

Business Profile

➤ TransJamaican Highway Limited (TJH) is a limited liability company incorporated and domiciled in Jamaica. The firm's main office is located in Kingston. Its business activity is the development, operation and maintenance of a tolled road way known as "Highway 2000 East-West Phase 1A & 1B"¹ (H2000EW). TJH operates under a Concession Agreement with the National Road and Operating & Constructing Company (NROCC). The Concession Agreement which was initially dated November 2001, was first amended in January 2011 and most recently revised in January 2020, expires in 2036. Under the amended agreement TJH has the option to extend for an additional 35 years, subject to the payment of renewal concession fees and the absence of any breaches of the current arrangement. The amendment also granted TJH the right of first refusal to secure a similar concession facility to maintain, operate and/or own Phase 1C² when complete. TJH contracts Jamaica Infrastructure Operators Limited (JIO) to execute the operations and maintenance of the highway per the Operation and Maintenance Agreement (O&M). The Company derives its total revenues from tolls collected at the four toll plazas which are located in May Pen, Vineyards (at Old Harbour), Spanish Town and Portmore. In November 2019 the TJH's ownership structure was composed by Bouygues Travaux Publics (48.9%), Vinci Concessions (25.2%), International Finance Corporation (IFC) (17%), Societe de promotion et de Participation pour la Cooperation Economique S.A. (8.9%). TJH is now completely owned by NROCC who, via a syndicated bridge loan facility, bought out the previous shareholders with the intention of listing on the Jamaica Stock Exchange (JSE) via an initial public offering (IPO). It is also the intention of NROCC to retain at minimum 20% of the outstanding shares in TJH after the IPO.

Reasons for IPO & Use of Proceeds:

- Redeem equity bridge loan facility.
- Pay fees and expenses associated with the invitation.
- NROCC in conjunction with the Ministry of Finance and the Public Service will decide on how the balance is to be utilized.

Dividend Policy

Based on the Company's projection of operating profits, distributable reserves and cash flows, TJH projects the following dividend yields based on the offer price:

- Average of 5.3% to 8.7% in 2020-2025
- Average of 24.5% to 35.8% thereafter
- Overall average of 18.8% to 27.8% for 2020-2036

Key Information

Year-End	December 31
Issuer	TransJamaican Highway Limited
IPO Consideration (M)	Total number of shares 8,000 Ordinary Shares, subject to option to upsize to 10,000 5,363 are reserved and 2,637 will be available to general public.
Issue Price	J\$1.41 per Share or US\$0.01 per Share
Shares Outstanding (M)	12,501 (Total S/O after IPO)
Trailing EV/EBITDA Multiple	9.1x
Open Date	February 17, 2020 – 9.00am
Close	March 9, 2020 – 4:30pm

TJH's Financial Snapshot				
	Projected 2019	2018	2017 (audited)	2016 (audited)
Net Revenue (\$M)	54,994	52,430	46,125	40,342
Revenue Growth	4.89%	13.67%	14.33%	5.53%
Net Profit Margin	5.94%	12.11%	3.79%	3.79%
Return on Equity	5.75%	11.5%	2.99%	-10.22%
EBITDA	39,348	38,793	33,322	26,636
Source: Company's data, SIJL estimates				

¹ Phase 1A is divided into two sub-phases 6.5km long road between Kingston and Portmore and 32.9km long road between Kingston and Sandy Bay. Phase 1B is 10.5km road between Sandy Bay and May Pen.

² Phase 1C will be an extension of the current highway spanning approximately 22km long from May Pen to Williamsfield Manchester slated to be completed in 2022.

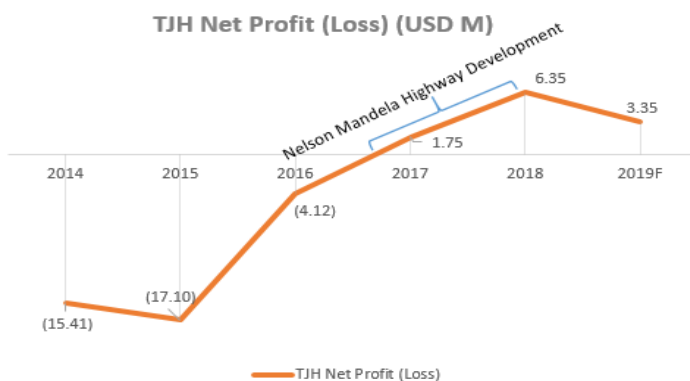
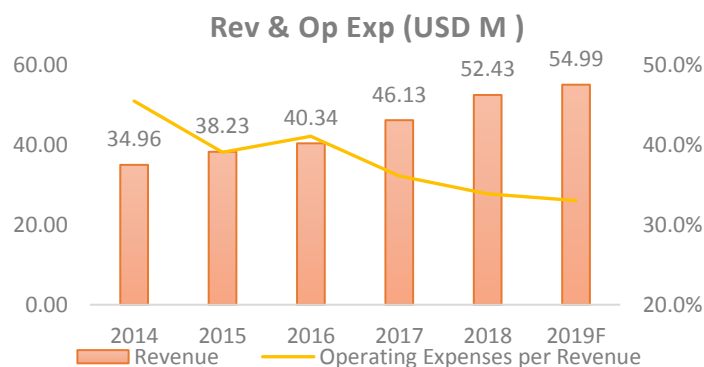
Historical Financial Highlights

➤ **Total Revenue** has recorded stable growth over the 5 year period ending December 2018 with a Compound Annual Growth Rate (CAGR) of 8.44%. This increase was driven by growth in traffic volumes across all sections of H2000EW but primarily by the growth in revenue from the Portmore leg throughout 2017-18 as traffic diverted to that leg as a result of the Government's infrastructure project which resulted in the shutdown of sections of the Nelson Mandela Highway. Revenue growth was relatively flat for the 9 months ending September 30, 2019 at US\$39.3M representing a 0.63% increase YoY. The company attributes this slowdown to the reversion of traffic to the Nelson Mandela Highway following the completion of the infrastructure project in the first quarter of 2019. Revenue growth is expected to be subdued in the short to medium term as the Nelson Mandela Highway continues to compete with the Portmore leg which is the principal revenue generator.

➤ **Net Profit:** Despite TJH's bottom-line exhibiting an upward trajectory throughout the 4 year period ending 2018 the company only registered profits in 2017 and 2018. As at FY2018 net profit stood at US\$6.35M which represented an increase of 263.06% over the US\$1.75M achieved in FY2017. The improved results coincided with the growth in revenues due to the expansion of the Nelson Mandela Highway, in conjunction with a marginal decline in finance costs. Profits at Q3 2019 were US\$2.1M which denoted a 63.4% reduction compared to Q3 2018. Profits are expected to follow the same patterns as revenue, with growth subdued in the short to medium term.

➤ **Operating Expenses** increased steadily over the 5 year period at a CAGR of 3.69% to US\$33.1M in FY2018 versus US\$27.6M incurred in FY2014. The rise in cost was attributed to increases in repairs and maintenance (4.9%), operator fixed fees (3.38%) and amortization of intangible assets (4.79%) which was partially offset by the decline in other operating expenses (6.12%) and legal & professional fees (21.26%). TJH projects moderate increases in operating expenses going forward driven by the inherent connection between revenues and expenses, however these forecasts are hinged on a smooth renegotiation of the O&M with JIO in 2025.

➤ **Total Assets** declined by an average rate of 5.1% between the periods 2014–2018. Total assets stood at US\$290.9M at the end of September 30, 2019 which represented a 5.41% reduction compared to December 2018. The changes in total assets were and will continue to be largely dominated by the decline in intangible assets (Concession Agreement) as it amortizes toward zero at the end of the concession period.



➤ **Total Liabilities** stood at US\$212.3M at end of September 2019 versus US\$233.3M at December 2018. This was driven by a reduction in the non-current portion of the company's outstanding borrowings. The company's debt profile is expected to shift in 2020 as they intend to refinance existing debt obligations with a US\$225M bond issue. Despite the expected reduction in the weighted average cost of debt this issue will increase the company indebtedness and extend the maturity profile. We are projecting debt servicing to dominate the initial cash flows of the company.

➤ **Shareholder's Equity** at the end of Q3 2019 stood at US\$59.1M which represented a 3.8% increase versus Q4 2018. The change in shareholder's equity was caused by an increase in retained earnings of 72.4% from US\$5.1M at Q3 2019 vs US\$3.0M Q4 2018.

Investment Thesis

- This is considered a Brownfield investment which refers to the fact that infrastructure is already constructed and operational, therefore there are no risks relating to construction and startup costs associated with this offering. Other characteristics that generally makes this type of investment attractive include;
 - High barriers to entry;
 - Stable demand due to the convenience and quality of the road
 - Low capital expenditure and;
 - Long duration (tenor of concessions)
- The underlying asset is a key strategic Infrastructure for Jamaica as HW2000E acts as a main link between Kingston, St Andrew, St Catherine and Clarendon which according to STATIN accounts for approximately 53% of Jamaica's total population. These parishes are primarily the parishes that will expect to see development as the population grows.
- As a part of the concession agreement TJH may be entitled to financial compensation under the following covenants:
 - Loss in revenue due to the development or expansion of certain competing roads.
 - Early termination of the Concession Agreement
 - Delay in approval of toll rate increases that are in accordance with the Concession Agreement.
- Stable projected revenue growth driven by increased housing developments on the outskirts of Kingston and St Catherine where approximately 80% of Jamaica's manufacturing and distribution operations are domiciled.
- TJH's revenue projections have not factored in the company's first right of refusal to operate/own after its completion the Phase 1C segment of the highway, which could be a viable option for increased revenues. The projections also ignore TJH's plan to pursue other developmental or concessionary opportunities both locally and regionally.
- The company has a strong Board of Directors and Management team who have the requisite expertise and experience to implement the required strategic initiatives needed to foster further growth in TJH.
- JIO is a highly experienced and is a proven toll operator who has been in charge of operations since the toll road's inception. JIO also benefits from the international experience of its owners Vinci (51%) and Bouygues (49%).

Key Investment Risks

- The value of the TJH is primarily based on the concession agreement which expires in 2036 with the option to extend for another 35 years. TJH's option to exercise is contingent on the following
 - TJH is not in breach of the Concession Agreement at the time of renewal; and
 - TJH should not have amassed 100 penalty points³ in any 3 year period or 42 penalty points in the penultimate year of serving notice of renewal.

If TJH fails to meet the requirements and loses the concession the company may not continue as a going concern as there are currently no other clearly identifiable revenue generators.
- The Jamaican economy has been improving thus far, as evidenced by the greater levels of fiscal certainty. However, any downturn in the economy stemming from endogenous or exogenous factors could result in a decline in revenues and by extension cash flows as seen during 2009-2014 as result of the recession and IMF led austerity program.
- The O&M Contract between the TJH and JIO expires in 2025 and will have to be renegotiated which adds a degree of uncertainty to the level of operating expenses and net cash flows after 2025.
- Despite the annual toll rate adjustment factoring USD/JMD fluctuations there still remains a fair degree of FX exposure. This can be attributed to short term volatility observed in the USD/JMD FX rates over the last 2 years as this could create a mismatch between the amounts earned as revenue versus the amount needed to service debt obligations.
- Notwithstanding the expectation that TJH will maintain insurance in accordance with the concession agreement, natural disasters such as hurricanes or other weather related shocks could damage portions of the road and in turn have a material impact on the company's financial condition and results of operations.



Outlook and Valuation

We are forecasting that short term (1-4 years) revenue growth will continue to be impacted by the development and establishment of alternate routes such as The Nelson Mandela Highway and The Highway 2000 North-South. Nevertheless, we are expecting revenues to increase steadily thereafter fueled by increased housing and employment opportunities along the corridors of the highway particularly in St Catherine (housing and employment) and Clarendon (housing). This augurs well for the company as the growth in annual average daily traffic which will help to strengthen cash flows which will in turn help to defease the company's debt obligations particularly in the medium to long term. Our fundamental valuation for TJH is based on the Free Cash Valuation Model. We assume free cash flows will continue to grow at a relatively slow pace in the short to medium term as we expect TJH's debt obligations to dominate net cash flows in the near to medium term. Our expectation is that as the company's debt amortizes and revenue growth begins to pick up due to increased housing and industrial developments⁴ within the sphere of influence of the highway, TJH's net free cash flow should become more robust. Based on the abovementioned we assumed a short term growth rate of 2%, which increases linearly over the concession period to 5.5%, with an estimated weighted cost of capital of 9.34% we compute a **fair value of US\$0.012 or J\$1.69.**

Recommendation

Based on our relative valuation model, with a 1-yr forward EBITDA of US\$43.9M and a trailing EV/EBITDA multiple of 9.1x and, we derive a target price of **US\$0.016 or J\$2.28.** The offer price is 20% below its fair value and an appreciation of 62% is projected over a one year period. Given the relatively attractive potential upside as well as the long term income opportunities, we would recommend that interested investors whose long term appetite is skewed towards income **Participate** in this IPO.

General Disclosures:

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⁴ Recent and prospective housing and industrial developments along the toll corridor

- The development of a 1,650-unit housing estate by the Housing Agency of Jamaica and China Harbour Engineering Company at Bernard Lodge in St Catherine.
- The creation of 4,500 jobs via the construction of a business process outsourcing (BPO) at GTECH being developed by Portmore Holdings along Municipal Boulevard.
- Construction of a 40,000 square foot BPO facility in Naggo Head.
- The construction of 406 housing solutions in phase 2 of the National Housing Trust's Hummingbird Meadows development in Birds Hill Clarendon.
- Cari-Med's construction of a J\$6B distribution center in Bernard Lodge St Catherine.

Appendices

Board of Directors (All Independent)		
Name	Position	Years of Experience
Charles Paradis	Chairman	40
Ian Dear	Director	30
John Bell	Director	40
Julie Thompson-James	Director	20
Alok Jain	Director	29
Ivan Anderson	Director	38
Phillip Henriques	Director	29
Management Team		
Thierry Parizot	Managing Director	31
Susan Garriques-Brown	Administrative and Financial Manager	16
Melbourne Lyn-Cook	Senior Quality and Maintenance Planning Engineer	10

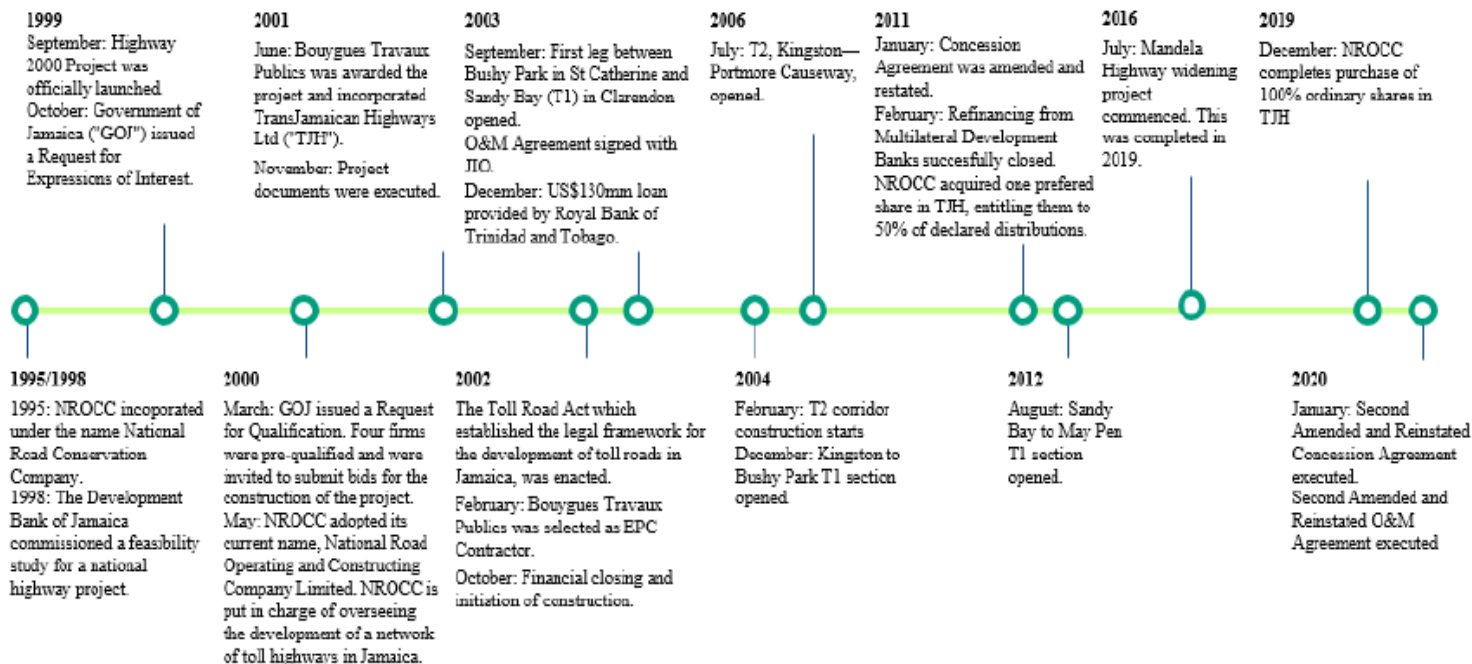
SHAREHOLDINGS POST-OFFER

Upon closure of the Offer for Sale, assuming all categories of the Sale Shares in the Offer for Sale are purchased by the public and the Reserved Share Applicants, the respective shareholders and their respective percentage shareholdings in the Company will be as follows:

SHAREHOLDING	If Option to upsize is not exercised		If Option to upsize is exercised	
	NUMBER OF ORDINARY SHARES	OWNERSHIP*	NUMBER OF ORDINARY SHARES	OWNERSHIP*
NROCC	4,501,000,000	36.0%	2,501,000,000	20.0%
Concession Companies	88,888,889	0.7%	111,111,111	0.9%
e-Tag customers	296,296,296	2.4%	370,370,370	3.0%
Public Sector Workers	829,629,630	6.6%	1,037,037,037	8.3%
Underwriters	2,074,074,074	16.6%	2,592,592,593	20.7%
Registered Pension Funds	2,074,074,074	16.6%	2,592,592,593	20.7%
General Public	2,637,037,037	21.1%	3,296,296,296	26.4%
Total	12,501,000,000	100.0%	12,501,000,000	100.0%

*Percentages (%) are rounded to the nearest decimal point

The Toll Road's History



Source: Company (2020)



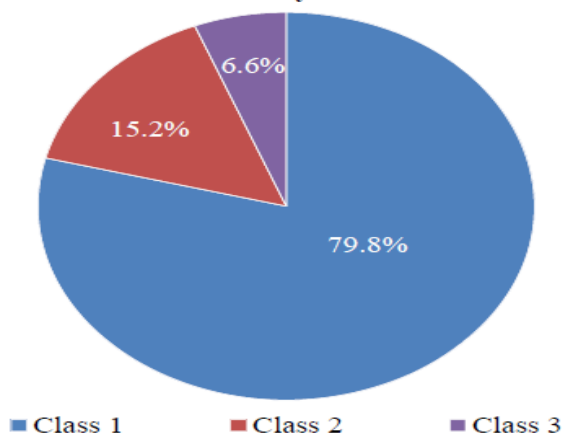
Source: Company (2020)



Vehicle Category	Vehicle Description	Types of Vehicles Included
Class 1	Less than 1.7 meters high	Cars, motorcycles and certain SUVs
Class 2	More than 1.7 meters high and less than 5.5 meters long	SUVs, light goods vehicles
Class 3	More than 1.7 meters high and more than 5.5 meters long	Heavy goods vehicles

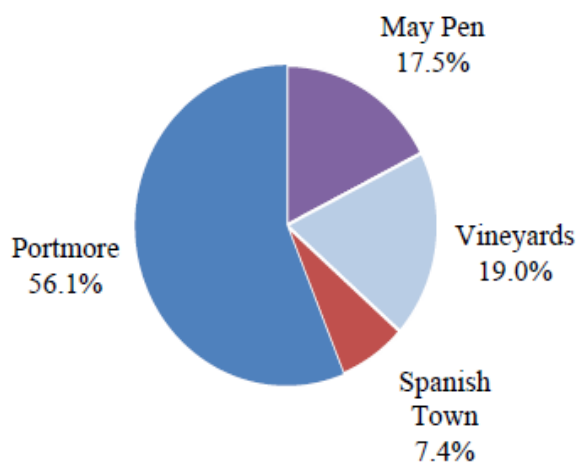
The following figure shows the breakdown of Toll Road traffic by vehicle category in 2019:

Toll Road Traffic by Vehicle Class



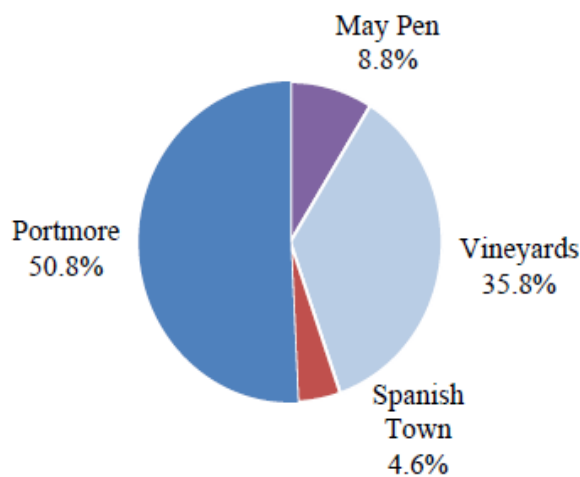
It is expected that in terms of vehicular traffic Class 1 vehicles will continue to be the dominant users of the HW2000E

2019 Traffic Volume by Toll Plaza



Source: Company (2020)

2019 Toll Collections by Toll Plaza



Source: Company (2020)

The Portmore and Vineyards sections of HW2000EW continues to be the dominant revenue contributors, Portmore due to its higher traffic volumes and Vineyards due to its higher toll rates.