VM Wealth Management Limited

Bond Analysis: TransJamaican Highway Limited (TJH) U.S Secured 5.75% 2036

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HIGHWAY 2000 EAST-WEST The Easy Way

- Bond Recommendation:

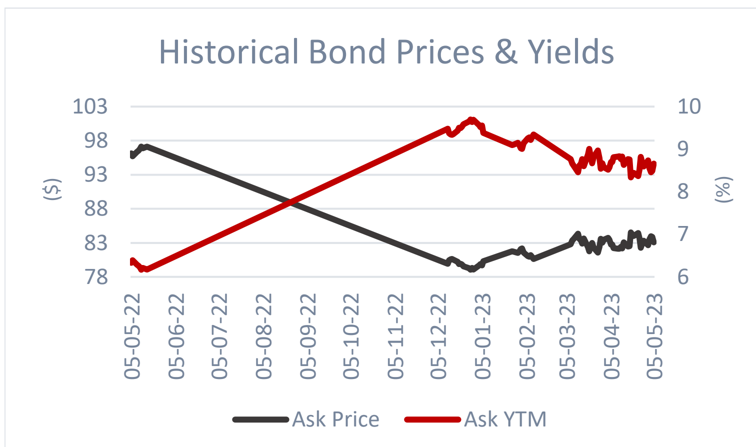
Appetite for Low Risk: OVERWEIGHT
Appetite for Moderate Risk: MARKETWEIGHT
Appetite for High Risk: UNDERWEIGHT

ABOUT THE COMPANY

TransJamaican Highway Limited (TJH) oversees the development, operation and maintenance of the tolled roadway known as "Highway 2000" under a Concession Agreement with the National Road Operating & Construction Company (NROCC) made in November 2001. The concession is for 35 years (ends 2036). The Company contracted with Bouygues Travaux Publics to construct the highway and Jamaican Infrastructure Operator Limited (JIO) to maintain and operate the toll road.

TJH's concession stretches for 49.9km, connecting Kingston with May Pen, and is divided into two fully operational corridors. The first corridor stretches between Kingston and May Pen, with three toll plazas: Spanish Town, Vineyards, and May Pen. The other corridor, also called the Portmore Causeway, begins on Marcus Garvey Drive in Kingston, and ends on Dyke Road in Portmore. The toll road is the largest infrastructure project in Jamaica. In 2020, TJH issued senior secured debt for USD225.0 million through a fully amortizing bond maturing in 2036 with a fixed 5.75% coupon rate.

TRANSJAMAICAN HIGHWAY LIMITED U.S SECURED NOTES DUE 2036- Bond Term Summary	
Issuer	TransJamaican Highway Limited
Obligor	TransJamaican Highway Limited
Industry	Infrastructure & Development
Risk Classification	MODERATE
Bond Type	Fixed (Secured)
Currency	USD
Country of Risk	Jamaica
Coupon Rate	5.75%
Payment Frequency	Quarterly
Ask Price	$83.051
Ask Yield to Maturity	8.66%
Maturity Date	10/10/2036
Credit Ratings	S&P- B+ (Stable) Fitch- BB- (Positive)
Governing Law	Jamaica



Recommendation: We believe that the TransJamaican Highway Limited (TJH) U.S Secured 5.75% 2036 notes are fairly attractive to an investor who has a low appetite for risk given the stable levels of cashflows that the business generates from its operations. The bond is currently trading below par which means that investors could lock in a yield of 8.66% if held to maturity. Considering a JAMAN 10-Year yield of 6.06%, this means that an investor would earn approximately 3.60% in excess of the risk-free rate, in US dollar terms. Notwithstanding, investors with moderate to high-risk appetite may not find this debt more appealing, as it carries a yield lower than most bonds in this high interest rate environment.

ECONOMIC OVERVIEW

Jamaica (S&P Rating: B+/Stable)
On October 5, 2022, Standard & Poor's affirmed Jamaica's rating at 'B+' with a stable outlook. The assessment reflects the expectation that the economic recovery currently underway should persist, supported by the tourism sector. S&P expects tourism to spur more growth than any other sector in 2022 and 2023, although it views Jamaica's economy as relatively well diversified when compared to other small open economies, benefiting from vibrant agriculture, mining and manufacturing activities. Crime is expected to limit the long-term pace of growth, while slowing global growth poses near-term downside risk. The government's recent policy track record supports macroeconomic stability in the medium term. The International Monetary Fund (IMF) projects real GDP to grow by 3.0% in 2023.

TransJamaican Highway (Fitch Rating: BB-/Positive)
As at March 16, 2023, Fitch affirmed a BB- rating for TJH with a positive outlook. This revision was on the back of the upgrade of Jamaica's outlook to positive from stable which reduced the concerns of higher convertibility risks and the transfer of foreign currency to service debt. In addition, TJH's metrics are robust in accordance with the applicable criteria. Notwithstanding, factors such as, no or negative growth in the rate of traffic, coupled with a negative rating action for sovereign's ceiling may lead to a negative rating action by the Rating Agency.

FINANCIAL ANALYSIS

('000)	2018	2019	2020	2021	2022
Revenues	52,430	53,285	45,382	52,755	65,006
EBITDA	38,793	36,989	26,117	33,126	24,395
Short-Term Debt	11,743	148,392	6,598	9,054	9,946
Long-Term Debt	154,596	96	213,227	207,030	200,024
Total Debt	166,339	148,488	219,825	216,084	209,970
Interest Expense	15,365	32,987	17,123	15,284	14,798
Total Equity	56,951	65,251	57,040	54,131	39,991
EBITDA Margin	74.0%	69.4%	57.5%	62.8%	37.5%
Total Debt-to-Equity	2.92	2.28	3.85	3.99	5.25
Total Debt-to-Capital	0.74	0.69	0.79	0.80	0.84
Interest Coverage Ratio	2.52	1.12	1.53	2.17	1.65
Debt Service Coverage Ratio	1.43	0.20	1.11	1.36	0.99
Debt-to-EBITDA	4.29	4.01	8.42	6.52	8.61
Current Ratio	0.19	0.06	0.70	0.52	0.38

For the year ended December 31, 2022 (FY22), TJH recorded revenue of $65.00 million, reflecting an increase of 23.2% when compared to revenue of $ 52.75 million recorded in the previous fiscal year (FY21). The improvement was attributed to the continued improvement in highway traffic which saw approximately 25.88 million vehicles traversing the highway following the lifting of the Disaster Risk Management Act measures. This represents a 7.0% increase relative to TJH's pre-pandemic traffic levels (24.17million: FY 2019). The annual increase in Toll Tariff which took effect in July 2022 would have also contributed positively to the overall improvement in revenues.

Despite improvements in TJH's revenue, its EBITDA fell to $24.39 million from $33.12 million or by 26.3% largely attributed to a $13.88 million settlement loss on acquisition of subsidiary. Similarly, EBITDA Margin fell notably to 37.5 from 62.8% due to the 23.2%

increase in revenue along with the aforementioned loss on acquisition of subsidiary. Despite a reduction in long-term debt to $207.03 million from $199.92 million Debt-to-Equity rose to 5.25x from 3.99x largely due to a significant reduction in accumulated profits which fell to $39.99 million from $54.13 million.

However, from an adjusted basis, TJH's Debt-to-Equity would have been around 3.8x which gives a truer sense of how well the company is managing its debt burden and using less debt to finance its operations and investments, and instead relying more on equity capital. A lower Debt-to-Equity ratio can also improve the company's financial flexibility, allowing it to obtain financing in the future, as lenders may view the company as less likely to be insolvent.

Despite a 3.1% reduction in Interest Expense, which fell to $14.79 million from $15.28 million, TJH's interest coverage ratio decreased to 1.90x from 2.49x mainly attributed to a 26.3% falloff in EBITDA. Notwithstanding, a coverage ratio of 1.90x implies that the company can comfortably cover its interest payments as they become due. In light of a 2.8% decline in Total Debt, Debt-to-EBITDA rose to 8.61x from 6.52x primarily driven by the 26.3% decline in EBITDA previously mentioned.

TJH's Current ratio fell to 0.38x from 0.52x attributed to a reduction in the company's cash and bank balances, along with increases in its tax payable, borrowings and provisions. A current ratio less than 1.00x indicates that the business may have to turn to non-current assets or capital resources to meet its financial obligations.

OUTLOOK

Strategically located Essential Asset with robust maintenance plans
Highway 2000 connects Jamaica's capital city, Kingston, to other populous urban and industrial hubs, including the cities of Portmore and May Pen. With an estimated population of 1.4 million people along this urban corridor, the asset is currently the sole high-speed motorway serving the western section of Kingston's metropolitan region. Long-term growth prospects are supported by its position as a strategic asset for the country, as well as the fact that motorization rates in Jamaica remain low, with room for growth, according to Fitch Ratings.

We view the Company's infrastructure development plans, and its concession renewal prospects as optimistic. Since 2012, the toll road has been fully operating, complete with four toll plazas. It is overseen by an impartial engineer who gives financial annual reviews of the budget and the operations & maintenance (O&M) plan, as well as a commentary on the six subsequent semesters. TJH has signed an addendum to the concession agreement that allows the term to be renewed for a further 35 years at any moment during 2034, at TJH's option.

Increased Traffic continues with Highway Expansion on the Horizon.
TJH has advised that since the COVID-19 pandemic's effects have passed, vehicular traffic on Highway 2000 has rebounded and was around 7.0% higher than it was in 2019 (pre-COVID) and 13% higher than it was in 2021. The Company also continues to work towards its interest in the Phase 1C portion of the May Pen-Williamsfield project. In June 2021, THJ informed NROCC that it would be using its right of first refusal to operate the project, which is now being built. Once completed, this stretch of road would extend TJH's current activities another 28 Km. Currently, the NROCC has stated that they anticipate starting conversations on this issue in the first semester of the 2023 calendar year.

Anticipated Cost Saving from Acquisition of JIO
In late 2022, TJH acquired Jamaica Infrastructure Operator (JIO) which is responsible for the operations and maintenance (O&M) of Highway 2000. This acquisition should allow TJH to amend the operator fee structure it pays to JIO so that a portion of its fixed-fee component is cut by approximately 70.0%, and the variable fee is increased from 3% to 5%. In FY 22, post-acquisition, this resulted in a gross fee payable to JIO from approximately $1.70 million per month to just around $700 thousand per month. This resulted in an annual cost savings of approximately $12.0 million.

SWOT ANALYSIS

Strengths:	Weaknesses:
• Steady Cashflow generated from operations. • Relatively low capital expenditure requirements year-over-year. • The company reports its financials in USD which can help mitigate the impact of exchange rate fluctuations in financial performance and position. TJH is being more cost efficient by saving approximately $12 mil per annum post JIO acquisition. • May Pen-Williamsfield highway leg scheduled to be completed in the near-term which bodes well increased toll income.	• Rising toll rates may be a deterrent for motorists.
Opportunities:	**Threats:**
• S&P expects tourism to spur more growth than any other sector in 2022 and 2023. • The government's recent policy track record supports macroeconomic stability in the medium term.	• Natural disasters may compromise the structural integrity of the highway's infrastructure. • Volatility in gas prices could impact the volume of traffic on the toll roads which could subsequently affect the company revenues. • Crime is expected to limit the long-term pace of growth, while slowing global growth poses near-term downside risk.

CONCLUSION

The number of vehicles that traverse the highway has returned to some semblance of normalcy. This is evidenced in TJH's FY22 financial performance which saw revenues increase by 23.2% largely due to a 7% increase in the number of vehicles related to the same period of FY19 (pre-pandemic). Despite a significant settlement loss on the acquisition of its subsidiary ($13.88 million), TJH's Interest Coverage ratio is at around 1.90x, adjusting for its settlement loss, TJH's Interest Coverage would have likely been around 2.98 times as EBITDA would have been higher. This implies that the TJH can comfortably cover its interest payments to bondholders as they become due without having to seeking further financing or liquidating its assets. With a 8.66% YTM, the bond provides a fairly good yield for investors with moderate risk appetite and we believe that its current price of $83.05 is an attractive entry point.

With the foregoing we recommend that investors invest in these this instrument based on their risk appetite as follows:

Appetite for Low Risk: OVERWEIGHT

Appetite for Moderate Risk: MARKETWEIGHT

Appetite for High Risk: UNDERWEIGHT

SOURCES

Bloomberg, S&P, Fitch Ratings, Oppenheimer, TJH's Financial Statements

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- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.