

Equity Analysis: Pan Jamaica Group Limited (PJAM) FY 2023

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- Recommendation: **OVERWEIGHT**
- Current Price: \$46.10
- Price Target **\$56.39**

- Shares Outstanding: 1,627,725,023 units.
- Financial Year End: December 31st

ABOUT THE COMPANY

In accordance with the amalgamation, effective April 1, 2023, JP, and PanJam Investments amalgamated creating Pan Jamaica Group (PJG) worth over one hundred billion in total assets. The transaction resulted in JP transferring its core operating businesses to PJG in exchange for a 34.5% interest in that entity. The Group reorganized its holdings into four key segments: Specialty Foods, Global Services (mostly logistical activities), Property and Infrastructure, and Financial Services. Pan Jamaica Group is now a conglomerate with well-developed, industry-leading holdings in real estate, banking services, hotels, logistics, agriculture, speciality food and drink, and tourism destinations in the Caribbean, Central and North America, and Europe.

Scaling the cost of talent, along with the facilities and systems to support across a large portfolio of businesses, has allowed the Pan Jamaica Group to position itself as one of the leaders in the Caribbean when it comes to attracting and retaining the best in class financial, operational, transactional, and corporate governance expertise needed to execute and oversee investments.

FINANCIAL PERFORMANCE SUMMARY

J\$'000	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	2,054,466	4,298,397	2,511,018	29,001,700
Gross Profit	-	-	1,367,026	8,310,681
Operating Profit	315,080	2,496,490	3,346,638	6,167,241
NPAT to Parent	3,504,520	7,202,801	2,694,301	2,515,573
Total Assets	62,571,278	67,774,534	58,256,659	141,449,690
Equity to Parent	47,186,371	51,962,423	42,630,940	75,996,342
Total Liabilities	15,098,232	15,476,520	15,242,370	38,454,538

Dividend Policy

Pan Jamaica Group Limited does not have an explicit dividend policy, however in accordance with the amalgamation PJG's Board of Directors is, therefore, expected to maintain the current dividend policy of PanJam where declaration will be subject to review based on prevailing market conditions as well as capital requirements for ongoing investment. An amount of \$0.55 was the annual declared dividend for financial year 2023, translating to a dividend yield of 1.19%.

Outlook

PanJam Investments and Jamaica Producers Group (JP) merged on April 1, 2023, to establish Pan Jamaica Group Limited (PJG). JP gave PanJam a 34.5% stake in exchange for the transfer of its key business operations. PJG is now well positioned to take advantage of new opportunities to generate long-term value for its shareholders by fusing its strengths and business matrix. With the two organizations now functioning as a single, cohesive unit, it is anticipated that the combined power of the two would greatly increase shareholder returns through expansion into a few key business segments and a more robust financial foundation for expansion through acquisitions and company development.

Projections and Valuation

The Discounted Cash Flow Model (DCF) and Market Comparable approach were used to establish an intrinsic and relative value, respectively, for PJG. For the DCF approach, a cost of equity of 12.90% was used to discount the future levered free cash flow and applying a price to earnings of 0.8x to the projected 2024 BVPSS, we obtained an average price target of **\$56.39**.

Risks to Price Target

If macroeconomic conditions continue to weaken the stock market and impede investment opportunities, our target price may not be achieved. Due to the merger, PJG's primary business operations, such as logistics and agriculture, may be adversely affected by severe weather and more uncertainty brought on by geopolitical conflicts. This could lead to delays in shipments, increased costs for demurrage, and higher prices for raw materials. Furthermore, PJG may not reap the rewards of operational synergies characterized by reduced expenses and increased productivity levels that result in sustainable earnings.

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2023

An agreement was reached in November 2022 between PanJam Investments (PanJam) and Jamaica Producers Group Limited (JP), whereby JP transferred its main operating businesses to PanJam in return for a 34.5% stake in PanJam. The combined company was renamed Pan Jamaica Group Limited (PJG) once the transaction was finalized at the start of the second quarter in 2023. The amalgamation of the two companies earlier in the year resulted in PJG reporting consolidated revenue of \$29 billion while gross profit climbed to \$8.31 billion relative to \$1.38 billion for a comparative year.

The significant growth in revenue was also attributable to overperformance across all business segments including the Financial Services, Property & Infrastructure, Global Services and Speciality Foods trading divisions. The largest contributor was the Speciality Foods division accounting for 55.32% of total revenue raking in \$16.04 billion for the year. This division includes a portfolio of food production businesses, food manufacturing facilities in the Caribbean and Europe as well as a distribution centre in the US.

Significant revaluation losses on non-core investments held by the Group, one-time merger transaction charges, and challenges in the Specialty Food Division all hampered operational earnings. Selling, administration and other operating expenses increased in line with the merger marked by a reported amount of \$6.83 billion above \$2.15 billion for 2022. However, this was partially countered by higher share of profits in associated and joint ventures of \$4.17 billion which cascaded to a profit before tax of \$6.16 billion, or by 84.28% for the year in review.

Finance costs grew to \$1.38 billion representing an increase by 35.05%, trimming earnings as of December 2023 to \$3.72 billion. It is noteworthy that gains from the sale of the Group's stake in New Castle Company Limited were included in the \$2.7 billion profit attributable to shareholders in 2022; these gains were not realized in 2023. Against this backdrop, PJG's normalized profit increased by 91% from the previous year.

Net Profit attributable to the parent company weakened to \$2.52 billion or by 6.63% while EPS closed the year at \$2.29 billion. Nonetheless, PJG remains optimistic about the prospects for each business segment as the Group continuously streamlines its operations to boost resilience, focus, and long-term profitability through synergies.

Pan Jamaica Group Limited balance sheet was strong for the year, where assets pivoted higher to \$141.45 billion against \$58.26 billion as the asset base for the two companies merged increasing line items such as property, plant and equipment, intangible assets, inventories, and investment securities figures considerably. In accordance with the amalgamation agreement, this was matched by an increase in total liabilities which grew to \$38.45 billion coming from \$15.24 billion recorded in the year prior. Key increases included loan liabilities amounting to \$25.30 billion, payables and other liabilities to \$7.20 billion and lease liabilities totalling \$1.50 billion for the year.

Shareholder's Equity ballooned to \$76 billion when compared to \$42.63 billion recorded in the prior year. Higher equity balance was underscored by elevated share capital totaling \$31.97 billion inherited from the merger which was completed earlier in the year. Retained earnings grew marginally by 7.29% to \$36 billion when compared to \$33.56 billion reported in 2022; capital and fair value reserves experienced a similar feat increasing to \$1.73 billion or by 68.52%.

Consequently, for the financial year ended December 2023 PJG's debt to equity ratio was flat year over year at 0.3x while debt to capital climbed slightly to 26.1% relative to 24.7% in the prior year. Furthermore, the cash balance amounted to \$15.98 billion, indicating that the Group is well positioned to cover retained costs from liquid resources on hand.



OUTLOOK

The successful completion of the Amalgamation of Jamaica Producers Group (JP) and PanJam Investments

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With the two organizations now functioning as a single, cohesive unit, it is anticipated that the combined power of the two would greatly increase shareholder returns through expansion into a few key business segments and a more robust financial foundation for expansion through acquisitions and company development.

INVESTMENT POSITIVES

- **Economies of Scale:** Because of its combined size, Pan Jamaica Group will be able to attract and retain the best financial, operational, transactional, and corporate governance talent needed to execute and oversee investments while distributing the cost of this talent across a sizable portfolio of businesses. This will place Pan Jamaica Group among the leaders in the Caribbean.
- **Sector Diversification:** Financial Services, Global Services, Specialty Food, and Property & Infrastructure are the four primary overlapping business activities that make up PJG's combined portfolio of segments and interests.
- **Acquisitions:** The company may greatly increase shareholder returns by expanding a few key business segments and building a stronger financial foundation for expansion and acquisitions.
- **Geographical Diversification** expands PJG presence into different market territories with operational control of significant and diverse physical assets and supplier relationships in Europe, North America, and the English and Spanish speaking Caribbean.

INVESTMENT NEGATIVES

- **Increased exposure** to persistently negative economic conditions such as sticky inflation and high interest rates may impact production levels, particularly the Food Division may grapple with global commodity price increases.
- **Geopolitical conflicts** such as the ongoing Russia-Ukraine war and recently the Hamas-Israel dispute may exacerbate shipping and demurrage costs and delay the shipment of products.
- **Extreme weather events**, especially floods and droughts may harm crops and reduce yields which would negatively impact the agri-business segment of PJG.
- **Foreign Exchange** exposures as PJG extends its reach into international markets may negatively impact the group's performance underscored by increased volatility.



CONCLUSION

PanJam Investments and Jamaica Producers Group (JP) merged on April 1, 2023, to establish Pan Jamaica Group Limited (PGJ). JP gave PanJam a 34.5% stake in exchange for the transfer of its key business operations. PJG is now well positioned to take advantage of new opportunities to generate long-term value for its shareholders by fusing its strengths and business matrix.

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Based on the foregoing and using a discounted cash flow model our assessment of the valuation of PJG translated to \$56.39 per share which represents a upside of 23.33% when compared to the current price of \$46.10. Including the annual dividend yield of 1.19% results in a total return of 23.52%. Therefore, we recommend that investors **OVERWEIGHT** the shares in their portfolio.

SOURCES

Pan Jamaica Group Limited Financial Reports, Amalgamation Booklet, 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.
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