

# Company Analysis: TransJamaican Highway Limited (TJH) 9M 2023

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- Stock Recommendation: **OVERWEIGHT**
- Price Target: J\$4.39 / US\$0.0283
- Current Price: J\$3.26 / US\$ 0.0203

- Shares Outstanding: 12,501,000,000
- Financial Year End: December 31<sup>st</sup>

## 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.

## FINANCIAL PERFORMANCE SUMMARY

In US\$'000	FY 2021	FY 2022	9M 2022	9M 2023
<b>Revenue</b>	52,755	65,006	47,015	55,369
<b>Operating Profit</b>	20,625	24,395	17,015	34,178
<b>Profit after Tax</b>	5,341	(4,286)	5,838	23,239
<b>Total Assets</b>	309,238	288,137	309,185	301,628
<b>Total Liabilities</b>	255,107	248,146	257,915	259,169
<b>Total Equity</b>	54,131	39,991	51,270	42,459

### Dividend Policy

NROCC anticipates that the company will pursue a dividend policy that will pay the maximum allowable amount under the Companies Act annually. The pay-out ratio is expected to increase from approximately 27% to a high of 85% by 2026.

### Outlook

TJH’s outlook reflects the stability and resiliency of a commuting asset strategically located on the outskirts of Kingston & St Andrew, Jamaica. A satisfactory rate-setting mechanism allows tariffs to be adjusted annually by U.S. inflation and the variations in foreign-currency (FX) rate between the Jamaican dollar (JMD) and the U.S. dollar (USD). Furthermore, it withstands domestic economic shocks beyond those observed between 2008-2014 and 2020-2021 when the Jamaican economy deeply deteriorated, supporting a stable outlook. The company should also benefit from the renewal of the concession agreement as well as the right to develop, operate and maintain future highways along with other investment opportunities.

In 2023, TJH announced it would be utilizing its right of refusal for operation of the Phase 1C leg of the east-west highway and is currently negotiations with NROCC regarding its operation. Once the negotiations are completed by March, TJH stands to benefit from the additional revenues generated.

### Projections and Valuation

We used a Discounted Cash Flow (DCF) model to arrive at our price target. Under the DCF, we used a discount rate of 18.49% and long-term growth rate of 6.0%. This resulted in a price target of **J\$4.39/US\$0.0283** using a 155:1 exchange rate.

### Risks to Price Target

Downside risks are likely to outweigh the upside if the state of the economy underperforms expectations and inflationary pressures worsen which would subsequently erode consumers’ purchasing power. Alternate routes exist which may reduce demand for toll road usage. Any spikes in global commodity prices may also impact the business’ cost of production negatively as inputs become more expensive. The inability to contain its operating expense margin may also have an adverse effect on the business’ profitability.

## YEAR ENDED SEPTEMBER 30, 2023

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For the year ended September 30, 2023, TJH recorded revenue of US\$ 55.3 million, reflecting an increase of 17.8% when compared to revenue of US\$ 47.0 million recorded in the previous period in 2022. This was due to greater levels of traffic over the previous year in addition to movements in the toll tariff. For 9-months ended 2023, TJH also posted Other Gains of US\$ 1.4 million, reflecting an increase of US\$ 1.3 million, compared to US\$ 157 thousand recorded in the previous fiscal year. This was due to foreign exchange gains emanating from the revaluation of the 8.0% (JMD) Cumulative Redeemable Preference Shares and the toll reconciliation process, in addition to interest earned on short term placement of funds held in the reserve accounts and disposal of fixed assets no longer in use.

Operating expenses for the year ended September 30, 2023, were US\$16.6 million, reflecting a decrease of US\$12.5 million compared to US\$29.1 million for the same period in 2022 and was impacted by due to cost savings realized further to the acquisition of the subsidiary which allowed for the modification of the fees thus reducing our cost to operate. This was also partially offset by bank and security charges incurred for the Group, higher maintenance cost including spares and equipment purchased to improve the services offered in the Tag lanes and the “My T-tag” app, and higher Insurance cost associated with the renewal of our coverage for the motorway.

The company's administrative costs jumped by \$5 million to \$6 million in the third quarter of 2023, compared to \$1 million in the same period last year. This increase was mainly due to adding staff and other expenses for the subsidiary. The company's finance costs for the nine-month period ending September 30, 2023, decreased by US\$0.3 million to US\$10.9 million compared to US\$11.2 million in the same period of 2022. This decline aligns with lower interest payments on secured notes due to the ongoing quarterly principal repayments.

The company's profit before tax for the nine-month period ending September 30, 2023, saw a significant increase of US\$17.4 million, reaching US\$23.2 million compared to US\$5.8 million in the same period of 2022. This notable improvement in profitability stemmed primarily from two key factors: cost savings achieved in operating the motorway after acquiring the subsidiary, and an increase in overall revenue earned during the period.

During the nine-month period, the company's total assets rose from US\$288.1 million to US\$301.6 million, mainly due to a US\$13.5 million increase in cash reserves from reduced operating costs. However, asset amortization and tax adjustments partially offset this gain. On the liabilities side, the total amount climbed from US\$248.1 million to US\$259.2 million, primarily driven by a US\$15 million interim dividend payout, increased provisions for repairs and taxes, but partially mitigated by US\$7.9 million in principal repayments on secured notes. Equity saw a modest increase from US\$40 million to US\$42.5 million, thanks to US\$2.5 million in net income, but the US\$15 million interim dividend balanced it out. Overall, the nine-month period saw active financial management with growth in both assets and liabilities, reflecting an interplay of operational improvements, dividend distribution, and other financial obligations.

## OUTLOOK

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### Increased Traffic Continues

A surge in traffic volume paints a rosy picture for Transjamaican Highway (TJH). Buoyed by Jamaica's resurgent economy, fuelled by increased tourism and urbanization, the number of vehicles traversing its lanes has not only recovered from pandemic lows but surpassed them. This translates to a welcome boost in toll revenue, directly impacting TJH's financial health. 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 negotiations regarding its operation are completed, this stretch of road would extend TJH's current activities another 28 Km. Currently, conversations on this issue are expected to be completed in March of the 2024 calendar year.

### Strategically located Essential Asset

Highway 2000 connects Jamaica's capital city, Kingston, to other populous urban and industrial hubs, including the cities of Portmore, May Pen, and Williamsfield. 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.

## **Adequate Rate Adjustment Mechanism**

Toll rates are modified annually depending on the maximum capped toll level of that period, the US CPI, and the FX rate (USD/JMD), plus 1% until the foreign debt is repaid in full. Further room for increases is possible if the USD/JMD exchange rate depreciates by more than 10% intra-period. TJH can raise tolls annually, but the toll regulator must authorize any adjustments. If the toll regulator rejects the tolls, the concessionaire must be compensated. Given a favourable track-record of approvals from the regulator since 2009, we doubt the regulator will cut rates.

## **Fully Operational Asset with robust maintenance plans**

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, which will likely increase to 5 in the near future. 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.

## **INVESTMENTS POSITIVES:**

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- Generally steady cashflow.
- High operating cash flow generation relative to the invested capital.
- Consistent revenue and expense profile.
- Relatively low capital expenditure requirements year-over-year.
- The highways provide road users with a faster and typically better maintained alternative for traditional routes that may be plagued with potholes and other grievances for motorists.
- The Revenue is materially hedged against Jamaican Dollar devaluation.
- Potential acquisition of the Williamsfield concession, leading to greater revenues and profitability.
- Contractual protections such as the 35-year concession agreement with NROCC aid in revenue generation.

## **INVESTMENT NEGATIVES**

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- The upward trend in the toll rates may be a deterrent from usage by motorists. This will affect overall revenues, which may limit the company's ability to pay dividends to shareholders.
- Natural Disaster may compromise the structural integrity of the highway which could increase expenses and affect TJH's cost efficiency.
- High degree of leverage in the early years may affect the company's ability to generate capital in the long run if not properly managed.



## CONCLUSION

TransJamaican Highway (TJH) stands at a crossroads, offering both enticing opportunities and potential pitfalls for investors. On the positive side, the company boasts robust traffic growth exceeding pre-pandemic levels, fueled by Jamaica's economic recovery and rising tourism. Planned expansion projects hold promise for unlocking new revenue streams, while a growing focus on sustainability aligns with investor preferences and enhances TJH's reputation. Additionally, the potential acquisition of the Williamsfield leg concession could significantly boost profitability and solidify the company's position as a key infrastructure player. However, a closer look reveals challenges that demand careful consideration. TJH's debt levels, while manageable currently, remain a concern. Balancing toll increases with affordability is crucial to avoid deterring users and jeopardizing revenue generation.

Based on our assessment of the company and our expectations of its performance we established a price target of **J\$4.39/US\$0.0283**. Considering the company's historical performance, along with its many opportunities for future growth, we expect that this investment should provide returns greater than the general market. As such, we recommend investors **OVERWEIGHT** this stock. Also, the company plans to pay up to 85% of earnings via dividends which makes them even more attractive to investors seeking stable cash flows.

## SOURCES

TJH IPO Prospectus, TJH Annual Reports, TJH Financial Statements, Jamaica Observer, Jamaica Gleaner, Fitch Ratings, Oppenheimer & Co.

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