

Company Analysis: Seprod Limited (SEP) 9M 2023

VMWM Research | December 13, 2023



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- Recommendation: **OVERWEIGHT**
 - Current Price: \$71.29
 - Price Target: **\$97.41**
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- Shares Outstanding: 733,546,855 units.
 - Financial Year End: December 31

ABOUT THE COMPANY

Seprod Limited has over 80 years of experience and more than 3,000 employees. It operates in the manufacturing and distribution of food products in Jamaica and other countries, including Trinidad, Dominican Republic, Dominica, Guyana, Barbados, and the Cayman Islands. The company's diverse food subsidiaries offer a wide range of products under various brand names, including baking powder, canned meats, cereals, biscuits, juices, milk products, and more. Seprod's history began in the coconut industry and has since evolved into a global food products provider.

Effective June 1, 2022, Seprod acquired a 60% shareholding of AS Bryden Sons and Holding Ltd. AS Bryden is a distribution company headquartered in Trinidad. AS Bryden listed by introduction on the Main Market of the Jamaica Stock Exchange on November 13, 2023.

FINANCIAL PERFORMANCE SUMMARY

J\$'000	FY 2021	FY 2022	9M 2022 (Sep 30, 2022)	9M 2023 (Sep 30, 2023)
Revenue	43,883,405	78,433,836	51,441,096	82,202,935
Operating Profit	3,599,483	5,974,539	4,810,221	7,505,791
Net Profit	1,993,421	2,917,992	2,631,511	3,964,488
Total Assets	46,911,644	94,497,037	80,812,691	92,995,554
Total Liabilities	23,462,740	61,602,422	49,938,218	56,994,244
Total Equity	23,448,904	32,894,615	27,830,621	29,694,296

Dividend Policy

SEP does not have a definitive dividend policy. Notwithstanding, the company has maintained steady dividend payments over the last four years and has paid out 46% of its annual earnings to Shareholders on average. Their latest dividend declared was \$0.55 per share as of December 15, 2023.

Outlook

With the acquisition of AS Bryden, Seprod now has access to more assets and revenue streams which should make it easier to achieve projected revenue growth. This projected revenue growth is expected to result in higher profits for the Company as it aims to boost exports even higher, as well as venturing into the liquor market. However, the Company must remain mindful of possible diseconomies of scale that may arise from more production and further expansion as these can dampen profits. If these risks are accounted for then Seprod should continue to grow its revenue and profits.

Projections and Valuation

We used a combination of the Market Comparables Approach and a Discounted Cashflow (DCF) Model to determine the value for the stock. For the DCF approach, a cost of equity of 18.49% was used to discount the future levered free cash flows. For the comparative approach, a 2024 forward BVPS and EPS of \$45.25 and \$6.13 respectively were used. An implied P/B and P/E of 2.00x and 14.00x were deemed appropriate and were used to determine a relative value. By averaging all three approaches, we obtained a consensus target price of **\$97.41**.

Risks to Price Target

We anticipate that the Company might encounter difficulties in reaching our forecasted target price if the current market downturn and relatively weak investor sentiment continue, despite the Company's strong fundamental foundation. Additional factors contributing to price uncertainties are volatile commodity costs and potential disruptions in supply and distribution channels due to geopolitical issues. Nonetheless, these risks have been effectively addressed through the Company's strategic inorganic growth initiatives and expansion into new markets. Considering both the identified risks and the implemented mitigations, the company is well-positioned to attain its price target in the medium to long term.

NINE (9) MONTHS ENDED September 30, 2023

SEPROD reported a 59.80% increase in revenue, reaching \$82.20 billion from \$51.44 billion. This growth is attributed to business expansion through the acquisition of A.S. Bryden, enhanced operational efficiency from the modernization of the margarine plant, and a notable 45% improvement in export sales.

The cost of sales (COGS) experienced a higher-than-revenue growth, rising by 61.36%, primarily due to increased production costs associated with the A.S. Bryden acquisition. Consequently, the COGS margin increased by 0.97%, reaching 74.63% in the current period compared to 73.91% in the comparable period. The growth in sales revenue is evident in the 55.39% increase in gross profit, reaching \$20.86 billion from \$13.42 billion.

Operating profit saw a significant uptick of 56.04% to \$7.51 billion from \$4.81 billion, despite a 61.36% increase in direct expenses, such as selling and distribution costs. The Company's Net profit increased by 50.65%, from \$2.63 billion to \$3.96 billion during the corresponding period.

As of September 30, 2023, Seprod's Total Assets amounted to \$92.99 billion, reflecting a notable 15.08% increase compared to the position on September 30, 2022, when it stood at \$80.81 billion. This growth is primarily attributed to expansions in Cash and cash equivalents, Intangible assets, Inventories, and Receivables, which increased by 12.73%, 14.05%, 22.42%, and 28.28%, respectively.

Total Liabilities experienced an uptick to \$56.99 billion from \$49.94 billion, marking a 14.13% increase. This increase was mainly driven by significant growth in current lease liability, Payables, and long-term liabilities, expanding by 35.03%, 37.47%, and 17.78%, respectively. Additionally, post-employment benefit obligations substantially contributed to the overall increase in Total Liabilities.

Total Equity increased to \$29.69 billion from \$27.83 billion, representing growth of 6.70%, primarily driven by a 15.73% increase in capital reserves. The enhancement in the Company's earnings and Total Equity resulted in an improved Return on Average Equity (ROAE), which moved from 12.72% as of September 30, 2022, to 14.78% as of September 30, 2023.

The Current Ratio rose to 1.91x from 1.75x, a 9.00% increase, as Current Assets outpaced the growth in Current Liabilities. Notably, the current ratio for the period is above 1.00x, indicating that the Company is well-positioned to meet all its short-term obligations without facing challenges, eliminating the need to liquidate non-current assets or seek additional long-term funding. Total Debt-to-Equity also slightly increased by 2.19% from 1.14 in the corresponding period to 1.17. This was due to the increase in long-term liabilities outpacing the reduction in short-term debt.

OUTLOOK

New Market Opportunities in Trinidad

Seprod's 60% acquisition of AS Bryden allows the Company to distribute and sell liquor in Trinidad. AS Bryden already functions as a main distributor of spirits and premium liquors in Trinidad, hence Seprod's stake has enabled revenue generation from that business segment. Seprod has also expressed the possibility of entering the alcohol market in Jamaica as it should seek to take advantage of gaps in the market locally.

USD\$1 billion Revenue Target for 2025

Seprod intends to generate revenue equivalent to USD \$1 billion by 2025. The Company aims to achieve this strategic goal by doubling down on export sales and synergies with AS Bryden. The plans to massively increase revenues should also be strengthened by the construction of a US\$30 million warehouse in Trinidad, which began in December. These plans should help the Company to achieve its target and attain further stake in AS Bryden.



INVESTMENTS POSITIVES:

- The Company has seen increased sales and improved export revenue due to its acquisition of A.S. Bryden.
- The display of ambitious strategic goals with an actual plan of action towards attaining them.
- The acquisition of AS Bryden shows that Seprod is eager to attain both inorganic and organic growth.
- Profitability is expected to continue to improve, especially after the completion of the warehouse in Trinidad.
- Entering the spirits market provides further revenue diversification for the Company, which should boost profits.
- The Company has maintained comfortable liquidity, as evidenced by its improved current ratio.

INVESTMENT NEGATIVES

- Increased operational costs and direct expenses due to acquisition could cause concern if operational efficiency is not addressed.
- The increased operational costs that should accompany the entrance into a new market may strain profit margins.
- Extreme weather conditions caused by drought and excessive heat can continue to threaten the dairy arm of manufacturing products.
- The recent uncovering of a \$160 million dollar fraud at one of the Company's subsidiaries, Facey Commodity Company Limited, has placed the Company in a negative light and could dampen investor sentiment.



CONCLUSION

SEPROD is expected to sustain its growth and enhance profitability, entering a phase characterized by a combination of inorganic and organic expansion strategies. This involves both market expansion and production scale-up. The company's foray into new markets, such as the liquor segment, is anticipated to not only increase its revenue but also address previously untapped demand at both regional and eventually local levels. The successful execution of this strategy hinges on the company's ability to operate efficiently through cost-effective inventory management and production processes. The ongoing expansion into new markets, coupled with the synergies from recent acquisitions, is expected to positively impact the company, positioning it well to achieve its ambitious revenue goal of USD\$1 billion.

Using an Intrinsic Approach with a cost of equity of 18.49%, we valued the company at \$115.89 per share. Applying a P/E multiple of 14.00x and a P/B multiple of 2.0x, in line with the average of its peers on the Jamaica Stock Exchange, we arrived at a consensus target price of \$97.41 which is a 36.64% upside from the current price of \$71.29. Considering this, we have assigned an **OVERWEIGHT** rating to the stock.

Additionally, investors may potentially realize further capital gains through dividend payments.

SOURCES

SEPROD Annual Reports and Quarterly Financial Statements

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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.