to \$42.06 billion in 2016, compared with \$38.05 billion in 2015. The capital growth for the Group in 2016 was mainly driven by an increase in retained earnings of 12.9 per cent. Non-controlling interest increased by 11 per cent to total \$1.47 billion in 2016 due to improved performance of the GK Money Services Group, in which GraceKennedy has a 75 per cent shareholding.

Ratio Analysis

Profitability Ratios

GK Profitability Ratios	FY2012	FY2013	FY2014	FY2015	FY2016
Gross Profit Margin	5%	5%	4%	4%	4%
Expense Margin	95%	95%	96%	96%	96%
Operating Expense margin	7%	8%	6%	5%	7%
Pre-tax margin	7%	8%	6%	5%	7%
Net Profit Margin	6%	6%	5%	4%	5%
Effective Tax rate	8%	25%	22%	30%	26%
ROE	13%	12%	11%	8%	11%
ROA	4%	4%	4%	3%	4%

The gross profit margin over the five-year period declined, moving from 13.65 per cent in 2012 to 9.15 per cent in 2016. This decline in the margin is due to a slowdown in revenue growth over the past 5 years. This has however recently recovered due to the addition of CTL. The direct expense margin reflects the company's ability to manage its expenses as the margin remained fairly stable between 2013 and 2016. The pre-tax margin over the five-year period has been trending downwards, from 4.89 per cent in 2012 to 3.70 per cent in 2016. SVL's effective tax rate reflects an increasing trend moving from a rate of 26 per cent in 2012 to 29 per cent in 2016. Notably, the company continues to battle high tax rates which are a major cause to the reduction in the company's net profit margin. The company's

COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



net profit margin of 2.62 per cent in 2016 has weakened relative to 3.61 per cent in 2012. The company continues to show increased return on assets and return on equity after having a decline to 9 per cent and 13 per cent respectively in 2013. SVL closed 2016 with a ROA of 22 per cent and a ROE of 32 per cent this underlines management's ability to properly utilise assets.

Liquidity

GK Ratios	FY2012	FY2013	FY2014	FY2015	FY2016
Asset Turnover	0.60	0.63	0.74	0.76	0.75
Inventory Turnover	8.89	8.57	7.82	7.39	7.88
Days of Inventory on hand	41.07	42.59	46.65	49.42	46.34
Receivables Turnover	7.22	7.64	7.58	6.92	6.99
Days of Sales O/S	50.58	47.76	48.12	52.74	52.24
Payables Turnover	4.52	4.57	4.51	4.20	4.59
# of Days of Payables	80.75	79.84	80.90	86.87	79.57

The accounts receivables turnover ratio for GraceKennedy Limited has decreased between the years 2012 and 2016, moving from 7.22 times to 6.99 times respectively. This indicates GK's ability to collect from its debtors efficiently. The days sales outstanding ratio increased from 50.58 days to 52.24 days indicating the length of time it takes GK to collect receivables after a sale has been made. The accounts payable turnover ratio rose to 4.59 times (2016) from 4.52 times in 2012, indicating the rate at which GK repays its suppliers.

Notably the days payable outstanding ratio decreased from 80.75 days to 79.57 days over the 5-year period. This illustrates that GK takes about 79.57 days to pay its invoices from suppliers. GK's inventory turnover ratio decreased from 8.89 times in 2012 to 7.88 times in 2016; this suggests GK turns over their total inventory 7.78 times per year. The days sales of inventory on hand ratio increase during the 5 years moving from 41.07 days in 2012 to 46.34 days in 2016, showing that GK takes 46.34 days to turn its inventory into sales as compared to 41.07 days (2012). GK's asset turnover ratio as at December 31, 2016 was 0.75, indicating GK's efficiency in utilizing its assets to generate revenues.

As at December 31, 2016 it was evident that GK maintained a preference for the use of equity in the financing of its operations as opposed to debt. The debt to assets ratio decreased to 10 per cent in 2016, from the 11 per cent recorded for 2013. Compared to the companies within GK's sector, the company return on equity of 10 per cent is the lowest of its peers and below the sector's average of 21 per cent. This is a measurement of GK's ability to generate a return with each dollar of shareholders' equity. The company's return on assets of 3 per cent is also the lowest of its peers and below the sector average of 9 per cent; indicating GK's efficiency at using its assets to generate earnings.

GK's Cash Conversion Cycle relative to Manufacturing Companies

Cash Conversion Cycle for Manufacturing Companies				
GraceKennedy Limited (GK)	2013	2014	2015	2016
Cash Conversion Cycle	10.51	14.57	18.06	19.01
Lasco Manufacturing Limited (LASM)	2013	2014	2015	2016
Cash Conversion Cycle	94.64	109.33	116.78	95.07
Jamaica Producers Group Limited (JP)	2013	2014	2015	2016
Cash Conversion Cycle	133.75	142.01	172.56	42.21
Honey Bun (HONBUN)	2013	2014	2015	2016
Cash Conversion Cycle	36.20	29.26	28.42	9.26

GK's cash conversion cycle for 2016 was 19.01 days and appears to outperform the industry average. The industry average of the four companies for the cash conversion cycle for 2016 is 41 days. This reflects the company's ability to convert resources inputs into cash flows and indicates that GK's liquidity position betters that of some of its peers with given the shorter cycle. GK's cash conversion cycle for 2016 increased to 19 days compared to 10 days in 2013, 14 days in 2014 and 18 days in 2015. When compared to the other companies GK's had the second lowest cash conversion cycle for 2016.

GK Ratios Relative to Peers

Sector Comparison				
GraceKennedy Ltd. (GK)	2013	2014	2015	2016
Debt to Equity	35%	30%	37%	31%
Debt to Assets	11%	11%	13%	10%
Return on Equity	10%	9%	7%	10%
Return on Assets	3%	3%	3%	3%
Pan Jamaica Investments trust Co. Ltd. (PJAM)	2013	2014	2015	2016
Debt to Equity	25%	21%	24%	24%
Debt to Assets	19%	17%	19%	19%
Return on Equity	14%	14%	15%	16%
Return on Assets	11%	11%	12%	12%
Jamaica Producers Group Ltd. (JP)	2013	2014	2015	2016
Debt to Equity	83%	156%	133%	83%
Debt to Assets	25%	54%	47%	29%
Return on Equity	19%	20%	37%	38%
Return on Assets	6%	7%	13%	13%

Grace Kennedy Limited (GK) Performance Year to Date

Grace Kennedy Limited (GK)			
For the Period ended	Dec. 2015	Dec. 2016	Change
	\$'000	\$'000	%
Revenues	66,650,405.00	69,299,826.00	4%
Expenses	-63,747,211.00	-66,262,770.00	4%
Gross Profit	2,903,194.00	3,037,056.00	5%
Other Income	1,952,677.00	1,693,179.00	-13%
Profit from Operations	4,855,871.00	4,730,235.00	-3%
Interest Income - non-financial services	280,207.00	287,654.00	3%
Interest expense - non-financial services	-510,518.00	-500,171.00	-2%
Share of results of associated companies	373,758.00	417,701.00	12%
Profit Before Taxation	4,999,318.00	4,935,419.00	-1%
Taxation	-1,299,823.00	-1,184,501.00	-9%
Net Profit	3,699,495.00	3,750,918.00	1%
Net Profit/Loss Attributable to:			
Net Profit attributable Shareholders	3,306,975.00	3,314,979.00	0.24%
EPS	3.32	3.33	

COMPANY ANALYSIS

GraceKennedy Ltd. (GK)



GK's Year to Date Performance:

Grace Kennedy Limited (GK) for the nine months ended September 30, 2017 reported revenues from \$69.30 billion for period (2016: \$66.65 billion), a year over year increase of 4 per cent. For the quarter the company increased revenue by 1.75 per cent to total \$22.93 billion (2016: \$22.53 billion). The biggest contributor to the group's overall revenue for the nine months was income from the 'Food Trading' segment which contributed a total of \$54.34 billion (2016: \$52.21 billion), an increase of 4 per cent relative to the prior year's corresponding period. Management noted, "Revenue was primarily driven by higher sales from our Jamaican foods business".

Among the other segments contributing to revenue, 'Banking & Investments' increased 8 per cent to total \$4.53 billion. GK indicated, "The Banking and Investments segment achieved growth in both revenue and pre-tax profit over prior year. First Global Bank (FGB) reported stronger growth in net interest income and higher gains on securities sold when compared to the same period in 2016. Lower provisions against loan losses also contributed to the favourable performance as the bank continues to focus on delinquency management. During the quarter FGB also launched its "First Global Money Link", providing convenient and inclusive banking solutions to our customers".

Revenue from 'Insurance' amounted to \$4.38 billion, a decrease of 3 per cent, while 'Money Services' brought in \$6.04 billion, 5 per cent more than the \$5.75 billion reported in September 2016. Management indicated, "The company's performance in the third quarter was affected by hurricanes in September. We are currently assessing the potential impact of claims relating to these hurricanes. GK General Insurance continues to maintain a robust reinsurance programme with highly rated international reinsurers which will lessen the impact of these claims".

Total expenses amounted to \$66.26 billion relative to \$63.75 billion booked for the comparable period in 2016, a 4 per cent growth. Other income declined 13 per cent to total \$1.69 billion (2016: \$1.95 billion). As such, 'Profit from Operations' amounted to \$4.73 billion, a 3 per cent decline year over year from \$4.86 billion booked in September 2016.

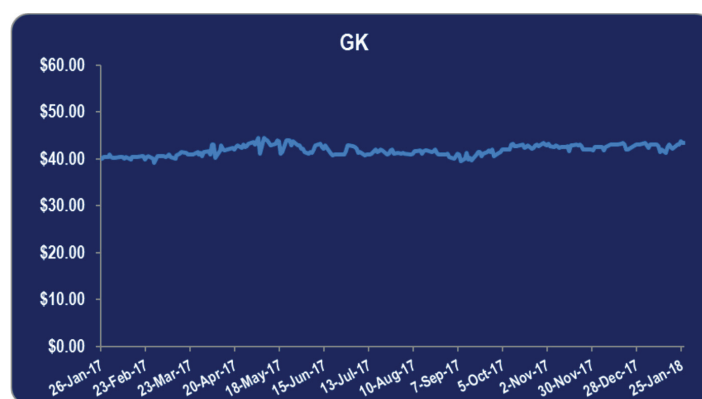
Interest income from non-financial services rose 3 per cent to total \$287.65 million compared to \$280.21 million reported a year earlier. Interest expenses from non-financial services amounted to \$500.17 million versus \$510.52 million booked for the corresponding period in 2016, a 2 per cent reduction. Share of results of associated companies increased by 12 per cent amounting to \$417.70 million, compared to \$373.76 million reported for September 2016.

Pre-tax profits decreased 1 per cent to approximately \$4.94 billion, compared to pre-tax profit of \$5.00 billion documented for the first nine months of 2016. GK incurred taxation expenses amounting to approximately \$1.18 billion compared to \$1.30 billion in September 2016. Consequently, net profit increased by 1 per cent to \$3.75 billion from \$3.70 billion booked for the first nine months of 2016. Net profit for the quarter increased 57 per cent to total \$1.57 billion relative to \$998.25 million reported in 2016.

Net profits attributable to shareholders amounted to \$3.314 billion compared to \$3.306 billion a year earlier, reflecting a 0.24 per cent increase. EPS for first nine months amounted to \$3.33 (2016: \$3.32), while for the EPS for quarter was \$1.43 (2016: \$0.86). The twelve months trailing earnings per share amounted to \$4.03. The number of shares used in our calculations is 994,886,892 units.

Total comprehensive income for the period amounted to \$3.46 billion compared to \$5.05 billion in 2016. This was due to a gain of remeasurements of post-employment benefit obligations of \$917.26 million relative to a loss of \$914.70 million in 2017.

Price History



The company's stock price appreciated 9.5 per cent in 2017. GK's stock price opened the year at \$40.04 on January 3, 2017 and closed the year at \$43.84.

GK Abridged P&L including 2017 FY projection

GraceKennedy Limited (GK) Profit & Loss			
For the Year Ended	Dec. 2016	Dec. 2017	Change
	\$'000	\$'000	(%)
Revenues	88,267,589	92,680,968	5%
Expenses	(84,684,563)	(88,973,730)	5%
Gross Profit	3,583,026	3,707,239	3%
Other Income	2,383,733	2,257,572	-5%
Profit from Operations	5,966,759	5,964,811	0%
Profit Before Taxation	6,103,330	6,152,014	1%
Net Profit Attributable to Shareholders	4,004,539	4,060,330	1%
EPS	4.03	4.08	



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FORUM HIGHLIGHTS

FOR JANUARY 2018



ECONOMIC HIGHLIGHTS

ECONOMIC HIGHLIGHTS FOR JANUARY 2018

	December 2017	January 2018	Change
91 Days Treasury Bills Avg. Yield (%)	4.176	3.986	-0.190
182 Days Treasury Bills Avg. Yield (%)	4.635	4.160	-0.475
Exchange Rate (US\$:J\$)	125.55	124.93	-0.62
Net International Reserves (NIR) (US\$M)	3,208.29	3,203.36	-4.93

Net International Reserves

Jamaica's Net International Reserves (NIR) totaled US\$3,203.36 million as at January 2018, reflecting a decrease of US\$4.93 million relative to the US\$3,208.29 million reported as at the end of December 2017 (see figure 1 below).

Changes in the NIR resulted from an increase in foreign assets of US\$8.34 million to total US\$3,789.51 million compared to the US\$3,781.17 million reported for December 2017. 'Securities' contributed to most of the increase in foreign assets. 'Securities' as at January 2018 totaled US\$326.24 million reflecting an increase of US\$18.78 million compared to US\$307.46 million booked as at December 2017.

'Currency & Deposits' amounted to US\$3,185.07 million; US\$16.73 million less than the US\$3,201.80 million reported in December 2017. Foreign liabilities for January 2018 amounted to US\$586.15 million compared to the US\$572.88 million reported for December 2017. Liabilities to the IMF accounted for 100 per cent of total foreign liabilities, reflecting a US\$13.27 million increase month over month from December 2017.

At its current value, the NIR is US\$733.93 million more than its total of US\$2,469.43 million as at the end of January 2017. The

current reserve is able to support approximately 40.23 weeks of goods imports or 23.30 weeks of goods and services imports.

The country surpassed the benchmark of US\$2.54 billion outlined by the IMF in the 14th Review and adjusted agreement under the Extended Fund Facility (EFF). Jamaica and the IMF have entered into a new agreement to support growth and create jobs with the international body citing, "Jamaica has made good progress under the previous IMF – support program". As such the entity has approved a new US\$1.64 billion loan for the country. According to the IMF the loan is, "despite the toll of weather swings on growth, Jamaica's unemployment rate is at 8-year low, with record high employment levels. Inflation is modest, and expectations are anchored in the medium-term target range of 4-6 per cent. Non-borrowed net international reserves remain above the program target, supported by robust tourism inflows and a moderate current account deficit". As such the Net International Reserve (NIR) target outlined as per the new agreement for the 2017/18 fiscal year is US\$3.28 billion (see figure 2 below).

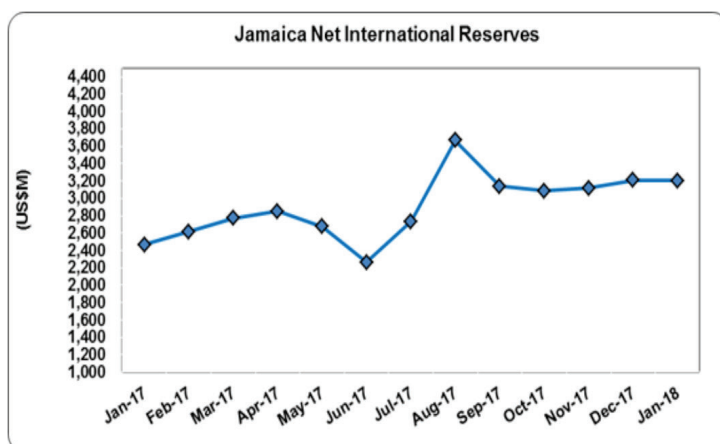


Figure 1

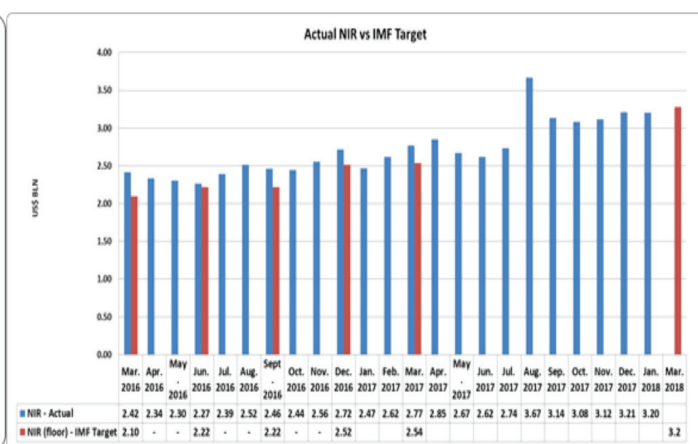


Figure 2

JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR JANUARY 2018

Jamaica Monthly Equity Market Report for January 2018

Main JSE Index: 287,863.8 points
Point Movement: -518.18 points
Percentage Change: -0.18%

Advance Decline Ratio: Positive
Advancers: 20 **Decliners:** 13
Traded Firm: 5

Junior JSE Index: 2922.2 points
Point Movement: 190.15 points
Percentage Change: 6.96%

Advance Decline Ratio: Positive
Advancers: 21 **Decliners:** 13
Traded Firm: 4

Major Winners (Main & Junior)

Stock	Increase	Closing Price
Access Financial Services Ltd.	34.75%	\$49.09
CAC 2000 Ltd.	33.85%	\$8.70
Victoria Mutual Investments Ltd.	27.47%	\$4.13

Major Losers (Main & Junior)

Stock	Decrease	Closing Price
Ciboney Group Ltd.	-46.34%	\$0.22
AMG Packaging & Paper Ltd.	-31.67%	\$2.05
Fosrich Company Ltd.	-22.32%	\$2.54

Total Shares Traded (Main): 141.06 million units
Total value (Main): Approx. \$2.76 billion

Volume Leaders (Main)

Stock	Units Traded	Market Volume
Wisynco Group Ltd.	40,380,916	28.63%
Victoria Mutual Investment Ltd.	24,359,442	17.27%
Cable & Wireless Jamaica Ltd.	21,241,130	15.06%

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BUY**HOLD****SELL****Carreras Limited (CAR)**

For the six months ended September 31, 2017

BUY

• Carreras Limited reported operating revenue of \$6.06 billion, 5 per cent less than the \$6.37 billion booked in 2016. Revenue for the quarter increased by 7 per cent compared to the corresponding quarter in 2016 moving from \$3.03 billion in 2016 to \$3.25 billion in 2017.

• Cost of operating revenue also declined year over year by 8 per cent, amounting to \$3.00 billion from \$3.27 billion. As such, gross operating profit declined by 1 per cent to total \$3.06 billion relative to the \$3.10 billion in 2016. Other operating income increased 15 per cent moving from \$141.32 million in 2016 to \$162.04 million.

• Administrative, distribution and marketing expenses increased 2 per cent to total \$989.68 million (2016: \$970.07 million). The company stated that this was attributable to "one-off expenses associated with the recent stock split and the modernization of the Articles of Incorporation. Overheads continue to be rigorously monitored and controlled by management".

• Profit before income tax was recorded at \$2.23 billion relative to \$2.27 billion in 2016. Taxation of \$558.22 million was incurred for the period (2016: \$585.71 million).

• Net profit for the six months declined 1 per cent to \$1.67 billion relative to \$1.69 billion booked in 2016. Net profit for the second quarter saw a 11 per cent increase amounting to \$914.39 million compared to the \$826.12 million reported in the second quarter 2016 period. Total comprehensive income attributable to shareholders for the period closed at \$914.01 million compared to \$825.61 million reported for the corresponding quarter in 2016.

• The earnings per share (EPS) for the period was \$0.34 as compared to \$0.35 for the corresponding period of last year, while EPS for the quarter amounted to \$0.50 (2016: \$0.49). The twelve month trailing EPS amounted to \$0.78. The number of shares used in the computations amounted to 4,854,400,000 units.

**Caribbean Flavours & Fragrances Limited (CFF)**

For the six months ended December 31, 2017

HOLD

• Revenue amounted to \$214.26 million for the six month ended December 31, 2017, an increase of 1 per cent, when compared with the \$211.85 million booked for the corresponding period last year. CFF noted, "the quarter was negatively impacted by severe and unusual weather conditions which have persisted for the last six months". The company further noted "the company expects that there will be normality to the many issues faced during this quarter and as such expects to report an improvement in these results over the next reporting period as many of the challenges would have been normalized.

• Cost of sales increased by 2 per cent to \$130.35 million compared to 2016's total of \$127.76 million for the second quarter. As such, gross profit remained flat, amounting to \$83.91 million, relative to \$84.10 million for 2016.

• Administrative expenses increased 5 per cent to \$44.37 million (2016: \$42.15 million), while Selling and Distribution Costs increased by \$376,000 to \$2.11 million for 2017. CFF stated, 'we will continue with the implementation of business plan which are anchored on the pillars of revenue growth and expense management in order to deliver on the desired result'.

• Net finance income increased declined by 79 per cent to \$5.04 million compared to the \$2.82 million for the same period of 2016.

• Profit before taxation totalled \$42.47 million (2016: \$42 million), a decline of 1 per cent. No taxation was booked for the period under review.

• Earnings per share for the six months ended December 31, 2017 amounted to \$0.47 (2016: \$0.48). The number of shares used in the calculation was 89,920,033 units.

**RJRGLEANER Communications Group (RJR)**

For the nine months ended December 31, 2017

SELL

• Revenues for the nine months declined by 4 per cent to \$3.87 billion compared to \$4.02 billion for the comparable period the prior year. The quarter added a 2 per cent increase to close at \$1.40 billion (2016: \$1.36 billion).

• Direct expenses have declined by 4 per cent to \$1.84 billion relative to \$1.9 billion for the same period in 2016. As a result, gross profit declined by 4 per cent to 2.03 billion (2016: \$2.12 billion) year to date.

• The company had a 3 per cent decline in total operating expenses to \$2.01 billion when compared to \$2.06 million posted in the same period in 2016. This was mainly attributed to a 2 per cent decline in the company's administrative expenses from \$934 million in 2016 to \$919 million. Also selling expensed decline by 7 per cent from \$599 million (2016) to \$556 million (2017).

• Other income year-to-date has amounted to \$71.8 million (2016: \$224.3 million) representing a 68 per cent decline. Once considered, an operating profit of \$94.84 million was reported relative to an operating profit of \$280.68 million reported in 2016. This represents a decline of 66 per cent in operation profit.

• Finance costs had a 4 per cent decline moving to \$29.65 million (2016: \$30.97 million) for the period.

• As a result, profit before tax amounted to \$65.19 million relative to profit of \$249.71 million reported in 2016. After considering tax of \$21.41 million the company reported a net profit of \$43.78 million for the period. For the quarter a profit of \$78.94 million was reported.

• The company reported a earning per share of \$0.018 relative to an EPS of \$0.087 in December 2016. For the quarter the company reported earnings per share of \$0.033 compared to 0.036 reported in 2016. The number of shares used in our calculations is 2,422,487,654 units. Notably, RJR's stock price closed trading on February 13, 2018 at \$1.05.

Rating System

BUY: We believe the stock is attractively valued. The company has sound or improving fundamentals that should allow it to outperform the broader market. We anticipate that the stock will outperform the market over the next 12 months. The risk factors to achieving price targets are minimal.

HOLD: We believe the stock is fairly valued at the current price. The company may have issues affecting fundamentals that could take some time to resolve. Alternatively, company fundamentals may be sound, but this is fully reflected in the current stock price. The risk factors to achieving price targets are moderate. Some volatility is expected. In addition, technically, it may be difficult to attain additional volume of the stock(s) at current price.

SELL: We believe the stock is overpriced relative to the soundness of the company's fundamentals and long-term prospects.

SPECULATIVE BUY: We believe the prospect for capital appreciation exists, however, there is some level of uncertainty in revenue growth.

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