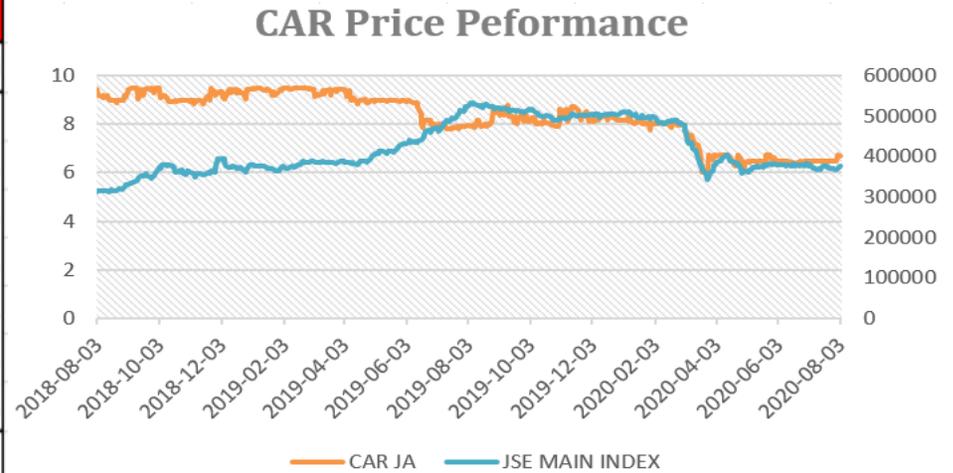


Company (Ticker)	Positive / Risks	Financial Highlights	Outlook/Valuation/Recommendation																						
<p>CAR JA Equity Company Description: Carreras Limited (CAR) is a publicly listed company that has both local and international ownership, with majority interest currently being held by British American Tobacco. They are the leading distributor of cigarettes and tobacco related products in Jamaica. Carreras currently markets and distributes brands such as Craven A, Matterhorn, Dunhill, Rothmans, Pall Mall, Newport, Parliament, with their main revenue generating products being Craven A and Matterhorn.</p> <p>Company Updates: CAR invested in a new route to market structure implemented in April 2019. This included the reorganization of the sales force and distribution routes in order to increase distribution coverage as well as to avoid high risk areas which could lead to possible attacks on staff members resulting in loss of life and/or financial loss. They reincorporated motor vehicles as the main form of distribution to deliver effective sales reach.</p>	<p>Investment Positives</p> <ul style="list-style-type: none"> • The route to market upgrades will improve the service offered by Carreras. • High dividend-payout ratio. • They continue to lead the market with their Craven A and Matterhorn products. • They have upgraded the Matterhorn product by adding a new feature that gives consumers the choice to release a citrus flavour or add freshness when tapped or clicked. The company is expecting consumers to respond positively to this upgrade. <p>Investment Negatives</p> <ul style="list-style-type: none"> • Competition from illicit trades could cause a reduction in revenues. • Threat of new entrants could result in a reduction of market share for Carreras. • Potential increases in excise tax by the government is major risk factor for the company since this likely result in a price increase for their products. • The restriction on advertisement and promotional activities severely impacts the company's ability to effectively inform their target customers about their products. • Both passive and active smoking poses a health risk to society which implies the company will continue to face regulatory and legal risk. • -There will be a decline in sales to restaurants, bars and mass entertainment gatherings, which account for 5% of total sales stemming from the closure of these facilities in an effort to contain the virus 	<p>Year ended Mar 2020. Carreras recorded J\$14.13B in revenues which represents a 9.45% increase compared to March 2019. The investment in a new route to market structure implemented in April 2019, which includes a reorganization of the sales force and distribution routes in order to increase distribution coverage, resulted in an increase in sales volumes. Q1 2020 CAR earned revenues of J\$3.46B compared to J\$3.15B in Q1 2019, which implies that the improvements made to their distribution routes had an immediate effect on sales volumes. Net profit increased YoY by 5.18% moving from J\$3.4B in 2019 to J\$3.58B in 2020. This signals that profits are modestly recovering since the March 2017 special consumption tax increase. Currently, the company's main focus is to stabilize and recover sales volumes while continuing to provide value to their customers. It is within this context that we continue to expect muted revenue growth.</p> <p>Total liabilities as at March 31, 2020 amounted to J\$2.46B compared to March 2019 with liabilities of J\$2.16B, this represented a 14% increase YoY. Long term liabilities increased from J\$223M in 2019 to J\$464M in 2020. This was mainly attributable to the inclusion of long-term lease liabilities on balance sheet, due to the application of the IFRS 16 standard effective April 1, 2019 (Q1 2020). Total assets as at March 31, 2020 was J\$4.23B which represents a 21% increase from 2019. This was due to the inclusion of Lease property and equipment, previously classified as operating lease, in net fixed assets, as required under the new IFRS standard. This inclusion saw net fixed assets increasing to J\$595.89M in 2020 from J\$383.03M in 2019. Accounts receivables and inventories also increased by J\$216.24M and J\$103M respectively. The increased sales driven by the route to market upgrade will likely improve return on invested capital if Carreras is likely to improve their cash conversion cycle thus increasing shareholder value.</p>	<p>Outlook/Recommendation Improved distribution methods by Carreras in FY 2020 to capture more customers will lay a foundation for a sustainable growth. Their consistently high dividend ratio above 85% each year suggest that they are looking to create value for shareholders as opposed to establishing future growth which suggest that the company is in its steady state growth stage. Despite near term growth, possible downside risk exist in the long-run. These include possible increase in excise taxes and increased competition from new entrants which would ultimately decrease sales volume and the growth potential of the company.</p> <p>Recommendation Given the above, based on a relative valuation model, with a 1-yr forward P/E of 9.53 and an EPS of \$0.74, we arrived at a target price for CAR JA of \$7.07. We recommend CAR JA as a HOLD. Based on the current share price, the stock is trading 5.23% below its target price projected over a one year period.</p>																						
 <table border="1"> <caption>ANNUAL REVENUE</caption> <thead> <tr> <th>Year</th> <th>Revenue (J\$000)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>10,000</td> </tr> <tr> <td>2016</td> <td>11,000</td> </tr> <tr> <td>2017</td> <td>12,000</td> </tr> <tr> <td>2018</td> <td>11,500</td> </tr> <tr> <td>2019</td> <td>12,500</td> </tr> <tr> <td>2020</td> <td>14,000</td> </tr> </tbody> </table>	Year	Revenue (J\$000)	2015	10,000	2016	11,000	2017	12,000	2018	11,500	2019	12,500	2020	14,000											
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Financial Snapshot				
	2017	2018	2019	2020
Rev (\$MM)	13,509.23	12,550.13	12,906.50	14,126.52
Revenue Growth	12.76%	-7.10%	3.00%	9.45%
Operating Profit Margin	37.32%	37.26%	35.00%	34.14%
Return on Equity	178.75%	170.59%	255.10%	202.15%
EPS (\$)	0.78	0.72	0.70	0.74
Dividend Yield	9.59%	6.98%	0.08%	0.10%
Price/Earnings	9.44	14.77	13.51	8.96

Source: Company's data, Bloomberg, SIJL estimates



General Disclosures

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