

Equity Analysis: LASCO Distributors Limited (LASD) 9M 2023-24

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- Stock Recommendation: **OVERWEIGHT**
- Target Price: **\$4.93**
- Current Price: \$3.97

- Shares Outstanding: 3,510,702,702 units
- Financial Year End: March 31

ABOUT THE COMPANY

LASCO Distributors Limited (LASD) is a member of the LASCO Affiliated Group of Companies. The main activities of LASD are to distribute consumer and pharmaceutical products produced by LASCO Manufacturing Limited, an affiliated company and international brands. Over the past 5 years, LASD has maintained a profitable position. LASD has its registered office at 27 Red Hills Road, Kingston 10. It was incorporated on September 1988 and was listed on the Jamaica Stock Exchange's Junior Market in October 2010.

The Company markets and distributes LASCO branded products as well as food, consumer, personal care and pharmaceutical products for international brands. It is controlled by majority shareholder Lascelles Chin.

FINANCIAL PERFORMANCE SUMMARY

J\$'000	FY 2021/22	FY 2022/23	9M 2023/24	9M 2023/24
Revenue	23,337,292	26,559,286	19,640,883	21,859,001
Operating Profit	1,269,161	1,625,285	1,200,251	1,506,596
Net Profit	1,016,428	1,353,576	963,572	1,190,938
Total Assets	12,449,982	13,377,858	12,501,493	14,904,400
Total Liabilities	5,161,737	4,963,970	4,601,730	5,652,144
Total Equity	7,288,245	8,413,888	7,899,763	9,252,256
ROE	13.9%	16.1%	12.2%	12.9%

Dividend Policy

Although LASD does not have a dividend policy, the Company maintains steady dividend payments and over the last five years paid out on average 27% of its annual earnings to shareholders. A dividend payment of \$0.10 per share was made this fiscal year which amounts to a dividend yield of 2.52%.

Outlook

The adverse impact of inflationary pressures, the ongoing geopolitical conflicts between Russia-Ukraine and Israel-Hamas as well as the more recent disruptions at the Red Sea and Panama Canal have undoubtedly hampered the growth potential of the Company. Increased shipping costs and delayed shipments have compressed inventory levels hindering business operations and squeezing margins. In May 2022, LASCO Distributors Limited executed plans to export its products into new markets such as the Slimfast diet drink while aiming to expand its portfolio of products. The Company plans to extend its reach to new territories including Columbia and Dominica Republic, adding to the dozen which is expected to increase earnings.

Projections and Valuation

The Discounted Cash Flow Model (DCF) and Market based Approach were used to establish an intrinsic and relative value respectively for LASD. For the DCF approach, a cost of equity of 10.78% was used to discount the future free cash flows while a forward BVPS of \$2.71 and an applied P/B of 2.0x were deemed as appropriate and used to determine a relative value. Using these two approaches, we obtained a target price of **\$4.93** which at the current price translates to an upside potential of 24.18%.

Risks to Price Target

We anticipate that our target price may not be realized if the company has higher than expected increases in cost of sales, along with any disruptions in its distribution channels. Also, if inflation remains higher for longer forcing a reduction in demand for essential items.

NINE MONTHS ENDED DECEMBER 31, 2023

LASCO Distributors Limited reported revenue growth of 11.29%, an equivalent of \$2.22 billion above the previous year's result of \$19.64 billion owing largely to improvements across all business channels. The upside in the Nutrition Food and Beverage segment was attributable to consumer-focused marketing activities and operations such as packaging redesigns and additions to the Children's Nutrition portfolio. Other categories, including Home Care and Personal Care and Pharmaceutical experienced improvement but were tempered by cost containment and supply chain challenges which resulted in Cost of Sales increasing by 10.27% to \$17.90 billion.

For the 9-month period, the gross profit margin improved from 18.91% reported in the prior year to 19.07% totaling \$3.96 billion, which represents an increase of 16.71%. Operating Expenses climbed to \$2.66 billion or by 12.25%, underscored by higher sales and promotional investments as well as security and insurance premiums.

Resultingly, operating profit exceeded the prior year's results by 25.52% amounting to \$1.51 billion with a margin of 6.89%. However, this was partially weakened by higher finance costs, which amounted to \$6.54 million, reducing profit before tax to \$1.5 billion, 24.07% above \$1.21 billion reported in the prior year over a similar period.

Similarly, Net Earnings experienced growth for the 9-month ending December 2023 of \$1.19 billion from \$963.57 million or by 23.60%, partially offset by a 25.95% increase in taxation which resulted in an EPS of \$0.27 for the period.

For the 9-month ending December 2023, total assets climbed by 19.22% to close at \$14.90 billion when compared to \$12.50 billion reported in the prior year. This was mainly driven by key items including tax recoverable and director's current account which each doubled. Additionally, related companies increased by 89.89% to \$112.05 million and receivables by 27.64% to \$4.99 billion while inventory slumped marginally by 5.44% to \$4.15 billion.

LASD total liabilities grew to \$5.65 billion, coming from \$4.60 billion when compared to the corresponding period in the prior year, representing an uptick of 22.83%. This was solely driven by increases in payables to \$5.23 billion and taxation to \$353.92 million. It is noteworthy that the Company currently has no outstanding debt on its books and also significantly reduced the current portion of lease liability by 73% to \$849 million.

Since March 2023, LASD share capital exceeded the Jamaica Stock Exchange Junior Market limit of \$500 million and therefore will be migrating to the Main Market effective March 27, 2024. Against this backdrop total equity exceeded the prior year period by 17.12% which was associated with higher share capital to \$513.17 million, fair value reserved tripled to \$54.88 million and retained earnings increased to \$8.61 billion or by 17.42%.

LASD's current ratio was marginally reduced to 2.22x since the growth in current assets outpaced its counterpart. This coupled with the jump in its cash balance to \$2.51 billion, which doubled over the previous period, and the debt-free position signals that LASD has a fair amount of operating liquidity to meet its working capital needs. Return on equity increased to 12.9% from 12.2% as the growth in earnings continues to outstrip that of equity.

OUTLOOK

LASCO Distributors Limited along with its other affiliated companies remain resilient while experiencing the adverse impact of inflationary pressures, the ongoing geopolitical conflicts between Russia-Ukraine and Israel-Hamas as well as the more recent disruptions at the Red Sea and Panama Canal. These conditions have undoubtedly hampered the growth potential of the Company, increased shipping costs and delayed shipments have compressed inventory levels hindering business operations and squeezing margins. In May 2022, LASCO Distributors Limited executed plans to export its products into new markets including the Slimfast diet drink while aiming to expand its portfolio of products. The Company plans to extend its reach to new territories including Columbia and Dominica Republic, adding to the dozen which is expected to increase earnings.

INVESTMENTS POSITIVES

- The company has maintained a 5-year trend of profitability, which depicts resilience and supportive measures.
- LASD is debt-free which minimizes the negative impact of a high interest rate environment.
- Competitive since the LASCO brand is a household name and carries a wide customer base.
- The company will migrate to the main market on the Jamaica Stock Exchange increasing its access to capital.

INVESTMENTS NEGATIVES

- Inflationary pressures compress margins owing to elevated input materials.
- Geopolitical conflicts exacerbate and prolong supply chain challenges.



CONCLUSION

Since March 2023, LASD share capital exceeded the Jamaica Stock Exchange Junior Market limit of \$500 million and therefore will be migrating to the Main Market effective March 27, 2024.

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Based on our assessment of LASCO Distributors Limited, using a discounted cash flow model and the comparative based approach we have established a price target of \$4.93. When compared to the current price of \$3.97 and including the annual dividend yield of 2.52%, translates to an upside potential of 26.70%. Therefore, we recommend that investors **OVERWEIGHT** the shares in their portfolio.

SOURCES

LASD Annual & Quarterly 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.