



Jamaica Broilers Group of Companies
www.jamaicabroilersgroup.com





JAMAICA BROILERS GROUP LIMITED

Company	Jamaica Broilers Group Limited
Recommendation	HOLD
Year End	April 30
Share Price	\$6.21 (31/10/11)
EPS	72.09 cents
Book Value/Share	\$6.42
Shares Outstanding	1,199,276,400
PE Ratio	8.61X
Price/Book Ratio	0.97X
Return on Equity	6.65% (Annualized)

COMPANY OVERVIEW

Jamaica Broilers Group was incorporated in 1958, and is the largest producer of poultry in both the local and regional markets. The principal activities of the Group include the production and distribution of poultry, animal feeds, agricultural items and ethanol.

Business Segments

The main divisions of the Group include the Poultry Operations, Feed and Farm Supplies, and Ethanol Operations.

Poultry Operations

The operations of the Poultry Division include poultry rearing for egg production and for sale and for broiler processing.

Feed and Farm Supplies

The operations of this division include the manufacture and sale of feeds and the retail of farm supplies.

Ethanol Operations

The Ethanol Operations involve the processing and export sale of fuel grade ethanol.

Other Operations

JBG's other operations include the sale of feed ingredients, cattle rearing, processing and sale of beef products, the grow out and sale of fish and co-generation of energy supplies.





Board of Directors and Corporate Governance Committees

	CORPORATE GOVERNANCE	AUDIT	COMPENSATION
<i>Executive Directors</i>			
<i>Claudette Cooke</i>			
<i>Christopher Levy</i>			
<i>Ian Parsard</i>			
<i>Non Executive Directors</i>			
<i>Trevor Dewdney</i>		★	★
<i>Aubyn Hill</i>	★	★	★
<i>Robert Levy</i>			
<i>Andrew Mahfood</i>	★	★	★
<i>Malcolm D. L. McDonald</i>	★	★	★
<i>Gregory B. Shirley</i>	★	★	★
<i>R. Danvers Williams</i>			

CORPORATE GOVERNANCE

Jamaica Broilers Group is governed by a 10-member Board of Directors, which includes three (3) Executive Directors and seven (7) non Executive Directors. The Chairman of the Board is Robert Levy who is a non executive Director. Jamaica Broilers Group governance practices span across various Committees which include Compensation, Corporate Governance and Audit Committees.



MACRO ECONOMIC ENVIRONMENT

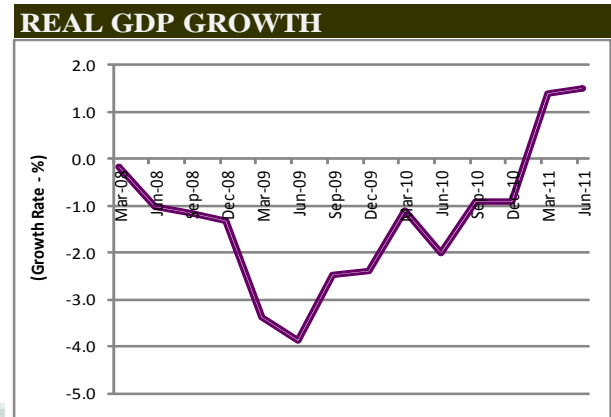
Domestic Trends

Following thirteen consecutive quarters of contraction, the local economy has commenced 2011 with a creditable start to record an expansion of 1.5% for the second quarter ending June. The growth is buoyed mainly by the goods producing and services industries which recorded an expansion of 5.3% and 0.2% respectively.

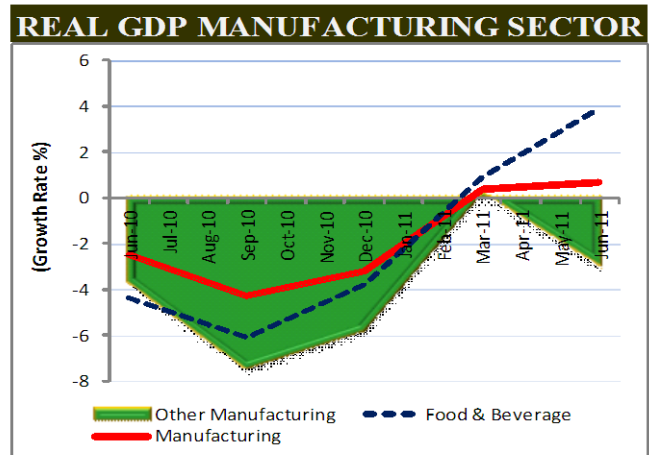
The Manufacture industry experienced a slight growth of 0.7%. The poultry industry rose by 8%, which fuelled a 3.2% rise in the Food, Beverages & Tobacco sector. However, a 3% fall in the Other Manufacturing sector resulted in an overall sluggish performance for the broad sector. (See Graph 2)

The local market continues to grapple with strong competition from poultry imports. As depicted in Graph 3, the recent trend shows a dramatic increase in volume amid a steep decline in prices. For the full year 2010, the volume per kilogram rose by 125% with a commensurate sharp decline in the price per kilogram of 52%. The local Ministry of Finance is currently seeking a tax reform to reduce the tariff on poultry imports from 260% to 20%, which threatens the profitability of the local poultry industry.

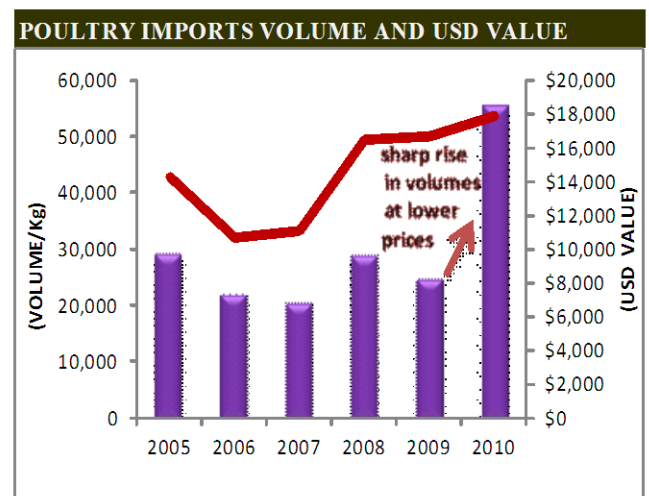
Graph 1



Graph 2



Graph 3





Global Trends

The global markets continue to experience challenges amid the slower than expected rate of recovery in the world economy. The International Monetary Fund (IMF), has lowered its growth forecast marginally for the world economy for 2011, from 5% to 4.4%, as growth in the developed markets continues to be modest. In addition, for 2012 the growth is expected to remain sluggish at 4.5%.

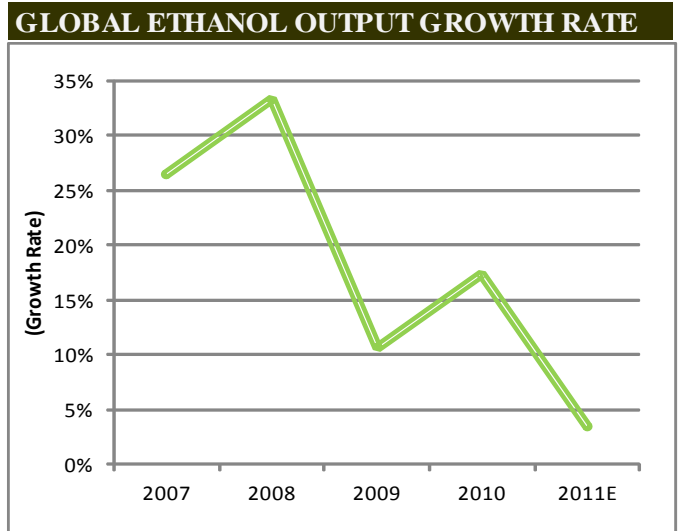
Given the outlook for the global economy Jamaica Broilers is expected to experience challenges in generating robust growth in earnings given the general backdrop in the global markets and particularly the United States which is projected to grow at subpar levels for 2011 and 2012 at 2.8% and 2.9% respectively.

INDUSTRY ANALYSIS

Ethanol Trends

As depicted in Graph 4, since the beginning of the world recession the growth in global ethanol production fell from a high of 33% in 2008 to an estimated 3% for 2011. If the actual is as forecast, this rate of growth would be the lowest seen in five years. This underscores the magnitude of the impact of global recession on the output of ethanol. The United States has been the largest producer of ethanol accounting for approximately 60% of the total world output.

Graph 4



Poultry Industry Trends

Global Consumption

World production of poultry and in particular chicken meat continues to be on the uptrend. Over the period 2005 to 2010, global output has increased by approximately 16%. Globally chicken meat consumption continues to be dominant as it represents 86% of world poultry meat output. The growth in production is driven by strong demand from the Asian region.

Regional Consumption

Poultry meat continues to be also dominant in the regional markets, as it supplies over 80% of CARICOM's meat requirements. This augurs well for Jamaica Broilers as the Company is expected to see continued strong demand for its products.





Commodity Trends

Commodities such as grains serve as key inputs for products offered by Jamaica Broilers. In recent months, the Group has been grappling with the unrelenting upward spiral in grain prices. As a result, the Company increased the prices of its products. Given the imbalances in supply and demand, it is expected that prices for the key commodities will remain elevated at least over the medium term.

Grain Prices

As depicted in Graph 5, corn prices have increased by more than 90% over the past year, amid shortage in supply and growing global demand.

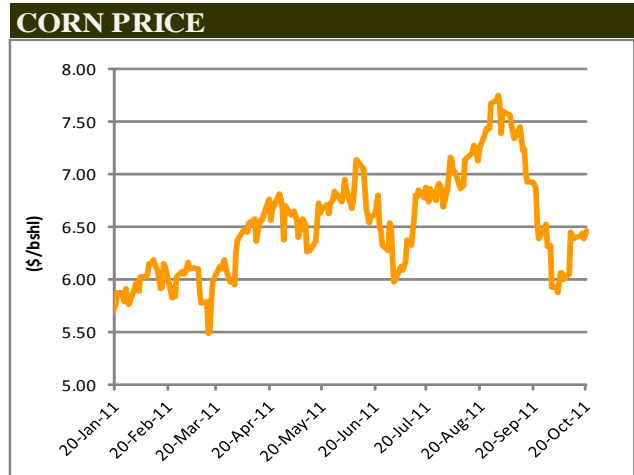
Ethanol Prices

There have been fluctuations in the price due in part to the rise in commodities such as sugar and corn, which are used as feedstock for ethanol production. Further, the market has seen supply shortages amid limited investments in new capacity. Notably, there has been an upturn in prices which increases the overall non-competitiveness of ethanol relative to gasoline.

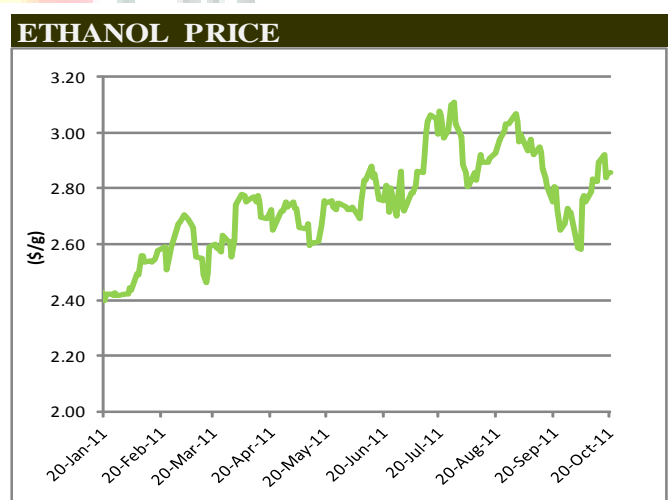
WTI Crude Oil Prices

Similarly, the market has seen a dramatic rise in oil prices, fuelled largely by tensions in the Middle East combined with imbalances in demand and supply. Since the start of 2011, oil prices have risen by 23% to a high as \$112/bbl.

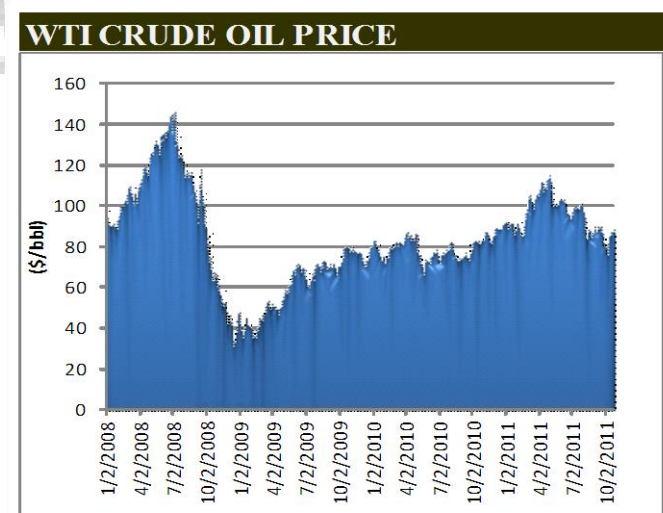
Graph 5



Graph 6



Graph 7





SWOT ANALYSIS

STRENGTHS

- JBG has a strong brand and its products are considered to be superior in quality
- Jamaica Broilers Group has benefited significantly from the diversification of its income stream through the growth in its bottom line.
- The Group continues to strengthen its Balance Sheet by reducing debt levels
- Jamaica Broilers Group has been dynamic in reengineering its operations in order to improve the overall efficiency and profitability of its business segments
- The Group is customer driven and aims to satisfy the needs of customers through new product offerings.

WEAKNESSES

- The Company maintains a strong reliance on the domestic market its revenues and profits. The local economy currently characterized by anaemic GDP performance
- The Company could experience swings in net earnings given the volatility in the ethanol sector.

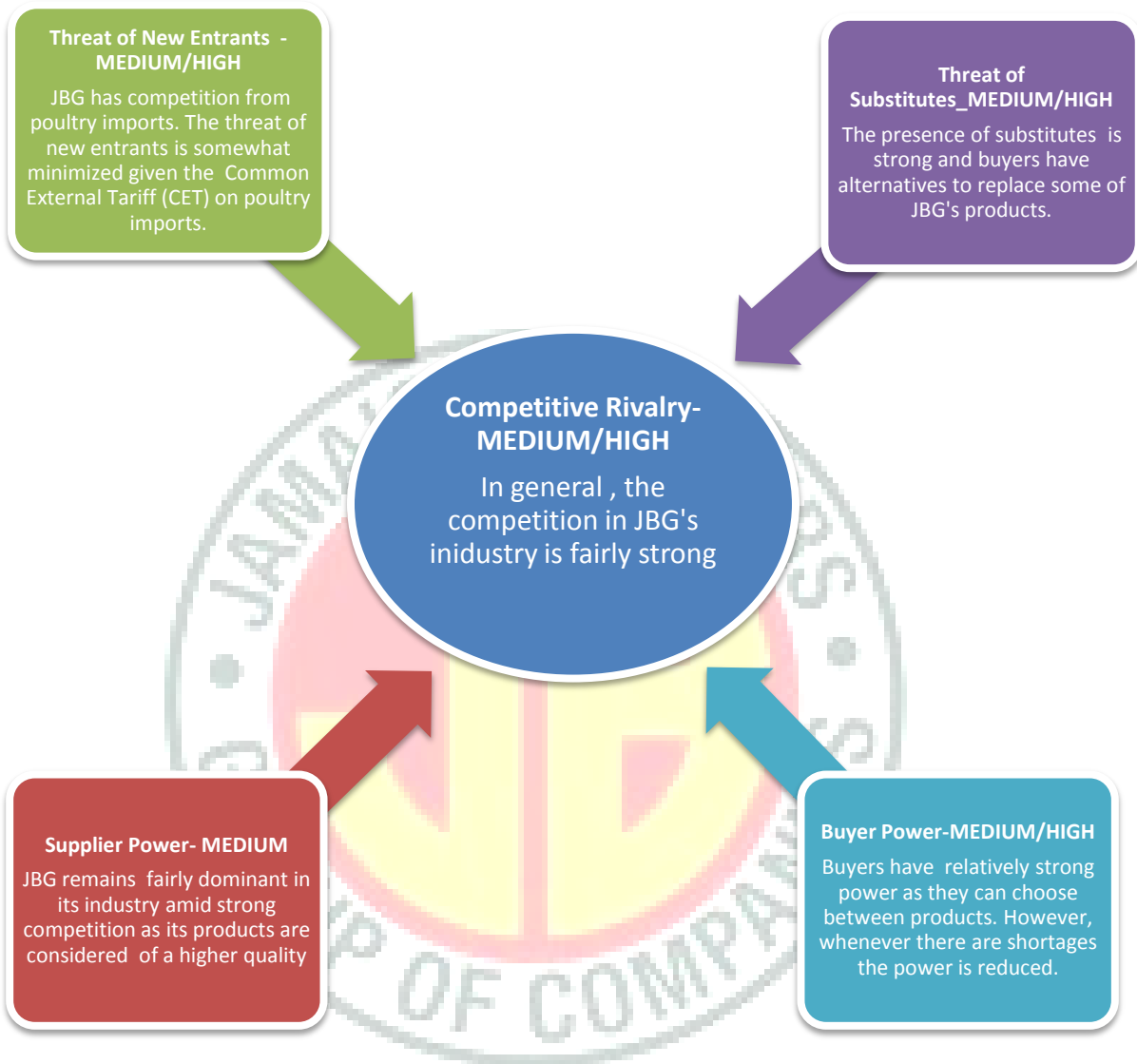
OPPORTUNITIES

- The Group has a strong brand and has the opportunity embark on expansion exercises regionally and internationally
- Given the Group's diversified business model, Jamaica Broilers is positioned to offer new products to customers in the domestic market and overseas

THREATS

- The Group continues to be challenged by the rise in commodity and energy prices in the international market, which could result in a rise in operating costs
- The rise in poultry imports particularly at lower prices result in increased competition and threatens the profit growth of JBG's Best Dressed Division
- The local Ministry of Finance has proposed a tax reform on poultry imports. If there is a steep reduction in the tariff, JBG's net earnings would be adversely impacted
- Jamaica Broilers Group continues to be vulnerable to the effects of natural disasters such as windstorms





Jamaica Broilers remains a leader in its industry and the Company has a diversified product offering. Despite the competitiveness of the industry, JBG has the ability to maintain a competitive advantage through its strong brand.





SEGMENT REVIEW

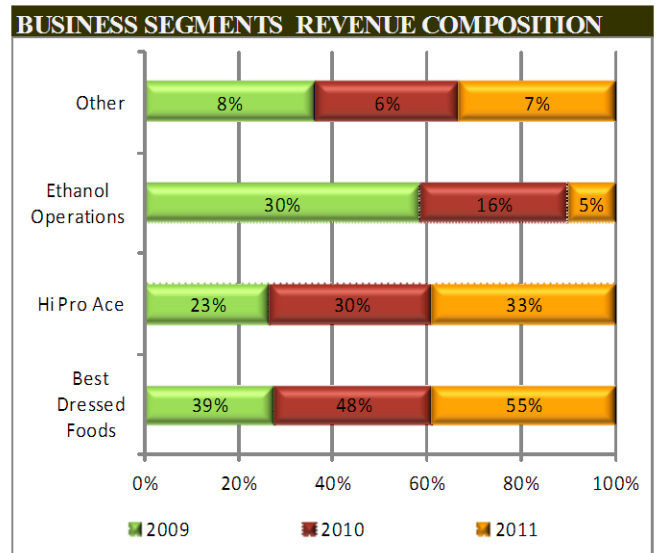
The key business segments of the Group now include the Poultry, Feed & Farm Supplies and Ethanol Operations. The Other business line includes the sale of feed ingredients, the processing and sale of beef and fish and co-generation of energy supplies.

JBG posted its highest profits on record for the FY/2010 of \$1.3Bn, fuelled by significant growth in profits from its ethanol operations. However, subsequently, there has been a downturn in JBG's ethanol division. This is due to lackluster demand from Brazil its key market which resulted in a sharp fall in the contribution of revenues from ethanol to 5% in 2011 from a high of 30% in 2009. (See Graphs 8)

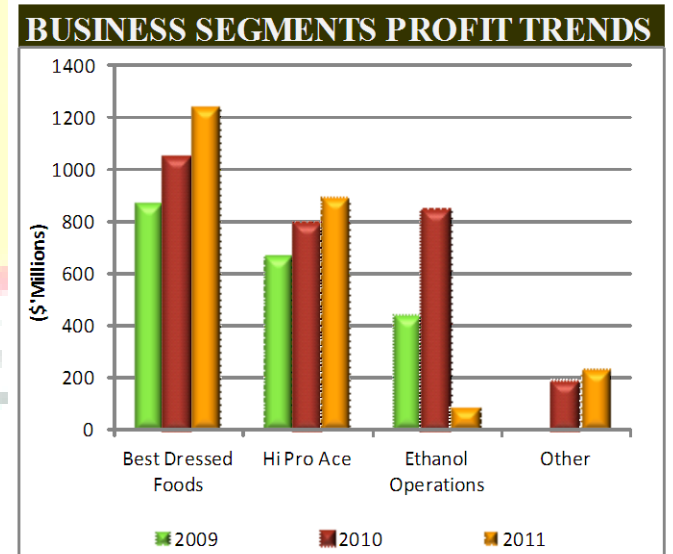
Notably, JBG has seen a consistent creditable performance from the Best Dress Foods and Hi Pro Ace Divisions. Over the past three years, the revenues of Best Dressed Foods and Hi Pro Ace divisions' grew at an average rate 47% and 29% respectively. While profit contribution for the Best Dressed Foods and Hi Pro Ace Divisions amounted to 44% and 33% respectively. (See Graphs 8 & 9)

The Other Division accounted for a marginal proportion of the Group's revenues and profits with an average of 7% and 5% respectively over the three year period. (See Graphs 8 & 9)

Graph 8



Graph 9





FINANCIAL ANALYSIS

Three Months to July 2011

Jamaica Broilers Group's Net Profit fell by 42% to \$128 million for the first quarter ending July 2011 over the prior year. This resulted in part from a surge in corn prices, which was absorbed by JBG and gave rise to a steep decline in profits for both the Poultry and Hi Pro Divisions. In addition, JBG's net earnings continue to be adversely impacted by the sluggish performance in its ethanol division, amid lacklustre demand in Brazil, which is a key market.

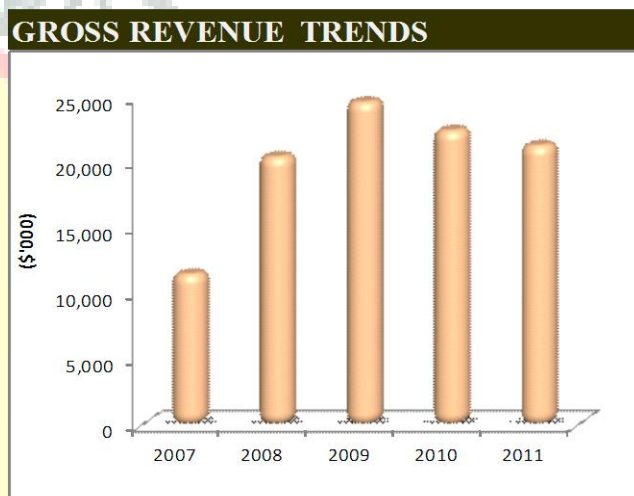
JBG's Revenues rose 17% to \$5.81 billion from \$4.96 billion in 2010. However, the Group saw a 3% decline in Gross Profit, as cost of sales surged 23% or \$884 million year-on-year.

Profit from Operations fell 39% to \$242 million in 2011, compared with \$395 million in the 2010, as all the key business lines experienced a decline in profits. JBG's Best Dressed Foods Division and the Hi Pro Ace Division posted higher revenues of \$273 million and \$394 million, however, profits fell by 30% and 12% respectively. (See Table 1) In addition, the Group's ethanol operations recorded a net loss \$3.5 million, despite a 65% rise in revenues which underscores the downturn the profit margins for this segment.

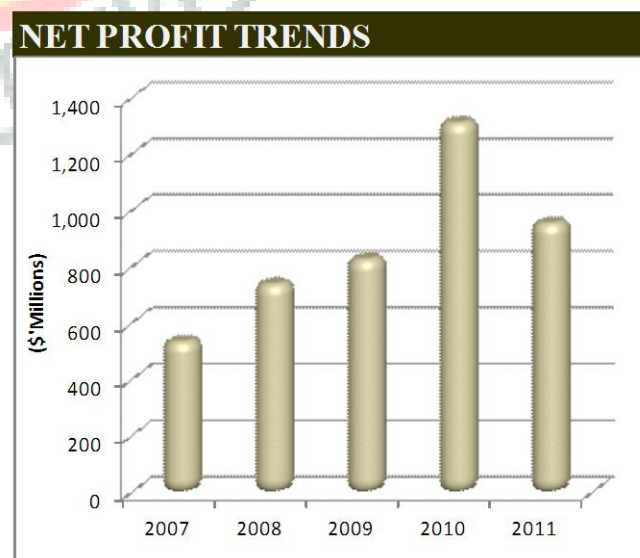
Table 1

KEY FINANCIAL STATISTICS			
\$'Millions	July '2011	July'2010	Change
Revenue	5,814	4,964	↑ 17%
Operating Profit	242	395	↓ 39%
Net Profit	128	219	↓ 42%
EPS(\$)	0.11	0.18	↓ 42%

Graph 10



Graph 11





FINANCIAL ANALYSIS (CONT'D)

JBG saw a rise in operating costs as Distribution costs and Administrative and other expenses increased by 6% and 19% respectively.

Total Assets increased by 9% to \$14.33 billion. Total Shareholders' Equity increased by \$673 million to \$7.70 billion amid a 13% rise in retained earnings year-on-year.

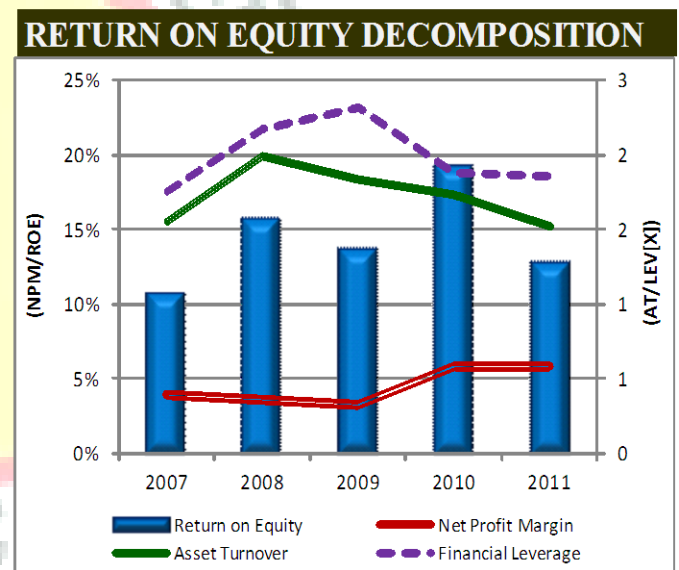
Jamaica Broilers experienced a steep decline in earnings amid a sluggish performance in all its key business segments. JBG's increased operating costs emanated in large part from the Group's decision to absorb the higher costs from the rise in corn prices, which adversely impacted its net earnings. However, in recent weeks there has been a sharp decline in corn prices, and JBG could reap benefits.

During the period 2008- 2011, JBG recorded a reduction in Return on Equity (ROE). The decline was driven largely by lower profit margins in its ethanol operations. For the fiscal year 2011, JBG saw a further decline in its ROE, amid the reduction in Net Profit Margin and Asset Turnover relative to 2010. (See Table 2 and Graph 12)

Table 2

RETURN ON EQUITY DUPONT ANALYSIS				
	2008	2009	2010	2011
Net Profit Margin	3.62%	3.21%	5.85%	4.49%
Asset Turnover	1.99	1.84	1.74	1.52
Financial Leverage	2.17	2.31	1.88	1.86
NPM *AT*LEV= ROE				
Return on Equity	15.61%	13.65%	19.07%	12.66%

Graph 12





COMPANY OUTLOOK

Over the past three years, Jamaica Broilers has been successful in reengineering its operations in order to increase the growth in profits. This is evidenced by the Compound Annual Growth Rate (CAGR) in revenues and profits of 25% and 43% respectively.

JBG's ethanol operations have contributed significantly to the growth in the Group's earnings. Recently, there has been a downturn in income from ethanol driven largely by a lackluster demand. In recent months, JBG's key business segments, Best Dressed Foods and Hi Pro Ace Divisions have also experienced compressed profit margins amid a rise in corn prices given increased volatility in the global markets. This resulted in the Group recording lower net earnings for the first quarter in 2011.

The operating environment in both the international and domestic markets remains challenging for JBG.

The domestic market continues to be characterized by anaemic GDP performance and sluggish demand. Notably, the twelve month point-to-point rate of inflation remains in remains elevated at 8% as at September 2011.

In the local market, the Ministry of Finance is seeking to implement a series of taxation reform. JBG has been grappling with the risks associated with the proposal, which seeks to effect a dramatic reduction in the tariff on poultry imports from 260% to 20%. This would adversely impact the overall profitability of the local poultry industry. The tariff on poultry is critical to the growth in profits of JBG's flagship Best Dressed Foods Division. The outcome of the taxation reform is expected in 2012.

The global markets continue to experience unrelenting volatility amid heightened uncertainty in relation to the growth and outlook of the world economy. This is against the backdrop of the deteriorating debt crisis in the euro zone, combined with a sluggish economic recovery in the United States.

Further, the growth in ethanol production has slowed and it is expected that this trend will continue at least over the near-to- medium term. The slower than expected activity in the ethanol sector has contributed in part to the reduction in earnings at Jamaica Broilers. In addition, the upward spiral in oil prices continues to adversely impact operating costs.



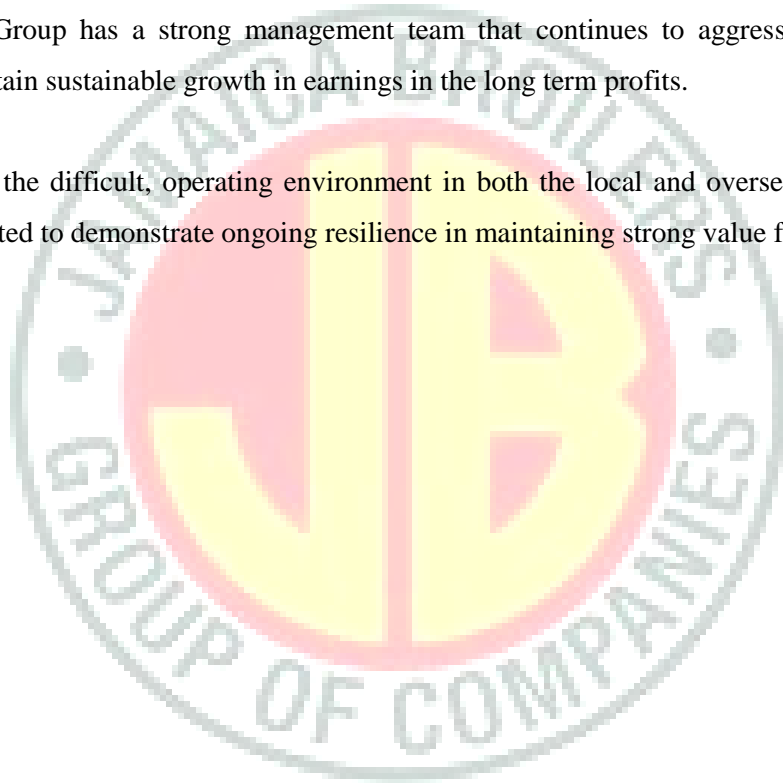


Jamaica Broilers' current diversified business model has positioned the Company to effectively respond to the challenging operating environment. Further, the Group has demonstrated a high level of dynamism and innovation as it seeks to broaden its income stream and grow profits.

In recent months, the Group widened its product offering in the fertilizer market. In addition, JBG continues to examine growth opportunities in the wider Caribbean. Recently, the Group commenced activities for expansion in Haiti which will initially entail the distribution of animal feed.

Jamaica Broilers Group has a strong management team that continues to aggressively restructure its operations to maintain sustainable growth in earnings in the long term profits.

Therefore, despite the difficult, operating environment in both the local and overseas markets, Jamaica Broilers is anticipated to demonstrate ongoing resilience in maintaining strong value for its shareholders.





VALUATION & RECOMMENDATION

SUMMARY EARNINGS PROJECTION (See Table 3 Below_ JBG Financial Summary)

Revenue

Revenue is projected to remain subdued with modest growth levels given the expectation of ongoing volatility in the ethanol sector at least in the near to medium term.

Operating Costs

The Group is expected to experience higher operating costs amid the anticipation elevated energy costs.

Net Earnings

Given the moderation in growth in revenues combined with the relative rise in operating costs Net Profit is expected to rise marginally over the next twelve months.

Dividend Discount Model

Dividend Policy

Jamaica Broilers Group's stated dividend policy is to distribute approximately 20% of profits. However, over the past four years the average payout ratio of the Group has exceeded 20% to an estimated 25%.

A two stage Dividend Discount Model (DDM) was used to calculate the intrinsic value of the shares in JBG. In determining the Cost of Equity of 14% the Capital Asset Pricing Model (CAPM) with estimates for the risk free rate, equity risk premium and the beta were 11%, 3% and 1% respectively. Given, the planned expansion initiatives of the Group the dividends are projected to grow at a faster pace of 15% in the first five years and then taper to a long-term rate of 10%. With these assumptions; the valuation model yields a price per share of \$7.04.

OTHER RELATIVE VALUATION MODELS

Price/Earnings Valuation (P/E)

The historical four year average PE for Jamaica Broilers was also used in determining the relative value of the shares. The historical average PE is 7.42X, which is also in line with the broad market.

Using the EPS forecast for the next twelve months of \$0.84, and given the average PE of 7.42X, this approach yields a price per share of \$6.23.





Technical Analysis _RELATIVE STRENGTH INDEX (RSI)

Over the past three years, Jamaica Broilers has experienced volatility in its price. The graph below shows the Relative Strength Index (RSI) which is currently at 47.80, and supports valuation methodologies that JBG trading below its fair value albeit at moderate levels.



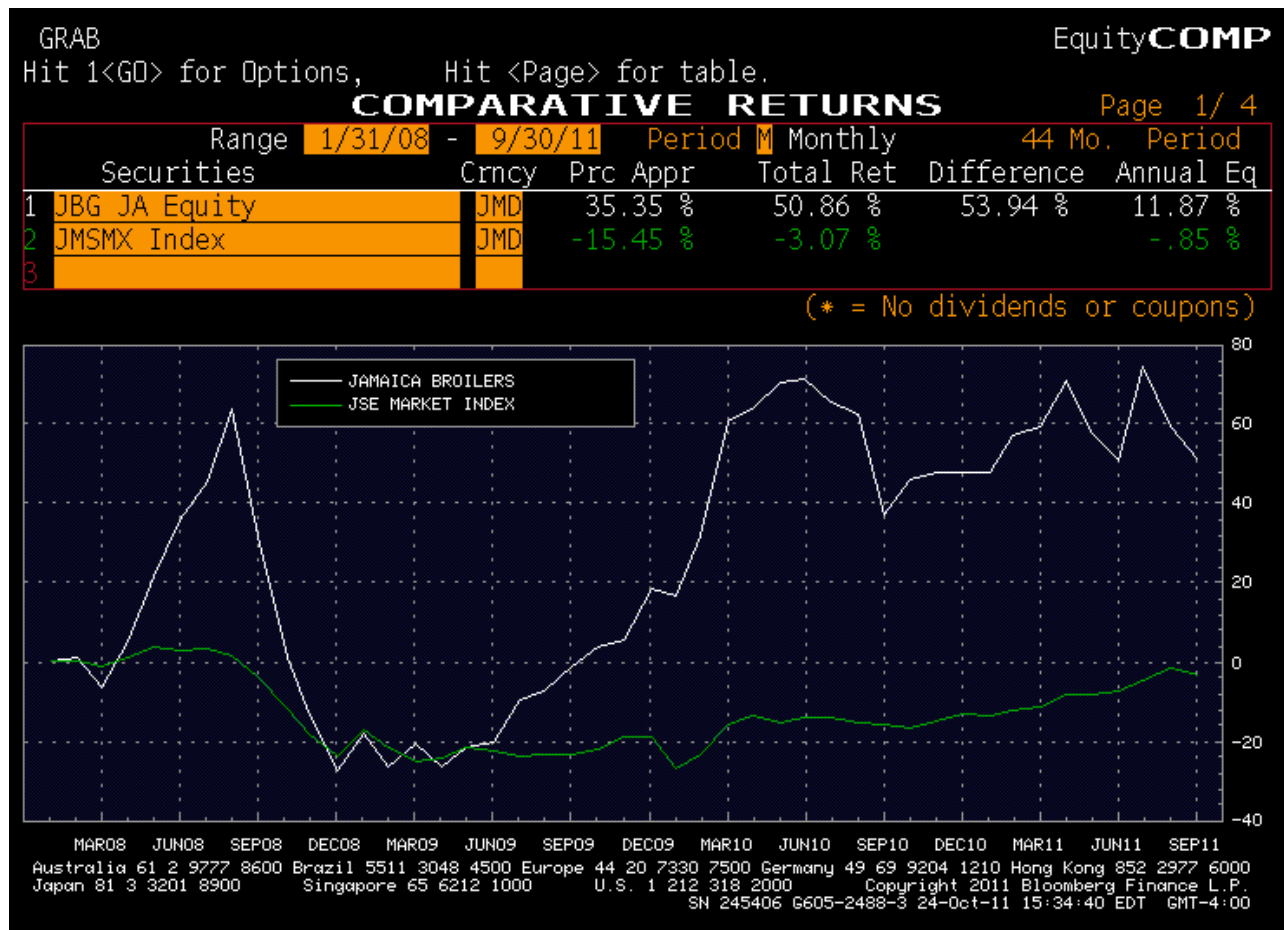
Source:Bloomberg.com





COMPARATIVE RETURNS OF JAMAICA BROILERS RELATIVE TO THE JSE INDEX

The following graph shows that over the past three years a JBG shares have yielded growth in returns of 35% compared with a decline experienced by the JSE Market Index of 15%. This underscores the resilience the company has demonstrated in maintaining shareholder value amid the difficult operating environment and further highlights that this stock performed creditably.



Source: Bloomberg.com





RECOMMENDATION AND CONCLUSION

Giving consideration to the various valuation models utilized, the shares for Jamaica Broilers are valued between \$6.23 and \$7.04. The market price of the shares in JBG is \$6.64 which suggests that the stock is near to the levels of being appropriately priced. Therefore, the stock is rated as a **HOLD**.





Table 3

JAMAICA BROILERS GROUP
FINANCIAL SUMMARY

(J\$'Millions)	Year End - April 30				Q1 -July			12 Month	12 Month
	2008	2009	2010	2011	2011	2010	Change	Projection July 2011	Projection July 2012
Income Statement									
Turnover	20,444	24,623	22,447	21,295	5,814	4,964	17%	22,145	22,170
Cost of Sales	(17,133)	(20,662)	(17,731)	(16,696)	(4,704)	(3,820)	23%	(17,581)	(17,452)
Gross Profit	3,310	3,961	4,716	4,598	1,110	1,144	-3%	4,564	4,718
Operating Profit	1,232	1,400	2,082	1,683	242	395	-39%	1,530	1,596
Pre-tax Profit	904	967	1,597	1,343	168	299	-44%	1,212	1,270
Net Profit	740	791	1,313	956	128	219	-42%	865	1,007
Balance Sheet									
Total Assets	10,286	13,412	12,923	14,048	14,332	13,165			
Non-Curent Assets		7,022	6,845	7,056	6,976	7,717			
Current Assets	5,283	6,390	6,077	6,992	7,356	5,448			
Total Liabilities	5,545	7,614	6,039	6,497	9,799	7,763			
Current Liabilities	6,390	5,619	3,856	3,839	4,194	3,812			
Long-term Debt	821	1,670	2,183	2,658	2,443	2,315			
Shareholders Equity	4,741	5,798	6,884	7,551	7,695	7,038			
Per Share Data									
Revenue per share	17.05	20.53	18.72	17.76	\$0.62	\$0.05			0.84
Earnings per share	0.62	0.66	1.09	0.80	\$0.11	\$0.18			
Book Value Per Share	3.95	4.83	5.74	6.30	6.42	5.87			
Share Price	5.00	3.20	7.00	7.00	\$4.42	\$3.80			
Dividend Per Share	0.13	0.19	0.18	0.18					
Key Ratios									
Net Profit Margin	4%	3%	6%	4%	2.20%	4.42%			
Operating Margin	6%	6%	9%	8%	4%	8%			
Gross Margin	16%	16%	21%	22%	19.09%	23.04%			
Dividend Payout Ratio	21%	29%	16%	23%					
Return on Equity	16%	14%	19%	13%	1.66%	3.11%			
Return on Assets	7%	6%	10%	7%	0.89%	1.66%			
Current Ratio	0.83	1.14	1.58	1.82	1.10	1.37			
Valuation Metrics									
Price to Book Ratio	1.26	0.66	1.22	1.11	0.69	0.65			
P/E Ratio	8.10	4.85	6.39	8.78	3.51	6.80			
Price/Revenue Share	0.29	0.16	0.37	0.39	7.15	76.00			





RISK FACTORS

The risk factors for the above valuation include the following:

- The persistence of the upward spiral in commodity and energy prices
- The threat of the local tax reform on the poultry imports
- The general upturn in the ethanol sector and particularly a rise in capacity for output
- The Group's success in reaping bottom line growth from its expansion activities regionally
- The overall pace of recovery of the in the world economy which is also critical to the growth the in the domestic economy
- The Group's continued efforts of offer new products to meet the changes in consumer demand
- The Group's vulnerability to external shocks and natural disasters





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