Business Profile: Derrimon Trading Limited (DTL) operates in three principal divisions, namely: distribution, retail and wholesale, and manufacturing. The company distributes consumer goods including products from prominent brands such as Nestle, Sun Powder, Blue Powder, and Golden Brand. In 2018, the company entered into a new distribution deal with SM Jaleel and Company, a Trinidad based manufacturing entity, for the resale of beverages such as Busta and children friendly drink brands such Kool Kidz. Within the wholesale and retail division, the company owns and operates the Sampars Cash and Carry chain along with two Select Grocers Supermarkets under a joint venture arrangement with the Jamaica Property Company Limited. The manufacturing division includes two subsidiaries: Woodcats International (WI) which was 100% acquired in September 2018, and Caribbean Flavours and Fragrances (CFF) which is 62% owned. Woodcats currently offers a full range of pallet solutions including manufacturing pallets for export and warehouse storage. CFF provides high quality flavours and fragrances to the major beverage manufacturers in Jamaica and also provides fragrances to local manufacturers of household and personal care products. In addition, CFF exports flavours and fragrances to Canada and the wider Caribbean Region.

Financial Highlights

Total Revenue has grown consistently over the past 5 years with DTL's top line expanding by a compound annual growth rate (CAGR) of 17.66%. This was largely influenced by organic and inorganic growth in the company's core distribution and retail businesses particularly within the last three years. Whereas for fiscal year ending (FYE) December 2019, revenues increased by 35.96% YoY to J$12.65B. This was attributable to DTL's special emphasis on the sustainable growth of the distribution, executed by reallocating capital to areas within the beverage portfolio that provided better yield and return, such as the Busta and kool kidz lines from the SM Jaleel and Company.

DTL recorded revenues of J$9.62B for the nine-month period ended September 2020, a marginal increase of 0.92% compared to the corresponding period in 2019. This was indicative of the resilience in the core (distribution and retail) activities of the company in spite of the challenges associated with the COVID-19 pandemic, such as demand disruption that resulted in the falloff in revenues from the beverage portfolio. Since the onset of the pandemic, Sampars' e-commerce store, which has been catering to Jamaicans locally and abroad since 2013, has experienced substantial growth in online shopping. The company anticipates continued revenue growth from this segment as it is likely that much of the propensity for online shopping will persist in the aftermath of the pandemic. Additionally, the beverage portfolio will likely rebound if there is wide scale reopening of schools in the Easter term (January to-April).

Cost of sales were J$10.37B in FYE 2019 compared to J$7.61B in 2018 representing a 36% increase YoY. This was due to increased commodity costs driven by the devaluation of the Jamaican dollar against its US counterpart coupled with increased inventory losses across the retail stores. Cost of sales for nine months ended September 2020, declined marginally by 1% to J$7.78B compared to the corresponding period in 2019. While exchange rate volatility is likely to remain a concern for the foreseeable future, the company has introduced certain best practices, such as monitoring, measuring and sanctioning, bolstered by increased inventory auditing which is expected help mitigate losses on the inventory side.

Investment Opportunity Additional Public Offering (APO)

Derrimon Trading Company Limited (DTL)	APO
Current Total Shares/Out (MM)	2,733.36
Size of Offer (MM)	1,498.70
Total Upsized Offer (MM)	1,800.00
Max Total Shares/Out	4,533.36
Offer Price	$2.40

Pertinent Information/Dates

- Invitation Open Date — January 6, 2020
- Invitation Close Date — January 26, 2020

Reasons for Invitation/Use of proceeds

- Facilitate growth through possible near term acquisitions in the United States of America (USA)
- Reduce indebtedness.
- Facilitate a build out of its newest location at Millennium Mall, Curatoe Hill in Clarendon.
- Working capital support
- Transaction cost
- Expansion of Delect Brand and product lines

SWOT Analysis

Strengths: Revenue diversification, Tax benefits

Weakness: Operational risk, Key personnel risk, Currency risk, Concentration risk

Opportunities: Revised capital structure, Warehouse expansion, Potential acquisitions

Threats: Competition, Personal liability risk

DTL's Financial Snapshot

	Projected 2021	*Trailing 12month*	*2019 (audited)*	*2018 (audited)*
Net Revenue ($M)	16,170.04	12,665.13	12,649.02	9,303.46
Revenue Growth	26.96%	0.00%	35.96%	38.37%
Dividend Yield	0.15%	0.37%	0.66%	0.56%
Return on Equity	13.75%	19.16%	21.65%	20.45%
EPS ($)	0.15	0.11	0.11	0.09
Price/Earnings	19.40x	19.85x	24.44x	27.43x

Source: Company's data, SIJL estimates

Financial Highlights Cont'd

Operating expenses were J$1.69B in 2019 compared to J$1.30B in the previous year, which represented a 29.5% increase YoY due to an uptick in both administrative expense and selling and distribution expense. Administrative costs increased by J$209.92M (20%) YoY mainly attributable to a 24% increase in staff costs. Selling and distribution expense rose by J$174.55M (75%) YoY largely due to disruptions caused by the upgrade of the Portia Simpson Miller Square in Kingston, which had made it difficult for customers to physically gain access onsite. Consequently, increased trucking services for open communication lines with customers had to be implemented.

Operating expenses for the nine-month period ended September 2020 were J$1.44B, an increase of J$176M over the same period in 2019. This was influenced by the following factors: increased rental expenses in relation to the new distribution centre; increased salaries and wages; higher utilities expenses (which were impacted by the devaluation of the JMD); and other operational cost driven by the new sanitation regime implemented in response to the COVD-19 pandemic.

Net profit rose to J$290.74M in 2019 reflecting a 16.7% increase YoY. Despite the uptick in revenues, profit margins fell from 2.68% in 2018 to 2.30% in 2019 as a result of non-recurring expenses. DTL's profit margin was also adversely impacted by the company's transition from the initial five year tax concession to the next phase of the agreement where they are now required to remit 50% of the income tax owed to the government.

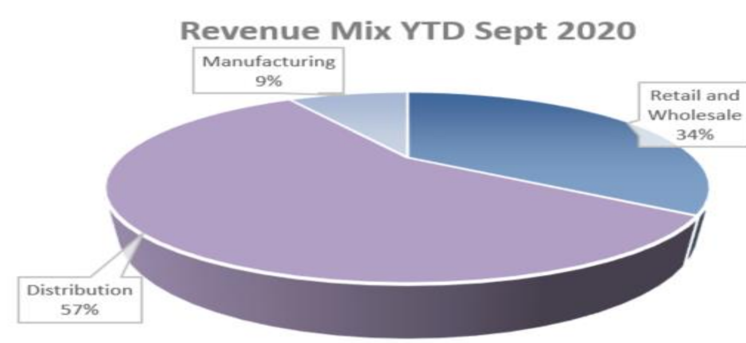
Net profit was J$280.66M for the nine months ended September 2020, an increase of J$59.54M (26.9%) above the profits reported for the similar period in 2019. Net profit expansion was supported by increased cost optimization, particularly a reduction in the company's finance expenses by 8.37% following the renegotiating of interest cost and conversion of US dollar loans to Jamaican dollar loans. It is likely the company's bottom line will continue experience improvements by way of continued reductions in finance costs as the company earmarked leverage reduction as one of the principal uses of the expected proceeds from this offer.

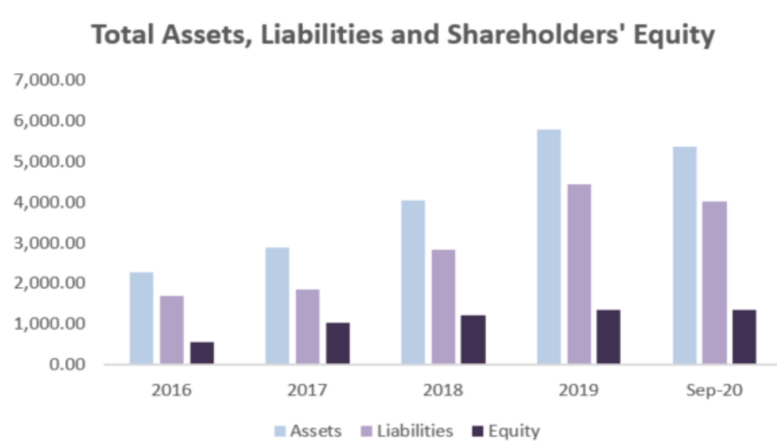
Total Assets stood at J$5.78B as at December 2019, representing a 42.9% increase over the prior year. Long terms assets increased by 89.4% to J$1.96B in FY 2019, largely attributed to an inclusion of J$1B right of use assets due to the adoption of IFRS 16 standards. Growth in short term assets were driven by a 55% increase in inventory in anticipation of high demand that was projected for the start of 2020. There was also a 31% increase in cash and a 64% increase in investments which mostly comprised of bonds from Scotia Investment Funds. Assets were fairly flat as at September 2020, decreasing marginally (1%) to J$5.72B signifying negligible changes since December 2019.

Total Liabilities: DTL has grown inorganically through debt as evidenced by liabilities increasing to J$4.45B in 2019, up from J$2.83B recorded in 2018. The significant increase in borrowing was due to: a demand loan associated with the purchase of Woodcats; the replacement of a US dollar short term facility with a medium term (lower interest cost) Jamaican dollar facility; working capital lines; and loans utilized for the roll out of the new technology platform and for the renovation and upgrade of some of the Sampars stores.

Total Liabilities then fell by 10% to J$4B as at September 2020. The realignment of the debt portfolio from short term to long term amortized facilities and the switching from US dollar loans to Jamaican dollar loans resulted in a 16% reduction in Long term borrowings during that time period. A significant portion (J$1.2B) of the APO proceeds are reserved for facilitating further reduction in the existing indebtedness and therefore aiding in reorganising the company's capital structure, which should translate into improved benefits for the shareholders.

Total Shareholder Equity improved by 9.46% YoY to J$1.34B in 2019 predominantly due to an improvement in retained earnings which increased by J$114.5M to J$935.45M within the year. Equity further increased as at September 2020 to J$1.44B bolstered by an increase of J$89.06M retained earnings. The company is attempting to raise J$3.5B (of which 100% is underwritten) in capital which will help to bolster their equity position whilst simultaneously reducing leverage.





Investment thesis:

Diverse business segments: The current business mix has allowed the company to both reduce risk and incorporate multiple revenue streams. DTL operates in three segments, two thirds of the company's operations (retail and distribution) are exposed to similar risks as they both sell household and grocery items. The third segment manufacturing, includes both CFF and Woodcats which makes flavours and fragrances and wooden pallets respectively. As such, this reduces the company revenue concentration risks. DTL's diversified earning streams, played a key role during the pandemic as the erosion in beverage profits due to mandated schools closures was effectively offset by growth in Sampars' online based services. The company indicates continued commitment to revenue diversification through acquisition of value-enhancing businesses

Warehousing expansion: The 105,000 square-foot facility located on Marcus Garvey drive will be leased for 20 years from Tank-Weld metals, a construction company. This new facility is expected to facilitate growth in the present portfolio through economies of scale and allow for the distribution of new, strong brands.

Potential acquisitions: DTL has entered into agreements to acquire 80% share in two entities in North America in an area with a large African, Caribbean and Jamaican diaspora. DTL's executive management indicated that these opportunities were brownfield in nature therefore supporting the prospects for the immediate optimization and integration with their current operations. If these acquisitions are successful, the company stands to benefit from vertical integration as well as exposure to new markets since these companies already have established market presence in the United States. The company projects an injection of approximately J$7.10B in revenues in FY 2021 if these acquisitions are successful.

Tax concessionary incentive: DTL is presently in the second phase of the ten year concessionary tax regime, benefitting from a 50% exemption from income tax.

Revised Capital Structure: As at September 2020, DTL's debt/equity is approximately 2x. We expect this to be reduced significantly if the company follows through on their plans to lower debt. Providing that the APO is successful (and possibly fully upsized), we could see leverage significantly reduced with a debt/equity structure within the range of 0.36x and 0.41x. This would reduce risk to the business and facilitate growth of the company's assets through increased profits.

Virtual Presence: Since the onset of the COVID-19 pandemic, the company has seen massive growth in its online grocery shopping business segment. This was fueled by contagion fears and mandated social distancing measures. We expect to see continued growth in this area as we believe some of these changes in consumer behavior could end up becoming structural.

Key Risk

Currency risk: DTL imports bulk rice, beverages, and other commodities which are paid for in US dollars. Due to the current fluctuations of the JMD against the US dollar, the company is exposed to foreign exchange risks. DTL seeks to mitigate this by entering into short and medium terms arrangements with millers and producers on imported rice and other commodities. Additionally, Derrimon holds foreign currency balances as part of its hedging strategy.

Operational risk: DTL faces the possibility of risk of loss in goods produced and distributed due to both internal and external events. Internally, there could be spoilage of goods while externally, there could be fire or flooding to the business. Also, with multiple acquisitions that DTL has undertaken, there is increased risks of having failed or inadequate internal processes which could lead to financial loss/and or reputational damage.

Concentration risk – The company's distribution products are supplied by relatively few key suppliers to very few large key customers. If one or more of these suppliers or customers were to change the terms of the contract due to changing consumer preferences, this would lead to a reduction in revenues and by extension the profitability of the company.

Competition: DTL faces high competition in both the retail and distribution arms from companies with higher market share. DTL will need to differentiate product offerings to appeal to more consumers as oversupply of similar goods could reduce demand and may lead to significant price pressure.

Product liability risk: The company, being the distributor of products manufactured by other suppliers, can be sued by a consumer who suffer harm from using the products. Since approximately 90% of revenues are earned through both distribution and wholesale/retail, profits could be significantly reduced due to increased expenses from lawsuits and thus negatively impacting the company's reputation.

Protracted COVID-19 Crisis: Despite the advent of approved vaccines, the pandemic continues to be a source of much uncertainty and this will likely continue in the short to medium term. The vaccination campaigns will be subject to challenges, such as ineffective distribution and low levels of acceptance. Locally, these challenges in conjunction with a resurgence in confirmed cases could result in the reintroduction of lockdowns and an extension to school closures, negatively impacting DTL's revenue and profit prospects.

Outlook

Derrimon expects to continue growing both organically and inorganically within the wholesale and retail trade sector, eyeing companies that can provide synergies and improved profitability. Discussions are currently underway for the acquisitions of two North American companies within the same industry which could create immediate optimization and full integration along with international market exposure. These companies would also give Derrimon a competitive advantage due to familiarity of products, services offered (such as remittance of goods), and environment since the company states that the targets' sphere of influence consists of approximately 2.8million Jamaican descendants and Africans. We could expect to see significant linkages and improved return on equity for the company in the event that these acquisitions are successful which should enhance shareholders' equity in the long term. The pandemic has accelerated growth in online based essential consumer goods, a trend that will likely continue in the aftermath of the pandemic and augers well for continued growth in the company's Sampars online platform. This APO is underwritten up to a maximum of J$3.5B which indicates that Derrimon will secure the funds needed to reduce financial leverage and in so doing reduce interest expense. This foretells improved profitability for the firm despite the dilution effect of issuing additional shares.

Valuation

We expect that DTL will secure J$3.5B which the company will likely be immediately used to reduce debt and commence the acquisitions of both North American companies, increasing shares outstanding to 4.23B or by 54.8%.

using the free cash flow to equity model (FCFE), we estimated an earnings growth rate of 111.10% in the high growth phase that gradually declines to a LTGR of 6.5%; an estimated beta of 0.93; a risk free rate of 5.05%; and an estimated cost of equity of 9.05% resulting in a **fair value of $3.15.** Based on a relative valuation model, with a 1-yr forward P/E of 19.85x, and EPS of 0.16 we obtained a **target price is $3.12**

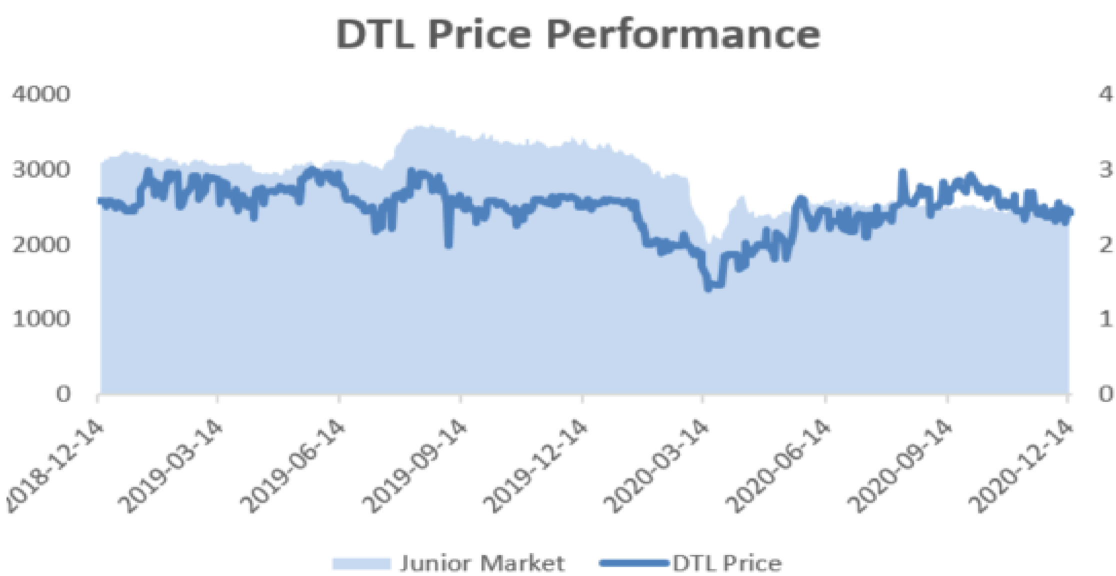
Assuming the APO is successful and is upsized increasing the total amount of shares outstanding by 1.8B to 4.53B and assuming this will be used to immediately reduce debt and commence the acquisitions of both North American companies. Using the assumptions above, we obtained a **fair value of $2.95 with a target price of $2.91**

Recommendation

We are recommending a **BUY** for Derrimon's APO and that investors **participate** in the offer if it is aligned to their current strategy. This company has expertise in the commodities market and their decision to remove low margin products to focus on higher yield products have already improved revenues. This along with exposure in international markets and reduced interest expense should boost profits and provide value for shareholders in the longer term.

Price Performance

The table illustrates DTL's performance relative to the Main Market (3 years)



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Appendix

1,498,698,931 New Ordinary Shares (with the option to upsize by inviting offers for an additional **301,301,069** New Ordinary Shares):

484,513,306 New Ordinary Shares Non-Reserved Shares (General Public)
1,014,185,625 New Ordinary Shares Reserved Shares as follows:

Existing Shareholders or Derrimon Team Members – **484,387,164** New Ordinary Shares
Key Investors – **378,427,472** New Ordinary Shares
Lead Broker's Clients – **151,370,989** New Ordinary Shares

at a subscription price of

Existing Shareholders or Derrimon Team Members	Key Investors, Lead Broker's Clients and Non-Reserved Share Applicants (General Public)
J$2.20	J$2.40

Reserved Share Pools

Reserved Share Pool	New Ordinary Shares Available For Subscription	Price per New Ordinary Share
Existing Shareholders or Derrimon Team Member Reserved Shares	484,387,164	J$2.20
Key Investors Reserved Shares	378,427,472	J$2.40
Lead Broker's Clients Reserved Shares	151,370,989	J$2.40

Non-Reserved Shares (General Public): 484,513,306 New Ordinary Shares at J$2.40 per New Ordinary Share

Option Upsize: 301,301,069 New Ordinary Shares

EXPECTED USE OF PROCEEDS	J$ AMOUNT
Reduction of Indebtedness	1,200,000,000.00
Potential Acquisition of Businesses in the United States	1,110,000,000.00
Expansion of Retail Location in Clarendon, Jamaica	500,000,000.00
Working Capital Support	284,750,000.00
Transaction Costs	205,250,000.00
Expansion of Delect Brand and Product Lines	200,000,000.00
TOTAL	**3,500,000,000.00**

A. Pre-Invitation (September 30, 2020):

Top 10 Shareholders	No. of Shares	% Shareholding
Derrick Cotterell	1,113,797,633	40.75%
Mayberry Jamaican Equities Limited	439,859,497	16.09%
Monique Cotterell	400,000,000	14.63%
Ian C. Kelly	157,373,169	5.76%
Estate of E. Cotterell (Deceased)	100,000,000	3.66%
Winston Thomas	72,351,180	2.65%
JCSD Trustee Services A/C Barita Unit Trust Capital Growth Fund	59,850,923	2.19%
Sharon Harvey-Wilson	29,163,580	1.07%
Sagicor Pooled Equity Fund	27,756,920	1.02%
Sagicor Select Fund – ('Class C' Shares) Manufacturing & Distribution	22,600,000	0.83%
Sub-total	**2,422,752,902**	**88.64%**
Other Shareholders	310,607,768	11.36%
Total	**2,733,360,670**	**100.00%**

B. Post-Invitation (assuming all New Ordinary Shares are subscribed for in full)

Top Ten (10) Shareholders	Number of Shares	% Shareholding
Derrick Cotterell	1,113,797,633	26.32%
Mayberry Jamaican Equities Limited	439,859,497	10.39%
Monique Cotterell	400,000,000	9.45%
Ian C. Kelly	157,373,169	3.72%
Estate of E. Cotterell (Deceased)	100,000,000	2.36%
Winston Thomas	72,351,180	1.71%
JCSD Trustee Services A/C Barita Unit Trust Capital Growth Fund	59,850,923	1.41%
Sharon Harvey-Wilson	29,163,580	0.69%
Sagicor Pooled Equity Fund	27,756,920	0.66%
Sagicor Select Fund – ('Class C' Shares) Manufacturing & Distribution	22,600,000	0.53%
Sub-total	**2,42,752,902**	**57.25%**
Other Shareholders	310,607,768	7.34%
Reserved Shareholders: (a) Existing Shareholders and Derrimon Team Members	484,387,164	11.45%
(b) Key Investors	378,427,472	8.94%
(c) Lead Broker's Clients	151,370,989	3.58%
Sub-total	**1,014,185,625**	**23.96%**
Non-Reserved Shares (General Public)	484,513,306	11.45%
Total (after subscription of shares under the Invitation)	**4,232,059,601**	**100.00%**