

Company Analysis: JFP Limited (JFP) FY 2022

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- Recommendation: **UNDERWEIGHT**
- Price Target: \$0.45
- Current Price: \$1.67

- Shares Outstanding: 1,120,000,000 units.
- Financial Year End: December 31

ABOUT THE COMPANY

The JFP Limited (JFP), formerly known as Jamaica Fibreglass Products Limited, was established in 1985 as a contract furniture manufacturing company. Originally specializing in fiberglass products, JFP has diversified its offerings over time. Presently, the company produces furniture using a variety of materials such as wood, metal, solid surface, acrylic, and different upholstery types. JFP takes pride in its self-sufficiency, maintaining its own equipment and minimizing outsourcing.

Situated on Spanish Town Road, JFP manufactures a wide range of products, including point-of-sale items like gondolas, cabinetry, laboratories, chairs, carts, and planters. Additionally, they create furniture for offices, schools, hotels, and even constructed testing booths for the Ministry of Health during the COVID-19 pandemic to facilitate safe testing. JFP is an authorized supplier of furniture and furnishings to popular fast-food chains like KFC, Pizza Hut, Wendy's, Domino's, Mother's, and Caribbean Coffee Baristas Limited, which holds the Jamaican franchise for Starbucks. With a thriving export industry and an extensive customer base, JFP is recognized as a prominent contract furniture manufacturer in the Caribbean. Their current focus is on expanding into the United States, CARICOM, and the markets of South and Central America.

In keeping with its commitment to shareholders to expand regionally, in March 2023 JFP has entered in a two-year partnership with Total Office which should be finalized July 2023. The arrangement includes both entities taking a 30% stake in each other. That would make Total Office the single largest shareholder in JFP.

FINANCIAL PERFORMANCE

J\$'000	FY 2019	FY 2020	FY 2021	FY 2022
Revenue	503,747.10	442,760.10	233,736.40	476,393.15
Operating Profit	79,684.31	93,358.07	25,972.13	35,675.88
Net Profit/(Loss)	57,457.46	71,446.30	8,326.44	15,007.12
Total Assets	308,607.54	410,844.25	357,555.60	521,347.90
Total Liabilities	176,744.28	207,534.70	301,451.93	328,964.86
Total Equity	131,863.26	203,309.55	56,103.64	192,383.05
Return on Average Equity (%)	87.15	42.63%	6.42%	12.08%

Dividend Policy

A cash dividend of \$108.2 million was declared on October 28, 2021, to the shareholders prior to its IPO. JFP intends to pay between 40 to 80 per cent of its net profits as an annual dividend but seeing that the company listed in 2022, dividend payment was not expected. However, the board has indicated that they have placed the consideration of dividend payment in the first board meeting of 2023.

Outlook

JFP is expected to benefit from its new partnerships regionally as well as the possibility of more jobs in the American market. Additionally, with global and domestic inflation expected to soften, the company is expected to see a reduction in overhead costs. However, it is important to note that the logistical issues facing the company could lead to some underperformance, in the near term which could affect profitability. That and the contractual nature of jobs adds to our underwhelming assessment of the stock due to the uncertainty of remaining a going concern.

Projections and Valuations

We used a Discounted Cash Flow (DCF) model with a cost of equity of 14.07% and long-term growth rate of 7.00% along with a comparable approach to arrive at a consensus price target of \$0.45.

Risks to Price Target

The nature of JFP's business model poses a threat to its price target. Since all their business is dependent on contracts, their inability to fulfill orders poses a major threat to their earning potential and thus would impact our valuation of the stock. Additionally, JFP is at risk to high commodity prices and possible logistical/supply chain problems impacting their business.

The upside risks to price include its business relationship with major companies in the hotel, food and business sector which places them at an advantage for certain high value jobs. This along with its strategic partnerships to expand regionally and internationally could feed into higher revenue. Lastly, with inflation expected to continue to trend downwards commodity prices are expected to stabilize.

We anticipate that downside risks should outweigh the main upside risks if JFP's business model remains the same.



FINANCIAL YEAR ENDING DECEMBER 31, 2022:

For the financial year ended December 31, 2022 (FY22), JFP recorded revenue of \$476.39 million, which represented a growth of \$242.66 million when compared to revenue of \$233.74 million recorded in the previous financial year (FY21). Company revenue is a representation of the invoiced value of custom-built commercial furnishings generated through contract jobs with their various clients. Revenue was grown by such a large portion due to recent contracted deals with more hotel chains such as Spanish Court Hotel and AC Hotel by Marriott as well as the company securing its first US contract with the Hyatt Place Newark Hotel.

Total operating expense for FY22 increased by 35.84% to \$211.87 million as a result of a 57.75% increase in staff costs, a 32.84% increase in utilities, rates and taxes as well as selling and distribution expenses increasing by over 100%. Despite this increase in operating expenses, the operating expense margin saw a 33.35% decline to 44.47% for FY22 as opposed to the 66.73% margin recorded in FY21. This reduction is accredited to the growth in revenue outpacing the growth in operating expenses thus offsetting an increase in the margin. The influx in staff costs and selling and distribution costs reflects the business attaining more contract jobs as well as the higher inflationary environment of 2022.

JFP was able to generate a pre-tax profit of \$16.14 million, \$7.80 million more than what was recorded in the previous financial year. Increased profitability was mainly a result of the improvement in revenue streams. Thus, the company earned net profit of \$15 million (EPS: \$0.013) in FY22, an 80.23% million increase when compared to profit of \$8.33 million (EPS: \$0.00) for FY21. The improvement in profitability resulted in a lower net profit margin of 3.15% for FY22 compared to the 3.56% for FY21.

JFP Limited's total asset base was \$521.35 million as of December 31, 2022, a \$145.80 million or 45.81% rise over the \$375.56 million recorded as of December 31, 2021. The improvement in the company's asset base was attributed to the doubling of current assets namely the receivables increasing 3.50 times from \$36.30 million in FY21 to \$166.07 million in FY22. There was also a sizeable increase in the company's inventory, where raw materials account for 74.27% of inventory. The growth in total assets helped to strengthen the company's liquidity position as seen by the improvement in the current ratio from 0.66x in FY21 to 1.58x in FY22. JFP's working capital stands at \$116.77 million as at December 31, 2022, an improvement from the negative working capital of \$53 million in the previous financial year.

The Return on average Assets (R.O.A.A) improved from 2.17% in FY21 to 3.41% in FY22 because of the increase in the total asset holdings.

Total Liabilities for the period ended at FY22 at \$328.96 million, an increase of 9.13% from \$301.45 million as at December 31, 2021. The increase was primarily due to a rise in current portion of rights issues (+115.75%), and payables (+67.40%).

Share Capital as at FY22 increased significantly due to the IPO offering to end the financial year at \$121.27 million. This increased then flowed into the total shareholder's equity resulting in shareholders equity ending FY22 at \$192.38 million (BVPS: \$0.17) when compared to the \$56.10 million (BVPS: \$0.05) in FY21.

The Return on average Equity (R.O.A.E) improved from 6.42% in FY21 to 12.08% in FY22 as the growth in net earnings outpaced the decline in average equity.

OUTLOOK

Regional Partnership and Strategic Acquisition

The new strategic partnership with Total Office, a stationery and office equipment supplier headquartered in Trinidad will see JFP becoming a manufacturing arm for Total Office. This deal will serve JFP's diversification objectives of going into a broader distribution space through regional expansion thus garnering more brand visibility in Barbados, Guyana, Trinidad along with other Caribbean territories. This partnership was further sweetened with each company attaining a 30% stake in each other which is mutually beneficial to both parties. This partnership is expected to place more stability on JFP's line of business though they only have a two-year contract with Total Office to supply. The acquisition of a stake of the companies in each other is evidence of JFP thinking of long-term growth for the company.

Revenue diversification via overseas contracts

JFP acquired its first overseas contract with the Hyatt Place Newark Hotel in Newark California. The deal was a result of JFP's showing at a Las Vegas trade show. JFP will be outfitting the public spaces of the hotel as the company was impressed by their level of tradesmanship and production. This deal is in alignment with the company's vision and strategy stated in their IPO prospectus. The completion of this deal is a testament to JFP's dedication to growing its revenue streams and adding value to the company.



INVESTMENTS POSITIVES:

- The company has business relationships with industry titans which span over a decade and more, which indicates a level or reliability for contract revenue.
- The expansion of the business into custom special projects such as the outfitting of buses for clients is another opportunity for revenue growth.
- The expansion of the food and accommodation services sector as well as the business process outsourcing sector will continue to fuel business opportunities for JFP domestically, regionally, and internationally.
- The downward trend of inflation should be a positive for the operating costs and the supply of raw materials.

INVESTMENT NEGATIVES

- The reliance on short-term contracts from various business entities poses a risk to the businesses' ability to generate revenue as they do not sell commercially to the public.
- The volatility of global commodity space poses a threat to increased raw material prices which would place further pressure on operating expenses.
- Low barriers to entry in the industry exposes JFP to competition risk.
- Work from home arrangements by more companies has dwindled the demand for office spaces which would directly impact on a line of JFP's business.
- Operating profit margins are at risk of being high if revenue streams are not strong enough.



CONCLUSION

JFP Limited being a newly listed company on the JSE has provided improved results since its IPO in February 2022, with revenue seeing a significant increase but profit margin slightly falling. It's evident that there is a level of volatility with the business model which could result in negative financial performance even though the company has outlined its strategic objectives. This volatility is being countered with more strategic partnerships and expansion; however, the company has not provided any indication of long-term solutions where the supply of their raw materials is concerned. This logistical risk is one of the downsides to company performance as well as its dependence on contract jobs.

Based on our assessment of the company and our expectations of its performance we established a price target of **\$0.45**. That being considered we believe the company is currently being traded well above its market value, mainly due to the investor sentiment since listing last year. As such, we recommend that investors **UNDERWEIGHT** this stock.



SOURCES

JFP Audited Financials, Bloomberg, Damodaran NYE, JFP website, The Jamaica Observer.

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- **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.