Wigton Windfarm Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

WIG was incorporated in April 2000 as a subsidiary of the Petroleum Corporation of Jamaica (PCJ) with the objective to develop and operate wind-powered renewable energy systems in Jamaica and to supply electricity produced by such systems to the Jamaica Public Service Company Limited (JPS) System. The Company listed on the Main Market of the Jamaica Stock Exchange in May 2019.

We recommend Wigton Windfarm Limited as MARKETWEIGHT as we believe the Shares are currently trading below our estimate of its fair value. This offer is suitable for investors seeking portfolio diversification and capital appreciation.

10 Largest Shareholders of Wigton Windfarm Limited as at Dec. 31, 2019

Shareholder	Shareholding	Percentage Ownership
Victoria Mutual Building Society	1,018,685,690	9.2608%
Mayberry Jamaican Equities Limited	737,586,783	6.7053%
National Insurance Fund	706,797,283	6.4254%
ATL Group Pension Fund Trustees NOM Ltd.	370,514,485	3.3683%
Geoffrey Forde	150,130,000	1.3648%
Pan Caribbean Fin. Services A/C #1388842	123,286,240	1.1208%
JCSD Trustees Services Ltd – SIGMA Equity	114,262,324	1.0387%
MF&G Trust & Finance Ltd – A/C 58	82,450,000	0.7495%
Prime Asset Management JPS Employees Superannuation	68,730,000	0.6248%
Sagicor Equity Fund	67,302,470	0.6118%
Total	**11,000,000,000 Ordinary Shares**	**100.00%**

Company Overview

WIG was incorporated in April 2000 as a subsidiary of PCJ with the objective to develop and operate wind-powered renewable energy systems in Jamaica and to supply electricity produced by such systems to the Jamaica Public Service Company Limited (JPS) System. The Company operates a wind farm in Rose

Hill, Manchester consisting of 44 wind turbines. This wind farm was built out in three phases: Wigton I, Wigton II and Wigton III.

Phase	Commercial Operations Date	# of Turbines	Rated Generating Capacity per Turbine	Total Generating Capacity	Termination date of PPA
Wigton I	April 2004	23	900kW	20.7MW	April 2024
Wigton II	December 2010	9	2MW	18MW	Dec. 2030
Wigton III	May 2016	12	2MW	24MW	March 2036

The electricity generated by Wigton is sold to JPS under three Power Purchase Agreements. (PPA). Payment for energy supplied to JPS is determined by a formula fixed by the relevant PPA and is different in each PPA. The Company views this pricing formula as highly confidential and thus has not made this information public as they believe such disclosures may be potentially detrimental to its competitive interest in bidding for future generating capacity.

WIG has exclusively invested in wind energy generation to date, but its Articles of Incorporation allow it to engage in the production of energy from any and all renewable energy sources.

Financial Performance

Profitability

WIG reported revenues of $1.83B for the nine months ended December 31, 2019, a 6.4% or $125.01M decrease year-over-year. The decline in revenues was driven by a 25.6% fall in production due to a decline in average wind speed from 8 meters per second in 2018 to 7 meters per second in 2019. Availability of the wind turbines was 4.6% better in 2019, at 91% for the period. Cost of sales amounted to $592.14M, a 9.0% increase, which resulted in gross profits of $1.24B, which was down 12.3% y-o-y. The increase in cost of sale was attributable to additional depreciation expense during the period. Accordingly, the gross profit margin fell to 67.6%, down from 72.2% in the comparable period of the previous financial year.

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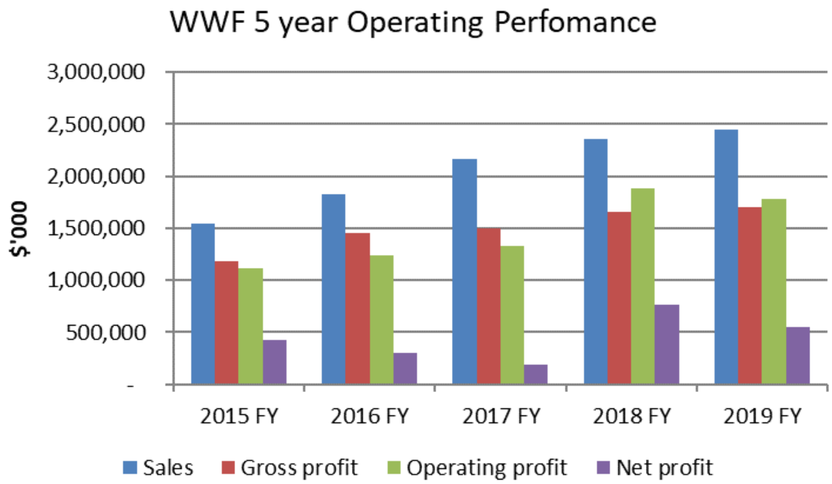
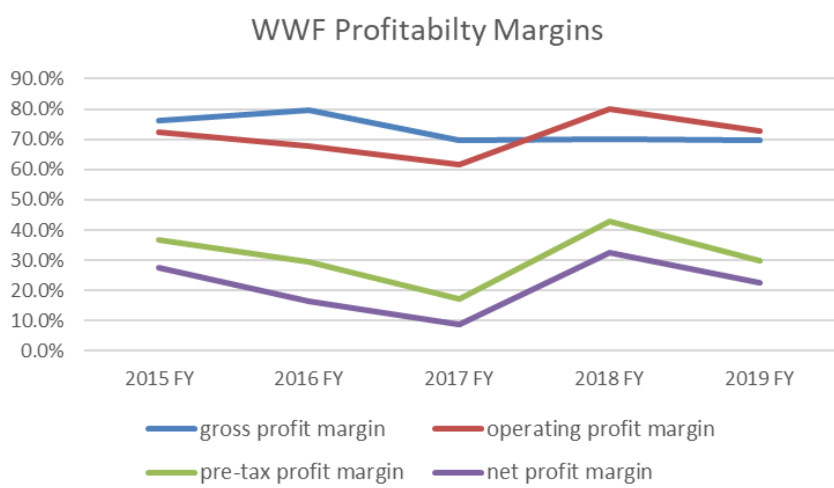


Other income fell by almost a half (49.8%) to $233.57M while general & administrative expenses rose by 7.4% to $266.40M. Operating profit fell 26.0% to $1.20B and as a result the operating profit margin moved from 83.3% to 65.8%. EBITDA for the period amounted to $1.69B, down 18.6% or $386.72M year-over-year. Finance costs fell 41.9% to $511.96M even as interest expense rose 51.8% to $382.75M. Finance costs declined as WIG refinanced its USD-denominated debt to JMD in December 2018, removing exposure to foreign exchange translation gains or losses. The interest coverage ratio fell to 3.14x, down from 6.45x in the comparable period of the previous financial year.



Pre-tax profits amounted to $691.62M, down 7.3% year-over-year, resulting in net profit of $525.63M, also down 7.3% from the prior year period. The net profit margin stood at 28.7%, marginally down from 29.0% in the comparable period of the previous financial year.

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Liquidity & Solvency

As at Dec. 31, 2019, WIG's total assets amounted to $10.27B, up 5.3% or $513.32M y-o-y. This increase was driven by a 94.8% or $1.11B increase in cash and cash equivalents to $2.28B. Partially offsetting the increase in cash was a 5.8% decline in property, plant & equipment to $7.60B and a 33.3% decline in accounts receivable to $261.64M.

Assets were funded by $6.85B in total liabilities and $3.42B in shareholders' equity. Liabilities were relatively flat year-over-year as current liabilities rose 182.1%, or $623.17M, to $965.41M while non-current liabilities fell 9.8%, or $641.9M, to $5.89B. Current liabilities rose due to the Series A Bond due December 2020 for $710M moving from a long-term debt to a current liability. Long-term debt amounted to $5.56B, down 12.5% or $793.42M while short-term debt rose $716.75M to $731.61M. Taxation payable amounted to $151.59M, down 15.3% while deferred tax liabilities rose 420.9% to $216.49M.

Total equity rose 18.4%, driven by a 19.8% or $532.05M increase in retained earnings to $3.22B. This increase drove an improvement in WIG's leverage, as the debt-to-equity ratio fell from 2.20x a year prior to 1.84x as at Dec. 31, 2019.

Wigton enjoys healthy cash generation, evidenced by the $1.46B in net cashflows from operating activities in the 9M2020 period, down 1.9% from the $1.49B inflow in the previous year period. Cash used in financing activities amounted to $351.15M, down 50% year-over-year as the prior year period saw a net repayment in loans of $465.43M. Cash used in investing activities amounted to $65.47M, down 25.5% year-over-year, as interest received rose 173.4% to $35.99M. WIG maintains sufficient liquidity as the cash ratio stood at 2.36x, down from 3.41x a year prior while the current ratio stood at 2.69x, down from 4.74x as at Dec. 31, 2018.

Major Risk Factors

Regulatory risk – WIG operates in a heavily regulated sector, subject to government policy changes that may have a material impact on the Company. The Government has been working on an Integrated Resource Plan (IRP) which will serve as a roadmap for the development of a modern energy sector with a greater reliance on renewable energy generation. The Government's Vision 2030 National Development Plan and the National Energy Policy has set a target to produce 20% of Jamaica's energy needs from renewables by 2030 and recently, the Prime Minister has stated the intention to increase the target to 50% by 2030. A departure from this push for renewable energy generation by future governments could prove to be a major hindrance to WIG's expansion goals.

Hurricane, Fire and other Acts of God – A catastrophic event such as a hurricane or earthquake could impact the economic activity of Jamaica and the operations of the Company. The Company has, and intends to maintain, insurance against physical loss or damage to operations. However, such insurance may be inadequate to compensate the Company for all loses which may incur in such events. If such catastrophic events were to hit Jamaica, JPS's transmission and distribution network may also be crippled. In such a case, JPS could claim force majeure under the PPAs with WIG and would not be obligated to off-take power from WIG even if WIG may be able to generate electricity. WIG has no legal right to sell to end users and has no transmission and distribution network of its own. WIG's insurance would not cover losses in such a case.

WIG generates power from the wind and as such, is dependent on the strength and consistency of wind reaching each plant, this may vary from time to time due to climatic conditions. Whilst the Company has selected sites that are supported by historical data, in the face of global warming, weather patterns may change.

Counterparty risk – JPS has the exclusive licence for transmission and distribution of electricity. As such, JPS is WIG's only customer. If JPS is unable to pay WIG or refuses or otherwise fails to off-take or pay for power produced, then WIG's cash flow would be materially affected. If JPS were to suffer significant financial losses, WIG is also likely to suffer the same fate.

Power Purchase Termination Risk – On termination of a PPA, WIG's generation capacity under that PPA will become unutilized. Under the EA 2015, WIG would not be able to enter a new PPA to replace the lost capacity; instead the GPE must initiate a new competitive bidding process to select an IPP to supply the lost capacity. A similar process would apply to all IPPs. As such, there is no guarantee that the company can replace generation capacity that it would have supplied prior to the termination of a PPA. The loss of contract capacity would have an adverse impact on WIG's revenue, growth and future prospects.

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Investment Positives and Negatives

Positives	Negatives
WIG offers portfolio diversification opportunities for investors by providing exposure to the burgeoning alternative energy sector	WIG has only one customer in JPS and as such faces significant concentration risk
WIG is one of the most heavily traded stocks on the JSE with an average daily volume greater than 20M shares,	WIG cannot on its own accord decide to grow its business as it must wait on the Government to make calls for tender for new generating capacity and then successfully bid to fill this new capacity demand.
The Company has long-term Power Purchase Agreements with JPS which provide a relative high level of certainty around future revenue generation	Competition has grown since the Company started operations in 2004. In 2015, WIG was unsuccessful in its bid to win the contract for 37MW in new generation capacity.
	The Government has mandated that no one shareholder may hold more than 10% of the company. With fragmented ownership, the charting of the Company's future may be more difficult than otherwise if the Board is unable to garner majority consensus for it vision for the future.

Outlook

We anticipate very modest growth in revenues going forward based on the current generating capacity. Growth, if any, would be driven by foreign exchange movements to the favour of the Company and improvements in efficiency in electricity generation. Whilst the general economy is feeling the brunt of the lockdown protocols stemming from the COVID-19 pandemic, we believe that its impact on WIG will be somewhat mitigated by the security WIG's PPA's with JPSCO provides. As discussed prior, WIG's only client is JPSCO and as such, its long-term viability is intricately linked to JPSCO.

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In a Jamaica Gleaner report[1], JPSCO has reported a 2.5% decline in overall electricity usage for March 2020 which was partially offset by a 3% increase in residential consumption. JPSCO has seen significant declines in consumption by hotels and schools, which have been closed due to the COVID-19 outbreak while consumption at other businesses have declined due to staff working from home and/or shorter opening hours. In a subsequent Jamaica Observer article[2], JPSCO was reported as stating that it had observed a 10% decline in overall sales due to the pandemic thus far, further adding that if it were to persist it could put the company at risk. Whilst JPSCO combats the falling revenues, it also stands to benefit from a decline in costs as with low global output, fuel costs have seen a marked decline in the past few months.

Valuation

As at December 31, 2019, JPSCO was capitalized with US$461.55M in shareholders' equity, up 4.6% year-over-year. The company is modestly indebted with a debt-to-equity ratio of 1.38x. JPSCO maintains strong liquidity as evidenced by an current ratio of 1.38x, which compares to 1.32x a year prior. The company also maintains the ability to service its debt obligations as expressed by an interest coverage ratio of 1.31x.

JPSCO Abridged Financials

US'000	2018	2019	% change
Revenue	908,254	881,153	-3.0%
Operating Profit	77,611	83,614	7.7%
Net Profit	31,038	23,143	-25.4%
Total Assets	1,151,249	1,332,640	15.8%
Total Liabilities	710,345	871,088	22.6%
Shareholders' Equity	441,084	461,552	4.6%
Total Debt	456,282	637,097	39.6%
Cash Ratio	0.11x	0.15x	
Current Ratio	1.32x	1.38x	
Debt/Equity	1.03x	1.38x	
Interest Coverage	1.65x	1.31x	

Due to the current economic slowdown and decline in energy consumption, we have forcasted revenues of $2.2B for the 2020FY and net income of $564.72M. For the 2021FY we are forecasting revenues of $2.32B and net income of $701.8M which corresponds to an earnings per share of $0.06. Shareholders' equity is estimated at $4.2B which corresponds to a book value per share of $0.38. Utilising the Historical P/E and P/B multiples yielded prices of $0.88 and $1.14 per share, respectively. ***Averaging these estimates gives us an estimated fair value of $1.02 per share, which compares to the closing price on April 30, 2020 of $0.71.***

[1] Jamaica Gleaner (2020, April 21). *JPS Says High Bills Being Driven by Increased Customer Usage.* http://jamaica-gleaner.com/article/news/20200421/jps-says-high-bills-being-driven-increased-customer-usage

[2] Jamaica Gleaner (2020, April 21). *JPS sees 10 per cent decline in revenues as a result of COVID-19.* http://www.jamaicaobserver.com/business-observer-corporate-listing/jps-sees-10-per-cent-decline-in-revenues-as-a-result-of-covid-19_193023?profile=1056

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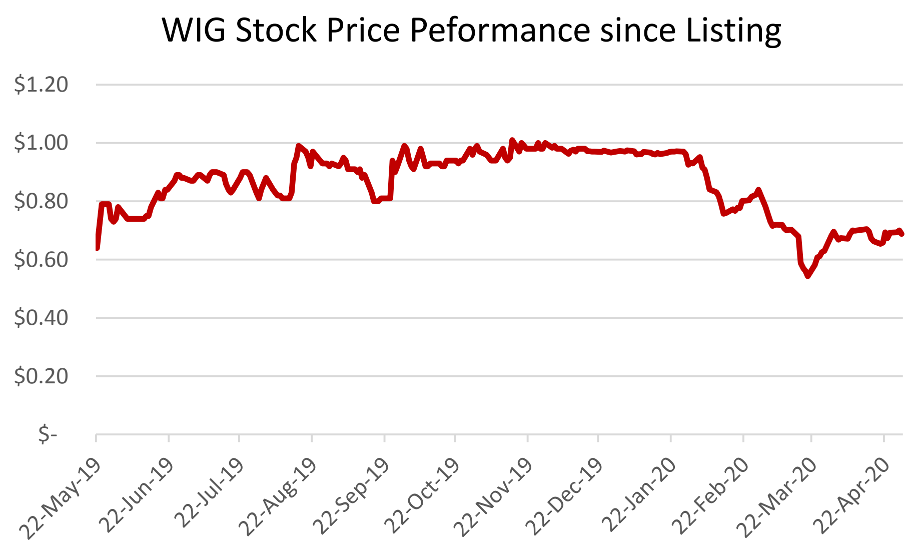
Recommendation

We recommend Wigton Windfarm Limited as **MARKETWEIGHT** as we believe the Shares are currently trading below our estimate of its fair value. This offer is suitable for investors seeking portfolio diversification and capital appreciation. WIG is an attractive option for investors seeking to reduce volatility in their portfolio as evidenced by a low Beta of 0.441, driven by the relative inelasticity of energy demand. Liquidity risk is also relatively low given the large average daily trading volumes of the stock. Despite its low Beta, investors should be mindful of volatility in the share price over the short-term as weakening investor confidence in the broader financial market may impact WIG's stock price.



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Abridged Financials

J'000	Year ended March 31					%	9M ended Dec. 31		%
	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY	Change	2019 FY	2020 FY	Change
Sales	**1,543,970**	**1,831,149**	**2,162,412**	**2,356,766**	**2,447,595**	**9.0%**	**1,953,553**	**1,828,542**	**-6.4%**
Cost of Sales	366,231	375,017	658,005	704,416	740,162	7.1%	543,454	592,136	9.0%
Gross Profit	**1,177,739**	**1,456,132**	**1,504,407**	**1,652,350**	**1,707,433**	**9.8%**	**1,410,099**	**1,236,406**	**-12.3%**
Operating Expenses	209,995	337,267	339,658	404,121	433,539	19.0%	248,112	266,400	7.4%
Operating Profit	**1,116,255**	**1,242,386**	**1,334,961**	**1,885,149**	**1,776,888**	**41.2%**	**1,627,108**	**1,203,574**	**-26.0%**
Profit Before Taxation	566,154	538,331	370,769	1,007,793	727,362	171.8%	746,072	691,616	-7.3%
Profit for the year	**424,906**	**302,327**	**186,205**	**767,538**	**554,335**	**312.2%**	**567,015**	**525,628**	**-7.3%**
Total Assets	**7,071,863**	**10,934,690**	**10,623,513**	**9,357,156**	**9,632,750**	**-11.9%**	**9,758,276**	**10,271,599**	**5.3%**
Total Liabilities	**6,461,634**	**10,018,762**	**9,050,672**	**7,036,586**	**6,758,742**	**-22.3%**	**6,870,691**	**6,851,963**	**-0.3%**
Shareholder's Equity	**610,229**	**915,928**	**1,572,841**	**2,320,570**	**2,894,008**	**47.5%**	**2,887,585**	**3,419,636**	**18.4%**
Key Ratios									
Gross profit margin	76.3%	79.5%	69.6%	70.1%	69.8%		72.2%	67.6%	
Operating profit margin	72.3%	67.8%	61.7%	80.0%	72.6%		83.3%	65.8%	
Net Margin	27.5%	16.5%	8.6%	32.6%	22.6%		29.0%	28.7%	
Current Ratio (x)	2.80	0.69	1.23	1.03	9.74		4.74	2.69	
Debt/Equity (x)	9.90	9.06	5.52	2.90	2.17		2.20	1.84	

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financials, Jamaica Gleaner, Jamaica Observer

APPENDIX

IMPORTANT DISCLOSURES

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

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

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

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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