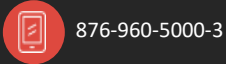


# Company Analysis: AMG Packaging & Paper Company Limited (AMG) Q2 2022/23

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- Recommendation: **MARKETWEIGHT**
- Price Target: **\$2.70**
- Current Price: \$2.55<sup>1</sup>

- Shares Outstanding: 511,894,285 units
- Financial Year End: August 31<sup>st</sup>

## ABOUT THE COMPANY

AMG Packaging & Paper Company Limited was established in September 2005 in response to the unmet need for locally manufactured cardboard packaging, which was then being satisfied mainly through imports by very few market players. The Company's operations soon outgrew its leased premises in the Kingston Free Zone and in September 2007, it relocated to its own 20.00K square-foot manufacturing facility at 10 Retirement Crescent in Kingston. This increased space allowed the company to automate its manufacturing process to up to 90.00% and grow its client base.

In June 2011, the Company approached the equities market with its initial public offering (IPO), seeking to raise capital for expansion of its factory and warehouse capacity and to provide additional working capital to support its growth. The Company's shares were subsequently listed on the Junior Market of the Jamaica Stock Exchange (JSE) where it currently trades under the ticker symbol AMG.

In January 2021, the Company began construction of a 10.30K square-foot building at 12 Retirement Crescent adjoining its existing factory to meet its need for increased storage space as well as to improve production activities.

## FINANCIAL PERFORMANCE

J\$'000	FY 2019/20	FY 2020/21	FY 2021/22	Q2 2021/22	Q2 2022/23
<b>Revenue</b>	720,453	705,912	995,703	486,814	500,815
<b>Gross Profit</b>	189,499	212,464	283,654	134,984	145,329
<b>Net Profit</b>	56,213	60,588	104,932	52,852	42,144
<b>Total Assets</b>	821,279	906,105	1,727,823	978,058	1,578,962
<b>Total Liabilities</b>	272,554	298,163	544,620	317,263	353,615
<b>Total Equity</b>	548,724	607,942	1,183,202	660,795	1,225,347
<b>Net Profit Margin</b>	7.80%	8.58%	10.54%	10.86%	8.42%

### Dividend Policy

The Company's dividend policy as outlined in its 2011 prospectus seeks to remit no less than 20.00% of net profits available for distribution, subject to its need for reinvestment. The Company last paid a dividend of \$0.02 per share in January 2020, as these retained earnings have been channelled into the firm's ongoing expansion activities.

### Outlook

The outlook for AMG is favourable given the Company's drive to improve its operational efficiency through the expansion of its manufacturing and storage facilities and the upgrading of equipment. This combined with the Company's plan to offer packaging products made from recycled paper in a bid to contain production costs should have a positive impact on AMG's near to medium-term profitability.

### Projections and Valuation

The Discounted Cash Flow Model (DCF) and P/E Multiple Approach were used to establish an intrinsic and relative value for AMG's stock. For the DCF approach, a cost of equity of 15.15% was used to discount the future levered free cash flows while a 2024 forward EPS of \$0.24 and an applied P/E of 12.00x were deemed as appropriate and used to determine a relative value. Using these two approaches, we obtained an average target price of **\$2.77**.

### Risks to Target Price

Our target price may not be realised if the Company fails to achieve the projected levels of revenue growth due to lower demand for its packaging and paper products. Risks may, however, be skewed to the upside should local economy remain resilient to current inflationary and interest rate pressures or should the Company's operating efficiency improve, supported by its increased factory space, modernized equipment and cost containment measures.

**FOR THE SIX (6) MONTHS ENDED FEBRUARY 28, 2023**

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For the second quarter ended February 28, 2023, AMG Packaging & Paper Company Limited (AMG) recorded a 2.88% increase in Revenues from \$486.81M in the comparable period of 2021 to \$500.82M. This increase was likely due to an increase in sales volume during the period. Total manufacturing costs recorded a 1.04% increase from \$351.83M to \$355.49M. This was due primarily to an 11.19% increase in direct costs to \$87.96M attributed to machine maintenance undertaken during the period. This was slightly offset by a 1.90% decline in cost of sales from \$272.72M to \$267.52M amid a decline in freight costs. This resulted in a gross profit of \$145.33M and a gross margin of 29.02%.

Total expenses for the period grew by 30.20% to 83.89M, of which administrative expenses accounted for \$54.93M or 65.48% likely due to greater spending on salaries, utilities and maintenance and repairs among other expenses, while depreciation expense increased by 52.35% to \$20.89M due to a revaluation exercise undertaken at the end of the prior financial year. Directors' fees declined by 9.33% to \$5.44M while the Company recorded \$2.62M in foreign exchange losses, a notable turnaround from the \$570.63K in foreign exchange gains recorded in the prior year. As a result, operating margin declined from 14.49% in the prior year to 12.27%.

Meanwhile, finance costs declined by 8.38% to \$4.11M on the back of an 9.09% decline in long-term loans from \$82.50M in the prior year to \$75.00M, while other unspecified income recorded a 14.57% decrease from \$269.98K to \$230.65K. AMG's tax remission expired in June of 2021 and following an income tax expense of \$15.42M, net profit for the six-month period amounted to \$42.14M down 20.26% from the \$52.85M reported for the comparable period of 2021. This performance led to an earnings per share (EPS) of \$0.08 relative to \$0.10 in 2021.

On the balance sheet, the Company's non-current assets grew to \$1.07B, primarily due to an increase in land, buildings and leasehold improvement owing to a revaluation of its property, plant and equipment as well as additions amounting to \$4.73M. The Company's liquidity, however, improved year-over-year, with the current ratio improving from 2.71x to 5.15x and the quick ratio improving from 1.61x to 2.71x driven by a 58.03% decline in account payables which can be attributed to the aforementioned decline in inventory costs.

As a result of the aforementioned revaluation in fixed assets, shareholders' equity for the period increased sharply to \$1.23B over the previous year's \$660.80M with a quadrupling of revaluation reserve to \$581.26M. Retained earnings also saw an increase from \$486.61M to \$580.83M amid deferred dividend payments as the Company continues to invest in expanding its factory and warehouse facilities and related equipment.



## CONCLUSION

AMG currently manufactures and distributes corrugated, die-cut, specialty, and custom packaging to companies across a wide range of local industries. We believe the Company's near to medium-term profitability will improve supported by higher demand stemming from increased economic activity across all sectors. Additionally, the Company's push to incorporate recycled paper into its manufacturing process may lead to a greater market share, lower expenses and improved margins.

However, the use of recycled paper may see existing clients opting for products using the cheaper alternative. Additionally, the Company relies heavily on imported paper and paper products as its primary raw material. As such, higher commodity, fuel and transportation costs due to a breakdown in economic conditions and other geopolitical events such as the ongoing Russia/Ukraine conflict, though fallout has largely subsided, pose a risk to the Company's operating expenses.

We therefore conclude that risks are slightly skewed to the upside and recommend investors with an appetite for exposure to the packaging and paper industry **MARKETWEIGHT** AMG's stock at this time.

## SOURCES

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The Jamaica Stock Exchange, The Jamaica Observer, The Jamaica Gleaner, AMG Quarterly and Annual Financial Reports, AMG Website.

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- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.