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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, Dr The Honourable Nigel Clarke. He gave our audience an economic review of 2018 and outlook for 2019.

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FEBRUARY 2019
CEO CORNER

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

Companies enter the stock market either to issue shares or sell shares after their initial public offering (IPO). Studies have proven over time that shares or equities are one of the best long-term investments in the financial marketplace and therefore, measures the overall strength and well-being of a company's performance.

The stock price of the company is varied to change in its value. This involves taking risks once the investment has been made. Nonetheless, over the long term, they can generate good returns. Investors receive two types of return from the purchase of shares being bought: annual income and long-term capital growth or income in the form of dividends, which are usually paid twice a year to shareholders. This is generally paid when a company is making substantial amounts of profit.

Many companies have faced challenges by 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 and employ corporate strategies that aid in increasing the added value of the company, which will be advantageous in increasing shareholders' value.

A good management team must have a vision for its company and be able to take advantage of its share price to grow the business. Once the value of the stock price has increased, it will provide alternative opportunities to further develop and improve in value. This will in turn attract potential investors as well as build partnerships.

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Is it the right time to refinance my company's debt?

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Refinancing corporate debt is the process through which a company rearranges its financial obligations by replacing or restructuring existing debts. This is often done to improve a company's financial position and is generally prompted by favourable interest rates, improving credit quality, and in response to more favourable financing. The advantages of corporate refinancing are reduced monthly interest payments, better loan terms, reduction of risk, and access to more cash for operations and capital investments.

The biggest driver of the increasing debt refinancing in Jamaica has been the continued prevailing low-interest rate environment, created by the BOJ rate reduction. As at February 2019, policy interest rates were reduced to 1.50 per cent. According to the Bank of Jamaica, "Inflation for the next eight quarters should remain within the target of 4.0 per cent to 6.0 per cent, with the risks assessed to be balanced. Over the next three quarters, inflation is expected to improve to 5% in the June 2019 quarter, this is due to the rising food prices as agricultural supplies return to normal levels. Thereafter, headline inflation is expected to converge towards the centre of the target". It should be noted however that the risk still remains that inflation could fall below the target again over the first part of the fiscal year 2019/20.

This will result in investors seeking more attractive investments, for their Jamaican dollars, than government issued securities and will result in increased debt refinancing in Jamaica. For the 2019 calendar year, we have already begun to see more refinancing with the most recent being the JPS 11% 2021 bond. The company has announced it will call the bond at US101.83 from its holders on March 5,2019 in order to refinance the debt at a lower interest rate. This prevailing low interest rate environment should continue to reduce the cost of debt and we should see more refinancing taking place this year as policy rates remain low.

With investors looking for more attractive fixed income securities than government debt, and the government looking to borrow less money from the market, an increase in the supply of Jamaican dollar cash in the market is expected. With the myriad of investment professionals and persons who understand the value of smart financing, it might be the best time to take a look at your books and engage with your broker on how your company can benefit from refinancing your debt.

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COMPANY ANALYSIS
Jetcon Corporation Limited

Executive Summary

JETCON offers a wide array of motor vehicles focusing mainly on passenger cars and SUVs. It also offers limited sales of parts and third-party servicing in Jamaica. Subsequent to being listed on the Junior Market of the Jamaica Stock Exchange (JSE) in 2016, the company has been able to finance its imports almost solely using its own funds. With a growing customer base, the need for a larger inventory arose, which led the company to acquire additional space in the Tinson Pen area.

Year over year turnover increased by 37% closing at $1.18 billion (2016: $857.04 million), which reflects a compounded average growth rate (CAGR) of 50% over the last four years. As such, net profits amounted to $153.79 million, an increase of 55% when compared to the last financial year (FY). Notably, year to date revenues grew only by a 1%, while the bottom line fell 27%. The negative performance was due to the associated costs from the new importation regulations that were implemented, requiring the company to absorb additional costs.

Beginning in the first quarter of 2019, JETCON plans to improve its sales by focusing on its wholesale and exports businesses. Selling cars on a wholesale basis came about as the company saw the opportunity to work through existing networks (dealers) rather than expanding its physical operations. By doing this, the company's expense margins will increase but not significantly, as there are no start-up costs and operations can be easily discontinued as the company sees fit. The company has expanded its import options beyond Japan to now Singapore and the United Kingdom, which offers similar cars at more affordable prices. Furthermore, the company seeks to use technology to enhance its business services by facilitating online sales to its customers.

Based on the company's ratios, it is evident that the business has remained profitable over the last four years. JETCON had a relatively high return on average equity (ROAE) ratio of 42% for the FY 2017. The return on average assets (ROAA) for 2017 was 35%. The current ratio of 5.10 times clearly indicates that the company was fully equipped to finance its short-term obligations.

Earnings per share (EPS) is estimated at $0.19 cents relative to an EPS of $0.26 cents last year. The stock price at last trade on February 8, 2018 was $3.27 and is projected at approximately $3.87 over the short to medium term, based on expected earnings. Aa such, at this time the stock is recommended as a **HOLD**.

Company Background

JETCON's operations commenced as early as 1991 when the company sold QMI PTFE engine treatments, which went on to become a top selling engine treatment in Jamaica. It then went into selling other car care products. In 1995 JETCON became the first certified car dealer registered by the government.

The company is a subsidiary of the St Andrew Investments Limited and was listed on the Junior Market of the JSE in March 2016. Since its IPO in March 2016, the company has financed imports almost solely from internal funds. The business' main activities are selling pre-owned cars, sports utility vehicles (SUVs) and small commercial vehicles with a focus on passenger cars and SUVs. Additionally, JETCON sells parts and provides servicing to third parties, currently on a limited basis.

Due to its high inventory and the growing needs of its customer base, the company acquired additional storage space for its vehicles. According to management, "Jetcon offers vehicles with a relatively long-time span which cost less than a newly owned car once properly maintained". The business has experienced some seasonality in its sales with months of July, November and December being considered peak months.

JETCON sources the majority of its cars from Japan but has been experimenting with other markets such as Singapore and the United Kingdom. Management highlighted that the cars are of the same brands but are usually cheaper, well kept and have more features than those imported from Japan. However, there is a trade-off, as the length of time it takes these cars to arrive in Jamaica is much longer than those coming in from Japan.

The use of social media platforms (Facebook and Instagram) and the company's website are the primary sources of detailed product information for customers at the moment. Customers

COMPANY ANALYSIS

Jetcon Corporation Limited

are then able to view and make their choices at their own convenience without having to visit the actual location.

SWOT Analysis

Strength

- Strong brand recognition
- Significant inventory levels
- Provides parts and servicing to third parties, currently on a limited basis

Weakness

- Taxes introduced by customs
- Wait time associated with importation
- Japan as the major supplier of cars

Opportunity

- Exportation of vehicles
- Sale of vehicles on a wholesale basis
- Current low interest rates

Threat

- Great competition from other dealers within the market
- Foreign exchange rate
- Availability on new loans

Operational Analysis

Jetcon Corporation Limited's (JETCON) 4 -year Financial Performance						
For the year ended	Dec.2014 $'000	Dec.2015 $'000	Dec.2016 $'000	Dec.2017 $'000	Change (YOY) %	CAGR 4-yr %
Turnover	349,041	523,246	857,044	1,176,584	37%	50%
Cost of Sales	(295,814)	(435,648)	(703,856)	(954,887)	36%	48%
Gross Profit	53,226	87,598	153,188	221,697	45%	61%
Other Operating Income	236	1,010	1,281	1,598	25%	89%
Total Operating Income	53,463	88,608	154,469	223,295	45%	61%
Total Expenses	(40,564)	(37,996)	(51,300)	(69,448)	35%	20%
Selling and Marketing Expenses		(6,028)	(13,075)	(22,708)	74%	
Administrative & Other Expenses	(30,040)	(27,270)	(36,319)	(44,473)	22%	14%
Finance Costs	(10,524)	(4,698)	(1,905)	(2,267)	19%	-40%
Profit Before Taxation	12,898	50,612	103,169	153,846	49%	128%
Taxation	(2,466)	(10,263)	(4,182)	(60)	-99%	-71%
Profit After Taxation	10,432	40,349	98,987	153,786	55%	145%
EPS	0.02	0.07	0.17	0.26		

Year over year JETCON reported revenue growth of 37%, from $857.04 million in 2016 to $1.18 billion in 2017, while for the 4 years (2014 to 2017) revenues grew from $349.04 million, a GAGR of 50%. The company surpassed the billion-dollar mark for the first time in 2017, recording strong growth which was attributed to increases in the volume of motor vehicles sold. However, this was tempered by the slow clearing of vehicles from the wharf during December.

The cost of goods sold rose to $954.89 million in 2017 from $703.86 million the year prior, an increase of 36%. Notably over the last four years, this grew by a CAGR of 48% from $295.81 million in 2014. This led to a cost of sales margin averaging 83% over the period, which translated into a 45% growth in the company's gross profit which moved up from $153.19 million in 2016 to $221.70 million in 2017. Gross profit of over past four years increased at a CAGR of 61% from $53.23 million reported in 2014.

Total expenses amounted $69.45 million in 2017 versus $51.30 million the previous year, representing a 35% growth year over year. Of this, selling and marketing expenses rose to $22.71 million in 2017, 74% more than last year's $13.08 million and is mostly associated with increased sales. Management attributed the movement to increased commissions paid to the sales team. In addition, administrative and other expenses amounted to $44.47 million (2017: $36.32 million) and reflect increased staff cost and additional property rental cost. Finance costs increased to $2.27 million ($1.91 million), by 19%. Expenses rose at a four-year CAGR of 20% from the $40.56 million booked in 2014.

Profit before taxation totalled $153.85 million for the FY 2017, after which taxes of $60,000 were charged. Over the four-year period, net profit rose significantly by a CAGR of 145% from $10.43 million in 2014 to $153.79 million, while year over year there was a 55% increase (2016: $98.99 million).

Balance Sheet Analysis

Jetcon Corporation Limited's (JETCON) 4 -year Financial Performance						
For the year ended	Dec.2014 $'000	Dec.2015 $'000	Dec.2016 $'000	Dec.2017 $'000	Change (YOY) %	CAGR 4-yr %
Property, Plant and Equipment	31,146	30,504	35,827	68,724	92%	30%
Total Non-Current Assets	31,521	30,864	35,838	68,770	92%	30%
Inventories	71,665	84,480	250,827	393,821	57%	76%
Recievables	14,076	18,286	35,698	59,193	66%	61%
Cash and Bank Deposits	3,044	5,594	3,161	14,843	370%	70%
Total Current Assets	91,140	113,237	297,264	470,203	58%	73%
Total Assets	122,661	144,102	333,101	538,973	62%	64%
Total Shareholders' Equity	66,354	106,704	294,014	434,221	48%	87%
Loans and Borrowings	10,726	3,908	3,908	12,466	219%	5%
Payables	31,010	18,616	34,911	85,697	145%	40%
Total Current Liabilities	45,581	33,490	39,087	92,286	136%	27%
Total Liabilites	56,307	37,398	42,995	104,752	144%	23%
Total Equity and Liabilities	122,661	144,102	337,009	538,973	60%	64%

For the year ended December 31, 2017, total assets increased from $333.10 million in 2016 to $538.97 million in 2017. This was mainly attributable to the $143 million or 57% increase in the company's inventories, totalling $393.82 million (2016: $250.83 million).

Jetcon Corporation Limited's (JETCON)- Inventories			
For the period ended	Dec.2016 $'000	Dec.2017 $'000	Change (YOY)
Motor Vehicles	70,878	222,288	214%
Motor Vehicles - Bonded Warehouse	129,437	92,862	-28%
Parts	3,547	4,146	17%
Inventories on Hand	203,861	319,296	57%
Goods-in-Transit	46,966	74,526	59%
Inventory	250,827	393,821	57%

The increase in inventory comprised landed vehicles and those in transit but not yet on the island. Management noted, "the average inventory turnover including goods in transit in 2017, was around 4 months, compared to just 3 months in 2016 and under 2 months in 2015. The increased level in 2017 onwards has facilitated increased sales". Inventory increased at a four-year CAGR of 76% between 2014 and 2017.

Total shareholder's equity rose 48% from $294.01 million to $434.22 million in 2017 as a result of a 74% increase in the company's retained earnings, closing the period at $328.65 million (2016: $188.48 million).

Total liabilities were $104.75 million in 2017 from $43 million in 2016, a 23% CAGR when compared to the $56.31 million booked in 2014. Payables accounted for the increase in the overall liabilities to end the period at $85.70 million (2016: $34.91 million). Loans and borrowings were up to $12.47 million when compared to $3.91 million the previous year. Management noted, "The current loan is a short-term facility and is unsecured. The loan attracts interest at the rate of 14.25% per annum".

Expenses by Nature

Jetcon Corporation Limited's (JETCON)- Expenses by Nature			
For the period ended	Dec.2016 $'000	Dec.2017 $'000	Change (YOY)
Cost of Sales	675,023	918,020	36%
Repairs and Serice Costs - Motor Vehicles	28,833	36,868	28%
Motor Vehicle Operating Expenses	2,555	850	-67%
Staff Costs	22,445	31,004	38%
Directors' Fees	2,950	2,950	0%
Advertising and Sponsorship	4,339	8,380	93%
Rent and Utilities	5,577	9,819	76%
Insurance	1,859	2,489	34%
Security	1,493	2,934	97%
Audit Fee	1,150	1,250	9%
Repairs and Maintenance	2,426	1,532	-37%
Depreciation	852	1,686	98%
General Office Expenses	3,748	4,288	14%
Total Expenses	753,250	1,022,068	36%

JETCON incurred a total of $1.02 billion (2016: $753.25 million) in expenses for 2017 with cost of sales accounting for 90% of expenses for the year. Repairs and service costs- motor vehicles rose 28% year over year to $36.87 million (2016: $28.83 million), making up 4% (2016: 4%) of total expenses. Advertising and Sponsorship, Depreciation and Security expenses posted the largest growth rates with 93%, 98% and 97% respectively. Staff costs increased 38% or $8.56 million above the $22.45 million documented in 2016, to $31 million in 2017.

Ratio Analysis

Profitability breakdown

Profitability Ratios	2014	2015	2016	2017
Gross Profit margin	15%	17%	18%	19%
Operating Income Margin	15%	17%	18%	19%
Pretax Margin	4%	10%	12%	13%
Net Profit margin	3%	8%	12%	13%
Cost of Sales Margin	85%	83%	82%	81%

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

Solvency Ratios	2014	2015	2016	2017
Debt-to-Equity	35%	11%	2%	4%
Debt-to-Assets	19%	8%	2%	4%
ROAE	17%	47%	49%	42%
ROAA	8%	30%	41%	35%

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.

Activity Ratios

JETCON Ratios	2015	2016	2017
Receivables Turnover	32.34	31.75	24.80
Days of Sales O/S	11.29	11.50	14.72
Inventory Turnover	5.58	4.20	2.96
Days of Inventory on hand	65.41	86.94	123.21
Payables Turnover	18.07	32.51	18.21
No. of Days of Payables	20.19	11.23	20.05

The receivables turnover ratio declined from 32.34 times in 2015 to 31.75 times in 2016. This was further reduced to 24.80 times in 2017. This shows the efficiency of the company in collecting from its debtors. The days sales outstanding ratio increased from 11.29 days to 14.72 days indicating the length of time it takes the company to collect its receivables after a sale has been completed. The payables turnover ratio increased slightly over the last three years, moving from 18.07 times in 2015 to 18.21 times in 2017, showing the rate at which the company repays its suppliers.

It took JETCON approximately 20.05 days to pay its invoices from suppliers based on the days payable outstanding ratio, showing a decrease from 20.19 days in 2015. Additionally, the inventory turnover ratio almost halved over the three-year period as it fell from 5.58 times in the FY 2015 to 2.96 times in 2017 (2016: 4.20 times), indicating the company's ability to turn over its total inventory each year. As such, the days sales of inventory on hand ratio significantly rose during the same period, moving from 65.41 days in 2015 to 123.21 days in 2017. This shows the growth in the company's inventory and length of time it takes to make a sale.

Liquidity Ratios

Liquidity Ratios	2015	2016	2017
Current Ratio	3.38	7.61	5.10
Quick Ratio	0.86	1.19	0.83
Cash Ratio	0.17	0.08	0.16
Cash Conversion Ratio	72.99	96.64	137.42

JETCON has demonstrated the ability to finance its short-term obligations using its current assets as the firm's liquidity position has improved over the three-year period from 3.38 times in 2015 to 5.10 times in 2017 (2016: 7.61 times). For the FY 2017, the quick ratio was 0.83 times, which also suggests that the company would not have been able to meet its debts should they fall due without the assistance of its inventory. The cash ratio of 0.16 times indicates that JETCON would need to liquidate assets if it were forced to pay all current liabilities with cash immediately. Notably, the ratio doubled year over year from 0.08 times in 2016.

The cash conversion ratio (CCC) has been positive over the last three years, moving from 56.50 days in 2015 to 117.88 days in 2017. This indicates how efficiently a company's management is using the short-term assets and liabilities to generate and redeploy the cash and provides insight into the company's financial health with respect to its cash management. However, JETCON's CCC would be considered high due to the nature of the business that is the sale of cars. The deterioration in the ratio stemmed from an increase in the days of inventory on hand.

Peer Analysis – Retail Businesse

Sector Comparison							
JETCON	**2015**	**2016**	**2017**	**DTL**	**2015**	**2016**	**2017**
ROAA	30%	41%	35%	ROAA	6%	6%	11%
ROAE	47%	49%	42%	ROAE	22%	23%	39%
Assets to Equity	135%	113%	124%	Assets to Equity	340%	401%	334%
Liabilities to assets	39%	11%	8%	Liabilities to assets	71%	75%	64%
CPJ	**2015**	**2016**	**2017**	**EFRESH**	**2015**	**2016**	**2017**
ROAA	7%	2%	5%	ROAA	20%	10%	8%
ROAE	20%	6%	12%	ROAE	41%	21%	17%
Assets to Equity	280%	288%	249%	Assets to Equity	196%	218%	201%
Liabilities to assets	64%	66%	60%	Liabilities to assets	49%	54%	50%
CAC	**2015**	**2016**	**2017**	**Industry Average**	**2015**	**2016**	**2017**
ROAA	12%	2%	11%	ROAA	15%	12%	14%
ROAE	39%	4%	27%	ROAE	34%	21%	27%
Assets to Equity	305%	264%	233%	Assets to Equity	251%	257%	228%
Liabilities to assets	67%	62%	57%	Liabilities to assets	58%	54%	48%

For the last three years, JETCON's assets to equity ratio suggests that more equity was used to finance the company's operations. For the FY 2017 this ratio was 124% relative to the industry average on of 228%. The opposite for the liabilities to assets ratio, which was 8% (lowest) when compared to that of its peers (48%) within the auto retail industry in 2017. JETCON had a ROAE of 42% highlighting the company's ability to generate a return with each dollar of shareholders' equity, surpassing that of all of its peers (27%). Furthermore, the company's ROAA ratio of 35% was above the industry average of 14% representing the percentage of the profit the company earns in relation to its overall resources.

Year to Date Financial Performance

Jetcon Corporation Limited's (JETCON)- Year to Date Performance			
For the period ended	**Sep.2017**	**Sept.2018**	**Change (YOY)**
	$'000	$'000	%
Turnover	886,547	892,283	1%
Cost Of Sales	(703,675)	(743,677)	6%
Gross Profit	182,873	148,606	-19%
Total Operating Income	182,873	149,567	-18%
Total Expenses	(54,180)	(55,338)	2%
Selling and Marketing Expenses	(17,389)	(19,245)	11%
Administrative and Other Expense	(26,902)	(35,264)	31%
Finance Costs	(9,888)	(829)	-92%
Profit Before Taxation	128,693	94,229	-27%
Taxation	-	(60)	
Profit After Taxation	128,693	94,169	-27%

Turnover for the nine months went up by 1% to $892.28 million (2017: $886.55 million). However, turnover for the quarter amounted to $286.81 million relative to $333.22 in 2017, a 14% decline. According to management, "Revenues fell 14 percent below the same quarter in 2017, to $287 million, and is flat for the nine months to September primarily resulting from unusually slow sales in August, historically, one of the best months for sales. The new importation regime also resulted in increased acquisition costs. We have placed more emphasis on the servicing segment and improvements to the department are beginning to reap benefits, with a 107% increase in service revenues, for the nine months to September compared to last year".

Cost of sales also increased by 6% to $743.68 million (2017: $703.68 million) and as a result, gross profit declined to $148.61 million compared to $182.87 million reported the previous year. For the third quarter, this also fell by 59% to $28.39 million relative to $68.44 million.

Other operating income amounted to $961,492 (2017: nil) for the period ended September 30, 2018, resulting in a total operating income of $149.57 million (2017: $182.87 million), down 18% year over year.

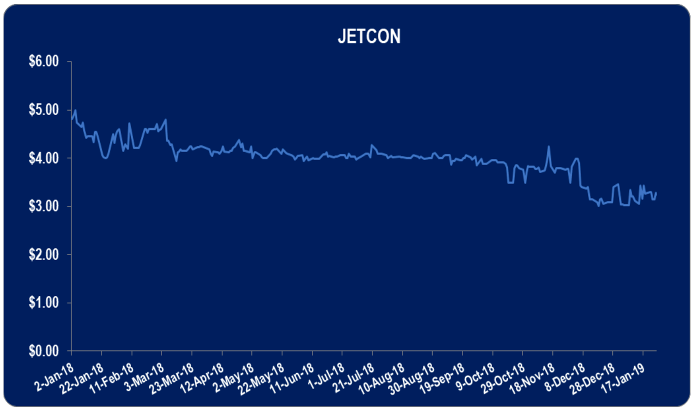
Total expenses went up 2% to $55.34 million (2017: $54.18 million). Selling and marketing expenses saw an 11% climb to total $19.25 million (2017: $17.39 million), while administrative and other expenses moved up by $8.36 million to $35.26 million (2017: $26.90 million). However, this was offset by the 92% reduction in the company's finance costs totalling $829,498 (2017: $9.89 million). For the first three months, total expenses closed at $17.09 million, a 15% dip when compared to 2017's $20.08 million. JETCON highlighted that, "a charge of $3.6 million for storage relating to the importation of vehicles in 2017 was not billed by the supplier until 2018 with the amount being booked in the September 2018 quarter. We also incurred additional rental charges of nearly $5 million for new space leased at the wharf which will result in lower cost and facilitate more efficient importation of vehicles going forward, these costs resulted in an increase in direct cost of sales and help to reduce the profit margin in the quarter. Margin was also affected by discounting of some vehicles that were acquired to help normalize the inventory ahead and help to prevent stockouts when pre-shipment inspection of the car market in Japan changed".

This translated into profit before taxation of $94.23 million relative to $128.69 million in 2017, representing a 27% year-on-year decrease. Tax charges for the period was $60,000 (2017: nil), thus net profit for the year amounted to $94.17 million relative to $128.69 million the year prior, while net profit for the quarter totalled $11.28 million, relative to $48.36 million in 2017. Total comprehensive income amounted to $94.17 million versus $128.73 million in 2017.

The EPS for the period amounted to $0.16 relative to $0.22 last year. The EPS for the third quarter amounted to $0.02 (2017: $0.08), while the twelve-month EPS totalled $0.20. The number of shares used in our calculation was 583,500,000.

JETCON also added, "Now that the market has adjusted to the pre-shipment inspection regime, normalcy is returning to the market and we expect shipping time and costs to decrease going forward. The future also involves generating more revenue streams, as well as making full use of the Special Economic Zone, as soon as the status is finalized. Revenues since the third quarter up to October is ahead of the similar period in 2017 by 15 percent".

Price History



JETCON's stock price opened the year on January 2, 2019 at $3.04, an increase of 8% since the beginning of the year.

JETCON's Abridged Profit & Loss

Jetcon Corporation Limited's (JETCON)- Profit & Loss			
For the period ended	Dec.2017	Dec.2018	Change (YOY)
	$'000	$'000	%
Turnover	1,176,584	1,117,755	-5%
Cost of Sales	(954,887)	(927,737)	-3%
Gross Profit	221,697	190,018	-14%
Other operating Income	1,597.97	961	-40%
Total Operating Income	223,295	190,980	-14%
Total Expenses	(69,448)	(79,755)	15%
Selling and Marketing Expenses	(22,708)	(25,433)	12%
Administrative and Other Expenses	(44,473)	(53,368)	20%
Finance Costs	(2,267)	(954)	-58%
Profit Before Taxation	153,846	111,225	-28%
Taxation	(60)	(60)	0%
Profit After Taxation	153,786	111,165	-28%
	0.26	0.19	

COMPANY ANALYSIS

Jetcon Corporation Limited

JETCON's projection for the FY 2018

The company has experienced a 1% movement in revenue for the nine months ended September 2018. Management stated that this was, "primarily due to the changes within the market as additional costs for inspection were introduced which had cut in on our margins as well as the decline of the USD". Managing Director, Andrew Jackson, noted that a price increase would not have been an ideal solution due to the extensive competition the business faces. The company has planned to boost its sales by adopting a focus on wholesale sales locally, targeting smaller car dealers who are unable to hold inventory due to the high cost associated with doing so. Management noted that, "this will facilitate a quick supply of cars and is expected for the first quarter of 2019". Additionally, the implementation of online sales will also be used to maximise earnings, creating another point of sale. Given the competitiveness of the industry and the trend year to date, turnover is projected to decline conservatively by 5%.

JETCON has seen a high cost of sales margin over the last four years, steadily declining from 84.8% in 2014 to 81.2% in 2017. However, the year to date margin closed at 83.3% relative to 79.4% the previous year. Jackson noted that with the sales strategies being implemented early next year, the margins are expected to be even higher. With this mind, we projected a margin of 83% for the FY ending December 31, 2018, which will translate into a decline in gross profits by 14%. Year to date, gross profit experienced a reduction of 19% to $148.61 million relative to $182.87 million for the corresponding period in 2017.

Total expenses are expected to increase by 15% with selling and marketing expenses and administrative and other expenses foreseen to increase at 12% and 20% respectively. Notably, the margins will increase as the company adopts new strategies to improve its sales opportunities such as hosting more roadshows.

Management highlighted that the plans being implemented will not need additional financing, and as a result, expect a decline in the finance costs at the end of FY 2018.

Net profit is expected to decline for the FY 2018 which translates to an EPS of $0.19 relative to $0.26 during 2017. The stock price could be valued at $3.87 over the short term based on expected earnings. JETCON currently trades at $3.27 on February 8, 2018 and is recommended as a **HOLD.**

THE IMPACT OF DIVESTING

At the last Mayberry Forum held on January 16, 2019, the Minister of Finance, Dr the Honourable Nigel Clarke stated the government's interest in divesting some of its assets. For the government, this means obtaining more room for capital expenditure as it seeks to reduce the debt to GDP ratio to 60% over the next five years. This also means getting the best out of non-performing and underperforming assets currently owned by the government, as these assets will now be more robustly managed if owned by the appropriate private firm.

A recent example of this is the Caymanas Track Limited divestment to Supreme Ventures Limited (SVL), the local leader in betting and gaming. The divestment was a success and the company has seen improvements in infrastructure and profits at Caymanas, whilst other gains have been made particularly in the area of purses, which have been increased and are now paid on time. In 2017, SVL announced that it had "the most successful Superstakes and Diamond Mile Race Days in the history of Horse Racing in Jamaica". This recent success helps to showcase how proper utilization of government assets can lead to strong return on investments. For investors, it means being able to obtain ownership of assets that would have been underperforming and maximising the performance of those assets to result in a strong return on initial investment. According to the Prime Minister, the Most Honourable Andrew Holness, at a function in Montego Bay, "In the coming months, the government will intensify its policy of full asset utilisation. These assets will be made available to persons who demonstrate the drive, interest and entrepreneurship. Persons who are risk takers and who will take these assets and make something of them for the people of Jamaica".

The government has also started to seek public divestment opportunities and will begin this effort with the divestment of Wigton Wind Farm, currently owned by the Petroleum Corporation of Jamaica. This will be done by way of an initial public offering (IPO) and will subsequently list on the Jamaica Stock Exchange (JSE). This IPO will be a blueprint for other similar projects and should have investors on the lookout for similar opportunities, as the proper management of these government owned assets should yield substantial returns on investment.

This process also gives the public a chance to be a part of the divestment process of assets which have been government owned for decades. These initiatives show the governments focus on proper governance and commitment to economic growth, as well as its dedication to the public, by providing them avenues for ownership in assets that they have contributed to maintaining for years.

FORUM HIGHLIGHTS
FOR JANUARY 2019

Dr The Honourable Nigel Clarke is joined by members of the Mayberry Team: (L-R) Director, David McBean; Sales Manager, Cedric Stewart; Assistant-VP of Marketing, Anika Jengelley; Director of Investment Banking, Tania Waldron Gooden; CEO, Gary Peart Director, Tony Lewars.

Anika Jengelley, Assistant-VP of Marketing and host for the evening, during her introductory remarks.

Mayberry's CEO, Gary Peart, gives the evening's welcome and opening remarks.

Christopher Berry, Mayberry Executive Chairman, chats with Minister Clarke after the evening's presentation.

The audience listens attentively during the presentation.

Stephanie Harrison, Digital Marketing Manager, presents the evening's special guest, Minister Clarke, with a token of appreciation for his attendance.

Christopher Berry poses a question to Minister Clarke during the programme's Q&A.

ECONOMIC HIGHLIGHTS

ECONOMIC HIGHLIGHTS FOR JANUARY 2019

	January 2019	December 2018	Change
91 Days Treasury Bills Avg. Yield (%)	2.275	2.047	0.228
182 Days Treasury Bills Avg. Yield (%)	2.152	2.066	0.086
Exchange Rate (US$: J$)	131.62	128.53	3.09
Net International Reserves (NIR) (US$M)	3,030.94	3,005.41	25.53

Net International Reserves

Jamaica's Net International Reserves (NIR) totalled US$3,030.94 million as at January 2019, reflecting an increase of US$25.53 million relative to the US$3,005.41 million reported as at the end of December 2018.

Changes in the NIR resulted from an increase in foreign assets of US$29.29 million to total US$3,561.33 million compared to the US$3,532.04 million reported for December 2018. Currency & deposits contributed the most to the increase in foreign assets. Currency & Deposits as at January 2019 totalled US$2,987.94 million, reflecting an increase of US$27.92 million compared to the US$2,960.02 million booked as at December 2018.

Securities amounted to US$325.33 million, US$0.39 million less than the US$325.72 million reported in December 2018. Foreign liabilities for January 2019 amounted to US$530.38 million compared to the US$526.63 million reported for December 2018. Liabilities to the IMF accounted for 100% of total foreign liabilities, reflecting a US$3.75 million increase month over month from December 2018.

At its current value, the NIR is US$172.42 million less than its total of US$3,203.36 million as at the end of January 2018. The current reserve is able to support approximately 33.07 weeks of goods imports or 19.63 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 January 2019, the country is US$0.19 million below the targeted amount.

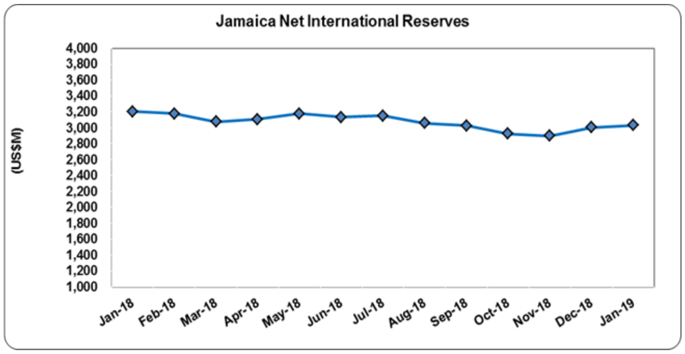


Figure 1

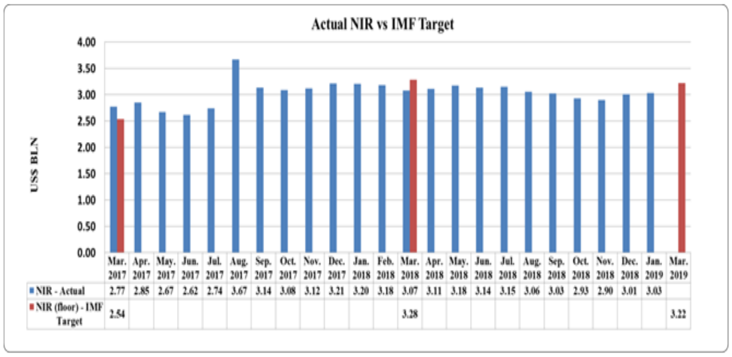


Figure 2

JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR JANUARY 2019

Jamaica Monthly Equity Market Report for January 2019

Main JSE Index: 373,897.06 points
Point Movement: -5,893.80 points
Percentage Change: 1.55%

Advance Decline Ratio: Negative
Advancers: 15 **Decliners**: 22
Traded Firm: 2

Junior JSE Index: 3,118.31 points
Point Movement: 128.53 points
Percentage Change: 3.96%

Advance Decline Ratio: Negative
Advancers: 11 **Decliners**: 22
Traded Firm: 4

Major Winners (Main & Junior)		
Stock	**Increase**	**Closing Price**
AMG Packaging & Paper Limited	30.53%	$2.48
Consolidated Bakeries (Jamaica) Limited	22.35%	$2.08
Margaritaville (Turks) Limited	20.00%	$0.24
Major Losers (Main & Junior)		
Stock	**Decrease**	**Closing Price**
138 Student Living Jamaica Limited	-40.00%	$2.10
ISP Finance Services Limited	-39.85%	$12.03
Paramount Trading (Jamaica) Limited	-29.31%	$2.05

Total Shares Traded (Main): 69.86 million units
Total value (Main): Approx. $1.91 billion

Volume Leaders (Main)		
Stock	**Units Traded**	**Market Volume**
JMMB Group Limited	8,285,408	11.86%
Scotia Group Jamaica Limited	3,729,321	5.34%
Wisynco Group Limited	3,622,579	5.19%

BUY HOLD SELL

Express Catering Limited (ECL)

Cargo Handlers Limited (CHL)

Express Catering Limited (ECL)

For the six months ended November 30, 2018

BUY

• For the six months ended November 30, 2018, ECL reported a 4% increase in revenue to US$7.18 million (2017: US$6.88 million). Revenue for the quarter advanced 2% to close at $3.12 million relative to $3.07 million reported the previous year. According to management, "We constantly benchmark our minimum growth target to be within the rate of passenger growth of 4.78%. Revenues were negatively impacted by the upgrading works being carried out by the operators of the airport. Resurfacing of runway works caused closure of strategic departure gates during the Quarter. The east concourse, where the major Food Court is located saw a number of gates closed during the Quarter to facilitate the upgrading works. This means that flights were diverted to the west concourse that has fewer food and beverage options due to design of the airport. The long-term plan is to redesign the Food Court to be central to both the east and west concourses".

• Cost of sales (COS) increased by 5% for the period to US$1.93 million (2017: US$1.85 million). As a result, gross profit increased year-on-year for the six-month period by 4%, from US$5.03 million in 2017 to US$5.25 million in 2018. Gross profit for the second quarter improved from US$2.26 million in 2017 to US$2.28 million for the six months ended November 30, 2018.

• Other income slid by 69% to close the period at US$136 versus $443 a year ago.

• Total expenses increased by 5% for the period in review to US$3.64 million for 2018, up from US$3.48 million booked for the six months ended November 30, 2017. This increase was associated with a 5% increase in administrative expenses to US$3.33 million from US$3.19 million. Depreciation and amortization saw a 5% jump to US$285, 454 compared to US$271,721 for 2017. Promotional expenses saw an 8% increase from US$21,386 to US$23,017. Total expenses for the quarter rose 4% to close at US$1.70 million (2017: $1.63 million).

• Consequently, operating profit increased by 4% to US$1.61 million (2016: US$1.55 million). Operating profit for the quarter totalled US$579,120, an 8% decline relative to US$630,143 booked for the corresponding quarter of 2017.

• Finance cost of US$169,838 (2017: US$174,759) was incurred, while foreign exchange loss for the six months amounted to US$16,917 compared to a gain of US$4,208 for the corresponding period in 2017.

• Consequently, profit for the period amounted to US$1.42 million, 3% above the US$1.38 million recorded for the first six months of 2017. For the quarter, profits amounted to US$481,318 versus US$544,622 booked for the comparable period in 2017.

• The twelve-month earnings-per-share (EPS) was US$0.021, while for the first six months ended November 2017, it amounted to US $0.087 (2017: US$0.084). EPS for the quarter amounted to US$0.029s (2017: US$0.033). The number of shares used in our calculations was 1,637,500,000. ECL's stock price as at January 14, 2018 was $8.02.

Lasco Manufacturing Limited (LASM)

For the nine months ended December 31, 2018

HOLD

• Total revenue increased by 6% from $5.28 billion in 2017 to $5.61 billion in 2018. Revenue increased by $32.91 million or 2% to a total of $1.81 billion in the third quarter, relative to the $1.78 billion recorded for the comparable quarter in 2017.

• COS amounted to $3.68 billion (2017: $3.61 billion) for the period, an increase of 2% year on year. LASM stated, "The margin improvement is primarily the result of improvements in operational efficiencies". However, for the third quarter COS was recorded at $1.20 billion in 2018 relative to $1.22 billion in 2017, a 1% decline.

• As a result, gross profit of $1.93 billion was recorded for the period, 16% more than the $1.66 billion booked for the corresponding period in 2017. Gross profit for the third quarter increased by 9% to $611.24 million when compared to the $561.12 million booked for the quarter ended December 3, 2017.

• LASM posted other income of $4.61 million relative to $14.76 million for the prior year.

• Operating expenses increased 5% to close the period at $1.02 billion versus $970.31 million booked for the corresponding period last year. The company mentioned the capital investments were primarily focused on the continued build out of the new 65,000 square feet warehousing facility which was completed in the period. Expenses for the quarter also moved up by 23% to close at $368.31 million (2017: $300.61 million).

• Consequently, LASM recorded operating profits of $919.19 million, 30% higher than the $707.85 million booked in 2017.

• Finance costs for the period fell 9% to $90.03 million compared to $99.26 million in the prior year's comparable period.

• As such, profit before taxation amounted to $829.15 million, an increase of 36% from the $608.59 million recorded for the previous corresponding period. Taxes recorded for the period amounted to $128.64 million compared to $76.07 million incurred for the corresponding period in 2017. For the third quarter, profit before tax decreased $2.46 million or 1% to $225.65 million (2017: $223.19 million).

• Net profit for the nine months totalled $700.51 million, a 32% uptick when compared to $532.52 million in 2017, while for the quarter totalled $197.44 million (2017: $195.29 million).

• Consequently, EPS for the period amounted to $0.17 relative to $0.13 in 2017. The EPS for the quarter amounted to $0.05 relative to $0.05 reported for 2017. The twelve months trailing EPS amounts to $0.18. The number of shares used in the calculations was 4,087,130,170 units. LASM closed the trading period on February 6, 2018 at $3.39.

Cargo Handlers Limited (CHL)

For the three months ended December 31, 2018

SELL

• CHL reported revenue of $104.87 million, 21.14% higher than the $86.57 million booked in 2017. Other income grew by 58.51%, moving from $544,786 in 2017 to $861,972. The company highlighted the increase was, "driven mainly by increased cement thru-put across the port in addition to increased baggage and container handling income generated from the home-porting cruise vessels".

• Administrative expenses increased 81.45% to close at $9.80 million (2017: $5.40 million), while other operating expenses increased by 80.26%, amounting to $64.44 million for the period relative to $35.75 million in 2017. Total expenses for the quarter amounted to $74.23 million compared to $41.15 million for the corresponding period in 2017. Management noted, "this movement is related to a $23.6M exchange loss on US dollar investments".

• As such, operating profit fell by 38.67% from $45.97 million in 2017 to $28.19 million. Finance costs rose 58.11% to close the period at $531,302 (2017: $336,038), while interest income declined by 28.25% to $337,241 on from $469,993 in 2017.

• Profit before taxation declined by 39.27% to close the period at $28 million (2017: $46.10 million). Taxes of $3.54 million (2017: $5.76 million) were accrued during the period, thus net profit amounted to $24.46 million (2017: $40.34 million).

• Consequently, EPS for the quarter amounted to $0.06 compared with $0.10 for the corresponding period of last year. The trailing EPS was $0.36. The number of shares used in the calculations was 416,250,000 units. The stock price closed the trading period on February 6, 2019 at a price of $15.04.

• CHL stated, "the volume of containerized cargo passing over the port annually over the last two years has remained fairly consistent at just over 22,000 TEU's. This consistency is undeniably buoyed by the hospitality trade and now takes into account the provisioning of the Cruise Lines that regularly use Montego Bay as their preferred home-port. The Port of Montego Bay has once again won the coveted World Travel Awards for the Caribbean's Leading Home Port in 2018".

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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