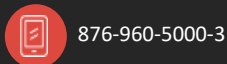


Company Analysis: Dolphin Cove Limited (DCOVE) Q3 2022

VMWM Research | February 16, 2023



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- Recommendation: **MARKETWEIGHT**
- Price Target: **\$14.60**
- Current Price: \$14.39¹

- Shares Outstanding: 392,426,376 units
- Financial Year End: December 31

ABOUT THE COMPANY

Dolphin Cove Limited is a local tourist attraction that began its operations in February 2001 in Ocho Rios, St. Ann. The Company features a range of animal attractions such as dolphin, stingray and shark interaction, zooing experience along its Jungle Trail as well as culture and adventure tours by way of its Yaaman Adventure Park. The Company also offers ancillary operations such as restaurants, souvenir/gift and video shops, sea kayaking and boat tours. Since its inception, the Company has expanded the number of parks across the island and the region to include locations in St. Lucia, Turks and Caicos Islands and Mexico.

Following a successful initial public offering (IPO) in 2010, the Company's shares were listed on the Junior Market of the Jamaica Stock Exchange under the ticker symbol DCOVE. In 2015, World of Dolphins Inc. acquired a majority stake in the Company, making DCOVE a subsidiary.

In 2020, DCOVE's subsidiary, Dolphin Cove (Negril) Limited, struck a deal with Reserve Investments Limited (Reserve), under which Reserve will develop a hotel on a 23-acre property located in Hanover, on which DCOVE operates a marine park under the name Dolphin Cove Montego Bay.

Reserve will continue leasing the property while it seeks approval for the development of the hotel. Once approval has been granted, Reserve will seek to purchase the property.

¹ As at February 16, 2022.

FINANCIAL PERFORMANCE

US\$	FY 2019	FY 2020	FY 2021	Q3 2021	Q3 2022
Revenue	8,077,386	2,241,991	3,866,013	5,441,837	11,200,049
Gross Profit	13,054,220	3,496,086	6,752,097	4,820,868	10,025,982
Net Profit	1,613,162	(1,128,774)	1,511,426	2,111,223	2,965,317
Total Assets	33,107,568	30,364,472	31,616,178	33,032,577	33,429,692
Total Liabilities	4,451,831	3,702,562	4,442,684	4,259,444	5,290,507
Total Equity	28,655,737	26,661,911	27,173,494	28,773,134	28,139,186
Net Profit Margin	11%	-26%	20%	39%	26%

Dividend Policy

The Company pursues a liberal dividend policy which seeks to distribute no less than 25.00% of net profits available for distribution, subject to its need for reinvestment. For the 2022 FY, DCOVE paid a dividend of \$0.80 per share with a yield of 5.67%.

Outlook

Currently, we hold a positive medium to long-term outlook for DCOVE as the tourism sector continues to not only rebound from the COVID-19 pandemic, but experience growth in tourist arrivals which should translate into increased visitors to the Company's parks. Additionally, the Company's constant push to innovate and diversify its offerings will contribute to the Company's revenue growth. Our near-term outlook, however, is relatively stable due to the current high inflation and high interest rate environment which may likely lead to higher operating expenses, and finance costs.

Projections and Valuation

We arrived at our target price of **\$14.60** by using the Discounted Cash Flow Model (DCF) and P/E Multiple Approach. For the DCF approach, a discount rate of 15.31% was used to discount the future unlevered free cash flows, while a 2024 forward EPS of \$0.75 and an applied P/E of 12.00x were deemed appropriate and used to arrive at a relative value.

Risks to Target Price

Downside risks to our target price include increased operating expenses due to a general increase in prices both locally and internationally or any other unforeseen disruptions to visitor inflows. However, risks will be skewed to the upside should global economic conditions improve, leading to price stability and increased visitor arrivals to the island.

FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2022:

For the third quarter ended September 30, 2022, Dolphin Cove Limited (DCOVE) posted Revenues of US\$11.20M, after both its ancillary services and programme revenues outperformed that of the prior period in 2021. This strong performance was driven by a significant rise in visitors to its parks over third quarter of 2021 amid the post pandemic rebound in tourism. Notably, this marks the second quarter that the Company realised better visitor levels than in pre-pandemic periods. This resulted in gross profits of US\$10.03M relative to the US\$4.82M posted in 2021, with the gross profit margin improving marginally to 89.52% when compared to 88.59% in 2021. Finance income for the nine-month period amounted to US\$59.34K, while other unspecified income totalled US\$103.80K, which is a decline of 80.00% and 50.00% respectively.

Year-over-year, direct costs associated with dolphin attractions grew by 89.07% to US\$1.17M. This growth in expenditure was mainly attributed to increased operating hours and the associated payroll and general expenses as the parks operated for the entire week versus three to four days per week in 2021, to cater to the increased number of visitors.

With selling, administrative and general expenses of US\$2.17M, US\$1.01M and US\$2.83M respectively, operating expenses for the period amounted to US\$6.00M, more than twice that of the prior period, due to increases in the cost of utilities, fuel and goods for sale. This resulted in a slight decline in operating margin from 38.52% in 2021 to 36.83%. Meanwhile, finance costs were up from US\$215.44K in 2021 to US\$231.15K. Following a tax charge of US\$988.44K, the Company realised a net profit of US\$2.97M, a 40.45% increase over the prior period's \$US\$2.11M. This performance led to an Earnings per Share (EPS) of US\$0.0076 relative to US\$0.0054 in 2021.

As at September 30, 2022, the Company's assets totalled US\$33.43M which was 1.20% more than the US\$33.03M reported as at September 30, 2021. This was attributable to increases in cash and cash equivalents, investments and dues from related companies which stood at US\$3.45M, US\$18.16M and US\$784.28K respectively. This was offset by a notable decline in tax recoverable and a marginal decline in trade receivables which stood at US\$5.74K and US\$1.35M respectively. Subsequently, the Company's liquidity position remained strong with current, quick and cash ratios of 1.92x, 1.19x and 0.99x respectively.

Total liabilities grew by 34.72% year-over-year, driven by significant increases in deferred tax liability, current portion of long-term liabilities and tax payable which came in at US\$1.40M, US\$178.43K and US\$418.94K respectively.

Shareholders' equity declined by a marginal 2.20% to US\$28.14M driven by a 4.94% decrease in retained earnings, which amounted to US\$12.19M while capital reserves was unchanged at US\$12.29M. The debt-to-equity ratio was flat at 0.04x.



CONCLUSION

Dolphin Cove Limited (DCOVE) is a leading tourist attraction that offers marine and land-based excursions from its parks, strategically located in tourist centres across the island. Generally, the Company's income is stable but experienced a net loss of US\$1.13M in FY 2020 due to a falloff in patronage owing to the COVID-19 pandemic. The Company however returned to profitability in the second half of FY 2021, amid the return of cruise and stopover visitors to the island. Since then, there has been a sharp increase in visitor arrivals, and we expect this to lead to an improvement in DCOVE's profitability. Additionally, the Company earns most of its revenues in U.S. dollars, which offers protection against the depreciation of the local currency.

Notably, the Company manages to maintain a good level of operational efficiency as evidenced by its strong margins. Its strong cash position of US\$3.45M will also support any renovation or expansion it plans to undertake.

As at February 16, 2023, DCOVE's stock closed trading at \$14.39, reflecting a 5.34% year-to-date increase. This price is in line with our target price of \$14.60, therefore, we recommend DCOVE's stock as **MARKETWEIGHT**, suitable for medium to long-term investors pursuing dividend income and capital appreciation.

SOURCES

The Jamaica Stock Exchange, The Jamaica Observer, The Jamaica Gleaner, Dolphin Cove Limited Quarterly and Annual Financial Reports

DISCLAIMER

This Research Paper is for information purposes only. The information stated herein may reflect the opinion and views of VM Wealth Management in relation to market conditions and does not constitute any representation or warranties in relation to investment returns and the credibility of the sources of information relied upon in the preparation of this report, without further research and verification. Before making any investment decision, please consult a VM Wealth Management Advisor.

DEFINITIONS

- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **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.