

# Offer for Sale Analysis: TransJamaican Highway Limited (TJH)

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- Offer Recommendation: **Overweight**
- Stock Recommendation: **Overweight**
- Offer Price: **\$3.60 (JMD) / \$0.0228 (USD)**
- Price Target: J\$4.47/US\$0.0283
- Current Price: \$3.75<sup>1</sup>(JMD)
- Shares on Offer: **1,750,700,000 Ordinary Shares**
  - 1,050,420,000 General Pool
  - 700,280,000 Reserved Shares (750,300,000 option to upsize)
- Shares Outstanding: 12,501,000,000
- Financial Year End: December 31<sup>st</sup>
- Selling Agent: NCB Capital Markets (Arranger)  
JMMB Securities (Co-Broker)

## ABOUT THE COMPANY

TransJamaican Highway Limited (TJH) is a limited liability company publicly listed on the Jamaica Stock Exchange (JSE). It manages the development, operation, and maintenance of Highway 2000 East-West, Jamaica’s primary tolled motorway. Operating under a 35-year Concession Agreement with the National Road Operating & Construction Company (NROCC), the concession spans 49.9km of roadway, linking Kingston to May Pen and Portmore. As Jamaica’s largest infrastructure project, Highway 2000 East-West plays an essential role in national development, connecting major urban centres and driving economic growth.

As part of Jamaica’s infrastructure development strategy, NROCC acquired TJH from Bouygues Travaux Publics, later selling 80% of the company to the public in 2020 through an Offer for Sale of Shares (OFS). That same year, TJH issued USD225 million in senior secured debt, structured as a fully amortizing bond maturing in 2036, with a fixed 5.75% coupon rate.

In 2022, TJH acquired Jamaican Infrastructure Operators Limited (JIO) to enhance operational efficiency by reducing operational fees, the largest component of its cash costs. Under an Operation and Maintenance Agreement, JIO manages the highway’s operations and toll collection. Additionally, TransJamaican Highway Operators Limited (TJHO) will serve as the concessionaire for Phase 1C of the project, further supporting expansion efforts.

## FINANCIAL PERFORMANCE

\$US	FY 2021	FY 2022	FY 2023	FY 2024*
Revenue	52,755	65,006	75,204	82,818
Operating Profit	20,625	24,395	46,710	55,994
Profit after Tax	5,341	(4,286)	32,172	42,069
Total Assets	309,238	288,137	290,105	293,850
Total Liabilities	255,107	248,146	241,143	228,570
Total Equity	54,131	39,991	48,962	65,280

### 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 company states it will continue to pursue an average dividend yield of 24.5% to 35.8%.

### Use of Proceeds

Given that these are not new shares being issued by TJH none of the proceeds from the Offer for Sale will go to TJH. Part of the proceeds will be used to pay the Offer for Sale Expenses. NROCC in conjunction with the Ministry of Finance and the Public Service will decide how the balance is to be utilized.

### Outlook

TJH faces both opportunities and challenges. The delayed toll rates on the May Pen-Williamsfield segment, while currently impacting revenue, is expected to contribute to earnings once implemented. Projected tourism growth in 2025, targeting 5 million visitors, presents a potential increase in traffic and toll revenue. However, the company remains susceptible to weather-related disruptions, such as hurricanes, which can negatively affect traffic and revenue. The development of gas stations along the toll road network may positively influence usage and attract additional businesses, but the overall impact remains to be seen.

### Projections and Valuations

The Dividend Discount valuation method was used to arrive at a target price. Under the DDM, we utilized a long-term growth rate of 6% and a discount rate of 11.23%. This resulted in a price target of J\$4.47/US\$0.0283 using a 158:1 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.

<sup>1</sup>As at March 4, 2025,

## ABRIDGE OFFER DETAILS

<b>ISSUER</b>	TransJamaican Highway Limited
<b>ARRANGER</b>	NCB Capital Markets Limited
<b>CO BROKER</b>	JMMB Securities Limited
<b>ISSUE</b>	Total of 1,750,700,000 Ordinary Shares: <ul style="list-style-type: none"> <li>1,050,420,000 General Pool</li> <li>700,280,000 Reserved Shares</li> </ul> The Company reserves the full, unqualified, and absolute right to increase the number of Shares in the offer for sale by up to a further 750,300,000.
<b>OFFER PRICE</b>	\$3.60 (JMD) / \$0.0228 (USD)
<b>MINIMUM APPLICATION</b>	1,000 shares with excess in multiples of 1,000 for J\$ applications. 100,000 shares with excess in multiples of 10,000 for US\$ applications.
<b>TARGET AMOUNT</b>	\$6,302,520,000 (JMD) / \$39,915,960 (USD) (subject to the right of the Company to upsize the offer on oversubscription)
<b>KEY DATES</b>	Opens March 4, 2025, at 9:00 am Closes March 18, 2025, at 4:00 pm
<b>USE OF PROCEEDS</b>	<ul style="list-style-type: none"> <li>Pay the Offer for Sale Expenses</li> <li>Use of the balance will be decided by NROCC in conjunction with the Ministry of Finance and the Public Service.</li> </ul>

Table 1. Offer Details

## CAPITAL STRUCTURE AND SHAREHOLDING

The Company will be offering 1,750,700,000 shares, divided between the reserved pool for Reserved Share Applicants and the General Public. The shares being offered will represent approximately 14.00% of the total shares outstanding, while existing shareholders will own 86.00% post-offer. A further breakdown shows that of the 14.00%, Reserved Share Applicants will be offered 5.60%, while 8.41% will be available to public applicants. TJH reserves the right to increase the share offer by 750,300,000 shares, which would increase the total offering to 2,501,000,000 shares, representing 20.00% of the total shares outstanding post-offer.

SHAREHOLDERS	SHAREHOLDING (PRE-OFFER)	ISSUED CAPITAL (%)	SHAREHOLDING (POST-OFFER)	ISSUED CAPITAL (%)
Existing Ordinary Shares	12,501,000,000	100%	10,750,300,000	85.99%
Reserved Shares	-	-	700,280,000	5.60%
Non-Reserved Shares- General Public	-	-	1,050,420,000	8.41%
<b>Total</b>	<b>12,501,000,000</b>	<b>100%</b>	<b>12,501,000,000</b>	<b>100%</b>

Table 2. Capital Structure and Shareholding Pre and Post Share Offer Breakdown

## FINANCIAL PERFORMANCE

\$US	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024*
Revenue	53,285	45,382	52,755	65,006	75,204	82,818
Operating Profit	19,844	14,639	20,625	24,395	46,710	55,994
Profit after Tax	(13,143)	(2,484)	5,341	(4,286)	32,172	42,069
Total Assets	292,209	320,471	309,238	288,137	290,105	293,850
Total Liabilities	226,958	263,439	255,107	248,146	241,143	228,570
Total Equity	65,251	57,040	54,131	39,991	48,962	65,280

Table 3. Financial Performance

## **SIX YEAR HISTORICAL PERFORMANCE (FY2019 – FY2024)**

TJH has demonstrated steady revenue growth over the past five years, increasing from US\$53.3 million in 2019 to US\$82.8 million in 2024, reflecting an average annual growth rate of approximately 9.5%. The increase has primarily been driven by higher toll collections due to increased traffic volumes and periodic adjustments to toll tariffs. The acquisition of JIO in December 2022 has also played a significant role in enhancing revenue growth, contributing to increased toll income and operational efficiencies. Operating profit has also improved significantly, from US\$19.8 million in 2019 to US\$55.9 million in 2024, signalling enhanced efficiency and cost management. Net profitability, however, remained volatile in earlier years, with losses in 2019 and 2022, before stabilizing in 2023 and 2024, recording a profit of US\$42.1 million in 2024, up 31% YoY from US\$32.2 million in 2023. This improvement in net profitability is largely attributable to the successful integration of JIO's operations, which allowed for higher revenue generation and improved cost efficiency.

The acquisition of JIO in December 2022 played a critical role in enhancing TJH's financial performance. Despite the initial impact of acquisition-related costs, the acquisition provided the company with greater operational scale and improved revenue streams. The integration of JIO's assets has contributed significantly to higher toll collections and overall revenue growth, leading to stronger financial performance across multiple metrics. Key benefits include increased toll revenue due to the addition of JIO's toll network, which expanded TJH's reach and directly boosted toll collections and total revenue. EBITDA margin increased from 35.8% in 2022 to 80.3% in 2024, reflecting improved profitability and cost synergies from the acquisition. Following the acquisition, net profit rose from a loss of US\$7.1 million in 2022 to a profit of US\$23.9 million in 2023 and US\$31.3 million in 2024. With greater cash flow generation, TJH's Debt Service Coverage Ratio (DSCR) improved from 2.13x in 2022 to 3.04x in 2024, demonstrating a stronger ability to meet financial obligations. The integration of JIO's operations also led to reduced maintenance costs, administrative efficiencies, and better utilization of infrastructure assets, further bolstering financial performance.

Operating expenses were reduced from US\$22.4 million in 2023 to US\$21 million in 2024, benefiting from lower maintenance costs and adjustments in asset amortization following the acquisition of JIO. Administrative expenses increased slightly from US\$8.4 million in 2023 to US\$9.6 million in 2024, driven by staff restructuring and inflationary adjustments. The JIO acquisition resulted in some upfront integration costs but is expected to yield long-term savings. Finance costs declined from US\$14.5 million in 2023 to US\$13.9 million in 2024, reflecting the ongoing repayment of secured notes and improved leverage post-acquisition.

Total assets have remained stable, increasing marginally from US\$290 million in 2023 to US\$294 million in 2024. Key movements include higher cash balances and further amortization of intangible assets. The acquisition of JIO added valuable infrastructure assets to TJH's balance sheet, strengthening its overall asset base. Total liabilities declined by US\$12 million YoY, from US\$241 million in 2023 to US\$229 million in 2024, mainly due to debt repayments and reduced provisions for maintenance costs. The company's debt reduction efforts for post-JIO acquisition have resulted in a more sustainable financial structure, with improved liquidity and capital management. Equity grew significantly in 2024, reaching US\$65.3 million, compared to US\$49 million in 2023, due to higher retained earnings from improved profitability. The acquisition of JIO contributed positively to shareholder value, as evidenced by the strong equity growth and return on assets.

TJH declared and paid dividends of US\$15 million in 2024, reflecting a dividend payout ratio of 47.9%, compared to 62.6% in 2023. This signals a balance between rewarding shareholders and reinvesting in operations. The improved financial performance following the JIO acquisition has provided the company with greater flexibility in capital allocation, ensuring both growth and shareholder returns.

TJH has demonstrated strong financial recovery and growth, particularly after the JIO acquisition. With higher revenue, improved margins, and a healthier balance sheet, the company is well-positioned for sustained profitability. Continued cost optimization, debt reduction, and infrastructure enhancements will be key drivers of future performance. The integration of JIO has significantly bolstered TJH's operational efficiency, financial stability, and overall growth trajectory, reinforcing its position as a leading player in the toll road industry.

## OUTLOOK

### **Phase 1C (May Pen-Williamsfield) Toll Implementation**

The Phase 1C segment of the East-West Highway, connecting May Pen to Williamsfield, remains operational without toll charges since its opening. Initially, tolling was expected to commence in August 2024; however, the delay has allowed motorists continued toll-free access. The absence of toll collection on this segment has temporarily limited revenue generation for TJH, but once implemented, this new toll point is expected to contribute significantly to earnings. Given the strategic importance of this corridor in facilitating travel between key commercial and residential hubs, toll implementation will enhance the company's cash flows, further strengthening its financial position.

### **Tourism Growth and Traffic Projections**

Jamaica's tourism sector is expected to experience continued growth in 2025, which should have a positive impact on TJH's toll revenues. The country welcomed approximately 4.27 million tourists in 2024, generating around USD 4.35 billion in revenue. With a target of 5 million visitors and USD 5 billion in earnings by 2025, increased tourist activity is likely to drive higher traffic volumes on TJH's highway network. Tourists frequently use the toll roads for travel between Kingston, Montego Bay, and other major destinations, presenting a strong tailwind for toll collection. TJH can further leverage this growth by ensuring efficient road maintenance and potentially offering incentives for frequent users, including rental car agencies that utilize the toll network.

### **Weather-Related Risks**

Despite positive growth prospects, TJH remains vulnerable to weather-related disruptions. The impact of Hurricane Beryl in 2024 demonstrated how severe weather events can negatively affect traffic volumes and toll revenues. Flooding, road damage, and temporary closures due to hurricanes or tropical storms could pose operational risks. To mitigate these challenges, TJH must continue investing in infrastructure resilience, including improved drainage systems and emergency response protocols. Strengthening disaster preparedness and working closely with government agencies to implement rapid recovery plans will be critical to minimizing financial and operational setbacks.

### **Benefits of New Gas Stations Along the Toll Road Network**

An important development that could enhance TJH's attractiveness to motorists is the establishment of new gas stations connected to its toll roads; such the station connected to the Portmore Highway that is scheduled to begin operating in 2025. The operation of these service stations will provide multiple benefits, including increased convenience for commuters, reduced congestion in urban areas, and improved accessibility to fuel and other services. Having well-placed fuelling stations along the highway is expected to encourage greater usage of the toll roads, particularly among long-distance travellers who previously had to exit the highway to refuel. Additionally, these gas stations may attract retail businesses and quick-service restaurants, further enhancing the overall user experience and increasing traffic volumes on TJH's network.

## **INVESTMENTS POSITIVES**

- **Robust Revenue Model:** TJH's toll-based operation ensures consistent revenue, providing financial sustainability and the ability to reinvest in infrastructure improvements. The company's toll rate adjustment mechanism further stabilizes revenue and acts as a safeguard against Jamaican dollar depreciation.
- **Stable Cash Flows:** TJH benefits from predictable and stable cash flows through its long-term traffic concession contract, which has approximately 11 years remaining, ensuring continued revenue generation for the foreseeable future. The company also generates strong operating cash flow in relation to its invested capital.
- **May Pen-Williamsfield Tolling Potential:** The Phase 1C (May Pen-Williamsfield) segment of the East-West Highway is currently toll-free, but once tolling begins, it is expected to generate significant additional revenue for TJH.
- **Tourism Growth Driving Traffic:** Jamaica's tourism industry is projected to reach 5 million visitors and USD 5 billion in earnings by 2025, leading to increased highway usage, particularly for travel between Kingston, Montego Bay, and other key locations.
- **High Dividend Payments:** With a yield of 5.2%, TransJamaican Highway Limited has one of the highest dividends yields on the JSE.

## INVESTMENTS NEGATIVES:

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- **Revenue and Competition Risk:** Toll revenues may fluctuate due to external factors like competition from new toll roads, government-promoted alternatives, or changes in traffic patterns. These factors could reduce traffic volume, impacting revenue and overall financial performance.
- **Concession Non-Renewal Risk:** The potential loss of the toll road concession could end operations, severely impacting TJH's value.
- **Macroeconomic Challenges:** External economic conditions, such as high interest rates, potential recession and global economic slowdowns, could reduce traffic and toll revenue.
- **Delayed Tolling on May Pen-Williamsfield** – The delay in implementing toll charges on the **May Pen-Williamsfield leg** has temporarily limited revenue growth from this new segment.
- **Weather-Related Risks** – Extreme weather events, such as **Hurricane Beryl in 2024**, pose risks to toll revenue by disrupting traffic flow and causing potential road damage.



## CONCLUSION

TransJamaican Highway (TJH) stands at a pivotal juncture, offering strong growth potential alongside notable risks. The company has demonstrated impressive traffic recovery, surpassing pre-pandemic levels, driven by Jamaica's economic momentum, increasing tourism, and strategic expansions. The upcoming tolling of the May Pen-Williamsfield leg presents a new revenue opportunity, while the successful integration of JIO has strengthened profitability and efficiency. Additionally, the operation of new gas stations along the highway enhances convenience and revenue prospects. However, risks such as regulatory delays in toll adjustments, adverse weather events like Hurricane Beryl, and the need to manage debt while maintaining affordability remain key challenges that investors must weigh carefully.

Based on our assessment of the company and our expectations of its performance we established a price target of **J\$4.47/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 has one of the highest dividend yields on the JSE making them even more attractive to investors seeking stable cash flows.

## SOURCES

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

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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.
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- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.