INVESTMENT AND SOVEREIGN RESEARCH March 3, 2025

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Transjamaican Highway Limited

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Executive Summary

Transjamaican Highway Limited		
Offer Price	$3.60	USD 0.0228
Target Price	$4.30	USD 0.0278
Potential Upside	19.6%	21.8%
YTD Change	-19.7%	-17.4%
TTM EPS	$0.39	USD 0.0025
Book Value per Share	$0.81	USD 0.0052
TTM P/E	9.6x	9.7x
P/B	4.6x	4.6x
Dividend Yield	5.0%	5.0%
Recommendation		**BUY**

Transjamaican Highway Limited ("TJH") is Jamaica's leading toll road operator. It manages Highway 2000 East-West under a long-term concession agreement.

Since its initial public offering ("IPO") in 2020, the company has expanded its network, improved operational efficiency, and enhanced financial performance. TJH now operates 77.95 km of tolled roadways, including the recently acquired Phase 1C (May Pen to Williamsfield), which increases the network by 50% and positions the company for further revenue growth.

The company has consistently delivered strong financial results, with revenues increasing at a CAGR of 16.2% since 2020 and operating profit growing by 41.5% over the past five years. The full acquisition of Jamaican Infrastructure Operator Limited ("JIO") has significantly reduced costs, leading to higher profit margins and improved cash flow generation. Additionally, TJH maintains a high dividend yield of 5.0%, among the highest on the Jamaica Stock Exchange ("JSE"), with dividends doubling since 2022.

TJH's growth outlook remains strong, supported by key drivers such as the expansion of Phase 1C, possible first right of refusal for future toll road projects, increasing demand for housing along the highway corridor, and rising electronic tolling adoption. The company also benefits from secondary revenue streams, including gas station partnerships, fibre-optic leases, and infrastructure services, contributing to long-term financial stability.

However, investors should consider potential risks, including delays in toll implementation for Phase 1C, regulatory uncertainties, competition from alternative free routes, and potential slowdown in domestic economic activities. Despite these risks, TJH's strong cash flows, cost efficiencies, and growth initiatives position the company for sustained long-term returns.

We recommend an **OUTPERFORM/OVERWEIGHT/BUY** rating based on these factors. TJH's ability to capitalise on growth opportunities, solid financial health, and strategic initiatives position the company for sustained long-term returns. Investors are well-positioned to benefit from TJH's continued operational efficiency, growing revenue streams, and future expansion plans.

Transjamaican Highway Limited

Company Overview

Transjamaican Highway Limited is a Jamaican company specialising in developing, operating, and maintaining tolled road infrastructure. Established in 2001, TJH operates the Highway 2000 East-West corridor, a key transportation corridor facilitating efficient travel between Kingston and major urban centres, including May Pen and Portmore (and now Williamsfield). The company plays a pivotal role in Jamaica's infrastructure landscape, supporting economic growth, trade, and mobility across the island.

TJH operates under a 35-year concession agreement (ending November 21, 2036) granted by the National Road Operating and Constructing Company Limited (“NROCC”), with an option to renew for an additional 35 years. This concession allows TJH to collect tolls and manage the highway in accordance with regulatory requirements and contractual obligations.

An international consortium, including Bouygues Travaux Publics, Vinci Construction, IFC, and Proparco, initially owned TJH. In December 2019, the Government of Jamaica, through NROCC, acquired full ownership of TJH, paving the way for a public offering of shares to Jamaican investors. The company is now listed on the Jamaica Stock Exchange (“JSE”) US Dollar Main Market, with a cross-listing on the J$ Main Market.

Operations and Management

While ownership has transitioned, operational continuity was maintained through Jamaican Infrastructure Operator Limited (“JIO”), a company jointly owned by Vinci Concessions S.A.S and Bouygues Travaux Publics. In December 2022, TJH completed the 51% acquisition of its operator, which significantly improved its cost structure and operational efficiency. In 2024, the Company acquired the remaining 49% outstanding shares.

The Company has played a pivotal role in modernising Jamaica’s infrastructure by providing a strategic transportation link between Kingston, St. Catherine, and Clarendon, reducing travel time and enhancing connectivity.

With the completion of Phase 1C (May Pen to Williamsfield, 28 km) in 2023, TJH now manages 77.95 km of tolled motorway. The company's operations span three corridors:

- T1 Corridor – 43.45 km (Kingston to May Pen)
- T2 Corridor – 6.5 km (Portmore to Kingston)
- Phase 1C Corridor – 28 km (May Pen to Williamsfield)

The Offer

The selling shareholder, the National Road Operating and Constructing Company Limited is offering up to 1,750,700,000 ordinary shares in Transjamaican Highway Limited, with the option to increase the total offer size to 2,501,000,000 shares in the event of oversubscription.

The shares are offered at a price of J$3.60 (US$0.0228) per share.

Of the total shares in the base offer, 700,280,000 shares (40%) are reserved for specific investors, while 1,050,420,000 shares (60%) are available to the general public. Reserved shares will be reallocated to the general public if they are not fully subscribed.

Upsize Option

NROCC has retained the discretionary right to increase the offer size by an additional 750,300,000 shares, bringing the total potential offering to 2,501,000,000 shares. This upsizing mechanism ensures that strong investor demand can be accommodated, allowing broader participation and increased public ownership in TJH.

Use of Proceeds

Since the shares being sold are existing and not newly issued, TJH will not receive any proceeds from this offer. Instead, the funds raised will go directly to NROCC, which intends to use the proceeds for the following purposes:

1. Cover the costs of the offer, estimated at J$182.40 million.
2. Allocate the remaining portion based on decisions made by NROCC and the Ministry of Finance, potentially supporting future infrastructure development initiatives.

This offer represents the final phase of NROCC’s divestment strategy. It marks the full transition of TJH into a publicly owned entity, enhancing liquidity, broadening shareholder participation, and strengthening the company's market positioning.

Transjamaican Highway Limited

Financial Performance Review

Profit and Loss Review

Transjamaican Highway Limited Income Statement ($M)	Historical FY20	FY21	FY22	FY23	FY24	Year-on-Year	5 Year CAGR
Revenue	**$ 45.4**	**$ 52.8**	**$ 65.0**	**$ 75.2**	**$ 82.8**	10.1%	16.2%
Revenue Growth	*-14.8%*	*16.2%*	*23.2%*	*15.7%*	*10.1%*		
Operating expenses	(31.0)	(34.1)	(39.9)	(22.4)	(21.0)	-6.2%	-9.2%
Administrative expenses	(1.4)	(1.2)	(1.7)	(8.4)	(9.6)	14.4%	63.4%
Total Expenses	**(32.4)**	**(35.3)**	**(41.7)**	**(30.9)**	**(30.7)**	-0.6%	-1.3%
Total Expenses Growth	*-13.2%*	*8.9%*	*18.1%*	*-25.9%*	*-0.6%*		
Operating Profit	**13.0**	**17.5**	**23.3**	**44.3**	**52.1**	17.6%	41.5%
Operating Profit Growth	*-18.7%*	*34.5%*	*33.5%*	*89.9%*	*17.6%*		
Finance costs	(17.1)	(15.3)	(14.8)	(14.5)	(13.9)	-4.2%	-5.0%
Net Loss on acquisition of subsidiary	-	-	(13.9)	-	-	N/A	N/A
Other gains	1.6	3.1	1.0	2.4	3.9	63.1%	23.9%
Net (loss)/profit before taxation	**(2.5)**	**5.3**	**(4.3)**	**32.2**	**42.1**	30.8%	N/A
Taxation	0.6	(1.4)	(2.9)	(8.2)	(10.7)	30.9%	N/A
Net (Loss)/Profit	**(1.9)**	**4.0**	**(7.1)**	**24.0**	**31.3**	30.7%	N/A

TJH's revenues grew 10.1% from US$75.2 million in 2023 to $US82.8 million in 2024. Over the period, revenues have grown at a compound annual growth rate ("CAGR") of 16.2% from the $45.4 million reported in 2020. Revenues have recovered since the pandemic, and the most recent results show revenue outturns ahead of projected revenues based on the prospectus that was issued in 2020.

Total expenses amounted to US$30.7 million in 2024, a 0.6% decline from the US$30.9 million reported in 2023. Total expenses declined at a CAGR of 1.3% from the US$32.4 million reported in 2020. In 2022, total expenses amounted to US$41.7 million, the highest level recorded since the company commenced operation. Operating expenses account for the lion's share of total expenses. At the end of the 2022 financial year, the Company acquired 51% interest in Vinci Concessions S.A.S and Bouygues Travaux Publics in JIO. The acquisition then allowed for the modification of the agreement with JIO, thus reducing the Company's costs by over 50% in subsequent years. Nevertheless, total expenses have always amounted to more than the projected amount in the 2020 prospectus.

Operating profit increased by 17.6% year-on-year to US$52.1 million (2023: US$44.3 million) and has grown at a CAGR of 41.5% from the US$13.0 million recorded in the 2020 financial year. Once other items are considered, the company has grown net profits year-on-year by 30.7% to US$31.3 million (2023: US$24.0 million) compared to a loss of US$1.9 million reported in 2020.

Transjamaican Highway Limited

Balance Sheet Review

Transjamaican Highway Limited Balance Sheet ($M)	Historical FY20	FY21	FY22	FY23	FY24	Year-on-Year	5 Year CAGR
Assets							
Non-current assets							
Property and equipment	$ 0.6	$ 0.7	$ 1.0	$ 1.1	$ 2.1	86.7%	37.3%
Right of use asset	0.1	-	0.2	0.1	-	-100.0%	-100.0%
Intangible assets	238.1	225.8	212.1	197.6	183.6	-7.0%	-6.3%
Deferred tax assets	22.1	20.7	19.2	15.3	9.6	-37.1%	-18.7%
Restricted cash	51.4	54.6	49.3	67.5	82.0	21.5%	12.4%
Total non-current assets	**312.2**	**301.8**	**281.9**	**281.6**	**277.4**	-1.5%	-2.9%
Current assets							
Inventories	0.0	-	0.2	0.2	0.2	-19.2%	111.5%
Other receivables	1.2	0.8	0.7	1.1	1.9	66.9%	12.2%
Cash and bank balances	7.1	6.7	5.4	7.2	14.4	101.0%	19.4%
Total current assets	**8.3**	**7.5**	**6.3**	**8.5**	**16.4**	93.6%	18.7%
Total assets	**320.5**	**309.2**	**288.1**	**290.1**	**293.9**	1.3%	-2.1%

Total assets declined at a negative CAGR of 2.1% from US$320.5 million in 2020 to US$293.9 million in 2024. However, total assets increase by 1.3% from the US$290.1 million reported in 2023. The main contributors to the decline over the 5-year period are the amortisation of the intangible asset (i.e., the concession agreement) and decline in deferred tax assets. This was offset by increased restricted cash (related to debt issuance in 2020) and cash and bank balances.

Transjamaican Highway Limited Balance Sheet ($M)	Historical FY20	FY21	FY22	FY23	FY24	Year-on-Year	5 Year CAGR
Liabilities							
Non-current liabilties							
Cumulative redeemable preference shares	26.0	24.2	24.4	24.1	24.0	-0.6%	-2.0%
Borrowings	213.2	207.0	199.9	191.8	182.5	-4.9%	-3.8%
Provisions	12.5	9.5	7.2	9.1	6.1	-33.5%	-16.5%
Lease liability	-	-	0.1	-	-	N/A	N/A
Total non-current liabilties	**251.7**	**240.8**	**231.7**	**225.0**	**212.5**	-5.6%	-4.1%
Current liabilities							
Cumulative redeemable preference shares	0.5	0.5	0.5	0.5	0.5	-2.7%	-2.5%
Borrowings	6.5	9.1	9.8	10.9	11.9	9.8%	16.4%
Provisions	1.2	0.9	1.9	0.0	0.9	2141.0%	-7.8%
Lease liability	0.1	-	0.1	0.1	-	-100.0%	-100.0%
Tax payable	-	-	1.7	2.9	0.9	-67.8%	N/A
Contract liabilities	0.8	0.8	0.8	0.7	0.6	-11.3%	-6.8%
Trade and other payables	2.6	3.1	1.6	1.1	1.3	18.6%	-16.5%
Total current liabilities	**11.7**	**14.3**	**16.5**	**16.1**	**16.1**	-0.4%	8.2%
Total Liabilities	**263.4**	**255.1**	**248.1**	**241.1**	**228.6**	-5.2%	-3.5%
Total Debt	**246.4**	**240.8**	**234.9**	**227.4**	**218.8**	-3.7%	-2.9%

Total liabilities declined from US$263.4 million in 2020 to US$228.6 million in 2024, a CAGR negative growth rate of 3.5%. The main reason for the decline over the years is the Company paying down its debts. Over the period, total debt contracted by US$27.5 million from US$246.4 million in 2020 to US$218.8 million in 2024.

In 2020, the Company issued US$225.0 million Senior Secured Notes due 2026 at a rate of 5.75%, which are listed on the Singapore Stock Exchange. These notes are secured by the concessionaire agreement. A requirement of the notes is the establishment of reserve accounts for Debt Servicing, Major Maintenance, and Operations and Management. As mentioned earlier, this represents 'Restricted Cash' on the balance sheet.

The Company also issued cumulative preference shares in 2020 amounting to J$2.7 billion at an 8% rate. These preference shares mature in 2028 and are subordinated to the debt notes mentioned before.

Cash Flow Statement Review

Transjamaican Highway Limited	Historical					Year-on-Year	5 Year CAGR
Cash Flow Statement	FY20	FY21	FY22	FY23	FY24		
Cash flow from operating activities							
Net (Loss)/Profit for the year	**$ (1.9)**	**$ 4.0**	**$ (7.1)**	**$ 24.0**	**$ 31.3**	30.7%	N/A
Adjustments for:							
Depreciation of property and equipment	0.1	0.1	0.1	0.3	0.3	12.5%	26.2%
Depreciation of right of use asset	0.1	0.1	0.0	0.1	0.1	-1.1%	-0.3%
Gain on disposal of property and equipment	0.0	(0.0)	-	(0.1)	(0.0)	-61.4%	N/A
Unrealized foreign exchange (losses)/gains	(0.9)	(1.3)	0.3	(0.1)	0.0	-133.0%	N/A
Amortization of intangible assets	11.3	12.3	13.7	14.5	13.9	-4.1%	5.5%
Interest income	(0.3)	(0.6)	(0.7)	(1.5)	(3.0)	109.9%	83.6%
Income tax charge	(0.6)	1.4	2.9	8.2	10.7	30.9%	N/A
Finance cost recognized in profit or loss	17.1	15.3	14.8	14.5	13.9	-4.2%	-5.0%
Increase in provisions	1.2	0.7	0.9	1.9	0.2	-89.3%	-36.4%
Operating cash flows before movements in working capital	26.2	31.9	24.8	61.9	67.5	9.1%	26.8%
Change in Working Capital	(1.0)	(3.1)	(2.9)	(3.0)	(3.0)	0.5%	31.1%
Cash generated from operations	**25.1**	**28.9**	**21.9**	**58.9**	**64.5**	9.6%	26.6%
Income tax paid	-	-	(0.2)	(3.1)	(7.0)	126.0%	N/A
Interest paid	(13.9)	(14.9)	(14.5)	(14.1)	(13.6)	-3.3%	-0.4%
Lease liability payments – interest	(0.0)	(0.0)	-	(0.0)	(0.0)	-47.8%	10.7%
Net cash provided by operating activities	**11.3**	**14.0**	**7.3**	**41.7**	**43.9**	5.3%	40.5%

Net cash provided by operating activities increased over the past five years, with significant increases over the last two years. The five-year CAGR was 40.5%, moving from $11.3 million in 2020 to $43.9 million in 2024 (2023: $41.7 million). Despite two years of losses during the period, the Company is resilient enough to always post positive cash flow from operations.

The primary item affecting net cash provided by operating activities is the non-cash amortisation of intangible assets (the concessionaire agreement), which will amount to zero by the end of

2036. In 2022, the net cash provided by operating activities amounted to US$7.3 million, directly due to the 51% acquisition of the subsidiary JIO.

The change in working capital is negative over the five-year period primarily due to limited operating assets relative to operating liabilities. This is typical of this type of business, with limited inventories and receivables.

Transjamaican Highway Limited Cash Flow Statement	Historical FY20	FY21	FY22	FY23	FY24	Year-on-Year	5 Year CAGR
Cash flow from investing activities							
Proceeds from disposal of property and equipment	0.0	0.0	0.0	0.1	0.0	-75.3%	116.6%
Interest received	0.3	0.6	0.7	1.5	3.0	109.9%	83.6%
Payments for property and equipment	(0.0)	(0.2)	(0.1)	(0.5)	(1.3)	194.1%	304.5%
Acquisition of subsidiary, net of cash acquired	-	-	(0.8)	-	-	N/A	N/A
Decrease/(Increase) in restricted cash	(40.5)	(3.2)	5.3	(18.2)	(14.5)	-20.0%	-22.6%
Net cash provided by/(used in) investing activities	**(40.2)**	**(2.7)**	**5.1**	**(17.1)**	**(12.8)**	-25.1%	-24.9%

Net cash used in investing activities declined from US$40.2 million in 2020 to US$12.8 million in 2024. The Company has limited capital expenditures over the period, and the bulk of the amount is associated with increased restricted cash, which is associated with the covenants of debt issued in 2020.

Transjamaican Highway Limited Cash Flow Statement	Historical FY20	FY21	FY22	FY23	FY24	Year-on-Year	5 Year CAGR
Cash flow from financing activities							
Lease liability payments - principal	(0.1)	(0.1)	-	(0.1)	(0.1)	16.7%	5.1%
Borrowings repaid	(148.2)	(4.1)	(6.6)	(7.6)	(8.6)	13.4%	-51.0%
Proceeds from borrowings	216.9	-	-	-	-	N/A	-100.0%
Dividends paid	(41.6)	(6.9)	(7.0)	(15.0)	(15.0)	0.0%	-22.5%
Net cash provided by/(used in) financing activities	**27.0**	**(11.1)**	**(13.6)**	**(22.6)**	**(23.7)**	4.5%	N/A
Net Increase In Cash And Cash Equivalents	**(2.0)**	**0.2**	**(1.3)**	**2.0**	**7.4**	278.9%	N/A
Cash And Cash Equivalents At Beginning Of Year	**9.1**	**7.1**	**6.7**	**5.4**	**7.2**	31.9%	-5.8%
Effect of foreign exchange rate changes	(0.1)	(0.5)	(0.0)	(0.2)	(0.2)	-20.9%	26.0%
Cash and Cash Equivalents At End Of Year	**7.1**	**6.7**	**5.4**	**7.2**	**14.4**	101.0%	19.4%

Net cash used amounted to US$23.7 million in 2024, a change from the $27.0 million net cash provided in 2020. In the 2020 financial year, the company successfully refinanced debt, which was listed on the Singapore Stock Exchange. In subsequent years, net cash used in finance activities was driven by debt and dividend payments. Notably, the US$41.6 million in dividends paid out in 2020 is a one-off item, as no dividend payments were made in 2019.

Cash and cash equivalents have increased from US$7.1 million in 2020 to US$14.4 million in 2024, representing a CAGR of 19.4% and a 101.0% increase over the 2023 amount of US$7.2 million.

Financial Statement Analysis

Operations[1]

Operations	FY20	FY21	FY22	FY23	FY24
Revenue per Vehicle	2.20	2.30	2.51	2.77	-
Revenue per Vehicle Change	-0.1%	4.5%	9.1%	10.3%	-
Op Ex per Vehicle	1.57	1.54	1.61	1.14	-
Op Ex per Vehicle Change	1.9%	-2.0%	4.6%	-29.4%	-
Operating Profit per Vechicle	0.63	0.76	0.90	1.63	-
Op Profit per Vehicle Change	-4.6%	20.9%	18.3%	81.1%	-
Fixed assets turnover	0.2 x	0.2 x	0.3 x	0.4 x	0.4 x
Total assets turnover	0.1 x	0.2 x	0.2 x	0.3 x	0.3 x

Over the period, revenue per vehicle has consistently increased, rising from US$2.20 in 2020 to US$2.77 in 2023, primarily driven by incremental toll rate adjustments. At the same time, operating expenses per vehicle have declined from US$1.57 in 2020 to US$1.14 in 2023, reflecting the cost efficiencies gained from the acquisition of JIO. This operational shift has significantly improved profitability, with operating profit per vehicle more than doubling, from an average of US$0.76 between 2020 and 2022 to $1.63 in 2023. Given the anticipated increase in traffic volumes in 2024, coupled with higher toll rates and stable cost structures, the 2024 figures are expected to reflect further growth in profitability.

Solvency

Solvency	FY20	FY21	FY22	FY23	FY24
Liquidity					
Current Ratio	0.7 x	0.5 x	0.4 x	0.5 x	1.0 x
Cash Ratio	0.6 x	0.5 x	0.3 x	0.4 x	0.9 x
Coverage					
EBITDA to Interest Exp	1.8 x	2.0 x	2.6 x	4.2 x	4.9 x
CFO to Interest Exp	0.7 x	0.9 x	0.5 x	2.9 x	3.2 x
Debt Service Coverage Ratio	0.1 x	1.5 x	1.7 x	2.7 x	2.9 x
Total Debt to CFO	21.9 x	17.2 x	32.4 x	5.5 x	5.0 x
Leverage					
Debt-to-assets	0.8 x	0.8 x	0.8 x	0.8 x	0.7 x
Debt-to-equity	4.3 x	4.4 x	5.9 x	4.6 x	3.4 x
Equity Multiplier	5.0 x	5.7 x	6.3 x	6.5 x	5.1 x

Until FY2024, the current and cash ratios remained below 1.0x, reflecting the company's low or negative working capital, which is typical for its business model due to minimal operating assets relative to operating liabilities. However, FY2024 saw a notable improvement, driven by a significant increase in cash balances resulting from higher revenues and stable operating expenses.

[1] The 2024 vehicle data was not provided in the Q4 2024 Unaudited results.

The company has also strengthened its ability to meet financial obligations, as demonstrated by higher Debt Service Coverage Ratios, reduced Total Debt-to-Cash Flow from Operations, and improved EBITDA and CFO-to-Interest Expense ratios. These improvements are directly linked to structural changes following the acquisition of JIO, which allowed TJH to renegotiate key operational expenses, enhancing cost efficiency.

Additionally, equity-based leverage metrics have improved significantly since the weak results of FY2022, supported by a combination of debt reduction and increased equity from accumulated profits. These improvements position TJH for greater financial stability and flexibility.

Profitability

Profitability	FY20	FY21	FY22	FY23	FY24
Return on revenues					
Operating Margin	28.6%	33.1%	35.9%	59.0%	63.0%
Pre-tax Profit Margin	-5.5%	10.1%	-6.6%	42.8%	50.8%
Net Profit Margin	-4.1%	7.6%	-11.0%	31.9%	37.8%
EBITDA Margin	53.9%	56.8%	57.2%	78.8%	80.3%
Return on investments					
Operating Return on Average Assets	4.2%	5.6%	7.8%	15.3%	17.9%
Return on Average Assets	-0.6%	1.3%	-2.4%	8.3%	10.7%
Return on Total Capital	-0.7%	1.3%	-2.5%	8.7%	11.2%
Return on Average Equity	-3.1%	7.2%	-15.2%	53.9%	54.8%

Return on revenues and return on investments show significant improvements and all profitability margins expanded in FY2023 and FY2024. The improvements are primarily driven by the strategic acquisition of JIO, which resulted in greater cost efficiency and higher operating margins. Additionally, increased traffic volumes and toll rate adjustments have contributed to higher revenue generation, further boosting profitability.

Looking ahead, return on investments is expected to continue improving as the Company maintains its dividend payout strategy, benefits from the ongoing amortisation of the concessionaire agreement, and further reduces total debt levels. These factors collectively enhance TJH's financial strength and long-term shareholder value.

ROAE DuPont Analysis	FY20	FY21	FY22	FY23	FY24
Net Profit Margin	-4.1%	7.6%	-11.0%	31.9%	37.8%
Asset Turnover	0.1 x	0.2 x	0.2 x	0.3 x	0.3 x
Return on Average Assets	-0.6%	1.3%	-2.4%	8.3%	10.7%
Equity Multiplier	5.0 x	5.7 x	6.3 x	6.5 x	5.1 x
Return on Average Equity	**-3.1%**	**7.2%**	**-15.2%**	**53.9%**	**54.8%**

The primary driver of profitability over the period has been the significant increase in net profit margins, which directly boosted return on average assets ("ROAA").

A high equity multiplier, resulting from the leveraged capital structure, has further increased the return on average equity (ROAE). The company's ability to maintain strong revenue growth and cost efficiencies has been crucial in maximizing shareholder returns. The consistent improvement in profitability ratios, particularly starting from FY2023, reflects the success of strategic initiatives, including the acquisition of JIO, adjustments to toll rates, and increased traffic volumes.

Cash Efficiency

Cash Performance	FY20	FY21	FY22	FY23	FY24
CFO to Revenue	24.8%	26.5%	11.2%	55.4%	53.0%
CFO to Operating Profit	86.7%	80.0%	31.1%	94.0%	84.1%
Cash Return on Assets	3.7%	4.4%	2.4%	14.4%	15.0%
Cash Return on Equity	18.4%	25.2%	15.4%	93.7%	76.8%
Cash Return on Total Capital	4.4%	4.7%	2.5%	15.1%	15.7%
Dividends Paid to CFO	369.1%	49.3%	96.5%	36.0%	34.2%

A review of the company's cash flow performance highlights its resilience, as it has consistently generated strong cash flows even during unprofitable periods in FY2020 and FY2022. Following the full acquisition of JIO, TJH has shown improved efficiency in converting revenues and operating profits into cash, which has strengthened its ability to return capital to shareholders. The cash returns on assets, equity, and total capital remain high, demonstrating the company's capacity to generate cash. Furthermore, dividends paid as a percentage of cash flow from operations have consistently exceeded 30% over the last two years, reflecting TJH's commitment to rewarding shareholders while also maintaining financial stability and efforts to reduce debt.

Outlook & Valuation

Macroeconomic Outlook[2]

Jamaica's real GDP growth over the next decade is expected to remain moderate, averaging between 1.5% and 2.5% per annum. Structural reforms, external economic conditions, and domestic policy decisions will influence the country's economic trajectory. While prudent fiscal management and measured monetary policies have contributed to macroeconomic stability, structural impediments such as high crime rates, low productivity, and limited human capital development continue to hinder the nation's long-term growth potential.

In the short to medium term (2025–2030), GDP growth will be driven by agriculture, tourism, manufacturing, and mining, alongside infrastructure development and digital transformation

[2] JMMB Group Research

initiatives. The government's focus on expanding tourism markets and increasing foreign direct investment ("FDI") in key sectors could enhance economic performance. However, climatic vulnerabilities and geopolitical risks pose downside threats. If inflation remains within the 4%–6% target range and interest rates continue to decline, consumer spending and business investment could help to boost growth.

Beyond 2030, Jamaica's growth prospects will depend heavily on productivity-enhancing reforms, education system improvements, and innovation in key industries such as agriculture and renewable energy. The implementation of targeted infrastructure projects and increased regional trade integration could support higher growth rates. However, without significant advancements in workforce development and governance, Jamaica may struggle to achieve sustained GDP growth above 2% in the long term.

Valuation

TJH has significant medium to long-term growth opportunities that are expected to drive revenue expansion and enhance shareholders' profitability. The 2020 prospectus identified GDP growth[3] as the strongest predictor of increased motor vehicle volumes, reinforcing the correlation between economic expansion and toll road usage.

Further supporting this outlook, a 2017 case study[4] by the Caribbean Development Bank highlighted the transformative impact of the East-West Highway on regional development. The study noted that secondary towns within commuting distance of Kingston, such as May Pen, have experienced substantial population growth spurred by new housing developments along the highway corridor. This trend is expected to continue as the highway extends further west, encouraging further residential and commercial expansion.

The highway's role in decentralising economic activity beyond the Kingston Metropolitan Area ("KMA") remains a key driver of long-term growth. Satellite cities such as Portmore, Old Harbour, and Spanish Town have already seen increased housing demand and commercial activity, fuelled by affordable housing options and improved commuting convenience. As more residents relocate to these areas seeking a better quality of life with easy access to Kingston, traffic volumes on the toll road are expected to increase, reinforcing TJH's revenue and growth potential.

Key Drivers of Future Profitability

[3] Page 119 Transjamican Highway Limited 2020 IPO Prospectus

[4] https://www.caribank.org/sites/default/files/publication-resources/Jamaica_Highway%202000%20Case%20Study_final.pdf

The company's long-term profitability is anchored in five key areas:

1. **Official Launch of the Williamsfield Leg (Phase 1C):** This new leg, which increases the total length of the toll road by approximately 50%, has been in use since September 2023. However, tolling has yet to commence, and no official date has been set. Once acquired, toll revenue from this extension will be a contributor to TJH's earnings[5].
2. **Rising Housing Demand in Portmore and Old Harbour:** The limited housing stock and lack of affordable housing in the KMA have driven homebuyers toward Portmore, Spanish Town, Old Harbour, and surrounding communities, increasing demand for properties along the highway corridor. As these residential developments expand, daily commuting traffic is expected to rise, further strengthening toll revenue growth.
3. **Diversified Secondary Income Streams:** TJH has the right to commercially exploit land surrounding the toll road, generating additional revenue from gas stations, telecom infrastructure (fibre-optic and electrical cabling), and other ancillary services. While these streams are not expected to be a major revenue driver, they provide low-cost, high-margin income, contributing to overall profitability.
4. **Cost Reduction and Operational Efficiency:** In 2022, TJH conducted a cost benchmarking study to compare its expenses to other toll road operators. This led to the acquisition of JIO, December 2022 (51%) and 2024 (100%), resulting in immediate cost savings. Additionally, TJH actively promotes electronic tolling (t-tag adoption) and plans to introduce tap-and-go payment solutions, reducing congestion and minimising cash-handling costs at toll plazas.
5. **Network Expansion Opportunities:** The Williamsfield to Montego Bay (Phase 2B[6]) Extension represents a significant long-term growth opportunity for TJH. While no official development timeline has been established, the company is strategically positioned to capitalise on this opportunity. Additionally, Prime Minister Andrew Holness has announced plans to construct a highway from Williamsfield to Hodges[7,8] in St. Elizabeth, further extending Jamaica's highway network West. Beyond these projects, TJH could also benefit from the Montego Bay Perimeter Road Project[9] and the North Coast Highway Development Project[10], both of which aim to enhance connectivity across the island. TJH will be well-positioned to bid for concession agreements to operate and maintain these roads, further strengthening its revenue base. These expansions would provide substantial revenue growth and long-term value creation for shareholders if secured.

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[5] https://jamaica.loopnews.com/content/further-delay-application-toll-charges-new-highway
[6] https://h2kjamaica.com.jm/project-schedule
[7] https://jamaica.loopnews.com/content/eye-highway-developments-pm-pitches-williamsfield-st-bess-leg
[8] https://jis.gov.jm/pm-announces-williamsfield-to-hodges-leg-of-southern-coastal-highway/
[9] https://h2kjamaica.com.jm/montego-bay-project
[10] http://www.jnht.com/site_north_coast_highway.php

Transjamaican Highway Limited

Valuation (J$)	Low	High	Average
Market Value (M)	45,617.59	62,000.92	53,809.26
Price per Share	3.65	4.96	4.30
Upside	1.4%	37.8%	19.6%

The dividend discount and discounted cash flow models were used to arrive at a valuation range. Based on the valuation approaches, the Jamaican-denominated shares are worth between $3.65 and $4.96, with an average price of $4.30. This yields an upside potential of 19.6% relative to the purchase price of $3.60.

Valuation (US$)	Low	High	Average
Market Value (M)	294.31	400.01	347.16
Price per Share	0.0235	0.0320	0.0278
Upside	3.3%	40.3%	21.8%

The US-denominated shares are worth between US$0.0235 and US$0.0320, with an average price point of US$0.0278 and an upside potential of 21.8% relative to the purchase price of US$0.0228.

Investment Positives and Negatives

TJH presents a compelling investment opportunity that benefits from strong financial performance, a stable revenue model, and strategic expansion initiatives. The company has demonstrated consistent revenue growth, with a 10.1% YoY increase to US$82.8 million in 2024 and a 16.2% CAGR since 2020, driven by rising toll usage and inflation-adjusted pricing. The acquisition of Phase 1C (May Pen to Williamsfield) expands TJH's road network by 50%, enhancing its long-term earnings potential.

Additionally, the complete acquisition of Jamaican Infrastructure Operator Limited has resulted in a 25.9% cost reduction in 2023, improving profit margins and operating efficiency. TJH also maintains a strong dividend track record, offering a 5.0% yield on current prices, among the highest on the JSE, with dividends doubling since 2022. The company's first right of refusal for future toll road projects, including a potential Phase 2B extension to Montego Bay, further strengthens its long-term growth prospects. Meanwhile, increased housing developments along the toll road corridor and expanded electronic tolling adoption (targeting 80% t-tag penetration) are expected to drive future traffic volumes and operational efficiencies. Secondary income streams from telecom leases, gas station partnerships, and infrastructure services provide additional revenue diversification while the company's strong balance sheet and declining debt burden reinforce its financial stability.

However, investors should also consider potential risks. TJH's reliance on toll rate adjustments makes it susceptible to government regulations and economic downturns, which could impact traffic volumes and revenue growth. With two consecutive quarters of GDP contraction, which is a technical recession, earnings growth could decelerate in the near term. Competition from free alternative routes like the Mandela Highway remains a challenge, as cost-conscious drivers may opt to avoid toll fees. Moreover, the delayed toll implementation for Phase 1C raises concerns about short-term revenue realization. The company also faces regulatory risks, as government policy changes could impact toll rate adjustments and concession terms. Over the long-run, with the population in decline, economic growth and traffic throughput could fall. While TJH has improved efficiency, higher infrastructure maintenance costs are inevitable as the highway ages. The company's diversified revenue streams remain limited, as non-toll income sources contribute less than 1% of total revenue. Market conditions, including potential BOJ interest rate hikes, may affect investor appetite for equities, influencing TJH's stock liquidity and price movement post-offer.

Recommendation

Based on the complete analysis and valuation results, a recommendation of **OUTPERFORM/OVERWEIGHT/BUY** is appropriate. Transjamaican Highway Limited ("TJH") presents a compelling investment case driven by strong revenue growth, cost efficiencies, and expanding infrastructure assets. The company has consistently demonstrated financial resilience, with revenues increasing at a CAGR of 16.2% since 2020, while operating profit and net income have grown 41.5% and 30.7% over the 5-year period, respectively. Additionally, acquiring the Jamaican Infrastructure Operator ("JIO") has reduced costs by 25.9% in 2023, improving future profitability.

The valuation analysis suggests that TJH's shares offer significant upside potential, with a fair value range between J$3.65 and J$4.96 (compared to the offer price of J$3.60), indicating an average potential return of 19.6%. Similarly, the USD-denominated shares are valued between US$0.0235 and US$0.0320, implying an average upside potential of 21.8%. With an attractive dividend yield of 5.0% based on current prices, one of the highest on the JSE, TJH remains a strong income-generating stock for investors.

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financials, Offering Term Sheet, Statistical Institute of Jamaica, Bank of Jamaica

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.

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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Transjamaican Highway Limited

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