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At the finale of the 2018 Mayberry Investor Forum Series held on November 21st at the Courtyard Marriott Hotel, our audience was treated to a presentation on the Investment Opportunities in the Business Process Outsourcing Sector. The two guest presenters for the evening were Yoni Epstein, Executive Chairman, Itelbpo and Gloria Henry, Assistant VP of Operations and Customer Relations, Port Authority of Jamaica (PAJ).



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JANUARY 2019 CEO CORNER

Jamaica's Anti-Money Laundering Framework

The International Narcotics Control (INC) indicated in its annual 2018 strategy report that money laundering in Jamaica was largely attributed to proceeds from illegal narcotics and weapons trafficking, fraud schemes, corruption and extortion. The findings suggest that despite efforts by the Financial Investigations Division, FID, to use the Proceeds of Crimes Act, POCA, to seize properties and other illegal assets, they are reporting moderate success at best.

The report also indicated that POCA wasn't being fully applied due to difficulties prosecuting financial crimes and achieving convictions. It states the government should make a strenuous effort to identify money laundering activities, prosecute political and public exploitation and ensure financial institutions are fully compliant with the law.

The Government of Jamaica is presently taking the necessary measures to develop the capacity of its law enforcement officials, prosecutors and the courts to successfully indict financial crime cases whilst adopting safeguard controls to address AML and Countering Terrorist Financing (CTF) requirements. Bank of Jamaica's (BOJ) Governor, Brian Wynter stated that projected safety measures against AML and terrorism financing are among notable progressions evolving under the Government's National Financial Inclusion Strategy (NFIS) since 2017.

The strategy comprise a portfolio of activities designed to empower law abiding citizens financially, through enhanced access to financial information and products tailored to meet their needs and in the case of financial institutions, employing 'Know Your Customer requirements', that seek to institute a risk-based framework for the Government's AML/CFT Programme.

With policies now being applied and enforced, the country is now regulating its controls to fight against money laundering and is boosting its domestic law enforcement and recovery procedures to prevent great risks to Jamaica's economic social order. Surely it will take time and more effort to manage the issue at an international level. The important takeaway is our government's recognition of money laundering as a legitimate threat to our economic development, and its commitment to taking measures to combat it. ■

CEO CORNER

Gary Peart

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Money laundering has been recognised as a criminal act in virtually all jurisdictions worldwide. Several international organisations such as: the Basel Group, the Wolfsberg Group, the Egmont Group, Organisation for Economic Co-operation and Development (OECD), World Bank, International Monetary Fund and the United Nations have all taken steps to address its prevention, detection, reporting and ultimately, its prosecution. Jamaica encounters a significant challenge in bringing its framework of anti-money laundering controls in line with international standards and has the potential of become a hindrance to some areas of economic development, particularly in the case of foreign direct investment.

Anti-money laundering refers to a set of procedures, laws and regulations designed to stop the practice of generating income through illegal actions (money laundering activities). Illegal actions include but are not limited to trafficking in narcotic drugs, fraudulent activities or theft. Anti-money laundering efforts seek to impose the appropriate sanctions against persons who seek to acquire, conceal, convert or transfer those assets derived illegally and for connected matters.



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Unlocking stock value with simple valuation techniques



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Understanding stock valuation can simply be the difference between earning you a dollar or a million. Here, you can maximise your value by simply being equipped with the knowledge to make the right decision in buying or selling a stock. There are many different valuation methods where you can maximise value; by quickly identifying the value of a stock and determining whether it is at a discount or a premium. With the increasing number of IPOs in the market, investors need to be made more aware of proper valuation techniques in an effort to unlock stock value. Two methods likely to be used by investors are: Net Asset Value (NAV) and Price to Earnings (PE) ratio. Both of these methods can be used to value varying stocks found on any stock exchange.

PE ratio is one of the most utilised tools for stock valuation. It is calculated by dividing the current market price of the stock by its earning per share (EPS). It shows the sum of money investors are ready to pay for each dollar worth of the earnings of the company. PE ratio is a comparable method of valuation and cannot be a stand-alone valuation method as the PE ratio has to be compared to stocks within the same market, company size or industry to determine whether the stock is undervalued compared to its peers. The computation methodology of the PE ratio is one of the reasons that this method cannot be used to value start-ups and asset intensive firms. Start-ups tend to have negative earnings in the first five years

of operation, whilst asset intensive companies tend to store their value in Other Comprehensive Income rather than in Net Profit.

NAV is calculated as the value of a company's assets minus the value of its liabilities. This is a straight forward valuation method that can be used standalone and is often used with Real Estate Investment Trust (REITs), mutual funds and asset intensive stocks, since shares of such stocks are often redeemed at its Net Asset Value. Recent IPOs such as Stanley Motta Limited and Mayberry Jamaican Equities Limited are best valued using NAV, whilst companies such as Indies Pharma Limited and Everything Fresh Limited are best valued using a PE ratio. These are just a few examples of the types of companies that are best valued using each valuation technique.

As investors, it is best to know different valuation methods in order to choose the best method for the varying number of companies on the market and to obtain the best and true value of the company. If you are not the best number cruncher your investment advisor should be able to help you make the correct decisions, but knowing what they are doing and being able to follow is an added bonus which helps you to ensure the best decision to buy or sell a stock is made. ■

COMPANY ANALYSIS

GraceKennedy Limited (GK)



Executive Summary

GK is one of the Caribbean's largest and most dynamic corporate entities. In 1995, GK developed a 2020 Vision, with an objective to transform the company from a Jamaican trading company to a global consumer group, rooted in Jamaica. During this journey, the group became substantially larger and stronger, measured by its growth in revenues, productivity, profits and market value. GK'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 are: food processing and distribution, banking and finance, insurance and remittance services. Additionally, on September 1, 2017, they acquired 100% ownership of Consumer Brands: a large player in the Jamaican distribution market which now operates under GK Foods.

In January 2018, GK Investments Limited, a subsidiary of GK, acquired a 33⅓% 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 enhance the company's efforts to grow the business' current product portfolio locally and internationally. In September 2018, GK announced that one of its associated companies in Barbados, Signia Financial Group Inc., acquired Globe Finance Inc. GK currently has a 40% shareholding in Signia and will hold the same 40% stake in the new entity - SigniaGlobe Financial Group Inc. The group believes that this merger will lead to the creation of the largest Merchant Bank in Barbados and significantly strengthen the group's financial services platform within the Caribbean. "Signia and Globe have several common product offerings including fixed deposits, retail and commercial lending, commercial leasing and foreign exchange services. In addition to these common offerings, there are also some other products which are exclusive to each company. Signia is a registered stock broker, licensed by the Barbados Stock Exchange while Globe Finance Inc. currently offers a VISA credit card service to its customers".

GK also acquired 35% of the shares in the Catherine's Peak pure spring bottled water brand. The company noted that, "The Group is focused on expanding its health category in keeping with the changing lifestyle needs of its consumers. GK believes that with its extensive distribution network the Group can grow the business by making Catherine's Peak more widely

available to consumers. GK looks forward to using its extensive and effective distribution network and merchandising and marketing expertise to significantly increase sales and to make the brand available to health-conscious consumers in Jamaica and overseas".

The group continues to position itself to capitalise on market trends and opportunities as its Food Trading segment has been continuously seeking new products to improve the division. GK has had increasing Revenues of \$67.26 billion in 2013, up to \$92.48 billion in 2017, with a compounded annual growth rate (CAGR) of 8%. Net profit also grew, moving from \$3.80 billion in 2013 to \$4.77 billion in 2017. There has been an upward trend in the group's earnings per share (EPS), up from \$3.24 in 2013 to \$4.14 in 2017. As such, EPS is projected at \$4.21 for the 2018 financial year (FY). GK's stock value is projected at approximately \$68.36 over the short to medium term based on expected earnings. The stock currently trades at around \$62.02 as at January 9, 2019, with a corresponding P/E ratio of 15.36 times, which is below the main market P/E ratio of 17.93 times. As such, the stock is currently recommended as a **HOLD**.

Company Background

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. GK began its operations in Jamaica on February 14, 1922 and is the parent company of a group of subsidiaries operating within the food services and financial industries. The group's operations are structured into two areas; 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. Both products 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), as well as other European countries. Year to date, the Jamaica foods business has seen growth in most of its key products and the company's Flava with Beat campaign continues to garner positive reviews from the public. Brand building remains a major area of priority for the company as management focuses on engaging millennials while continuing to satisfy

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COMPANY ANALYSIS

GraceKennedy Limited (GK)



the needs of their current consumer base. Consumer Brands Limited and Procter & Gamble portfolios continue to perform well. The improved performance was largely attributable to the contribution of existing and new products that have been well received by the market.

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

Within the banking and investments area, First Global Bank (FGB) continues to pursue their strategy of convenience enabled by technology with the opening of a new high-tech branch in Ocho Rios as well as the relocation and upgrade of the Liguanea branch. GK Capital Management Limited (GKCM) solidified its position in the investment advisory space, having completed transactions throughout 2018 that amounted to over J\$3 billion. However, FGB's financial results were impacted by a reduction in the yield on JMD loans when compared to prior years. The bank is executing strategies aimed at growing its loans and deposits portfolio to assist in improving their results. Management highlighted that, "FGB continues to execute on its strategy to be Jamaica's most convenient bank by increasing its national presence and improving ease of doing business. This includes building out branch network via agency locations and mini-branches. The GK Financial Group is uniquely positioned to benefit from Agency Banking as the Group has an existing large customer base being served across the island via our Western Union network". Additionally, in September 2018, GK announced that one of its associated companies in Barbados, Signia Financial Group Inc., acquired Globe Finance Inc. GK currently holds a 40% stake in Signia and will hold the same 40% stake in the new entity - SigniaGlobe Financial Group Inc. The Group believes that this merger will result in the creation of the largest Merchant Bank in Barbados and significantly strengthen the Group's financial services platform in the Caribbean.

GraceKennedy (GK) Limited SWOT Analysis

S

Strengths

- Strong brand recognition both domestically and regionally
- Wide revenue base from the various products and services offered
- One of the largest Jamaican companies with multi-national operations
- Wide array of products under their respective brands
- Rapid growth within their food division

W

Weaknesses

- Majority of the Company's revenue is generated in one division
- Increased price competition from their competitors

O

Opportunities

- The potential to continue obtaining more market share in retail division
- Increased technological improvements
- The company has a great opportunity of continued expansion in the financial services industry

T

Threats

- Low barriers to entry, leading to increased competition within the food services industry
- Less growth within the retail industry, due to market saturation

Operational Analysis

GK Limited Five-Year Abridged P&L

For the period ended:	GraceKennedy (GK) Limited 5 Year Financial Performance					
	Dec. 2013 \$'000	Dec. 2014 \$'000	Dec. 2015 \$'000	Dec. 2016 \$'000	Dec. 2017 \$'000	Change (%)
Revenue	67,257,502	77,970,073	79,742,230	88,267,589	92,475,652	5%
Expenses	(63,913,042)	(74,879,998)	(76,949,188)	(84,684,563)	(88,944,423)	5%
Other Income	1,710,632	1,820,990	1,571,132	2,383,733	2,088,006	-12%
Profit from Operations	5,055,092	4,911,065	4,364,174	5,966,759	5,619,235	-6%
Interest Income - non-financial services	302,471	394,244	339,154	372,276	378,212	2%
Interest expense - non-financial services	(542,539)	(688,416)	(715,706)	(676,856)	(662,857)	-2%
Profit Before Taxation	5,075,199	4,847,799	4,303,813	6,103,330	5,819,562	-5%
Taxation	(1,281,135)	(1,048,672)	(1,271,291)	(1,568,468)	(1,047,462)	-33%
Net Profit	3,794,064	3,799,127	3,032,522	4,534,862	4,772,100	5%
Net Profit/Loss Attributable to:						
Stockholders of the Company	3,221,634	3,285,174	2,759,498	4,004,539	4,116,101	3%
Non-controlling interest	572,430	513,953	494,522	530,323	655,999	24%
Total	3,794,064	3,799,127	3,254,020	4,534,862	4,772,100	6%

GK generated revenues of \$92.48 billion in 2017 (2016: \$88.27 billion), driven by increases in revenue in all segments, except that of Money Services, which showed a marginal decline. Revenue over the past five years has grown at a CAGR of 8%. The banking & investments area reported the highest growth rate of 7.1%, followed by food trading then insurance, which showed growth rates of 6% and 0.2%, respectively. Food trading continues to be the dominant contributor to revenue, accounting for 79% of total group revenue. The group mentioned that, "The Food Trading segment was able to strengthen its current standing in the local market through partnerships and acquisitions while entering new channels and markets overseas".

Revenues by segment:

• **Food Trading:** This segment produced improved revenues to \$72.61 billion (2016: \$68.81 billion) year over year for 2017. This performance was driven by growth, which was achieved through strong sales performance of the Group's core Grace products, such as coconut milk powder, frankfurters, ketchup and mackerel as well as new product innovations. During 2017, GK acquired Consumer Brands Limited, a large player in the distribution business. This acquisition brings with it a strong line of Procter and Gamble (P&G) products as well as other international brands. Additionally, Hi-Lo Food Stores continue to reap the benefits of the renovation exercise, showing revenue growth at the renovated Fairview, Montego Bay location. Also, a strong demand for GK's products, both in Jamaica and internationally, contributed to the positive performance. Grace Vienna sausages and This is Really Great! yogurt continue to be strong performers with sales surpassing that of 2016. The successful hedging in the world raw material market positively impacted the manufacturing division's performance by allowing their factories to remain price competitive. During the year, GK acquired a plant in Denbigh, Clarendon, which is expected to provide even more opportunities in agro-processing and exports.

The international food trading subsidiaries showed mixed results with operations in the United States (US) and Canada showing an improved performance over 2016, whereas operations in the United Kingdom (UK), Grace Foods UK, showed a reduction in profitability. Significant strides were made in 2017, in utilising a more unified approach to brand growth and development across the Group.

COMPANY ANALYSIS

GraceKennedy Limited (GK)



United States

Grace Foods (USA) LLC experienced growth in both the Grace, La Fe and other principal brands. Sales of the Grace patties, which were introduced during the year (2017), coconut products and the re-imaged Grace Tropical Rhythms, led the Grace-owned brand category growth. Growth in principal brands was led by the introduction of Yaucono, a premier Puerto Rican coffee brand, across the subsidiary's network and the expansion of sales of Power Malt.

Canada

GK (Ontario) Inc., renamed Grace Foods Canada Inc. during 2017, yielded positive revenues and pre-tax profit. Sales to key chains, including Walmart and Loblaws, contributed positively to this outcome, as did the effective implementation of key strategic initiatives such as the subsidiary's Western Canada expansion, and strengthened focus on coconut products.

United Kingdom

Food operations in the UK experienced challenges as there was a reduction in sales in the subsidiary's key product. However, marketing support has been increased behind this brand. As such, an expected recovery is anticipated for sale of the product during 2018 by management. Additionally, the operations in Europe recorded growth. Management highlighted that, "In light of the expected changes from Brexit, growth in Europe through the establishment of the Group's own operations within the European Union, remains a key objective which the Group expects to realise in 2018".

Ghana

The group indicated that, "GK Ghana's performance during 2017 did not meet our expectations. The Group's operation in Ghana remains strategically important and we are relooking at the business model to determine the most efficient structure for our operations".

Belize

There was a decline in GK Belize's revenues and pre-tax profits. However, new products have been introduced, which management believes will have a positive effect on profits for 2018.

Caribbean and Latin America

GK LACA, the group's division responsible for the food distribution in the Caribbean and Latin America, indicated slight growth in revenues and pre-tax profit. It was stated that, "revenue was positively impacted by sales to Guatemala, a new market that was entered during 2017. The division was affected by the temporary ban on corned beef imported from Brazil, which impacted sales in several of the Group's markets. Since the lifting of the ban, the Group has been seeing a recovery in these markets. Moreover, the Group's markets in St Maarten, British Virgin Islands and Dominica were significantly affected by the passage of Hurricanes Irma and Maria".

• **Banking and Investments:** This category produced \$5.98 billion (2016: \$5.58 billion) in revenues. FGB reported growth in revenue over the prior year, primarily due to higher net interest income stemming from the increase in the size of the loan portfolio and higher investment income. For the year 2017, GKCM and

GK Investments reported a combined increase in revenue. Furthermore, GK Investments led the structuring, arranging and establishment of a facility at the Central Sorting Office, which involved the renovation and refurbishment of approximately 60,000 square feet for leasing to a major US-based Business Process Outsourcing (BPO) provider. Within the energy sector, GKCM is leading the financing and development of a cogeneration natural gas power plant for The University of the West Indies, Mona Campus, which will generate significant energy savings annually for the University.

• **Insurance:** The insurance division reported revenues of \$6.04 billion in 2017 relative to \$6.03 billion in 2016. Profit was primarily impacted by increased claims activity from Caribbean territories that were affected by destructive Hurricanes Irma and Maria in September 2017. Consistent with the approach to Enterprise Risk Management, and through the robust reinsurance programme, GK Insurance (GKI) is satisfying their customers' claims while lessening the impact of these losses to the bottom line. Additionally, GKI Eastern Caribbean Limited (GKI-EC), a subsidiary of the GK Group, has launched operations in St Vincent and the Grenadines and is licensed to operate in two additional Eastern Caribbean islands: Antigua and Grenada.

• **Money Services:** This division reported a marginal decline in revenue for 2017 to \$7.845 billion (2016: \$7.849 billion). The performance of the area was affected by decreased transaction volumes from the Jamaican remittance operations, GK Remittance Services (GKRS). This was offset by the strong performance of their Trinidad and Guyana money services operations. GKMS and Western Union suspended money transfer services in some agent locations in Jamaica during 2017 in an ongoing effort to increase oversight for the protection of the customers while strengthening compliance efforts throughout our network of agencies. However, GKRS remained the dominant player in the Jamaican remittance market and continues to be strategically focused on protecting its market-leader position, increasing market share, identifying opportunities for expansion, and enhancing delivery of services through digitisation.

	Dec. 2016 S'000	Dec. 2017 S'000	Change (%)	Change (\$)
Auditors' remuneration	199,821	179,413	-10%	-20,408
Advertising and marketing	3,045,966	2,748,920	-10%	-297,046
Amortization of intangibles	578,216	586,370	1%	8,154
Commission and other money services costs	1,785,563	1,772,962	-1%	-12,601
Cost of inventory recognised as expense	47,624,588	50,430,582	6%	2,805,994
Depreciation	888,573	984,166	11%	95,593
Insurance	605,524	607,187	0%	1,663
Interest expense and other financial services expense	4,994,848	5,213,261	4%	218,413
Legal, professional and other fees	3,010,186	3,639,848	21%	629,662
Occupancy costs - Lease rental charges, utilities, etc.	2,949,203	3,265,280	11%	316,077
Repairs and maintenance expenditure	674,540	714,627	6%	40,087
Staff costs	13,525,639	13,795,418	2%	269,779
Transportation	1,764,565	1,842,927	4%	78,362
Other expenses	3,037,331	3,163,462	4%	126,131

The group's expenses year over year increased by 5%, whilst booking a 1% decline in gross profit to \$3.53 billion relative to \$3.58 billion in 2016. The year over year decrease was directly influenced by a rise in expenses margin to 96.18% (2016: 95.94%). The largest contributor to the growth in expenses was the 6% increase in cost of inventory recognized as expense, which closed 2017 at \$50.43 billion (2017: \$47.62 billion). Legal fees also contributed to the rise in expenses climbing 21% from \$3.01 billion in 2016 to \$3.64 billion in 2017.

COMPANY ANALYSIS

GraceKennedy Limited (GK)



There was also a decrease in other income by 12% closing at \$2.09 billion in 2017. GK highlighted that, "this was due to lower non-operating gains and reduced foreign exchange gains". This led to fall in profit from operations from \$5.97 billion in 2016 to close at \$5.62 billion in 2017.

Share of results of associated companies climbed 10% to \$484.97 million relative to \$441.15 million. Profit before taxation amounted to \$5.82 billion (2016: \$6.10 billion), after interest income and interest expense of \$378.21 million (2016: 372.28 million) and \$662.86 million (2016: \$676.86 million) respectively. GK incurred taxes of \$1.05 billion, 33% less than the \$1.57 billion incurred in 2016. Consequently, GK reported a net profit of \$4.77 billion for 2017 compared to \$4.53 billion in the prior year. Management stated that, "performance for the year was negatively affected by the unprecedented impact of two major hurricanes within the Caribbean region which increased the value and number of claims for our Insurance segment. In addition, as previously reported, a non-recurring gain was realized in 2016 on the dissolution of some non-operating subsidiaries".

However, net profit attributable to stockholders of the group totalled \$4.12 billion (2016: \$4 billion). Over the past 5 years, GK has demonstrated an increasing trend in net profit attributable to shareholders as the group's profit moved from \$3.22 billion in 2013 up to \$4.12 billion booked in 2017, resulting in a CAGR of 6%. Management has reiterated its focus on improving the performance in the food trading and banking and investments segments. The successful acquisition of Consumer Brands Limited has yielded positive returns for the bottom line figures.

GK Limited Year End 2013-2017

GK 5 Year Balance Sheet							
As at:	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Change	5 Year
	\$'000	\$'000	\$'000	\$'000	\$'000	(%)	CAGR
Investment Securities	20,883,838	20,593,899	21,760,103	23,874,246	31,853,036	33%	11%
Pledged Assets	27,140,200	9,452,340	11,107,139	15,419,427	4,927,305	-68%	-35%
Receivables	9,094,326	11,466,142	11,578,568	13,688,237	15,848,567	16%	15%
Inventories	8,345,097	10,797,175	10,041,196	11,461,283	11,253,140	-2%	8%
Investment properties	365,000	484,000	532,000	584,000	618,000	6%	14%
Intangible assets	2,425,230	4,131,674	4,176,644	4,024,272	4,398,127	9%	16%
Fixed assets	6,946,936	8,707,092	8,544,393	10,111,671	11,715,661	16%	14%
Total Assets	108,643,306	101,859,529	108,693,454	126,479,149	129,988,640	3%	5%
Deposits	17,768,017	21,197,427	24,258,437	30,653,888	33,530,523	9%	17%
agreements	25,074,089	7,528,474	8,641,978	12,343,432	3,792,720	-69%	-38%
Bank and other loans	11,571,790	11,064,160	13,936,107	13,242,037	16,515,615	25%	9%
Payables	15,226,874	19,052,694	17,216,263	20,325,181	22,210,899	9%	10%
Other post-employment obligations	3,202,616	3,228,905	3,848,433	4,406,015	5,129,990	16%	13%
Total Liabilities	74,409,922	63,614,557	69,320,392	82,940,541	82,976,527	0.04%	3%
Total Shareholders' Equity	32,765,684	36,533,101	38,047,441	42,063,925	45,222,812	8%	8%
Total Equity & Liabilities	107,175,606	100,147,658	107,367,833	125,004,466	128,199,339	3%	5%

Balance Sheet Analysis

The total assets increased from \$108.64 billion in the 2013 FY to \$129.99 billion in the 2017 FY. Investment securities (33%), receivables (15%) and fixed assets (16%) contributed mainly to the increase in the asset base but was partly offset by a 68% decline in pledged assets. Investment securities as at December 31, 2017 amounted to \$31.85 billion (2016: \$23.87 billion), while receivables and fixed assets amounted to \$15.85 billion (2016:

\$13.69 billion) and \$11.72 billion (2016: \$10.11 billion), respectively. On the other hand, pledged assets totalled \$4.93 billion versus \$15.42 billion in 2016. GK indicated that, "During 2017, the increase in the Group's asset base was mainly attributable to an increase in receivables, primarily due to reinsurance recoverable related to Hurricanes Irma and Maria, and the growth in the food trading segment relating to the Consumer Brands acquisition. Other asset lines, including loans receivables and fixed assets, showed an increase primarily due to the growth of First Global Bank's loan portfolio, the construction of the Corporate Headquarters, and the renovation of Hi-Lo stores respectively".

Total liabilities as at December 2017 amounted to \$82.98 billion with deposits contributing 40% of the total to close the period at \$33.53 billion (2016: \$30.65 billion). Deposits over the past five FYs increased at a CAGR of 17%. Payables and bank and other loan accounted for 27% and 20%, respectively of total liabilities. Payables closed the period at \$22.21 billion (2016: \$20.33 billion), while bank and other loans amounted to \$16.52 billion (2016: \$13.24 billion). Total shareholders' equity was recorded at \$45.22 billion (2016: \$42.06 billion) at the end of the FY. This translated into a book value of \$47.25 for the 2017 FY, relative to \$43.76 reported in the 2016 FY.

Ratio Analysis

Profitability Ratios

GK Profitability Ratios	FY2013	FY2014	FY2015	FY2016	FY2017
Gross Profit Margin	4.97%	3.96%	3.50%	4.06%	3.82%
Operating Profit Margin	7.52%	6.30%	5.47%	6.76%	6.08%
Net Profit Margin	5.64%	4.87%	3.80%	5.14%	5.16%
Return on Average Equity	10.15%	9.48%	7.40%	10.00%	9.43%
Return on Average Assets	3.03%	3.12%	2.62%	3.41%	3.21%

GK's gross profit margin has declined from 4.97% in 2013 to 3.82% in 2017. This resulted from higher expense margin over the period despite an annual increase in revenue. The operating profit margin over the five-year period, similarly, trended downwards from 7.52% in 2013 to 6.08% in 2017, with the exception of 2016, where there was a rise to 6.76%. The net profit margin closed 2017 at 5.16%, down from 5.64% in 2013. Of note, tax charges incurred by GK declined by 33% in 2017, which aided the improvement in the net profit margin year over year which yielded a slight increase from 5.14% in 2016 to 5.16% in 2017.

GK noted that, "The Group completed an organizational review earlier this year as a first step in a multi-year transformational journey aimed at optimizing the Group's structure for improved performance and shareholder value. GK is carefully reviewing the organizational design, cost structure and business processes to achieve sustainable efficiency".

GK's return on average assets (ROAA) has shown improvements from 3.03% in 2013 to 3.21% in 2017. However, this was not the same for the company's return on average equity (ROAE) (2013: 10.15% to 2017: 9.43%).

COMPANY ANALYSIS

GraceKennedy Limited (GK)



Activity Ratios

GK Activity Ratios	FY2013	FY2014	FY2015	FY2016	FY2017
Total Asset Turnover	0.63	0.74	0.76	0.75	0.72
Fixed Asset Turnover	9.47	9.96	9.24	9.46	8.47
Inventory Turnover	8.57	7.82	7.39	7.88	7.83
Days of Inventory on hand	42.59	46.65	49.42	46.34	46.61
Receivables Turnover	7.64	7.58	6.92	6.99	6.26
Days of Sales O/S	47.76	48.12	52.74	52.24	58.29
Payables Turnover	4.57	4.51	4.20	4.59	4.17
# of Days of Payables	79.84	80.90	86.87	79.57	87.48
Cash Conversion Cycle Ratio	10.51	13.88	15.29	19.01	17.42

The receivables turnover ratio for GK has been declining over the last five years. The group's receivables turnover in 2013 was at a high of 7.64 times but then fell to 6.26 times in 2017, indicating the number of times GK collects its average receivables during the year. The company's inventory turnover ratio illustrates a decreasing trend over the last five years also, moving from 8.57 times in 2013 to 7.83 times in 2017. This shows a slowdown in the number of times GK turns over its average inventory. The slowdown over the years has led to an increase in the number of days of inventory on hand, up to 46.61 days in 2017 (2013: 42.59 days) to 46.34 days in 2016. GK's payables turnover has also declined over the five-year period to 4.17 times (2016: 4.59 times) compared to 4.57 times in 2013. Total assets turnover was 0.72 times in 2017 relative to 0.75 times in 2016, while in 2013 the ratio was booked at 0.63 times.

Solvency Ratios

GK Solvency Ratios	FY2013	FY2014	FY2015	FY2016	FY2017
Debt-to-Equity	1.12	0.51	0.59	0.61	0.45
Debt-to-Capital	0.53	0.34	0.37	0.38	0.31
Debt-to-Assets	0.34	0.18	0.21	0.20	0.16

In 2017, GK reported debt-to-equity of 45% (2016: 61%), signifying that the company has been moderately financing its growth with debt compared to prior years. Notably, the ratio declined from a high of 112% in 2013 to 45% in 2017. As for debt-to-capital and debt-to-assets ratios in 2017, GK posted 31% and 16%, respectively.

Liquidity Ratios

GK Liquidity Ratios	FY2013	FY2014	FY2015	FY2016	FY2017
Current Ratio	1.31	1.37	1.36	1.34	1.36
Quick Ratio	0.53	0.65	0.62	0.60	0.72
Cash Ratio	0.12	0.15	0.14	0.15	0.15
Cash Conversion Cycle	10.51	13.88	15.29	19.01	17.42

GK's current ratio fluctuated somewhat over the past five years, but has slightly increased, moving from 1.31 times in December 2013 to 1.36 times in December 2017. The results for the company's current ratio show that GK's ability to meet its short-term obligations has increased. The quick ratio was

at its nadir over the five-year period at 0.53 times in 2013 but rose to 0.72 times in 2017. This also shows that the company could pay off its current liabilities without selling any long-term assets. The company's cash ratio was also at its lowest at 0.12 times in 2013 but then climbed to 0.15 times in 2017. This demonstrates that a little over 15% of GK's current liabilities can be covered by its cash. GK has reported a positive and increasing cash conversion cycle (CCC) over the last four years (2013-2016), with a decrease in 2017. There was an increase from 10.51 times reported in 2013 to 19.01 times in 2016, while a decline to 17.42 times in 2017. The positive cycle indicates that GK may pay for its inventory or materials before they've sold the final product associated with them. This may indicate that GK is not using its working capital as efficiently as possible and does not have available cash for other needs. However, the company's CCC remains below the industry average of 29.41 times in 2017.

Liquidity Ratios

GraceKennedy Ltd. (GK)	2013	2014	2015	2016	2017
Debt to Equity	35.3%	30.3%	36.6%	30.4%	35.1%
Debt to Assets	10.7%	10.9%	12.8%	10.5%	12.7%
Return on Average Equity	9.8%	9.0%	7.3%	9.5%	9.1%
Return on Average Assets	3.0%	3.2%	2.5%	3.2%	3.2%
Pandam Investments Ltd. (PJAM)	2013	2014	2015	2016	2017
Debt to Equity	23.8%	20.2%	23.8%	20.2%	24.5%
Debt to Assets	18.6%	16.0%	18.6%	16.0%	19.0%
Return on Average Equity	14.1%	13.5%	15.0%	17.0%	13.7%
Return on Average Assets	10.8%	10.8%	11.6%	13.4%	10.7%
Jamaica Producers Group Ltd. (JP)	2013	2014	2015	2016	2017
Debt to Equity	19.7%	33.8%	32.5%	21.7%	21.0%
Debt to Assets	13.9%	21.0%	20.8%	15.4%	14.6%
Return on Average Equity	4.8%	5.3%	9.6%	31.1%	7.4%
Return on Average Assets	3.4%	3.4%	6.1%	21.5%	5.2%

GK reported debt to equity of 35% relative to 30% in the previous year, indicating that the company is not reliant on debt as its source of capital and may be considered moderate due to the sector average of like companies (27%). The group's debt to assets climbed for 2017, closing at 13% which was the lowest when compared to PJAM (19%) and JP (15%). The ratio was below the sector's average (15%), further indicating the group's reluctance to use debt to finance its operations.

Compared to the companies within GK's sector, PJAM (14%) and JP (7%), the group's reported return on average equity of 9% was below the sector's average of 10%. This shows how well GK uses its investments to generate earnings growth. The group's return on average assets of 3% is less than PJAM (11%) and JP (5%). This is however below the sector's average of 6%, showing the percentage of or profit the group earns in relation to its overall resources.

COMPANY ANALYSIS

GraceKennedy Limited (GK)



Grace Kennedy (GK) Limited Performance Year to Date

GraceKennedy (GK) Limited Profit and Loss Statement				
For the nine months ended:	Sep-17 \$'000	Sep-18 \$'000	Change (%)	Change (\$)
Revenue	69,299,826	73,829,573	7%	4,529,747
Expenses	(66,262,770)	(71,617,098)	8%	(5,354,328)
Gross Profit	3,037,056	2,212,475	-27%	(824,581)
Other Income	1,693,179	2,268,128	34%	574,949
Profit from Operations	4,730,235	4,480,603	-5%	(249,632)
Interest Income- non financial services	287,654	321,260	12%	33,606
Interest Expenses- non financial services	(500,171)	(425,502)	-15%	74,669
Share of results of associated companies	417,701	321,442	-23%	(96,259)
Profit before taxation	4,935,419	4,697,803	-5%	(237,616)
Taxation	(1,184,501)	(986,538)	-17%	197,963
Net Profit	3,750,918	3,711,265	-1%	(39,653)
E.P.S.	3.33	3.23		

GK's performance for the nine months ended September 2018:

GraceKennedy (GK) Balance Sheet				
As at:	Sep-17 \$'000	Sep-18 \$'000	Change (%)	Change (\$)
Investment Securities	29,443,393	33,311,247	13%	3,867,854
Pledged Assets	7,875,002	5,339,979	-32%	-2,535,023
Receivables	15,791,934	17,996,446	14%	2,204,512
Inventories	11,131,914	11,355,920	2%	224,006
Investment Properties	584,000	618,000	6%	34,000
Intangible Assets	4,500,186	4,365,012	-3%	-135,174
Fixed Assets	11,320,895	12,907,413	14%	1,586,518
Total Assets	129,663,149	137,029,420	6%	7,366,271
Liabilities				
Securities sold under repurchase	6,790,497	4,199,184	-38%	-2,591,313
Bank and other loans	13,130,715	15,560,581	19%	2,429,866
Payables	20,984,356	22,807,253	9%	1,822,897
Other post-employment obligations	5,032,268	5,757,464	14%	725,196
Total Liabilities	83,429,988	86,442,496	4%	3,012,508
Total Shareholders' Equity	44,447,346	48,396,600	9%	3,949,254
Total Equity & Liabilities	129,663,149	137,029,420	6%	7,366,271

GK recorded revenues of \$73.83 billion for the period (2017: \$69.30 billion), a year over year increase of 7%. Revenues for the third quarter of 2018 improved 11% to \$25.46 billion (2017: \$22.93 billion). The biggest contributor to the group's overall revenue for the nine-month period came from the food trading segment, which contributed a total of \$58.54 billion (2017: \$54.34 billion), an increase of 8% relative to the prior year's corresponding period. Management noted, "the Food Trading segment recorded growth in both revenue and pre-tax profits when compared to the corresponding period of 2017, driven primarily by the performance of our Jamaica foods business. Year to date, our Jamaica foods business has seen growth in most of our key products, and our 'Flava with Beat' campaign continues to garner positive reviews from the public. Brand building remains a major objective of the business as we focus on further engaging millennials while continuing to satisfy the needs of our current consumer base. Consumer Brands Limited and Procter & Gamble portfolio continue to perform well. Improved performance was largely attributable to the contribution of existing and new products that have been well received by the

market". The other segment contributing to revenue is banking & investments, which declined 4% year over year to total \$4.35 billion (2017: \$4.53 billion). GK indicated that, "First Global Bank's (FGB) results, which were impacted by a reduction in the yield on JMD loans when compared to prior year, contributed to the decline in the segment's performance. The Bank is executing strategies aimed at growing its loans and deposits portfolio to assist in improving results. During the quarter, FGB became the first bank in Jamaica to offer agency banking with the opening of a location in Kingston".

Revenue from insurance amounted to \$5.04 billion, a year over year increase of 15% over last year's corresponding period of \$4.38 billion. GK stated, "this was driven by the improved performance of GK Insurance (GKI) which experienced growth in its motor and property portfolios. Its engineering portfolio also recorded an increase as the company continues to provide insurance services for many of the development projects across Kingston and St. Andrew. The increase in profitability was driven by revenue growth and improved investment returns".

Money services brought in \$5.88 billion, 3% less than the \$6.04 billion reported in September 2017. Management highlighted, "this segment continues to place focus on and invest in compliance to increase our competitive advantage, which will lead to improved performance".

Total expenses amounted to \$71.62 billion relative to \$66.26 billion booked in 2017, indicating an 8% growth compared to twelve months earlier. Expenses for the third quarter amounted to \$24.68 billion, up from \$21.76 billion for the same quarter of 2017. As such, gross profit for the nine months amounted to \$2.21 billion relative to \$3.04 billion booked for the similar period of 2017. Gross profit for the third quarter slipped 33% to \$776.29 million compared to \$1.16 billion reported for the third quarter of 2017.

Interest income from non-financial services rose 12% to total \$321.26 million. This compares to the \$287.65 million reported in the prior year's corresponding period. Interest expenses from non-financial services amounted to \$425.50 million versus \$500.17 million a year earlier, a 15% reduction.

Pre-tax profits decreased 5% to approximately \$4.70 billion, compared to pre-tax profit of \$4.94 billion documented for the nine-month ended September 2017. Additionally, GK incurred taxation expenses amounting to approximately \$986.54 million compared to \$1.18 billion in September 2017.

Consequently, net profit slipped 1% to \$3.71 billion from \$3.75 billion booked for the corresponding period of 2017. Net profit for the third quarter fell 20% to \$1.26 billion (2017: \$1.57 billion).

Net profits attributable to shareholders amounted to \$3.22 billion compared to \$3.31 billion in the previous year's corresponding period, showing a 3% decrease. Net profit attributable to shareholders for the third quarter amounted to \$1.06 billion, down from the \$1.43 billion booked for the same quarter of 2017. Management noted, "as previously reported, in 2017, the Group recorded non-recurring gains in the amount of \$455.0M in relation to the acquisition of a subsidiary and the liquidation of non-operating subsidiaries. Excluding these gains in 2017, net profit for the current period would have been higher than the corresponding period by 12.6%".

As at September 30, 2018, the company's assets totalled \$137.03 billion, 6% or \$7.37 billion more than its value a year ago. The improvement resulted in part from a growth in investment

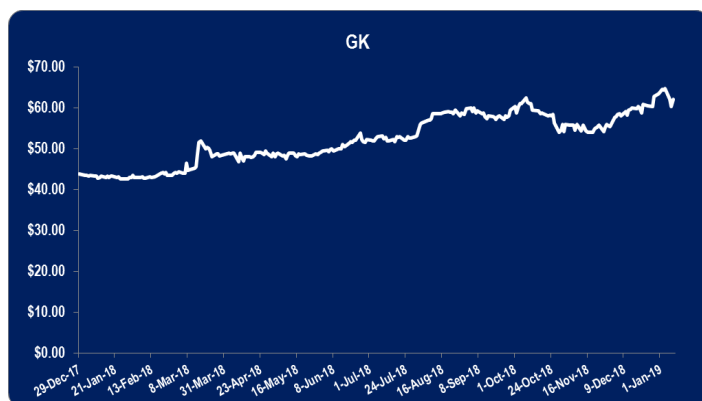
COMPANY ANALYSIS

GraceKennedy Limited (GK)



securities by \$3.87 billion. Investment securities as at September 30, 2018 amounted to \$33.31 billion (2017: \$29.44 billion). Shareholders' equity amounted to \$48.65 billion which compares to equity of \$44.45 billion as at September 30, 2018. As a result, book value per share amounted to \$48.65 (2017: \$44.68).

Price History



GK's stock price has appreciated 45% to date from opening the year at \$43.84 and closing at \$63.50 on December 31, 2018. The stock price reached a high of \$63.50 on December 31, 2018 and traded at a low of \$42.55 on January 25, 2018. On January 9, 2019, the stock closed the trading period at \$62.02.

GK Abridged P&L and 2018 Projection

Profit & Loss	GraceKennedy (GK) Limited			
	Dec-17 S'000	Dec-18 S'000	Change (%)	Change (S)
Revenue	92,475,652	101,723,217	10%	9,247,565
Gross Profit	3,531,229	3,051,697	-14%	(479,532)
Profit from Operations	5,619,235	6,075,867	8%	456,632
Interest Income- non financial services	378,212	428,347	13%	50,135
Interest Expenses- non financial services	(662,857)	(567,336)	-14%	95,521
Profit before taxation	5,819,562	6,349,104	9%	529,542
Taxation	(1,047,462)	(1,587,276)	52%	(539,814)
Net Profit	4,772,100	4,761,828	-0.2%	(10,272)
Net profit attributable to shareholders	4,116,101	4,190,409	2%	74,308
E.P.S.	4.14	4.21		

Jamaica's economy is currently showing signs of gradual but sluggish recovery which continues to anchor macroeconomic stability. Consumer confidence continued its rise to close at 172.6 points for the 3rd quarter of 2018 relative to that of 159.1 points for the 2nd quarter of 2018. As Jamaica's overall macroeconomic indicators continue to trend in the right direction and consumer confidence remains elevated, GK is expected to continue experiencing improvements in their business operations as they are guided by their vision of becoming a global consumer group and a regional financial group. GK noted that, "the newly acquired distribution subsidiary, Consumer Brands

Limited, contributed to both improved revenue and profitability performance for the Food Trading segment. Whereas, the Proctor & Gamble line of products is a natural fit with the Group's existing principal brands and the Group expects to see continued strong growth in this portfolio for 2018".

The Planning Institute of Jamaica (PIOJ), for their review of July to September 2018, estimated that within the goods producing industry, the manufacture industry contracted by 0.8 percent due to reduced output from the food, beverages and the other manufacturing sub-industries as well as plant downtime. In addition, the finance & insurance services industry was estimated to have increased by 1.2 percent due to increases in net interest income at deposit taking institutions, higher revenue generated from fees and commissions.

GK's performance year to date has demonstrated a 7% increase in revenue and a 1% decline in net profits. The group indicated that, "a non-recurring gain was realised in 2016 on the dissolution of some non-operating subsidiaries. Without this gain, net profit would have increased by 15.2% or J\$625.9 million".

The Company noted the following strategies to increase market share:

- "The group has employed a number of strategies in both our Foods and Financial Services segments including, inter alia:
 - (i) 'Bolt on' acquisitions in our foods business
 - (ii) Brand building investments such as 'Flava with a Beat'
 - (iii) Execution of GKFG financial inclusion strategy and
 - (iv) Ongoing investment in first class risk and compliance management in the Western Union business".

- GK highlighted that, "across the Group's Food Trading and Financial Services segments, GK will work towards solidifying presence in the Jamaican market while building the Group's brand in other territories". With respect to the recently acquired 49% equity stake in Majesty Foods, the group stated that, "the merger between Majesty Foods and La Fe's manufacturing operations will create numerous synergies which GK anticipate will strengthen its positioning in the frozen packaged foods and food service markets in the US thereby boosting revenues and profitability. Also, the Majesty facility is SQF, USDA, FDA and HACCP certified and as such, has the flexibility to broaden the product portfolio. The group's strategic objective is to further diversify the product portfolio, deepen distribution through existing relationships and expand geographic scope".

- Catherine's Peak Acquisition: "We are very focused on expanding our health category in keeping with the changing lifestyle needs of our consumers. We believe that with our extensive distribution network we can grow the business by making Catherine's Peak more widely available to our consumers. We look forward to using our extensive and effective distribution network and our merchandising and marketing expertise to significantly increase sales and make the brand available to health-conscious consumers in Jamaica and overseas".

- New Products: "Earlier this year Grace Foods launched Grace Jerk Wings and La Fe Frutyurt (a fruit and dairy smoothie) in the USA which have been well received by our consumers. We are very excited about the growth prospects of these new products and we will continue to invest behind their promotion and development".

COMPANY ANALYSIS

GraceKennedy Limited (GK)



- FGB: There have been plans to include FGB increasing its footprint island wide by opening more satellite branches and agency locations. "GK Capital Management, the Group's investment management and advisory arm, will seek to attract new clients through the addition of new products. GK Insurance will be pursuing the registration of operations in other regional countries while introducing additional products to its clients. GKMS will also be exploring opportunities to grow its retail network and build out GK MPay's ecosystem through strategic alliances. Also, on the international side, the Group is looking to pursue new markets, channels and partnerships in Latin America and the Caribbean, North America and Europe".

- "FGB continues to execute on its strategy to be Jamaica's most convenient bank by increasing its national presence and improving ease of doing business. This includes building out our branch network via agency locations and mini-branches. The GK Financial Group is uniquely positioned to benefit from Agency Banking as we have an existing large customer base being served across the island via our Western Union network. We are proud that FGB and the wider GKFG is able to bring greater convenience to our customers and other underserved Jamaicans".

- Signia Financial Group: "This transaction will result in the creation of the largest Merchant Bank in Barbados. Signia and Globe are two of the leading merchant banks in Barbados. Signia and Globe have several common product

offerings including fixed deposits, retail and commercial lending, commercial leasing and foreign exchange services. In addition to these common offerings, there are also some other products which are exclusive to each company. Signia is a registered stock broker, licensed by the Barbados Stock Exchange. Globe Finance Inc. currently offers a VISA credit card service to its customers.

Based on results released as at December 2017, the two entities have combined deposits of BBD 351.5 million and loans of BBD 339.8 million".

Against this backdrop, for the FY ending December 2018, revenue is expected to increase due to strong brand presence and continuous growth in the group's core business operations. Whereas net profit is expected to decline, taking into consideration the gains that occurred in the prior year and will not be accounted for in the projected period. As such, revenue is expected to improve by 10% while net profit attributable to shareholders is expected to increase by 2% for the year ending December 2018.

GK's EPS is projected at \$4.21 for the 2018 FY and its stock value is projected at approximately \$68.36 over the short to medium term based on expected earnings. The stock currently trades at around \$62.02 as at January 9, 2019 with a corresponding P/E ratio of 15.36 times, below the main market P/E ratio of 17.93 times. As such, the stock is currently recommended as a **HOLD**. ■

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The Business Process Outsourcing (BPO) sector is one of the fastest growing sectors in outsourcing and contracting operations and responsibilities of a specific business process to a third-party service provider. BPO has contributed in excess of US\$400 million to Jamaica's economy, and has had exponential effects on other sectors, such as security, transportation, retail, food and beverage, insurance, financial. The sector is rapidly becoming the number one source of employment island wide, next to tourism in western Jamaica.

Mayberry hosted its final Investor Forum for the 2018 series in November of last year, which featured guest speakers, Yoni Epstein, executive chairman of itelbpo and Gloria Henry, assistant VP of operations and customer relations at the Port Authority of Jamaica (PAJ). The Forum's theme was a presentation on: "Investment Opportunities in the Business Process Outsourcing Sector".

Epstein began by pointing out that itelbpo not only starts its young employees at a 'fairly beneficial' salary, but offers incentives like health insurance, transportation, a 60 – 80 per cent lunch subsidy and a good working environment in a call centre. He further stated that the company not only invests in the latest state-of-the-art technology, which he expects will carry it through to the next stage of evolution, but it has developed a very engaging work space and comfortable working atmosphere. It has taken only six years, since Epstein left his job with the Sandals Group, to make a massive success of his investment in the BPO sector in Montego Bay and emerging through rapid development, expanding island wide; physically, itelbpo now has locations in Kingston, Montego Bay, Florida and Monterey in Mexico, which has led to its tremendous growth over the last few years. The

company has also been growing vertically into areas like travel and leisure, car rental, involvement with hotel chains, healthcare space, telecommunications, the automotive market, financial services, utilities, and insurance. "When we started in 2012, the sector had 12,500 people. Today the BPO sector has over 36,000 people. So, we are seeing tremendous success as a country and ourselves as a business," said Epstein.

Since the resurgence of the 807 Garment Industry to save the Montego Bay Free zone, Henry elaborated that the trial of the 807 recovery gave birth when it started in the free zone in 1985 to a lucrative and exciting product, BPO, and subsequently, the PAJ has been leading the path of its success. She further stated that a decade later 807 crashed, resulting in an unremitting search for new markets. "It was that idea of US companies outsourcing certain basic aspects of their production process which led to the introduction of BPOs, and so Jamaica was ready to move in that new direction, emerging in new markets, right away," said Henry. The government then reinforced the policy to privatise basic telephone services, with the licensing of Cable & Wireless, and competitive international services, ensuing the eventual liberalisation of the telecommunications sector in 2000 and the importation of mobile telephones in 2002. This led to a competitive privately-owned telecommunications environment. Moreover, the demand from thousands of self-driven millennials seeking work, Jamaica noticeably became one of the most likely hosts for BPO development. Henry said with that foundation, Jamaica's data operation sector, telemarketing, became the new BPO sector, working out of the two free zones which were initially set up for the 807 programme.

She also, noted that the PAJ is still very active in the BPO sector with about 11,600, or one-third of the approximately 36,000 jobs in the sector, including 10,000 in the Montego Bay Free Zone and over a thousand more in the Portmore Informatics Park. The authority owns over 750,000 square feet of space within its two free zones — 665,000 square feet in Montego Bay and other areas in Kingston, Portmore and St Ann.

The BPO sector is growing regionally and many countries will benefit as growth is projected to be driven by factors such as the development and availability of new technologies. This industry continues to exponentially evolve as it accounts for job opportunities for the Jamaican youths with a stable source of income. ■

FORUM HIGHLIGHTS

FOR NOVEMBER 2018



At November's Investor Forum, Mayberry's CEO, Gary Peart (2nd left) and Assistant VP of Operations and Customer Relations, Port Authority of Jamaica (PAJ), Gloria Henry (2nd right) are flanked between members of the PAJ team.



Yoni Epstein, Executive Chairman of itelbpo, engages in conversation with Gloria Henry ahead of the evening's presentation.



Gary Peart greets Yoni Epstein as Richard Lake, CEO of Restaurant Associates, looks on.



The audience listens attentively during the presentation.



Okella Parredon, Executive Investment Advisor presents Yoni with a token of appreciation after his presentation.



Samantha Tulloch, Investment Advisor, presents Gloria with a token of appreciation after her presentation.



After the evening's presentation, Mayberry's CEO, Gary Peart poses for a photo op with Gloria and Yoni.

ECONOMIC HIGHLIGHTS

ECONOMIC HIGHLIGHTS FOR DECEMBER 2018

	December 2018	November 2018	Change
91 Days Treasury Bills Avg. Yield (%)	2.047	1.952	0.095
182 Days Treasury Bills Avg. Yield (%)	2.066	1.986	0.080
Exchange Rate (US\$: J\$)	128.53	127.21	1.32
Net International Reserves (NIR) (US\$M)	3,005.41	2,899.06	106.35

Net International Reserves- December 2018

Jamaica's Net International Reserves (NIR) totaled US\$3.01 billion as at December 2018, reflecting an increase of US\$106.35 million relative to the US\$2.90 billion reported as at the end of November 2018.

Changes in the NIR resulted from an increase in foreign assets of US\$106.91 million to total US\$3.53 billion compared to the US\$3.43 billion reported for November 2018. Currency & deposits was the largest contributor to the increase in foreign assets. Currency & deposits as at December 2018 totaled US\$2.96 billion, reflecting an increase of US\$100.29 million compared to the US\$2.86 billion booked as at November 2018.

Securities amounted to US\$325.72 million, US\$5.28 million more than the US\$320.44 million reported in November 2018. Foreign liabilities for December 2018 amounted to US\$526.63 million compared to the US\$526.07 million reported for November 2018. Liabilities to the IMF accounted for 100% of total foreign liabilities, reflecting a US\$0.56 million increase month over month from November 2018.

At its current value, the NIR is US\$202.88 million less than its total of US\$3.21 billion as at the end of December 2017. The current reserve is able to support approximately 32.80

weeks of goods imports or 19.47 weeks of goods and services imports.

The country came in slightly below the benchmark of US\$3.28 billion outlined by the International Monetary Fund (IMF) for March 2018. Under the New Agreement, the IMF noted, "Considerable progress has been achieved on macroeconomic policies and outcomes. Fiscal discipline anchored by the Fiscal Responsibility Law has been essential to reduce public debt and secure macroeconomic stability. Employment is at historic highs, inflation and the current account deficit are modest, international reserves are at a comfortable level, and external borrowing costs are at historical lows".

All performance criteria for the period ended December 2017 were met. The IMF further noted, "Financial sector stability is a prerequisite for strong and sustained growth. Ongoing prudential and supervisory improvements will enhance systemic stability". "Continued reform implementation will not only safeguard hard-won gains but also deliver stronger growth and job creation". The NIR target outlined as per the new agreement for the 2018/19 fiscal year is US\$3.22 billion. As at December 2018, the country is US\$0.21 billion below the targeted amount.

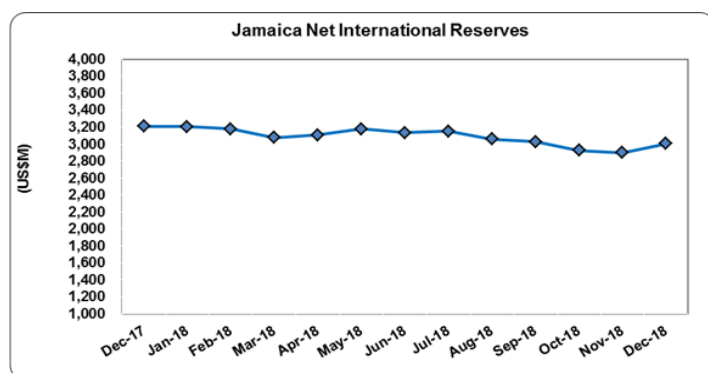


Figure 1

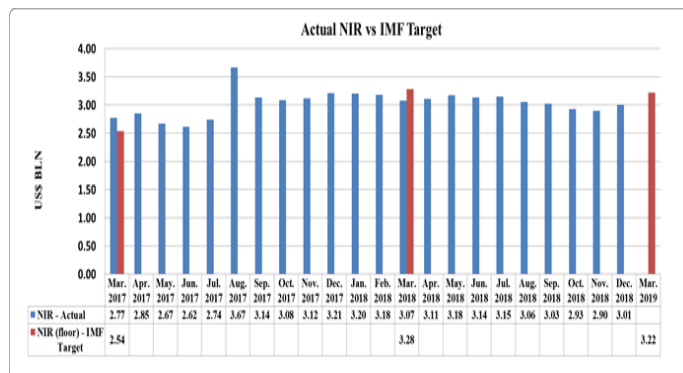


Figure 2

JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR DECEMBER 2018

Jamaica Monthly Equity Market Report for December 2018

Main JSE Index: 379,790.86 points
Point Movement: -12,411.37 points
Percentage Change: -3.16%

Advance Decline Ratio: Positive
Advancers: 20 **Decliners:** 16
Traded Firm: 4

Junior JSE Index: 3,246.84 points
Point Movement: 64.51 points
Percentage Change: 2.03%

Advance Decline Ratio: Positive
Advancers: 18 **Decliners:** 15
Traded Firm: 2

Major Winners (Main & Junior)

Stock	Increase	Closing Price
Barita Investments Limited	89.89%	\$53.17
IronRock Insurance Company Limited	40.00%	\$4.90
Paramount Trading (Jamaica) Limited	31.82%	\$2.90

Major Losers (Main & Junior)

Stock	Decrease	Closing Price
Sterling Investments Limited	-27.80%	\$3.61
Sagikor Group Jamaica Limited	-24.43%	\$37.47
Jetcon Corporation Limited	-23.81%	\$3.04

Total Shares Traded (Main): 460.94 million units
Total value (Main): Approx. \$14.53 billion

Volume Leaders (Main)

Stock	Units Traded	Market Volume
JMMB Group Limited	359,367,832	77.96%
NCB Financial Group Limited	17,774,820	3.86%
Carreras Limited	11,167,191	2.42%

BUY**HOLD****SELL****Dolphin Cove Limited (DCOVE)**

For the nine months ended September 30, 2018

BUY

• DCOVE reported total revenues of US\$11.62 million, an 11% decrease when compared to the US\$13.03 million booked the year prior. Total revenue for the quarter was to US\$3.89 million (2017: US\$4.37 million). Even though one of the company's primary cruise line partners, Royal Caribbean, drastically reduced its calls to Jamaica in 2018, as well as the negative consequences of the state of emergency on the business, revenues only fell by 12% year to date. Management fully expects to see a recovery of cruise ships calls to Jamaica.

• Revenue from dolphin attraction contributed US\$6.38 million to total revenue. This represents a 13% decline when compared to the US\$7.35 million reported in the prior year. Revenues from the ancillary services totalled US\$5.24 million, an 8% drop from last year's US\$5.68 million.

• Total direct cost for the period totalled US\$1.04 million, representing a 42% hike when compared to the US\$736,361 reported in 2017.

• As such, gross profit for the period went down by 14%, amounting to US\$10.58 million relative to 2017's total of US\$12.29 million. For the quarter, gross profits closed at US\$3.50 million, 15% less than US\$4.11 million of the prior period.

• Other income soared to US\$193,784 million in 2018 relative to US\$3,810 of last year.

• Total operating expenses also saw a decline of 5%, moving from US\$7.82 million in 2017 to US\$7.30 million. This decrease was primarily due to a 13% fall in selling expense which amounted to US\$2.84 million (2017: US\$3.26 million). Other operations totalled US\$2.53 million relative to US\$2.63 million, while administrative expense had a marginal decline of 0.03%, amounting to US\$1.93 million. Also, for the third quarter, total expenses marginally grew by 0.07% to US\$2.49 million.

• Finance income declined by 78%, totalling US\$54,215 relative to US\$241,593 last year, while finance cost moved down from US\$284,924 for the same period in 2017 to US\$209,444.

• Profit before taxation saw a decline of 25% to US\$3.32 million from US\$4.44 million with taxes of US\$367,553 (2017: US\$315,620).

• Net Profit for the period was US\$2.95 million, 28% more than the US\$4.12 million charged the prior year. Net profit for the quarter amounted to US\$915,198 (2017: US\$1.52 million).

• Earnings per stock unit for the nine months totalled US\$0.008 relative to US\$0.011 in 2017. EPS for the quarter was US\$0.0023 relative to US\$0.0039 in 2017. The trailing twelve-month EPS was US\$0.006. The stock traded at JMD\$14.80 as at November 14, 2018. The number of shares used in the calculation was 392,426,376.

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.

**STATIONERY & OFFICE SUPPLIES LTD.****Stationery & Office Supplies Limited (SOS)**

For the nine months ended September 30, 2018

HOLD

• SOS for the nine months period reported revenues of \$801.44 million relative to \$664.87 million in 2017, a 21% increase. For the third quarter, revenues grew by the same 21% but closed the quarter at \$281.51 million (2017: \$233.09 million).

• The company's cost of sales totaled \$395.33 million, up 14% relative to the \$346.35 million reported in 2017. Cost of sales for the quarter rose by 11% to \$135.71 million (2017: \$122.75 million). As a result, gross profit grew by 28% for the nine months, amounting to \$406.12 million relative to the \$318.52 million booked in 2017, while gross profit for the quarter totaled \$145.81 million (2017: \$110.33 million).

• Administrative expenses totaled \$219.27 million, up from the \$170.59 million booked in 2017, while selling and promotion expenses grew by 18% to close the period at \$64.58 million relative to the \$54.68 million reported in 2017. For the quarter, administrative expenses went up by 21% to \$76.90 million (2017: \$63.35 million), while selling and promotion expenses closed at \$20.13 million (2017: \$19.96 million). SOS indicated that, "the increase in expenses was mainly due to the increase of 30 additional staff members as well as the initial setup costs of the SEEK Manufacturing Plant".

• The company's depreciation cost was \$19.92 million, an increase of 32% relative to the \$15.09 million incurred in 2017, while finance cost closed at \$9.17 million (2017: \$7.30 million).

• Profit before taxes grew by 32% to \$91.64 million relative to the \$69.21 million earned in 2017. For the quarter, there was an 89% growth to \$35.47 million (2017: \$18.80 million).

• After income tax expenses of \$60,000 (2017: \$10.09 million), net profit for the period totaled \$91.58 million, an increase of 55% relative to the \$59.11 million reported in 2017. Net profit for the quarter was \$35.47 million, a 103% growth from the \$17.46 million earned in the previous corresponding quarter.

• EPS for the period was \$0.37 (2017: \$0.24), while EPS for the quarter was \$0.14 (2017: \$0.07). The twelve-month trailing EPS was \$0.46. As at November 14, 2018, the stock traded at \$9.24.

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.

**Sagikor****Sagikor Real Estate X Fund Limited (XFUND)**

For the nine months ended September 30, 2018

SELL

• XFUND for the nine months ended September 2018 reported total revenues of \$5.82 billion relative to the \$9.97 billion reported in 2017, a 42% decline year over year.

• Hotel revenue for the nine months period increased to \$3.97 billion relative to \$3.43 billion in 2017, a 16% improvement year over year. Net investment expenses closed the period at \$193.76 million (2017: \$99.40 million) while net capital losses amounted to \$674.40 million relative to net capital gains of \$2.32 billion in the prior year.

• Hotel revenue from discontinued operations slipped 37% to close at \$2.71 billion versus \$4.29 billion in the same period in 2017.

• The Company indicated that it liquidated 91% of its Sigma Real Estate Portfolio (Sigma Portfolio) units in exchange for shares in Jamziv Limited, thereby increasing their holding of Playa shares indirectly.

• Management stated that, "As at September 30, 2018, the Group held 12,258,000 Playa shares, representing a 9.4% ownership stake in Playa, and 643 million units, or 5.4% interest in the Sigma Portfolio (down from 38% for the corresponding period and at December 2017)".

• Operating expenses fell by 15% to \$6.15 billion (2017: \$7.24 billion). For the quarter, operating expenses was \$1.19 billion compared to \$2.33 billion reported in the prior corresponding quarter.

• The company reported a loss before tax of \$329.49 million relative to a profit before tax of \$2.73 billion for the nine months. After incurring tax charges of \$243.85 million (2017: \$367.26 million), net loss of \$573.34 million was recorded compared to a net profit of \$2.36 billion in 2017. However, for the third quarter, net loss amounted to \$1.34 billion versus a net profit of \$1.58 billion as at September 2017.

• The loss per share (LPS) for the nine months closed at \$0.26 relative to an EPS of \$1.05 in 2017. While the LPS for the quarter was \$0.60 (2017: EPS of \$0.70), the trailing twelve-month LPS is \$0.086. The number of shares used in our calculations was 2,243,005,125. As at November 14, 2018, the stock traded at \$12.48.

• The Company indicated that, "The loss was mainly due to a \$1.91 billion unrealised fair value loss, less \$665 million in foreign currency gains, from our investment in Jamziv Limited."

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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