

Company Analysis: Caribbean Producers Jamaica Ltd. (CPJ) Q1 2023-24

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- Stock Recommendation: **OVERWEIGHT**
- Current Price: **J\$9.06**
- Price Target: **J\$12.74**

- Shares Outstanding: units: 1,100,000,000
- Financial Year End: June 30

ABOUT THE COMPANY

Caribbean Producers Jamaica Limited (CPJ) was founded by Mark Hart and Thomas Tyler in April 1994 and is a food service distributor that sells its consumable goods to the hospitality industry. These goods include both food and non-food brands along with wines and spirits that are well known internationally. CPJ operates from the Montego Freeport St. James that consists of 120,000 sq. ft. of space that houses offices, manufacturing plants, refrigerated and dry warehousing. The wine brands carried by the firm are internationally known and include Bacardi, Grey Goose, Dewars, Louis Latour, Concha y Toro, Remy Cointreau and Taittinger.

The Deli and CRU and Kitchen is also an extension of CPJ that is located at 71 Lady Musgrave Road, New Kingston, which has become a popular spot for dining entertainment.

FINANCIAL PERFORMANCE SUMMARY

US\$'000	FY 2021/22	FY 2022/23	Q1 2022/23	Q1 2023/24
Operating Revenue	119,960	142,581	33,061	34,218
Gross Profit	34,844	38,984	10,235	10,186
Operating Profit	12,412	10,255	2,995	2,466
Net Profit to Parent	7,508	6,247	1,640	1,269
Total Assets	88,455	90,113	86,481	89,719
Total Liabilities	62,415	57,826	58,719	56,200
Equity to Parent	26,040	32,287	27,761	33,518

Dividend Policy

The Company does not have an approved dividend policy and has not paid any dividends over the last three financial years.

Outlook

The outlook for the tourism and hospitality sector has remained optimistic since the start of the financial year, with record-breaking tourism arrivals (and tourism revenue) expected for 2023. CPJ is expected to continue to benefit from this recovery, evidenced by its reporting of positive earnings throughout the year in tandem with the recovery. The Company has also made progress in bringing down its debt. With significant expansion plans in the pipeline, such as expanded manufacturing facilities, solar energy capabilities and other technological investments, CPJ is poised to remain a company with substantial potential for growth and efficiency.

Projections and Valuation

We used a Discounted Cashflow (DCF) Model to arrive at our target price of J\$12.74, utilizing a cost of equity of 12.01% and a long-term growth rate of 6.00%

Risks to Price Target

Our price target may not be realized if the firm is unable to contain its operational expenditure, if the St. Lucian and Jamaican Tourism sectors do not rebound well from the pandemic as anticipated, if there are regulatory changes that adversely impact the company's bottom line or if the exchange rate fluctuates adversely impacting profits.

FIRST QUARTER ENDED SEPTEMBER 30, 2023

During the first quarter ended September 30, 2023, Gross Operating Revenue increased by approximately 3.5% year-over-year (YoY) from US\$33.0 million to US\$34.2 million. Revenue improvement during the quarter was driven by the introduction of new product lines along with the continued development of existing sales channels including the Company's online business. Cost of Operating Revenue increased by approximately 5.3% from US\$22.8 million to US\$24.0 million, mainly amid fluctuations in commodity prices. The foregoing resulted in Gross Profit showing a marginal decrease of 0.5% from US\$10.2 million to US\$10.1 million. Consequently, the Gross Profit Margin fell from 30.9% to 29.7%

Selling and Administrative Expenses increased by approximately 10.1% from US\$6.1 million to US\$6.5 million. The change was driven by increases in costs relating to staffing as the Company positioned itself for further growth. There were also increases in spending on advertising & promotions, as well as insurance. Due to this, Operating Profit decreased by approximately 17.7% from US\$2.9 million to US\$2.4 million. Consequently, the Operating Profit Margin fell from 9.0% to 7.2%.

Finance Costs increased by approximately 11.4% from US\$755,378 to US\$841,817. The increased financing costs are a result of financing obtained to assist with the restructuring of the balance sheet, through a US\$13.0 million bond raise used to retire party debts. Additionally, there were also increases in finance charges relating to lease liabilities, as the Company negotiated new leases with its landlords. Profit Before Taxation decreased by approximately 27.5% from US\$2.2 million to US\$1.6 million. Taxation decreased by approximately 24.1% from US\$518,740 to US\$393,943. Profit for the Year decreased by approximately 28.5% from US\$1.7 million to US\$1.2 million. This resulted in the Net Income Margin falling from 5.2% from 3.6%.

Total Assets for the period increased by approximately 3.3% from US\$60.8 million to US\$62.8 million. This was driven mainly by an increase in Inventory of US\$1.4 million as CPJ maintained higher-than-normal levels of inventory to ensure consistency of supply for customers. There was also an increase in cash of US\$1.1 million. Total Liabilities for the period decreased significantly by approximately 49.9% from US\$58.7 million to US\$29.3 million. This was driven by changes in various line items such as Current Portion of Long-Term Borrowings where there was a significant decrease from US\$4.1 million to US\$510,611. Additionally, the Long-term promissory notes that were present in September 2022 at US\$4.6 million are not listed in September 2023, suggesting they may have been paid off or reclassified. There was also a decrease in Long-term borrowings from US\$33.0 million to US\$29.3 million. These changes suggest that the company has paid down or restructured its debt, leading to a lower liabilities balance. Total Equity saw an increase of approximately 20.7% from US\$27.7 million to US\$33.5 million, driven by an increase in accumulated surplus from US\$19.8 million to US\$25.2 million. This could indicate that the company retained more of its earnings instead of distributing them, which increases the accumulated surplus and therefore the total equity.

The Current Ratio slightly decreased to 2.36x from 2.39x in the previous year. This slight decrease in the current ratio indicates that there was a relatively smaller increase in current assets compared to current liabilities, although both ratios still indicate that the Company had more than twice as many current assets as current liabilities for both periods. The Debt-to-equity ratio decreased to 0.85x during the period compared to 1.13x in the previous year. This change generally suggests that the company is on a path to a more conservative financing approach, which could be favourable to equity investors as it reduces the financial risks associated with high leverage.

OUTLOOK

Jamaica's Tourism Industry Soars in 2023: Record Visitor Numbers and Earnings Signal Robust Recovery and Growth

The outlook for Jamaica's tourism industry in 2023 appears to be positive, with growth projected compared to previous years. The country is set to welcome around 4.1 million visitors, marking a record-breaking year for the industry. This represents a substantial increase of 23.7% over the total number of visitors in 2022, with nearly 3.0 million of these expected to be stopover visitors, a 16% increase from 2022. Cruise passenger arrivals are also expected to rise significantly, by 46.1% over 2022 figures. Financially, the tourism sector is forecasted to generate impressive earnings of approximately US\$4.2 billion in 2023. This is an increase of 17.8% over the revenue secured in 2022, and 17.2% more than the pre-pandemic year of 2019. The Minister of Tourism, Hon. Edmund Bartlett, has highlighted this growth pattern as an indication of the industry's strong recovery and continued expansion since the COVID-19 pandemic. Additionally, the tourism industry's growth is seen as a major driver for the country's overall economic growth. The robust performance of the tourism sector is anticipated to contribute significantly to Jamaica's Gross Domestic Product (GDP) in the coming years, with expectations of further growth and increased earnings in 2024. Overall, Jamaica's tourism industry is not just recovering from the pandemic-induced downturn but is also thriving, surpassing previous performance levels, and contributing significantly to the nation's economy.

CPJ Embarks on Major Expansion: Multi-Million Dollar Investment in Manufacturing and Tech Advancement for 2024

CPJ is actively expanding its manufacturing facilities, committing over \$3 million to this endeavour. In addition, the company is enhancing its solar energy capabilities with an investment nearing \$1 million. Amid a year of significant capital investments, CPJ has enlisted a globally respected consultant to create a request for proposal (RFP) for a comprehensive enterprise resource planning (ERP) system. The anticipated selection of this ERP system is scheduled for the second quarter of 2024, with the implementation phase to follow shortly. This substantial commitment to the most up-to-date AI-driven IT infrastructure is expected to catalyze growth, elevate service quality, and bolster CPJ's operational outcomes going forward.

INVESTMENT POSITIVES

1. **Revenue Growth:** Gross Operating Revenue increased by 3.5% year-over-year, indicating a positive trend in sales and revenue generation.
2. **Product Expansion:** The introduction of new product lines and the development of existing sales channels, including online business, suggest diversification and growth in the company's offerings.
3. **Significant Debt Reduction:** A 49.9% decrease in Total Liabilities, including a reduction in long-term borrowings, indicates successful debt management and financial stability.
4. **Increased Total Equity:** A 20.7% increase in Total Equity, primarily driven by an increase in accumulated surplus, reflects the company's retention of earnings and strengthens its financial position.
5. **Improvement in Asset Position:** The increase in Total Assets, including higher inventory levels and cash, suggests a stronger asset base and preparedness for market demands.
6. **Conservative Financing Approach:** The decrease in the Debt-to-Equity ratio to 0.85x indicates a move towards less reliance on debt, reducing financial risk for investors.

INVESTMENT NEGATIVES

1. **Decrease in Gross Profit Margin:** A drop from 30.9% to 29.7% in Gross Profit Margin due to higher costs, indicating pressure on profitability.
2. **Rising Operating Expenses:** A 10.1% increase in Selling and Administrative Expenses, driven by higher staffing, advertising, and insurance costs, which could impact the bottom line.



3. **Decline in Operating Profit:** A 17.7% decrease in Operating Profit, along with a reduction in Operating Profit Margin from 9.0% to 7.2%, suggesting operational challenges.
4. **Increased Finance Costs:** An 11.4% increase in Finance Costs due to new financing and lease liabilities, which could affect future profitability.
5. **Decrease in Profit Before Taxation:** A significant 27.5% decrease in Profit Before Taxation, indicating reduced overall financial efficiency.
6. **Lower Net Income Margin:** A fall in Net Income Margin from 5.2% to 3.6%, reflecting overall reduced profitability.



CONCLUSION

The outlook for the tourism and hospitality sector has remained optimistic since the start of the financial year, with record-breaking tourism arrivals (and tourism revenue) expected for 2023. CPJ is expected to continue to benefit from this recovery, evidenced by its reporting of positive earnings throughout the year in tandem with the recovery. The Company has also made progress in bringing down its debt. With significant expansion plans in the pipeline, such as expanded manufacturing facilities, solar energy capabilities and other technological investments, CPJ is poised to remain a company with substantial potential for growth and efficiency.

Based on our assessment of the health of the Company and our expectation of what is likely achievable based on our analysis, we have established a price target of J\$12.74, which is above the current market price of J\$9.06 and is undervalued relative to current price levels at this time. Due to this, we recommend investors **OVERWEIGHT** the stock.

SOURCES

Caribbean Producers Jamaica Limited Annual Reports, Jamaica Stock Exchange (JSE), The Gleaner Company, Loop News Jamaica, The Jamaica Observer, and the Financial Services Commission (FSC)

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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.