



KINGSTON WHARVES LIMITED

JSE 1st QUARTER MARKET RESEARCH COMPETITION

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Vision: The preferred port-centric logistics partner connecting the world to Caribbean markets.

Mission: A leading provider of innovative terminal and logistics solutions for the movement of cargo.

Economic Overview

Global Logistics Market

According to the International Monetary Fund (IMF), the global economy is projected to expand by 6% in 2021 and strengthen by 4.4% in 2022 thanks to increased fiscal support in a few major economies, the projected vaccine-powered recovery in the second half of 2021, and resumption of economic activity.

The global logistics industry is projected to expand by 4.7% over 2024, according to a report conducted by Research and Markets. The overall logistics market in North America is expected to grow by 2.8% over 2024, a significant change from Asia Pacific's projected growth of 6.5%.

The outbreak of COVID-19 has caused some challenges with the supply chain globally as countries close down the borders to curtail the spread. This has however established opportunities for technological investment in automation and Artificial Intelligence and machine learning to create a digitized, autonomous supply chain.

Local Market

Jamaica remains in an economic downturn as the government continues to enforce curfews to combat the spread of COVID-19 thereby reducing business activities. For the fourth quarter of 2020, real GDP, according to PIOJ, decreased by an estimated 9.4% compared to the corresponding quarter of 2019. The Goods Producing and Services Industries contracted by 0.6% and 11.5%, respectively.

Jamaica's location is within reach of 800 million customers and its strategic geographic location, modern physical infrastructure, business-friendly environment, supporting legislation, among other attributes, gives it a competitive advantage in the supply chain business. The government has continued to put the necessary infrastructure in place to support the logistics industry and has repealed the Jamaica Export Free Zones Act and replaced it with Special Economic Zone Authority Act making way for the designation, promotion, development, operation and management of Special Economic Zones.

Implications for Kingston Wharves Limited

KW's revenue is primarily concentrated in Jamaica, where it is derived from transshipment, port terminal, and logistics services. Kingston Wharves benefits from the importation and exportation of products. However, as a large net importer, Jamaica is particularly vulnerable to external shocks from global developments. As a result, a downturn in global economic development impacts KW, as shown by a 10% YoY fall in revenues for the financial year ended December 2020. The IMF, on the other hand, forecasts a 6% growth in the global economy, therefore KW is likely to follow suit. Furthermore, major economies such as the United States and China have also started to rebound economically.

How does changes in international economic policies impact the company?

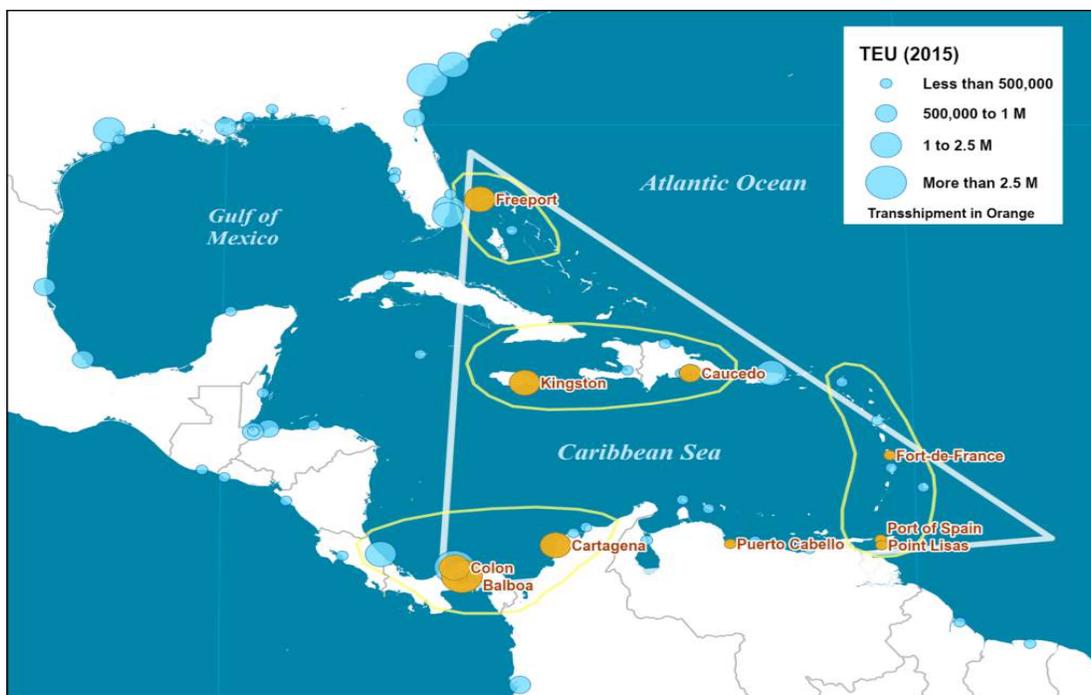
Protectionism in the United States is protectionist economic policy that erected tariff and other barriers to trade with other nations like China. Under President Trump's administration, the United States charged an additional fee (a 25% rise in tariffs and quotas) on imported commodities from China in March 2018, and China was required to purchase more American-made products. This is in place by the US to ensure fair competition between imported goods and local goods. However, the new President Biden's administration plans to reverse the previous agreement which is expected to hurt the US companies, traders, manufacturers and workers who have adapted to the post-tariffs trade environment. As we know, anything that affects these major economies, also affects the developing and emerging companies.

Business Overview

Kingston Wharves Limited (KW) was established in 1945 and is the leading multipurpose terminal operator in the Caribbean. KW ties small importers and exporters to over 30 foreign ports in the Caribbean, Latin and North America.

The KWL Group manages several entities that provide cold storage, industrial and port security services, and skilled labour for terminal operations in addition to its main business of terminal operations and logistics.

The services KW provides are cargo handling and logistics services, and transshipment services. The port terminal provides full-range cargo handling and logistics services 24 hours per day, 7 days per week. Transshipment continues to be an important service for Kingston Wharves. One of the region's premier shipping lines utilizes KW's terminal as its transshipment hub, operating weekly feeder services to other Caribbean and Latin American ports. The regional transshipment hub for one of the world's leading motor vehicle carriers is also managed by KW.



Corporate Governance

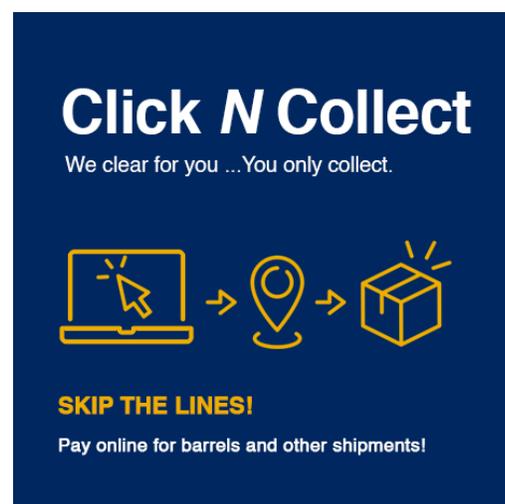
The governing framework comprises of a 12-member Board of Directors led by an Independent Chairman, Jeffrey Hall. The Board consists of three Committees: Executive Committee, Audit Committee and Compensation and Development Committee. The Chair of the Audit Committee is a Chartered Accountant, as is best practice. Furthermore, the team is comprised of seasoned industry executives with skills ranging from food manufacturing to financial services, engineering, shipping and logistics, indicating a solid base of insight and experience to drive strategic development of the Group. Majority of the Directors are Independent Directors with the exception of one Non-Independent Director, thereby providing a higher level of corporate governance to shareholders.

Corporate Strategy and Outlook

Contactless E-commerce solutions

Click N Collect, KW's online portal, was recently introduced. Click N Collect is a new and streamlined cargo clearance option designed to meet the increasing demand for contactless pre-clearance and door-to-door distribution for personal shippers sending barrels, crates, pallets, and other less-than-container-load cargo. Freight forwarders will be able to extend access to their pre-clearance and door-to-door service to customers as a result of this deal. The aim is to sign some of these deals with other freight forwarding partners and agents in order to expand access to the easy pick-up service.

Notably, KW stated, “We will be enhancing our investment in robust security technology, policies and systems in 2021. In this period of relative economic uncertainty, we will prioritize our investment in security as a way of reducing the range of risk factors facing our clients.”



Click N Collect
We clear for you ... You only collect.



SKIP THE LINES!
Pay online for barrels and other shipments!

Strong Relationships with Shipping lines

Being primarily owned by shipping companies such as SAJE Logistics Infrastructure Limited and Jamaica, Maritime and Transport Services Ltd, as well as Jamaica Producers Group Limited (JP), which owns 42 percent of KW, has allowed KW to form close relationships with these companies and their affiliates. As a result, KW is now in a competitive position to establish long-term strategic partnerships with major importers and exporters, as well as shipping firms.

Economic Moat & Competitive Advantage

KW is the Caribbean's leading Multipurpose Port Terminal Operator, providing the Region's importers and exporters with a broad range of cargo handling and logistics services and connections to over 20 international ports in the Caribbean, Latin and North America. KW continues to expand its service capacity and comparative edge as a Logistics Provider in order to benefit when Jamaica is fully developed as a logistic hub, by continuously investing in its infrastructure.

Continual investments in infrastructure

Logistical infrastructure is the backbone of logistics systems. As such, KW has been pursuing opportunities for infrastructure and partnerships to expand its footprint locally and globally by leveraging its Special Economic Zones¹ (SEZ). KWL plans to build a 300,000-square-foot Modular Warehouse Complex (MWC) in a SEZ near to capitalize on opportunities in 3PL (Third Party Logistics) and cold chain logistics. Furthermore, the port will provide dry, ambient, and temperature-controlled warehousing solutions on a services, lease, or joint venture partnership basis to regional and global distributors and manufacturers.

Market Analysis

In this section we will analyze the company's external environment, the macroeconomic, demographic, governmental, technological, and social forces influencing the industry's competitive structure.

"Risk comes from not knowing what you are doing"

-Warren Buffett

PESTEL

Table 1: PESTEL Analysis

Political	<p>Jamaica have been experiencing a politically stable environment and the government has accommodated policies that enhance business growth for example reduction in asset tax and other taxations.</p> <p>Furthermore, on January 1, 2020, the corporation was given permission to function as an approved developer under the Special Economic Zone Act (SEZA), effectively replacing the variable tax rate system. The SEZA imposes a corporate income tax rate of 12.50 percent.</p>
Economical	<p>Foreign exchange gains/losses on conversion of US dollar-denominated trade receivables, short-term investments, and US dollar-denominated liabilities were largely responsible for the profit's sensitivity.</p> <p>Jamaica's low-interest rate environment allows for cheaper loans and refinancing of debt. Notably, if interest should increase, KW manages its interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments.</p>
Social	<p>KW has consistently supported Jamaica's children and youth through education, sports and community development.</p>

Technological	There has been an increase in digital transformation across large corporations, as well as a global shift towards automation, which improves business operations and productivity. As such, KW has embraced technological innovation and automation in the port and logistics industry.
Environmental	KW employs sustainable practices in the use of its resources and the conservation of its environment to ensure long-term viability for the Company, community, and country.
Legal	According to KW's notes to the financial statements, the company and its subsidiaries are subject to numerous lawsuits, conflicts, and civil actions in the usual course of operations, but they are not considered major litigations.

Porters Five Forces

Figure 1: Porters Five Forces

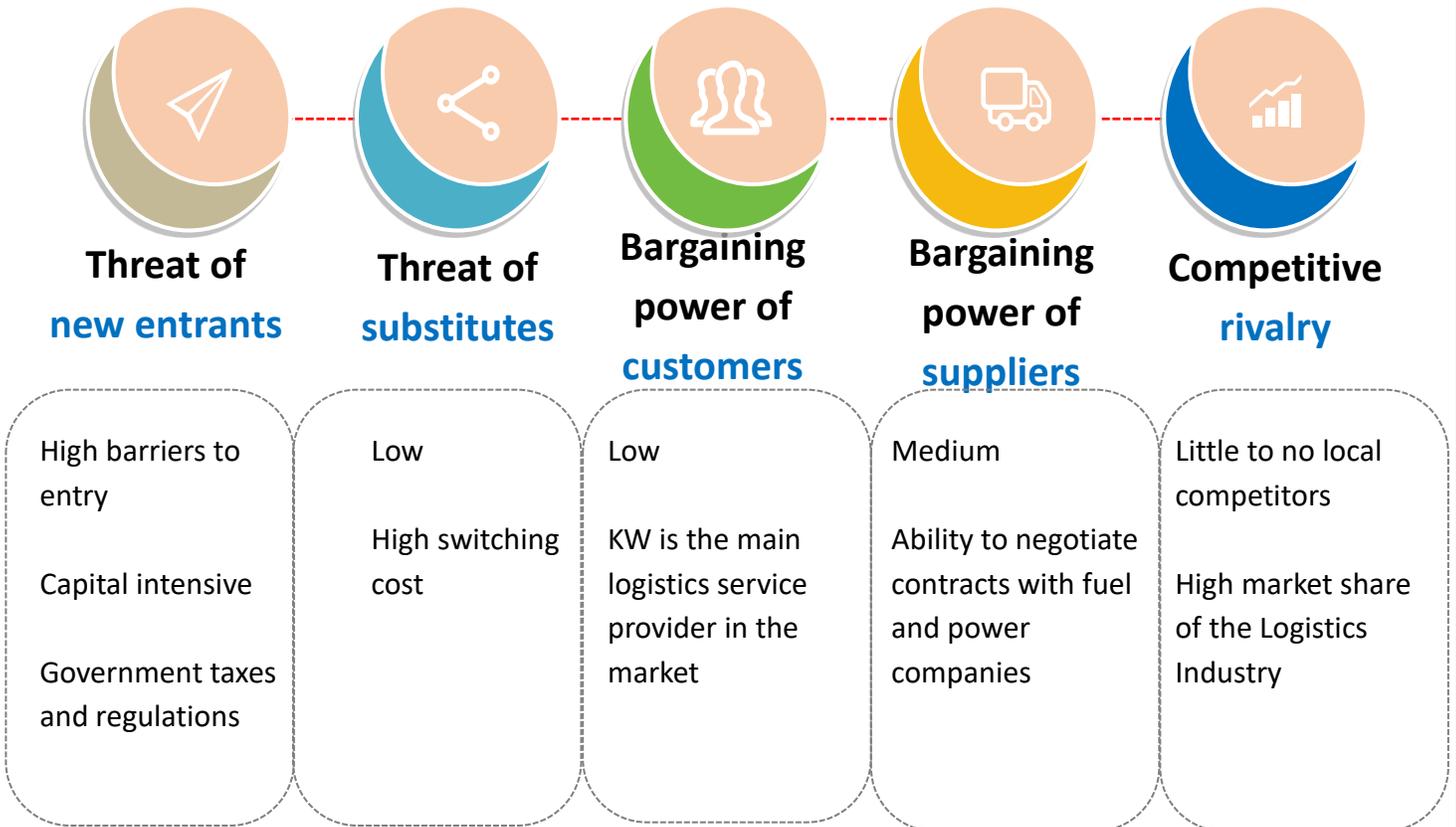
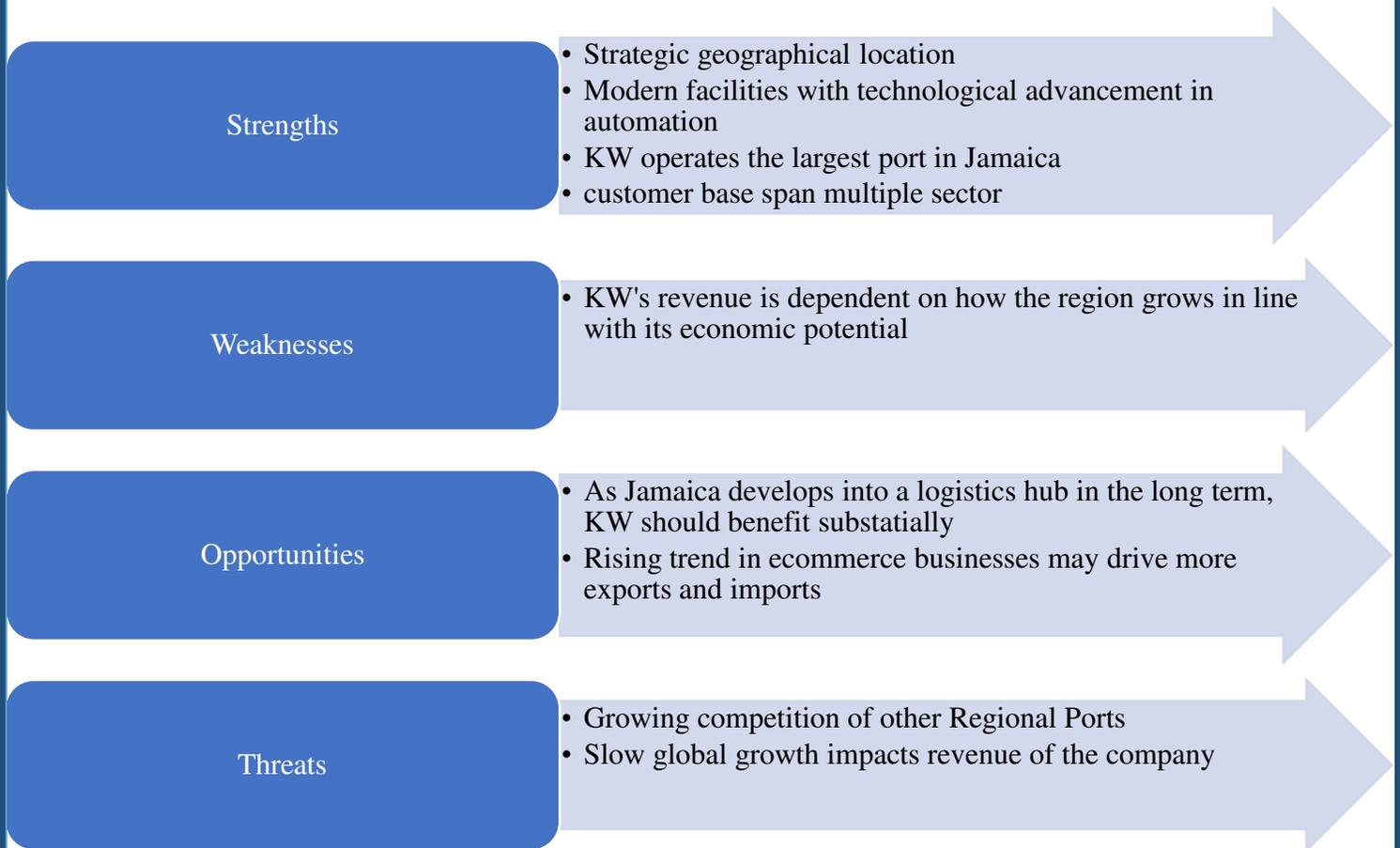


Figure 2: SWOT Analysis



Market Activity

Table 2: Market Trading Statistics

Market Statistics as at April 29, 2021	
52 Week Range	\$40.00-\$59.00
Dividend Yield	0.78%
Current Market Price	\$ 43.75
Fair Value	\$ 40.20
Trailing P/E	27.96
Book Value	22.78
Price to BV	\$ 1.92
Shares Outstanding (units)	1,430,199,578

Investor Sentiment During and After Covid-19

Graph 1: Price & Volume Movement Chart

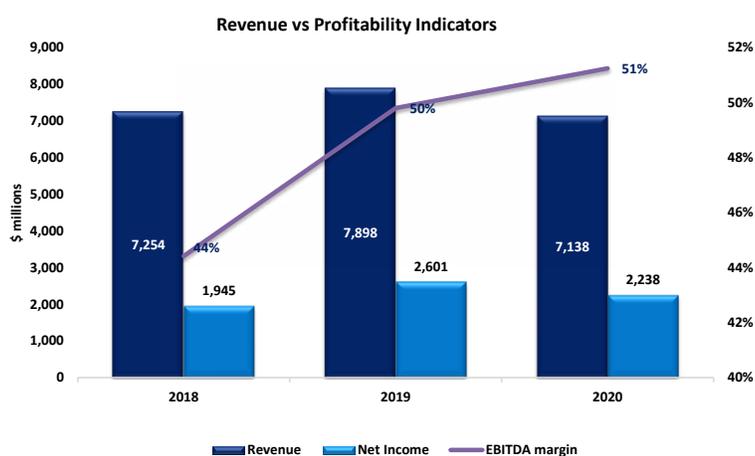


The JSE Main Market Index started the year 2020 at 512,866 points with its lowest level on March 25, 2020. The Index closed April 29, 2021 at 406,692 points, a 20% decline since the beginning of year 2020, however the Index has rebounded 3% since the start of January 2021. The KW's stock price started the calendar year 2020 at J\$61.22 and rose for a few weeks before plummeting to J\$42.03 in March 2020. This was attributed to a drop in market sentiment as a result of the coronavirus scare, as well as investors liquidating their portfolios in order to participate in the TransJamaican Highway IPO in February 2020. After which the stock price began to trend upwards to rise as high as \$57.79 in June 10, 2020 but has since dwindled down around the time of Jamaica's second wave of the virus to price levels of the first outbreak. Here, we see that the stock price is quite sensitive to the effects of the pandemic. As of April 29, 2021 the stock price was \$43.45, a 24% decline since June 10, 2021, the highest point since covid-19.

Financial Overview

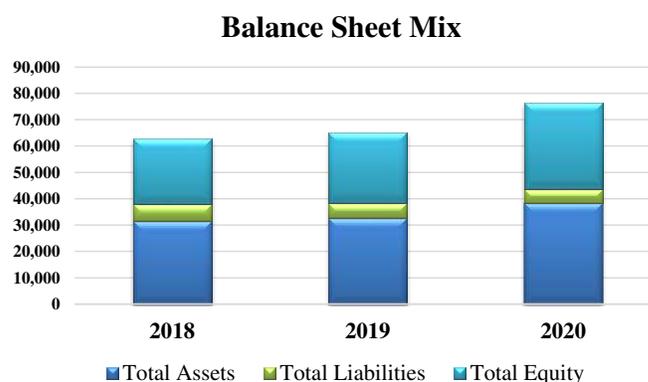
For the year ended December 31, 2020, KW experienced revenue of \$7.14B compared to \$7.90B in 2019 and \$7.25B in 2018. Terminal Operations, which accounted for 69% of overall sales, dropped 14% year on year to \$4.96 billion, compared to \$5.75 billion the previous year. KW notes that this was due to a reduction in the volume of cargo handled during the year as a result of the COVID-19 pandemic. Additionally, KW's 'Logistics & Ancillary Services' revenue increased by 2% to \$2.18B for the year ended December 2020, up from \$2.14B a year before. This increase was division's modern warehousing, digital and systems capabilities.

Cost of sales for the FY2020 fell 1% to a total of \$3.80B (2019: \$3.85B and 2018: \$3.45B). Gross profit, for the year ended December 2020, amounted to \$3.34B, a 17% decline from the gross profit in 2019 of \$4.04B. Administrative expenses for the FY2020 contracted by 11% year over year, amounting to \$1.07B from the \$1.20B recorded for the same period last year.



As such, Operating profit amounted to \$2.85B for the year which translated to a net profit of \$2.24B (2019: \$2.60B), and a 3Yr-CAGR of 7% relative to 2018's \$1.95B. Earnings per share for the year end amounted to \$1.56 (2019: \$1.82 and 2018: \$1.36).

Total assets as at December 2020, grew at a 3Yr CAGR of 10% to \$38.23B (2019: \$32.58B) from \$32.46B in 2018 attributable mainly to property, plant and equipment and cash and cash equivalents. Meanwhile, total liabilities decreased to \$5.44B in 2020 from \$5.81B in 2019 due to a reduction in long term debt. Equity experienced a



3Yr-CAGR of 15% to close December 2020 at \$32.58B versus \$26.59B in 2019.

KW has kept a solid balance sheet, which would undoubtedly enable them to seize new opportunities through capital spending and acquisition during times of general economic adversity.

KW's operating cashflow has improved year over year but slightly decreased since 2018. The Additionally, capital expenditures of \$691.9M has been spent

	2018	2019	2020
Cash from Operating Activities	2,845.36	2,645.58	2,841.28
Cash from Investing Activities	(1,005.93)	(481.61)	(769.37)
Cash from Financing Activities	(740.49)	(1,267.50)	(1,413.07)
Net Changes in Cash	1,098.94	955.72	933.53

in FY2021 by KW relative to \$412M in FY2019. In addition, more was cash was spent on financing activities such as paying down debt (\$683.7M in FY2020 and \$588.2M in FY2019). Notably, KWL announced \$772 million in dividends during FY2020. The dividend per stock unit in 2020 was \$0.54, which was the same as the dividend per stock unit in 2019.

Over the past three years, the Company, as at December 2020, experienced its strongest liquidity position, with a current ratio of 4.11 times, a quick ratio of 3.87 times and a cash ratio of 3.53 times. Therefore, the Company is well able to repay its short-term debt obligations using its most liquid assets (even just cash and cash equivalents). However, with regards to long term debt, the Company has low leverage with a debt to equity ratio of 6% and a debt to asset ratio of 5% as at December 2020. In addition, a Cash flow from Operations to Debt ratio of 1.53 times suggests that using CFO from FY2020, the Company will take less than a year to repay its debt obligations. An interest coverage ratio of 23.62 times indicates that the Company is more than able to service its interest payments.

Furthermore, KW's return on equity (ROE) suggests an 8% return for the year ended December 2020. Over the past three years, the ROE has fluctuated from 8% in 2018 to 10% in 2019 then back to 8%. In order to analyze the reasons for the differences in KW's ROE, a DuPont Analysis is done. This traces the variations in its profit margin, the productivity of its assets, or the financial leverage. The reduction in the ROE is mainly due to the

Dupont Analysis			
Financial Year	2018	2019	2020
Net profit margin (%)	27%	33%	31%
Asset turnover ratio (%)	24%	25%	20%
Financial leverage ratio (%)	126%	122%	117%

Company's financial leverage which has decreased from 25% to 20% as the KW effectively generated less revenue from its assets than in more recent years.

Recommendations

Due to COVID-19, the outlook for the Jamaican economy continues to be uncertain. The recent spikes in COVID-19 cases have caused the government to stipulate tighter curfew hours. Businesses are therefore at risk of loss of activity and business and consumers' confidence have deteriorated. Vaccination administration has been underway since March 2021, but it will be some time before we achieve herd immunity. Moreover, the logistics industry, is quite sensitive to changes in the global economy as evidenced by a decrease in revenues.

Consequently, Kingston Wharves Limited is recommended as a **Sell**. Utilizing the market Enterprise Value approach, the Company is valued at \$40.20 per share, which is below the stock price of \$43.93 as at April 29, 2021. This technique is used because of the capital-intensive nature of the business. In addition, utilizing the market multiples as a valuation technique illustrates that the Price to Earnings ratio for Kingston Wharves of 27.96 times is above the Main Market Harmean Average of 17.68 times.

Appendix

Table 3: Top 10 Shareholders as at December 31, 2020

Top 10 Shareholders as at December 31, 2020		
NAMES	SHAREHOLDING	% OF CAPITAL
JAMAICA PRODUCERS GROUP LTD	600,736,635	42%
S.B.D. LLC	300,689,810	21%
KINGSTON PORTWORKERS SUPERANNUATION FUND	159,665,745	11%
SAJE LOGISTICS INFRASTRUCTURE LIMITED	128,207,690	9%
MARITIME & TRANSPORT SERVICES LTD	68,125,418	5%
SAGICOR POOLED EQUITY FUND	32,859,889	2%
LANNAMAN & MORRIS (SHIPPING) LTD	28,845,258	2%
NCB INSURANCE CO LTD. - A/C WT 181	9,000,000	1%
SEAFREIGHT LINE LTD	6,029,108	0%
SJIML A/C 3119	6,000,000	0%
	1,340,159,553	94%

Table 4: Abridged Three Year Income Statement ended December 31, 2020

Kingston Wharves Limited (KW)					
In Millions of JMD except Per Share 12 Months Ending	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	Change (%)	Change (\$)
Revenue	7,253.6	7,898.2	7,138.3	-10%	-759.9
- Cost of Revenue	3,753.1	3,853.9	3,798.6	-1%	-55.3
Gross Profit	3,500.5	4,044.3	3,339.8	-17%	-704.5
- Operating Expenses	1,040.3	975.7	487.0	-50%	-488.7
+ Selling, General & Admin	1,199.8	1,203.4	1,067.5	-11%	-135.9
+ Other Operating Expense	-159.5	-227.7	-580.5	155%	-352.8
Operating Income (Loss)	2,460.2	3,068.6	2,852.8	-7%	-215.8
- Non-Operating (Income) Loss	220.9	139.3	154.9	11%	15.6
+ Interest Expense, Net	215.2	177.9	154.9	-13%	-23.0
+ Foreign Exch (Gain) Loss	2.2	0.0	0.0		0.0
+ (Income) Loss from Affiliates	3.6	-38.6	0.0	-100%	38.6
Pretax Income (Loss), Adjusted	2,239.2	2,929.3	2,697.9	-8%	-231.4
- Abnormal Losses (Gains)	0.0	-34.3	0.0	-100%	34.3
Pretax Income (Loss), GAAP	2,239.2	2,963.6	2,697.9	-9%	-265.8
- Income Tax Expense (Benefit)	268.1	326.1	422.0	29%	95.8
Income (Loss) Incl. MI	1,971.2	2,637.5	2,275.9	-14%	-361.6
- Minority Interest	25.7	36.7	38.2	4%	1.5
Net Income, GAAP	1,945.5	2,600.8	2,237.7	-14%	-363.1
EPS	1.36	1.82	1.56		

Table 5: Abridged Three Year Balance Sheet as at December 31, 2020

Kingston Wharves Ltd (KW)					
In Millions of JMD except Per Share 12 Months Ending	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	Change (%)	Change (\$)
Total Assets					
+ Cash, Cash Equivalents & STI	5,019.5	5,923.5	6,934.5	17%	1,011.0
+ Accounts & Notes Receiv	492.7	577.2	651.0	13%	73.8
+ Inventories	392.0	433.0	413.9	-4%	-19.2
+ Other ST Assets	697.5	270.4	60.7	-78%	-209.7
Total Current Assets	6,601.7	7,204.1	8,060.1	12%	856.0
+ Property, Plant & Equip, Net	22,608.0	22,530.6	27,419.5	22%	4,888.8
+ LT Investments & Receivables	128.5	128.5	537.1	318%	408.6
+ Other LT Assets	2,118.7	2,717.5	2,216.8	-18%	-500.6
Total Noncurrent Assets	24,855.1	25,376.6	30,173.4	19%	4,796.8
Total Assets	31,456.8	32,580.7	38,233.5	17%	5,652.8
Liabilities & Shareholders' Equity					
+ Payables & Accruals	1,946.4	1,510.6	1,432.8	-5%	-77.7
+ ST Debt	503.8	581.6	529.1	-9%	-52.5
Total Current Liabilities	2,450.2	2,092.2	1,961.9	-6%	-130.3
+ LT Debt	2,273.6	1,932.1	1,332.0	-31%	-600.1
+ Other LT Liabilities	1,825.9	1,785.1	2,141.2	20%	356.1
Total Noncurrent Liabilities	4,099.5	3,717.1	3,473.2	-7%	-244.0
Total Liabilities	6,549.7	5,809.3	5,435.1	-6%	-374.2
+ Share Capital & APIC	15,851.7	15,873.8	20,949.1	32%	5,075.3
+ Retained Earnings	8,697.8	10,503.0	11,416.5	9%	913.4
+ Other Equity	216.4	216.6	216.8	0%	0.2
Equity Before Minority Interest	24,765.9	26,593.5	32,582.3	23%	5,988.9
+ Minority/Non Controlling Interest	141.2	177.9	216.1	21%	38.2
Total Equity	24,907.1	26,771.4	32,798.4	23%	6,027.1
Total Liabilities & Equity	31,456.8	32,580.7	38,233.5	17%	5,652.8

Table 6: Abridged Three Year CashFlow Statement for the year ended December 31, 2020

Kingston Wharves Ltd (KW JA)					
In Millions of JMD except Per Share	FY 2018	FY 2019	FY 2020	Change	Change
12 Months Ending	12/31/2018	12/31/2019	12/31/2020	(%)	(\$)
Cash from Operating Activities					
+ Net Income	1,945.5	2,600.8	2,237.7	-14%	-363.1
+ Depreciation & Amortization	761.8	830.2	805.4	-3%	-24.8
+ Non-Cash Items	-67.2	-162.0	-253.2	56%	-91.2
+ Chg in Non-Cash Work Cap	205.2	-623.4	51.4	-108%	674.9
Cash from Operating Activities	2,845.4	2,645.6	2,841.3	7%	195.7
Cash from Investing Activities					
+ Change in Fixed & Intang	-657.7	-412.0	-691.9	68%	-279.9
+ Net Change in LT Investment	-61.6	0.0	0.0		0.0
+ Other Investing Activities	-286.6	-69.6	-77.5	11%	-7.9
Cash from Investing Activities	-1,005.9	-481.6	-769.4	60%	-287.8
Cash from Financing Activities					
+ Dividends Paid	-586.2	-686.1	-729.4	6%	-43.3
+ Cash From (Repayment) Debt	-111.8	-588.2	-683.7	16%	-95.4
Cash from Financing Activities	-740.5	-1,267.5	-1,413.1	11%	-145.6
Effect of Foreign Exchange Rates	0.0	59.2	274.7	364%	215.5
Net Changes in Cash	1,098.9	955.7	933.5	-2%	-22.2
Cash Paid for Taxes	-60.4	21.0	-26.7	-227%	-47.6
Cash Paid for Interest	216.0	172.0	125.1	-27%	-46.9

Table 7: Ratios

Kingston Wharves Limited (KW)			
Ratios	2018	2019	2020
Liquidity Ratios			
Current Ratio (times)	2.69	3.44	4.11
Quick Ratio (times)	2.25	3.11	3.87
Cash Ratio (times)	2.05	2.83	3.53
Solvency Ratios			
Debt to EBITDA (times)	0.86	0.64	0.51
Debt to assets (times)	8.83	7.72	4.87
Debt to capital (times)	10.03	8.58	5.37
Financial leverage ratio (%)	1.26	1.22	1.17
Cash flow to debt (times)	1.02	1.05	1.53
Interest coverage ratio (times)	14.98	22.11	23.62
Profitability			
Gross profit margin (%)	48%	51%	47%
Operating profit margin (%)	34%	39%	40%
Pretax profit margin (%)	31%	38%	38%
Net profit margin (%)	27%	33%	31%
Return on assets (%)	6.39	8.12	6.32
Return on equity (%)	8.15	10.13	7.56

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