

Jetcon Corporation Limited

PLEASE SEE **IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX**

Executive Summary

Jetcon Corporation Limited (JETCON) is domiciled in Jamaica and has its registered offices at 2 Sandringham Avenue Kingston 10 Jamaica. Effective March 24, 2016 JETCON was listed on the Junior Market at \$2.25 (split-adjusted price \$0.75), subsequently, on June 22, 2017 JETCON completed a 3 for 1 stock split. The main activities of JETCON are the importation and sale of motor vehicles and parts.

Profits have increased at a CAGR of 10.57% to \$60.30 million for the period under review (FY 2015 to FY 2019) and peaked in FY 2017 at \$153.79 million. The primary reasons for the decline in profits are deterioration in revenue and margins. Revenue peaked in FY 2017 at \$1.18 billion while gross profit margin peaked the same year at 18.84%, significantly above its five-year average of 16.13%. Furthermore, for FY 2019 profits tumbled 52.36% or \$31.58 million to \$60.30 million, the primary reason for the decline was a contraction in net profit margin which fell from 7.91% in FY 2018 to 5.88% in FY 2019.

JETCON's peak closing price was on June 26, 2018 at \$6.10, shortly after its stock split and its closing low was \$0.75 on its first day of trading March 24, 2016. JETCON now trades at a trailing 12-month P/E and P/B of 9.87x and 1.09x respectively. The company's P/B ratio has steadily declined since FY 2017 due to steady growth in equity and its stock price decline. **Of note, all per share information and relevant calculations are done using the post stock split shares outstanding, therefore the 'actual' closing high is \$16.97.**



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Recent Developments

In Q4 FY 2019 JETCON was able to produce marginal revenue growth of 4.08% or \$10.94 million to \$279.68 million. The company was able to contain expenses resulting in Q4 FY 2019 profits of \$14.88 million versus a loss of \$3.96 million for the same period last year. Q4 FY 2019 was the lone quarter in which revenue improved for FY 2019.

Key Financial Data

	2015	2016	2017	2018	2019	CAGR
BVPS	0.18	0.50	0.74	0.86	0.94	50.49%
EPS	0.27	0.18	0.26	0.16	0.10	-21.34%
Dividend Per Share		-	0.02	0.04	0.03	13.39%
Stock Price		2.00	4.81	3.04	1.69	-5.53%
JSE Junior Market	1,791.05	2,593.71	2,732.06	3,246.84	3,348.97	8.89%
Revenue	523,245,799	857,044,456	1,176,584,124	1,161,472,587	1,025,926,150	18.33%
Gross Profit	87,597,870	153,188,388	221,696,959	162,299,575	135,673,616	11.56%
Operating Expense	37,995,834	51,299,540	69,448,442	71,293,363	76,511,252	19.12%
Operating Profit	55,309,963	105,074,702	156,113,615	94,717,741	63,955,865	3.70%
Pre-tax Profit	50,612,200	103,169,495	153,846,485	91,941,469	60,303,995	4.48%
Profit	40,349,411	98,987,289	153,786,485	91,881,469	60,303,995	10.57%
PP&E	30,504,360	35,827,423	68,724,121	81,903,972	135,729,469	45.24%
Inventory	84,479,822	250,826,759	393,821,450	434,648,425	444,682,692	51.47%
Current Assets	113,237,240	297,263,645	469,015,868	480,854,449	544,858,628	48.11%
Non-Current Assets	30,864,271	35,837,768	68,769,899	82,008,362	135,822,778	44.84%
Current Liabilities	33,490,023	39,086,940	92,285,768	58,310,973	104,041,048	32.76%
Non-Current Liabilities	3,907,751	-	12,465,743	-	29,300,606	65.48%
Total Liabilities	37,397,774	39,086,940	104,751,511	58,310,973	133,341,654	37.41%
Total Assets	144,101,511	333,101,413	537,785,767	562,862,811	680,681,406	47.42%
Debt	11,736,738	2,655,579	19,054,235	4,746,845	38,740,492	34.79%
Equity	106,703,737	294,014,473	433,034,256	504,551,838	547,339,752	50.49%

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	2015	2016	2017	2018	2019	AVERAGE
Ratios						
Gross Margin	16.74%	17.87%	18.84%	13.97%	13.22%	16.13%
Operating Margin	10.57%	12.26%	13.27%	8.15%	6.23%	10.10%
Net Profit Margin	7.71%	11.55%	13.07%	7.91%	5.88%	9.22%
Revenue Growth	49.91%	63.79%	37.28%	-1.28%	-11.67%	27.61%
Current Ratio	3.38	7.61	5.08	8.25	5.24	5.91
Quick Ratio	0.86	1.19	0.81	0.79	0.96	0.92
Debt-to-Equity	0.11	0.01	0.04	0.01	0.07	0.05
Inventory Turnover	5.58	4.20	2.96	2.41	2.02	3.44
Receivables Turnover	32.34	31.75	25.11	25.58	17.10	26.38
ROE	46.63%	49.40%	42.30%	19.60%	11.47%	33.88%
ROA	30.25%	41.49%	35.32%	16.70%	9.70%	26.69%
Payout Ratio		0.00%	8.97%	21.88%	29.03%	14.97%
P/E		11.11	18.50	19.00	16.31	16.23
P/B		3.97	6.48	3.52	1.80	3.94
Dividend Yield			0.53%	0.87%	1.33%	0.91%
JSE Junior Market Performance			5.33%	18.84%	3.15%	12.09%
Stock Performance			140.50%	-36.80%	-44.54%	51.85%

Financial Overview

Revenue has increased at a CAGR of 18.33% for the period under review (FY 2015 to FY 2019). However, in FY 2019 JETCON's revenue declined \$135.55 million or 11.67% to \$1.03 billion. FY 2019 is the second successive year JETCON experienced revenue decline, which accelerated from 1.28% in FY 2018. JETCON endured six consecutive quarters of revenue decline starting in Q3 FY 2018, however as indicated earlier it posted a marginal increase in Q4 FY 2019. Net Profit has increased at a CAGR of 10.57% for the period under review. This was due to earnings deteriorating in FY 2018 and FY 2019 by 40.25% and 34.37% respectively.

At the end of FY 2019 JETCON recorded inventory of \$444.68 million. Inventory has been the most significant component of total assets accounting for 77.22% and 65.33% in FY 2018 and FY 2019 respectively. Inventory for JETCON peaked in Q3 FY 2018 at \$481.60 million. The primary component of inventory is motor vehicles. **The restriction on inventory growth indicates that the company does not expect a significant increase in revenue.** The most significant contributor to current liabilities and total liabilities is payables, an indication of JETCON's relatively low leverage. JETCON experienced peak long-term obligations of \$23.90 million in FY 2019 which is relatively insignificant given the company's current equity. This figure represents a loan from JMMB for \$42 million received September 2019 payable over 48 months secured at 9% per annum. Meanwhile, equity has increased at a CAGR of 66% for the period under review the main reason for this growth has been consistent earnings. Additionally, in FY 2016 JETCON raised capital in its IPO increasing share capital to \$88.82 million.

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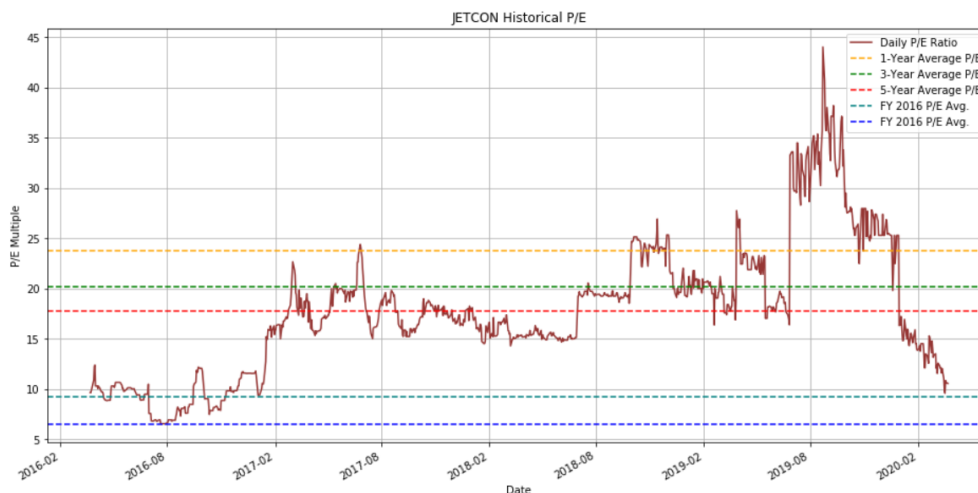
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Inventory turnover has trended lower since peaking in FY 2015 at 5.58x and has since reached a low of 2.02x in FY 2019. The current and quick ratios are 5.24x and 0.96x, respectively as at the end of FY 2019. The current ratio being well above 1x indicates short-term liabilities can be readily met furthermore, the quick ratio of 0.96x also supports this fact. JETCON's cash ratio has been relatively low at 0.10x at the end of FY 2019 but given that JETCON has little to no debt the negative implication of a low cash ratio is unlikely to be meaningful. **Debt-to-Equity has been relatively low averaging 0.05x for the period under review and is currently at 0.07x indicating that long-term liabilities can be readily met.**

JETCON grew margins for the period FY 2014 to FY 2017. However, in FY 2018 and 2019 JETCON experienced a deterioration in gross, operating and net profit margins, which all fell to their lowest levels for the period under review. Revenue also fell 1.28% and 11.67% in FY 2018 and FY 2019 respectively. ROE and ROA have been relatively high for the period's FY 2015 to FY 2017 however, both faced steep declines in FY 2018 and 2019.

Forecast and Valuation

We expect a material decline in JETCON's FY 2020 revenue and profits due to a decrease in economic growth associated with COVID-19. Furthermore, JETCON's growth was fading since FY 2018. Therefore, a decline in economic growth is expected to exacerbate the revenue decline. **We used the relative value approach to arrive at our base case target of \$0.75.** Our base case assumes that investors' sentiment towards JETCON becomes more pessimistic, with the stock trading back towards its FY 2016 average P/E. We see this as likely for many reason chief among them is lower margins, declining earnings and overall negative market sentiment. **For our lower-end price target, we applied expected FY 2020 EPS to JETCON's P/E ratio low of 6.55x, resulting in a price target of \$0.53.** Meanwhile, for the upper-end price target, we applied the average P/E since listing to our forecast of FY 2020 EPS to arrive at an upper price target of \$1.45.



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Outlook

Our outlook on JETCON is negative, given recent data and expectations for challenges in the used cars industry. As mentioned previously, the decline in revenue accelerated in FY 2019 to 11.67%, furthermore operating and net profit margins contracted to the lowest levels for the period under review. These weaknesses experienced in crucial metrics for the company drives our negative outlook. We expect margin contraction to continue in FY 2020 and a further decline in revenue in the near to medium-term. Therefore, given our expectation for weak economic performance in the near-term, which is likely to have an outsized impact on JETCON's industry, we see the probability of a decline as highly possible.

Key Risks to Our Price Target

A critical risk to our price target is JETCON is unable to meet our expectations for gross profit margins and revenue. We used conservative estimates for revenue and profits for reasons previously discussed, chief among them is the economy facing a more substantial impact from COVID-19 than expected. However, if the decline in revenue is materially worse than our expectations, the stock could underperform our already negative outlook.

Recommendation:

We recommend a **STRONGLY UNDERWEIGHT** rating on JETCON at this point given that the stock trades significantly above our base case price target. In our projections, we were conservative given recent performance indicating an inflexion point. However, we note that JETCON's fortunes could be materially worse than our current forecast and market sentiment could continue to turn negative, resulting in the stock declining to our lower price target. **Of note, while we expect near-term challenges, the company is financially stable with a low debt to equity ratio and a high current ratio.**

Source: <http://www.Jamstockex.com>, *JMMB Investment & Research, Bloomberg, Various Company Financial Statements.*

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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