

Company (Ticker): WISYNCO	Investment Positive / Risks	Financial Highlights	Outlook/Valuation/Recommendation
<p>Company Profile Wisynco Group Ltd (Wisynco/the Group) is an established Jamaican manufacturer and distributor. The company produces its own lines of high quality beverage products including BIGGA soft drinks, WATA, cranberry flavored WATA and BOOM energy drink as well as Sweet Synthetic Packaging Products. In addition to their manufacturing portfolio, Wisynco boasts an enviable portfolio of imported food and beverage brands. The company is an amalgamation of the West Indies Synthetic Company Ltd (formed in 1965) and Wisynco Trading (formed in the 1930s) and the Jamaica Drink Company (formed in 1995).</p> <p>Company Updates: Wisynco Group (Caribbean) Ltd, parent company of Wisynco, acquired a 30% stake in Worthy Park Estates (WP) in November 2018. This will see Wisynco storing and distributing sugar and spirits produced locally by Worthy Park Estates Limited (WP) over a period of 5 years. We believe with Wisynco's strong marketing and distribution network that this partnership will augur well for both parties. The company has also acquired 30% of JP Snacks Caribbean Limited (JP Snacks), a subsidiary of the Jamaica Producers Group (JP) and the deal which commenced at the end of April 2019, will see the Wisynco becoming the exclusive distributor of the St. Mary's range of Tropical Chips in Jamaica. The partnership is expected to leverage Wisynco's strong distributional network, marketing and manufacturing experience to expose JP Snacks' wide range of product offerings both locally and internationally. Wisynco's Co-generating Plant Project (CoGen) has been delayed by COVID related travel disruptions. This will result in a setback as it relates to the expected cost saving benefits.</p>	<p>Investment Positives</p> <ul style="list-style-type: none"> • CoGen is still slated to become operational in CY2020 and is expected to reduce energy cost by US1M annually. • In our view the parent company's 30% stake in Worthy Park Estates is still expected to deliver synergies in the coming years. • In the aftermath of the pandemic the company will likely refocus on its strategic objective of achieving structural growth in key export markets. • The company's operations are classified as essential based on its integral role in the country's food and beverage markets and as such implies that operations would be allowed to continue even in the midst of another lockdown. <p>Investment Negatives</p> <ul style="list-style-type: none"> • The COVID-19 pandemic, conjointly with the containment initiatives introduced to control its spread has led to disruptions in key consumer markets. • Wisynco relies heavily on third party contracts as they account for over 50% of total revenue, the majority of which gives Wisynco exclusive rights to bottle and distribute products in Jamaica. Any loss or changes to these contracts will negatively impact earnings. • The market for the products offered by Wisynco is highly competitive as the company faces strong completion across all its product lines • The unpredictability of the economic fallout and the threat of a second wave both locally and internationally may result in a larger than anticipated impact on profits which would overstate the current value. 	<p>Revenues: Wisynco recorded revenues of J\$8.9B for Q3 2020 versus J\$6.9B in the corresponding period of 2019, representing a 23.5% increase YoY. Revenues totaled J\$25.7B for nine months ending March 2020 denoted a 27.7% increase versus the corresponding period in the prior year. The company indicated that whilst the results were positive, they have started to experience the effects of the government's COVID-19 containment initiatives, which included the closure of borders, bars and schools in conjunction with the cancellation of sporting events and all entertainment activities towards the end of the quarter.</p> <p>Profit for the quarter was J\$580.30M a decline of 16.4% versus J\$693.92M in Q3 2019. However, profits for nine months ending March 2020 remained ahead of the corresponding period last year as net income stood at J\$2.34B versus J\$2.24B, an increase of 4.45%. Wisynco's 2020 profitability thus far has been heavily influenced by the company's strong first quarter results which was attributed to the synergies that were extracted from their strategic partnership with WP and JP Snacks. However, performances for Q2 was impacted by the one-off cost associated with the closure of the Styrofoam plant whilst Q3 was adversely impacted by the COVID-19 pandemic.</p> <p>Expenses: Administration and selling & distributional expenses amounted to J\$2.1B and J\$6.31B for quarter ending and nine months ending March 2020, respectively, representing a 20% increase YoY for March 2020 and 21% for the nine-month period. The company attributes approximately 50% of the increase in expenses to initiatives implemented to drive revenues. However, the management indicated that there are initiatives that are being implementing to reduce non-essential expenditure and improve the company's expense management.</p>	<p>Total Assets remained relatively unchanged QoQ whilst total liabilities declined by 4.21% from J\$6.9B to J\$6.6B. The company's liquidity levels remained robust as liquid assets (cash & short term investments) accounted for 25% of total assets. Whilst from a solvency perspective the company had D/E levels of 0.51x at end of Q3 2020 owed to the company's strong stockholder equity position.</p> <p>Outlook: Wisynco's performance is expected to be significantly impacted by the COVID-19 pandemic, however, the depth and severity of the impact remains relatively obscure. Despite the gradual reopening of the Jamaican economy we still expect the company's operations to remain challenged in the near term as we do not foresee an instantaneous recovery in some of the company's dependent sectors such as the tourism and entertainment. We are also mindful that if the reopening of schools is derailed in any way it will negatively impact the company's forward-looking projections. However, the company's commitment to continually improving its cost efficiency as evidenced by the investment in its CoGen project and the implementation of measures to reduce non-essential expenditures. This, along with the expected synergies from the company's various partnerships and possible opportunities in the export market continues to augur well for the company's growth prospects in the aftermath of the crisis.</p> <p>Recommendation Given the above, Using a combination of the dividend discount and free cash flow to equity models weighted 50/50 we arrived at fair value of \$19.33. Based on a relative valuation model, with a 1-yr forward P/E of 21.39 and an EPS of \$0.72 and, we arrived at a 1yr target price for Wisynco of \$15.46. We recommend Wisynco as a HOLD</p>

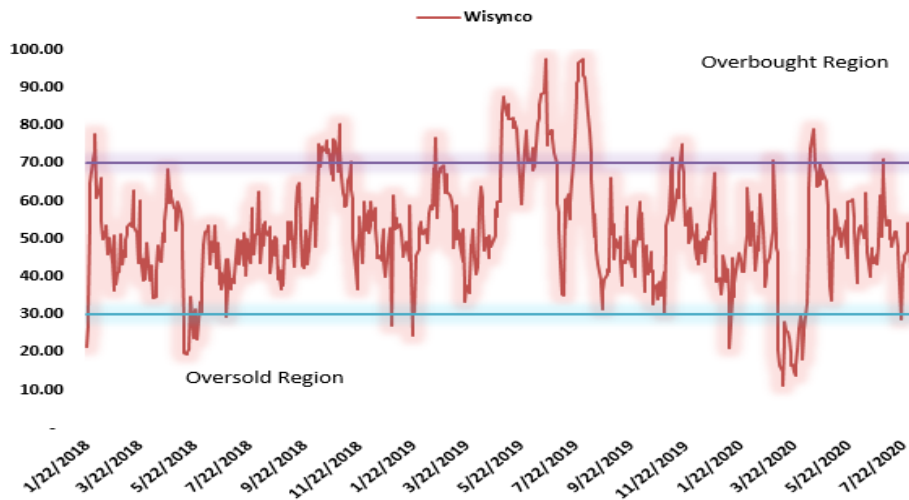
Key Information	
Year-End	Jun-30
Issuer	Wisynco
Share Price (03-Aug-20)	\$17.89
Market Cap (\$M)	67,095
Shares Outstanding (M)	3,750
Trailing EPS	\$0.81
Trailing P/E Multiple	21.93x
Trailing BVPS	\$3.41
P/B Multiple	5.20x
Target Price (12m)	\$15.46

Source: Company's data, Bloomberg, SIJL estimates

Financial Snapshot				
	2016	2017	2018	2019
Rev (\$M)	20.34	21.38	24.54	28.69
Rev Growth	13.9%	5.1%	14.8%	16.9%
Operating Profit Margin	15.3%	11.9%	11.6%	12.6%
Return on Equity	37.5%	31.3%	26.4%	26.4%
EPS (\$)	N/A	N/A	0.61	0.78
Price/Earnings	N/A	N/A	16.27	24.29
Price/Book	N/A	N/A	4.29	6.42

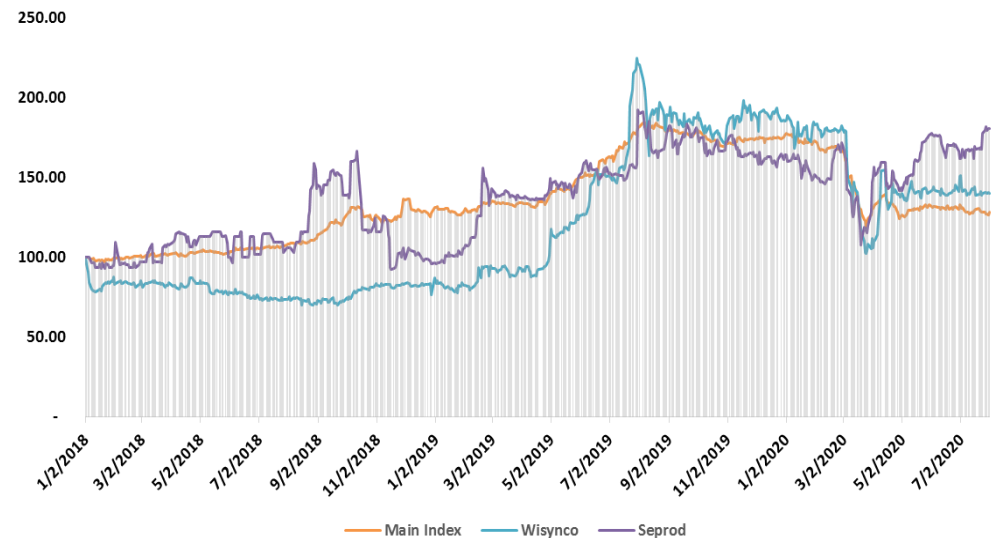
Source: Company's data, Bloomberg, SIJL estimates

Wisynco Relative Strength Index



Source: Jamaica Stock Exchange, SIJL estimates

Wisynco Price Performance



Source: Jamaica Stock Exchange

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