

# STRATEGIC INVESTING

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For July's edition of our monthly Investor Forum, our guest speaker, Katia Denise Henry, Attorney-at-Law and Estate Planning Consultant, advised our audience on the fundamentals of Estate Planning.



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# SEPTEMBER 2019 CEO CORNER

## The Importance of Stock Markets

The stock market can be the primary source for any company seeking to raise funds for business expansions or developing a new business venture. If a company wants to raise capital for its business, it can issue shares of the company that essentially shares ownership of the company. Firstly, the company is required to get listed to a stock exchange in order for them to issue their shares and receive capital; meeting certain criteria for them to issue stocks and go public. The stock exchange supports the growth of the market and builds wealth by leveraging growth in various sectors of the universal economy, resulting in a profit even if some stocks lose value.

Notably, if it were not for the stock exchange, financiers would find it challenging to look for investors, and buyers would go on the wrong path in doing the business of unlicensed financial products with no oversight. The stock market's activity can have a direct effect that impacts a nation's economy in numerous ways. Whether stocks fall or rise influences consumers' confidence. This leads back to how the stock exchange plays an integral part in a society's social and fiscal structure. Furthermore, its objective in any economy is to maximize return on an investor's savings that might otherwise languish in bank accounts that are stagnant with low investment returns.

The condition of the stock market has a consequential impact, affecting how much money is being deposited back into the economy and how much confidence consumers have in the solidity of their revenue. I urge investors to exhaust the possibilities of their income, once they have a risk appetite to invest in the stock market. It is a highly recommended way to achieve your financial goals. ■

### CEO CORNER

Gary Peart

CEO of Mayberry Investments  
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**T**he presence of the stock market is a potential gateway blanketing the globe, giving companies a lucrative opportunity to raise capital by offering shares for sale. In return, it allows investors to take part in the financial achievements of the companies, earning money through dividends that the shares payout by selling the valued stocks at a profit, or capital gain. The stock market can have a profound impact on an economy as it plays an essential role in the growth of the industry and commerce of the country. As such, the industry and the investors of the country keep track of the activities of the stock market.



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# WHY ARE THERE TALKS OF A PENDING RECESSION?



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Interest rates are lower than ever, the financial markets have never been more vibrant, and cash has never been more prevalent in the market, so why is there talk of a recession? To understand this it is important that you understand the three main causes of a recession. These are asset boom and bust, credit boom and bust and reduction in investor confidence/ increased speculation. So where is Jamaica in these developments?

The country is currently experiencing both an asset and a credit boom. The stock market has been in a bull for the past 5 years while real estate prices are higher than ever and continue to increase. These are clear signs of an asset boom as most stocks currently on the market are trading higher than their intrinsic value and housing prices have been increasing even though there is currently an oversupply of housing developments. The credit boom is also apparent as banks are able to lend more due to increase in their asset values and reduction in their reserve requirements by the BOJ. Though there has been an increase in the number of persons taking loans, Small and Medium enterprises still find it hard to acquire same as banks focus on motor vehicle and home loans as they feel more secure in giving same. This increase in credit issuances and reduction in the policy rate by the BOJ has forced the banks to reduce rates on most products to remain competitive while reducing loan requirements to facilitate loan issuances to meet profit targets.

It is with these developments that the third variable in a recession begins to set in. Reduction in investor confidence occurs as investors begin to wonder how high these asset prices will go before reverting to their true value, while others begin to wonder if the banking/finance industry is regulated enough for banks not to make bad decisions as they chase yields to make profits. A reduction in investor confidence will lead to a

reduction in asset prices and also a reduction in the number of persons seeking access to credit. One of the main reasons investor confidence has remained high over the past five years has been the continual passing of the many International Monetary Fund (IMF) tests required by the country as per the IMF deal. This will no longer be the case as the government announced the ending of the current agreement. Though there is optimism regarding the government having greater control of fiscal policy and spending; some persons will be of the view that Jamaica may once again throw away its fiscal prudence and begin to revert to old ways. With no tests to be used as an indicator of Government performance we can expect to see slightly lower investor confidence going forward.

So as the country continues its path for growth it is increasingly important that said growth is sustainable. The country is still in a somewhat fragile state and any deviation from its fiscal prudence could result in an economic recession in the near future. While talks continue to increase about a pending recession it must be highlighted that the country's economy is making positive moves and investor confidence currently remains high. The Government continues to remain focused on an expansionary fiscal policy whilst reducing public sector wage expenditure through Divestments and Mergers of many public agencies. This will lead to an increase in cash available for public sector projects many of which should be spent on improving Infrastructure. An expansionary fiscal policy increases the consumer purchasing power allowing for economic growth. Economic recession is a cyclical event but proper planning and buying assets based on value rather than speculation is an easy strategy to maneuver through tough economic times. To ensure your portfolio is diverse enough to withstand economic shocks kindly speak with an investment advisor as they are equipped to guide you through varying situations. ■

# COMPANY ANALYSIS

LASCO Manufacturing Limited



## COMPANY OVERVIEW

LASCO Manufacturers Limited (LASM) was incorporated in October 1994 and is a member of the LASCO Affiliated Group of Companies. The company was formed by the merger of LASCO Food Successors Limited and LASCO Foods Limited.

The company's portfolio of products includes LASCO Food Drink, LaSoy Lactose Free, Porridge Mix, Whole Milk, Read Milk and most recently the popular iCool brand of beverages.

LASM's business strategy continues to develop in consonance with the growth expansion, focusing on three key elements: expansion, innovation and increased efficiency. LASCO's products are exported to twenty countries throughout the Caribbean, Central and South America, Canada, the Middle East and the United States of America (US).



## OUR THOUGHTS!

As Jamaica's overall macroeconomic indicators continue to trend in the right direction and consumer confidence remains elevated, LASM is expected to yield positive returns in their bottom-line figures. For the financial year (FY) 2019, LASM

delivered strong revenues and net profit of \$7.57 billion (2018: \$6.66 billion) and \$1.08 billion (2018: \$560.56 million) respectively.

<b>Maket Cap (mil)</b>	<b>22,225</b>
<b>Price to earnings rati</b>	<b>19.82</b>
<b>Forward PE ratio</b>	<b>18.04</b>
<b>Price to book</b>	<b>1.44</b>
<b>Dividend Yield</b>	<b>1.13%</b>
<b>Current Price</b>	<b>\$ 5.43</b>
<b>52 week high</b>	<b>\$ 6.50</b>
<b>52 week low</b>	<b>\$ 2.90</b>
<b>Averagae monthly vc</b>	<b>819,258</b>
<b>Net profit FY19 (mil)</b>	<b>\$ 1,077</b>
<b>Projected Net profit</b>	<b>1,221</b>
<b>Financial year end</b>	<b>March</b>

*\*Prices at September 10, 2019*

The company has benefitted from growth through its continued focus on strengthening its product portfolio and market development. This has resulted in the company launching a new range of products and formats in the iCool Juice drink range, new formats of water, and a low sugar variant of LASCO Creamy Malt Food Drink. LASM indicated that through its research and development activities, it will continue to develop and diversify

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# COMPANY ANALYSIS

LASCO Manufacturing Limited



product portfolios, adapting to consumer expectations, relevance and trends. Notably, LASM's debt analysis indicates that the company's current debt ratios are favourable and that the company is positioned to take on additional debt to facilitate further expansions.

Through on-going initiatives, LASM indicated that they aim to improve their operating profit margin to 16.6% for FY 2020, thus delivering improved value to shareholders. On that basis, the company remains well positioned to deliver growth and enhanced shareholder value.

As at September 10, 2019 the stock traded at \$6.50, below its current valuation of \$5.31 based on projected earnings. The stock also trades at a P/E of 20.07 times below the Junior Market P/E (Harmean) of 26.22 times. As such, the stock is recommended as a HOLD at this time. Downside risk includes slight liquidity as stocks traded at an average volume of 390,277 year to date, 3% of the junior market's liquidity.

## LOCAL ECONOMIC OVERVIEW

The latest data from The Bank of Jamaica (BOJ) indicates that the prospects for the Jamaican economy are positive, while noting the headwinds arising from the global economy. They highlighted that "Domestic economic activity continues to show signs of recovery, although at a slower pace than earlier observed. The near-term outlook is for real GDP to expand at an average quarterly rate of 1% to 2%, which is below the previous projection for a quarterly expansion of 1.5% to 2.5%".

Unemployment fell to a historic low of 7.8% for the second quarter of 2019. The employed labour force also increased by 2.5% to 1,244,500 persons in April 2019.

BOJ lowered the policy interest rates to 0.5% during the month of August based on the Central Bank's current assessment of appropriate monetary conditions to support the medium-term inflation target of 4.0% to 6.0%.

Exchange rates during the month of July averaged \$136.08 with a max exchange rate of \$138.10 in the middle of the month before starting to decline again, following a cyclical trend.

As for inflation, STATIN indicated that the country's consumer price index for the month of July 2019 increased by 1.1%,

following a 0.1% decline in its index for June 2019.

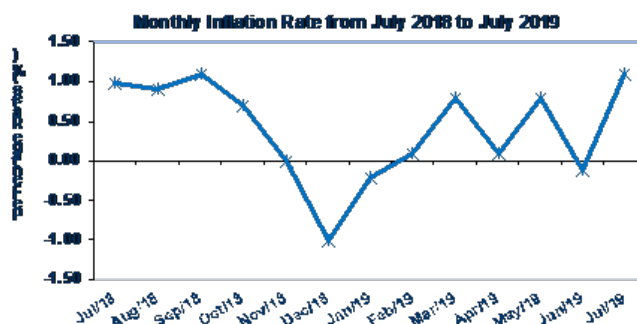
Business confidence dipped in the second quarter of 2019, primarily due to unmet expectations about their level of financial performance, while consumer confidence strengthened further, fuelled by expectations about jobs and views of government initiatives.

## LOCAL STOCK MARKET OVERVIEW

The Main Market of the JSE reversed its growth in August as the index declined by 0.6%, from the 11.9% growth observed in July. So far the Main Market has grown 36.3% since the start of the year. The Junior Market, on the other hand, rose 3.56% in August, significantly down from the previous month's growth of 11.57% with the index continuing to suffer year to date losses.

## GLOBAL ECONOMIC TRENDS

Global growth remains subdued. Since the April World Economic Outlook (WEO) report, the US further increased tariffs on certain Chinese imports, a move which prompted China to retaliate by raising tariffs on a subset of US imports. Additional escalation was averted following the June G20 summit. Global technology supply chains were threatened by the prospect of US sanctions, Brexit-related uncertainty continued and rising geopolitical tensions roiled energy prices. Against this backdrop, global growth is forecast at 3.2% in 2019, picking up to 3.5% in 2020.



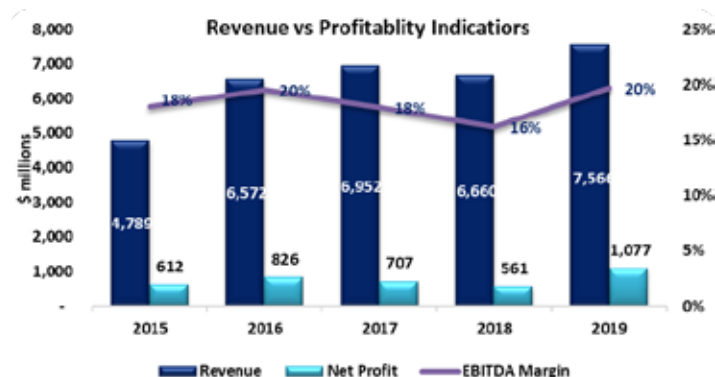
## INCOME STATEMENT

LASM has remained aggressive within the industry, as the company has managed to grow revenues at an average compounded annual growth rate (CAGR) of 12%. Revenues for FY 2019 amounted to \$7.57 billion after recovering from 2018's decline of 4.20% (2018: \$6.66 billion).



# COMPANY ANALYSIS

LASCO Manufacturing Limited



Gross profit margins remain relatively stable at 36% for the past four years except for 2018 when cost of goods (COGS) peaked. Operating expenses on the other hand have been increasing at a CAGR of 23% arguably attributable to expansions along with marketing expenses as company remains competitive in the market space. Notably, in FY 2019, LASM released new powdered and liquid drinks into the market along with their new 65,000 sq ft warehouse. The company has however acknowledged increased expense margins and have announced that they have now streamlined operations to reflect operational efficiencies.

Interest expenses have steadily declined over the years as the company rethinks its preference for debt to finance operations. Interest expense closed the FY 2019 at \$107.43 million (2018: \$132.18 million).

Profitability	FY2015	FY2016	FY2017	FY2018	FY2019
Revenue Growth	19%	37%	6%	-4%	14%
Gross Profit margin	30%	36%	37%	34%	36%
EBITDA Margin	18%	18%	16%	14%	18%
Operating Expense Margin	13%	19%	21%	22%	20%
Operating Profit Margin	17%	17%	15%	13%	17%
Pretax Margin	14%	15%	13%	11%	15%
Net Profit margin	13%	13%	10%	8%	14%

LASM's profitability has increased over the years, moving from \$612.36 million in 2015 to surpassing the billion-dollar mark in 2019, a total of \$1.08 billion. This shows continued efforts by management, as they continue to stimulate consumer demand.

Year	FY2015	FY2016	FY2017	FY2018	FY2019
Dividends	0.025	0.030	0.035	0.038	0.061
Dividend pay-out ratio	2.23%	0.60%	0.70%	1.01%	1.15%
EPS	0.15	0.20	0.17	0.14	0.26
LASM P/E	8.35	15.93	22.39	31.24	19.32
Junior Market P/E (Harmea)	6.38	13.34	15.60	19.36	23.26
Share Price	1.15	3.37	5.00	4.12	3.44
Revenue	4,788.583	6,571.742	6,951.627	6,659.891	7,565.672

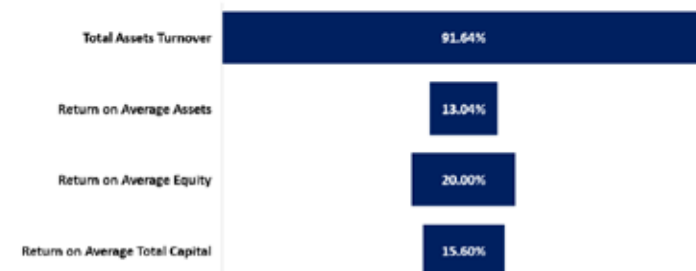
For the first three months in FY 2019, LASM has delivered a 3% increase in revenue and a 19% increase in net profit to \$1.79 billion and \$282.42 million respectively. Favourable quarterly results are attributable to an improved COGS margin and stable operating expenses.

## BALANCE SHEET

As at March 2019, LASM's total assets increased from \$7.72 billion in 2018 to \$8.79 billion. This was mainly attributable to the \$723.93 million increase in cash and cash equivalents to \$918.72 million (2018: \$194.80 million), as well as a \$351.29 million increase in property, plant and equipment to \$5.05 billion in 2019 from \$4.70 billion. LASM's asset base between 2015 and 2019 increased at a 5-year CAGR of 12%. For FY 2019, LASM generated return on assets of 13.04%, up from 7.58% in 2018.

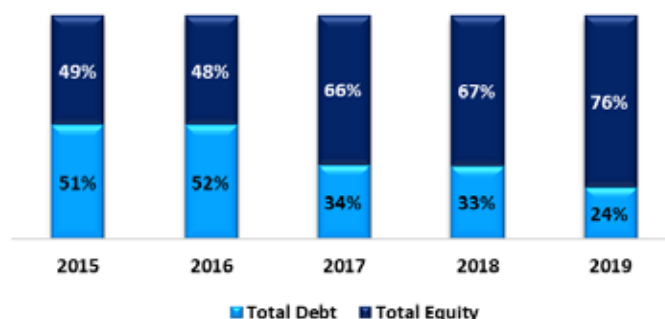
Liabilities amounted to \$2.94 billion in 2019, up 5% from the \$2.80 billion reported in 2018. The main contributor to this increase was trade and other payables, which closed at \$812.89 million (2018: \$584.39 million).

## Shareholder's return for FY19



Total shareholders' equity rose by 20% from \$4.92 billion in 2018 to \$5.85 billion in 2019. Over the last five years, the company saw a CAGR of 16% up from 2015's total equity of \$3.19 billion.

## Debt to Equity



# COMPANY ANALYSIS

LASCO Manufacturing Limited



LASM closed the FY 2019 with total debt of \$1.40 billion (2018: \$1.64 billion), closing the year with a debt to equity ratio of 24% (2018: 33%). Assessment of the company's solvency ratio indicates that the company is in a comfortable position to repay its debt both from its EBITDA and cash flow from operations. LASM's debt coverage ratio and current ratio are also above average financial covenant ratios indicating that the company is also able to take on additional debt to finance further expansion.

Balance Sheet	FY2015	FY2016	FY2017	FY2018	FY2019
Shareholders Equity (mil)	3,193,521	3,855,265	4,439,905	4,922,953	5,845,814
Book Value	0.75	0.94	1.09	1.20	1.43

## DEBT ANALYSIS

LASM closed the FY 2019 with total debt of \$1.40 billion (2018: \$1.64 billion), closing the year with a debt to equity ratio of 24% (2018: 33%). Assessment of the company's solvency ratio indicates that the company is in a comfortable position to repay its debt both from its EBITDA and cash flow from operations. LASM's debt coverage ratio and current ratio are also above average financial covenant ratios indicating that the company is also able to take on additional debt to finance further expansion.

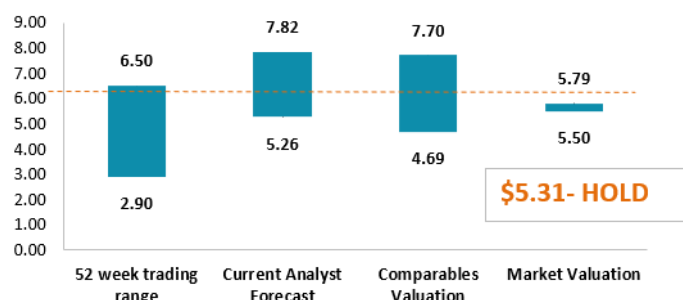
Debt Analysis	FY2015	FY2016	FY2017	FY2018	FY2019
EBITDA/Interest Expense	6.87	8.16	7.89	8.15	13.85
Debt Coverage Ratio	1.84	3.26	2.38	2.31	2.60
Debt to EBITDA	1.90	1.55	1.21	1.52	0.94
Debt to CFO	3.05	6.74	0.71	4.85	0.77
Current Ratio	1.56	2.21	1.87	2.24	2.54

## OVERVIEW

Year to date, LASM stock price has advanced 76% from the start of the year to close at a high of \$6.50 on September 10, 2019. LASM's stock price dipped as low as \$3.01 on March 5, 2019.

The stock trades at an average volume of 390,277 year to date and 819,258 for the month of August. Compared to the Junior Market's average traded volume of 13,068,747 year to date and 7,621,996 for the month of August, LASM represents 3% of junior market liquidity year to date.

## Valuation Summary- Equity Value per Share (\$)



## RECOMMENDATION

As at September 10, 2019, the stock traded at \$6.50, below its current valuation of \$5.31 based on projected earnings. The stock also trades at a P/E of 20.07 times, below Junior Market P/E (Harmean) of 26.22 times. As such, the stock is recommended as a **HOLD** at this time.

Company Name	Market Data			Financial Data				Valuation			
	Price (\$/share)	Market Cap (\$B)	EV (\$B)	Sales (\$M)	EBITDA (\$M)	EBIT (\$M)	Earnings (\$M)	EV/Sales	EV/EBITDA	EV/EBIT	P/E
LASM	5.50	22,511	23,705	7,821	1,500	1,310	1,122	3.1x	15.3x	18.1x	20.1x
PURITY	1.90	443	537	1,016	34	34	7	0.5x	15.8x	15.9x	85.0x
JAMT	7.00	4,898	4,937	1,431	381	368	287	3.4x	12.6x	13.4x	17.0x
HONBUN	6.47	3,049	2,905	1,481	225	168	140	2.0x	13.0x	17.4x	21.8x
CIF	16.00	1,349	1,314	477	80	53	84	2.8x	22.0x	24.7x	21.1x
KREMI	4.35	1,847	1,725	1,569	148	91	54	1.1x	11.7x	18.9x	30.5x
Average								2.2x	15.1x	18.1x	26.2x
Median								2.4x	14.1x	17.7x	21.4x

## LASM's Market statistics

Maket Cap (mil)	22,511
Price to earnings ratio	20.07
Forward PE ratio	18.28
Price to book	1.44
Dividend Yield	1.11%
Current Price	\$ 5.50
52 week high	\$ 6.50
52 week low	\$ 2.90
Averagae monthly volume	819,258
Net profit FY19 (mil)	\$ 1,077
Projected Net profit FY20 (mil)	1,221
Financial year end	March

\*Prices at September 10, 2019

# COMPANY ANALYSIS

LASCO Manufacturing Limited



## ASSUMPTIONS

LASM'S indicative value was derived based on projected earnings and compared with market comparable. A growth rate of 8% was used due to the company's ability to penetrate market year on year.

An effective tax rate of 13% was assumed along with a slight decline in operating expense margins, consistent with year to date results as LASM continues to improve operational efficiencies and cost controls.

Industry comparable consistent with the Junior Market manufacturing industry provided by JSE except for one due to continuous losses reported year on year.

Lastly, company assume to be a going concern.

## RISK ASSESSMENT

### Strength

- Continuous product innovation.
- Strong brand presence in Jamaica.
- Wide market reach and strong distribution net work through affiliated company LASD
- Significant cash reserve and low reliance on debt provides financial flexibility

### Weakness

- Revenues are highly dependent on the local economy.

### Opportunities

- Further expansion regionally.

### Threats

- Slow economic growth could hinder sales.
- Significant competition from local and international suppliers.

Balance Sheet	Mar. 2015	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Change %	Change \$	CAGR (%)
For the year ended	\$'000	\$'000	\$'000	\$'000	\$'000			
Property, Plant & Equipment	3,106,350	3,519,891	4,570,201	4,856,222	5,047,512	7%	351,205	10%
Total Non-Current Assets	3,196,350	3,519,891	4,596,102	4,723,894	5,073,223	7%	351,205	11%
Inventories	759,421	806,009	630,633	838,396	895,854	7%	61,468	4%
Trade and Other Receivable	1,131,713	2,138,972	1,506,253	1,866,203	1,793,373	-4%	(74,830)	12%
Cash and Bank balances	108,127	237,956	210,455	184,797	918,722	372%	723,925	71%
Total Current Assets	2,695,179	3,335,859	2,679,197	3,085,120	3,715,983	24%	714,361	15%
Total Assets	5,491,529	6,855,741	7,275,299	7,733,154	8,789,206	14%	1,065,650	12%
Trade and Other Payables	655,059	750,305	743,233	344,392	812,800	39%	226,403	6%
Current portion of long-term	142,546	235,837	895,568	834,789	463,928	-39%	(129,139)	8%
Total Current Liabilities	1,139,569	1,508,325	1,326,895	1,348,193	1,446,897	9%	126,706	2%
Long Term Debt	958,439	1,293,110	1,001,211	926,582	931,758	1%	5,177	-1%
Total Long-term Liabilities	958,439	1,492,351	1,408,899	1,460,200	1,482,064	2%	22,064	12%
Total Shareholders' Equity	3,193,521	3,855,265	4,449,895	4,922,951	5,845,834	19%	922,883	16%
Total Equity and Liabilities	5,491,529	6,855,741	7,275,299	7,733,154	8,789,206	14%	1,065,651	12%

Cash Flow	Mar. 2015	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Change %	Change \$	CAGR (%)
For the year ended	\$'000	\$'000	\$'000	\$'000	\$'000			
Cash Flow from Operations	528,644	295,502	2,328,061	337,325	1,817,772	439%	1,480,064	16%
Cash Flow from Investing	(324,684)	(270,393)	(1,209,147)	(338,412)	(567,215)	-74%	(248,803)	3%
Cash Flow from Financing	(112,993)	(71,842)	(502,595)	(264,738)	(129,037)	-53%	(135,661)	-20%

Activity Ratios	2015	2016	2017	2018	2019
Receivables Turnover	4.93	3.95	3.75	3.95	4.13
Days of Sales Outstanding	74.08	92.49	97.27	92.47	88.32
Inventory Turnover	4.48	5.35	6.11	5.95	5.53
Days of Inventory on hand	81.42	68.24	59.70	61.35	65.95
Payables Turnover	7.19	5.24	6.02	5.65	6.89
# of Days of Payables	50.73	69.69	60.61	64.65	52.94
Cash Conversion Cycle	104.76	91.04	96.37	89.17	101.34
Total Assets Turnover	0.87	0.96	0.98	0.86	0.86
Liquidity Ratios	2015	2016	2017	2018	2019
Current Ratio	1.56	2.21	1.87	2.24	2.54
Quick Ratio	1.00	1.68	1.39	1.61	1.93
Cash Ratio	0.14	0.22	0.25	0.21	0.69
Solvency Ratios	2015	2016	2017	2018	2019
Total Debt-to-Equity	51.41%	51.66%	33.94%	33.25%	23.87%
Total Debt-to-Capital	33.95%	34.06%	25.34%	24.95%	19.27%
Total Debt-to-Assets	29.89%	29.05%	21.30%	21.19%	15.88%
Total Assets to Total Equity	171.90%	177.83%	159.30%	156.88%	150.34%
EBITDA/Finance Cost	6.87	8.16	7.89	8.15	13.85
Total Debt-to-CFO	3.05	6.74	0.71	4.85	0.77
Profitability	2015	2016	2017	2018	2019
Revenue Growth	19.01%	37.24%	5.78%	-4.20%	13.60%
COGS Margin	70.27%	63.71%	63.17%	65.60%	63.57%
Gross Profit margin	29.73%	36.29%	36.83%	34.40%	36.43%
EBITDA Margin	18.00%	19.52%	17.92%	16.17%	19.66%
Operating Profit Margin	16.60%	17.35%	15.37%	12.93%	16.63%
Pre-tax Margin	13.98%	14.96%	13.10%	10.95%	15.21%
Net Profit margin	12.75%	12.57%	10.17%	8.42%	14.23%
Return on Average Assets	12.08%	13.38%	10.15%	7.58%	13.04%
Return on Average Total Capital	13.84%	15.47%	11.99%	8.96%	15.60%
Return on Average Equity	21.42%	23.44%	17.05%	11.97%	20.00%
Return on Average Assets	12.08%	13.38%	10.15%	7.58%	13.04%

## Appendix 3: Top Ten Shareholders as at July 31, 2019

NAME	VOLUME	PERCENTAGE
EAST WEST (ST. LUCIA) LIMITED	2,002,693,780	48.95%
LASCELLES CHIN	1,244,428,470	30.42%
NATIONAL INSURANCE FUND	101,589,605	2.48%
SIJML A/C 3119	31,777,000	0.78%
MAYBERRY JAMAICAN EQUITIES LIMITED	26,717,945	0.65%
PAM - POOLED EQUITY FUND	23,385,950	0.57%
JCSD TRUSTEE SERVICES LTD. A/C #76579-02	20,657,468	0.50%
YUAN LIAO	20,391,220	0.50%
HILDA GONZALEZ ROSALES	20,000,000	0.49%
JOEL IZQUIERDO GONZALEZ	20,000,000	0.49%

## APPENDIX

### Appendix 1: Financial Statement Extracts

Income Statement	Mar. 2015	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Change %	Change \$	CAGR (%)
For the year ended	\$'000	\$'000	\$'000	\$'000	\$'000			
Revenue	4,788,581	6,571,242	8,951,877	6,658,881	7,565,672	14%	905,793	12%
Cost of Sales	(3,145,043)	(4,186,868)	(4,391,467)	(4,345,105)	(4,805,555)	10%	(440,454)	5%
Gross Profit	1,643,538	2,384,374	2,560,390	2,299,786	2,759,117	20%	465,337	10%
Other income/(Loss)	26,458	3,013	1,656	2,406	1,836	-49%	(1,570)	-42%
	1,670,000	2,387,387	2,562,046	2,299,192	2,760,953	20%	466,757	10%
Operating Expenses	(646,252)	(1,247,379)	(1,691,157)	(1,812,816)	(1,506,070)	5%	(87,151)	23%
Administrative and other	(555,164)	(1,104,420)	(1,102,757)	(1,132,354)	(1,114,111)	7%	(88,757)	22%
Selling and promotion exp	(90,088)	(142,959)	(308,400)	(680,462)	(391,959)	-5%	(14,406)	33%
Operating Profit	794,346	1,140,008	860,889	486,376	1,254,883	44%	296,406	12%
Finance Cost	(125,378)	(157,221)	(157,816)	(132,175)	(107,426)	-13%	24,753	-4%
Profit before Tax	668,968	982,787	703,073	354,201	1,147,457	38%	421,256	14%
Tax	(17,007)	(157,098)	(209,594)	(166,338)	(73,674)	-59%	94,664	7%
Net Profit	651,961	825,689	493,479	187,863	1,073,783	92%	516,222	15%
EPS	0.15	0.20	0.17	0.137	0.263	92%	0.13	15%
# of o/s shares	4,091,163,151							



# FORUM HIGHLIGHTS

FOR SEPTEMBER 2019



Mayberry's Digital Marketing Manager, Stephanie Harrison (left) and Sales Manager, Cedric Stewart (2nd left) joined in a conversation with Katia Denise Henry and Dr Michael Banbury.



Executive Investment Advisor and host for the evening, Okella Parredon, during her opening remarks.



The audience listens attentively during the presentation.



Audience member, poses a question to Katia Denise Henry during the programme's Q & A.



Katia Denise Henry making her presentation.



Mayberry's Investment Advisor, Fabian Anderson presents Katia with a token of appreciation after her presentation.

# ECONOMIC HIGHLIGHTS

ECONOMIC HIGHLIGHTS FOR AUGUST 2019

	July 2019	August 2019	Change
91 Days Treasury Bills Avg. Yield (%)	1.805	1.840	0.04
182 Days Treasury Bills Avg. Yield (%)	1.866	2.005	0.14
Exchange Rate (US\$: J\$)	136.08	136.14	0.06
Net International Reserves (NIR) (US\$M)	2,951.35	2,936.45	-14.90

## Net International Reserves

Jamaica's net international reserves (NIR) totalled US\$2.94 billion as at August 2019, reflecting a decline of US\$14.90 million relative to the US\$2.95 billion reported as at the end of July 2019.

Changes in the NIR resulted from a decrease in foreign assets of US\$17.45 million to total US\$3.43 billion compared to the US\$3.45 billion reported for July 2019. Currency & deposits contributed the most to the decline in foreign assets. Currency & deposits as at August 2019 totalled US\$2.88 billion, reflecting a decline of US\$7.81 million compared to the US\$2.89 billion booked as at July 2019.

Securities amounted to US\$321.38 million; US\$4.58 million less than the US\$325.96 million reported in July 2019. Foreign liabilities for August 2019 amounted to US\$494.12 million compared to the US\$496.67 million reported for July 2019. Liabilities to the IMF accounted for 100% of total foreign liabilities, reflecting a US\$2.56 million decrease month over month from July 2019.

At its current value, the NIR is US\$121.97 million less than its total of US\$3.06 billion as at the end of August 2018. The current reserve is able to support approximately 32.04 weeks of goods imports or 21.85 weeks of goods and services imports. The country came in slightly below the benchmark of US\$3.22 billion outlined by the International Monetary Fund (IMF) for March 2019, closing the fiscal year at US\$3.08 billion, US\$0.13 million below targeted amount.

Following a visit by an IMF staff team led by Ms Uma Ramakrishnan between February 25 and March 8, 2019 to conduct discussions on the fifth review of the island's financial and economic program, the IMF issued a statement citing, "strong economic fundamentals and sustained implementation of the authorities' reform program provide the private sector with an unprecedented opportunity".

The NIR target outlined as per the new agreement for the 2019/20 fiscal year is US\$3.155 billion. As at August 2019, the country is US\$0.20 million below the targeted amount.

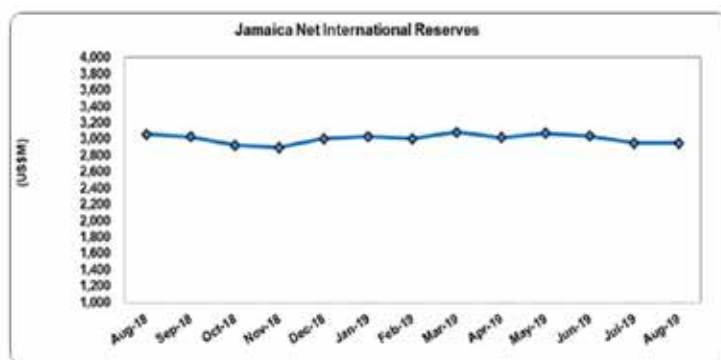


Figure 1

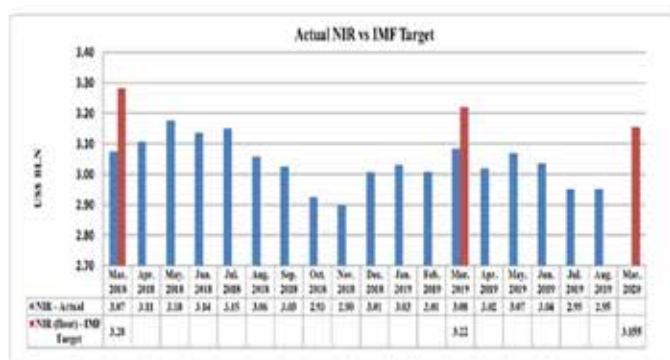


Figure 2



# JAMAICA MONTHLY EQUITY MARKET

ECONOMIC HIGHLIGHTS FOR AUGUST 2019

## Jamaica Monthly Equity Market Report for August 2019

**Main JSE Index:** 520,410.28 points  
**Point Movement:** -3,329.82 points  
**Percentage Change:** -0.64%

**Advance Decline Ratio:** Positive  
**Advancers:** 18 **Decliners:** 24  
**Traded Firm:** 3

**Junior JSE Index:** 3,585.94 points  
**Point Movement:** 123.40 points  
**Percentage Change:** 3.56%

**Advance Decline Ratio:** Positive  
**Advancers:** 25 **Decliners:** 14  
**Traded Firm:** 1

### Major Winners (Main & Junior)

Stock	Increase	Closing Price
Radio Jamaica Limited	64.80%	\$2.06
Palace Amusement Limited	61.54%	\$2,100.00
1834 Investment Limited	33.33%	\$1.20

### Major Losers (Main & Junior)

Stock	Decrease	Closing Price
Blue Power Group Limited	-37.24%	\$8.46
Sterling Investments Limited	-21.61%	\$3.21
Barita Investments Limited	-20.16%	\$71.39

**Total Shares Traded (Main): 1.314 billion units**  
**Total value (Main): Approx. \$7.11 billion**

### Volume Leaders (Main)

Stock	Units Traded	Market Volume
Wigton Windfarm Limited	650,172,158	49.46%
Sagicor Select Funds Limited	470,889,108	35.82%
Carreras Limited	28,259,240	2.15%



**BUY****HOLD****SELL****Jamaica Broilers Group (JBG)**

For the three months ended July 31, 2019

**BUY**

JBG reported total revenues of \$13.26 billion, a 9% increase on the \$12.16 billion reported in 2018. Total revenue was broken down as follows:

The Jamaica operations contributed \$8.38 billion, a 2% increase compared to \$8.24 billion for the same period of 2018.

US operations recorded an increase of 31% to total \$4.34 billion relative to \$3.32 billion last year. According to the company, "Our US Operations reported a segment result of \$333 million, which was an 11% increase over the prior year's result of \$300 million. This increase was primarily attributable to earnings from the feed mill, which was acquired after the first quarter in the previous year. Total revenue for this segment increased by 29% over the prior year driven by sales of feed".

Haiti operations contributed \$530.70 million, a decline of 11% when compared to \$594.99 million.

Cost of sales grew by 11% to \$9.94 billion from \$8.98 billion in 2018. As such, gross profit for the first quarter reflected an increase of 5% to close at \$3.32 billion versus \$3.18 billion booked for the corresponding period in 2018.

Other income fell by 60% from \$192.56 million for the first quarter of 2018 to \$76.38 million in 2018. Distribution costs increased 2% to close at \$445.29 million relative to \$436.09 million recorded for the prior year's comparable period, while administration and other expenses grew marginally by 0.3% to \$2.28 billion (2018: \$2.27 billion).

Operating profit for the period thus increased by 2%, totalling \$679.35 million relative to the \$664.70 million recorded last year.

JBG reported finance income of \$36.46 million (2018: \$300.06 million), a decline of 88% "from reduced foreign exchange gains and reduction in interest income from the WIP loan, which was sold during this first quarter", while finance costs declined by 7% to \$299.39 million relative to \$323.65 million in 2018.

Profit before taxation increased for the period to \$416.42 million (2018: \$641.11 million). Tax charges for the quarter totalled \$55.41 million (2018: \$227.73 million). As such, net profit amounted to \$361.01 million (2018: \$413.38 million).

Total comprehensive income for the first quarter amounted to \$361.01 million relative to \$712.75 million the year prior. Net profit attributable to shareholders amounted to \$368.40 million relative to the \$398.84 million booking for the comparable period in 2018.

Consequently, earnings per share (EPS) totalled \$0.31 relative to \$0.33 booked for the first quarter of 2018. The trailing twelve months EPS was \$1.95. The total number of shares used in our calculation was 1,199,276,400 units. Notably, JBG closed the trading period on September 5, 2019 at a price of \$33.39.

**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.

**Stanley Motta Limited (SML)**

For the Six Months ended June 30, 2019

**HOLD**

SML for the six months ended June 30, 2019, booked a 118% increase in revenue to total \$205.42 million compared to \$94.18 million for the same period in 2018. For the quarter, revenue increased 105% to \$108.55 million in 2019 compared to \$53.03 million the previous year. SML indicated that, "this was due to increased rental space".

Administrative expenses amounted to \$66.44 million (2018: \$47.48 million) for the quarter while administrative expenses rose 56% closing at \$49.34 million (2018: \$31.54 million). The company stated that this was "due mainly to foreign exchange loss of J\$19.5 M on the revaluation of the long-term loan, together with cost of printing the annual report. Without the foreign exchange loss administration expenses would have been in line with expectation". Whereas other operating income totalled \$53,000 (2018: \$10,000) for the quarter, operating income closed the period at \$36,000 (2018: \$10,000).

This translated into operating profit surging to \$139.03 million when compared to last period's \$46.70 million. For the quarter, operating profit closed the period at \$59.25 million relative to an operating profit of \$21.48 million in the corresponding quarter for the year prior.

Finance costs of \$22.70 million (2018: \$24.48 million) was booked for the period, a 7% decline year on year. As such, profit before tax amounted to \$116.33 billion for the period relative to \$22.22 million in 2018. As for the quarter, profit before tax closed the period at \$46.39 million versus \$11.54 million in the prior comparable quarter.

Net profit for the period totalled \$115.15 billion (2018: \$22.22 million) following taxation of \$1.18 million (2018: nil), while for the quarter, net profit of \$46.39 million (2018: \$11.54 million) was recorded. Management noted, "Again, without the J\$19m foreign exchange loss, YTD would have shown a profit of J\$134m compared to J\$22m for the same period prior year.

EPS for the period totalled \$0.15 (2018: \$0.03) while EPS for the quarter amounted to \$0.06 (2018: \$0.02). The twelve months trailing EPS amounted to \$2.76. The number of shares used in our calculations was 757,828,490 units. SML's stock price closed the trading period on August 12, 2019 at \$5.09.

**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.

**Sterling Investments Limited (SIL)**

For the six months ended June 30, 2019

**SELL**

Sterling Investments Limited (SIL) reported interest income of \$46.10 million, a 11% increase compared to \$41.66 million booked twelve months earlier..

Foreign exchange gain amounted to \$28.84 million compared to the gain of \$38.40 million booked the prior year's quarter.

The Company booked a 'Net gain on sale of debt investment securities at FVOCI' for the period of \$1.84 million relative to a loss of \$1.19 million recorded for the prior year. Net gain/(loss) on sale of equity investment securities at FVTPL of \$954,540 was booked for the first six month of 2018 compared to nil in 2019. Total income for the six month period amounted to \$76.78 million relative to \$79.82 million for the same period in 2018.

Interest expenses for the six month experienced a 37% growth which closed at \$6.59 million versus \$4.80 million for the first six months of 2018. Other expenses for the period totalled \$18.04 million, an increase of 27% (2018: \$14.26 million). SIL booked an impairment loss on financial instruments of \$1.06 million, relative to a gain of \$3.07 million posted for the same period in 2018.

Unrealised fair value gain on equity investments securities at FVTPL amounted to \$6.46 million in contrast to a loss of \$1.99 million for the corresponding period in 2018.

Operating profit recorded for the six months closed at \$57.55 million relative to a profit of \$61.84 million booked in the prior year. SIL recorded a pre-tax profit for the first six month of 2019 of \$57.72 million compared to a profit of \$52.61 million in 2018. Tax charges of \$594,441 (2018: \$545,356) was booked for the period and as such, net profit amounted to \$57.13 million relative to a profit of \$51.75 million.

This resulted in a six months earnings per share of \$0.15 relative to \$0.14 in 2018. The twelve months trailing earnings per share amounted to \$0.16. The numbers of shares used in the calculations are 374,792,612 units. SIL stock price closed the trading period on May 15, 2018 at a price of \$3.87, while SILUS closed the trading period at US\$0.11.

**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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