

Jamaica.West Indies

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# Berger Paints Jamaica Limited

*Net Profits Up 10.6% for Q1, up 158% for the FY*

### Berger Paints 1st Quarter Financials

	Quarter Ended	Quarter Ended	% -age Change	Year Ended
	June-30-2017	June-30-2016		March-31-2017
<b>Income Statement</b>				
Net Sales	454,553.0	506,181.0	-10.20%	2,363,088.0
Operating profit (loss)	31,221.0	28,218.0	10.64%	365,688.0
Pre-tax Income	31,221.0	28,218.0	10.64%	365,688.0
Net profit (loss)	23,416.0	21,164.0	10.64%	315,555.0
Basic EPS	\$0.11	\$0.10	10.00%	\$1.47

Source: Bloomberg, Company Financials, www.jamstockex.com, JMMBIR

### Latest Performance/Q1

Despite the negative impact of local cement shortages and adverse weather conditions on net sales, Berger was still able to put in a creditable performance for the June-2017 quarter when compared to the comparable period in 2016. A 10.2% decrease in net sales was offset by a continued focus on efficiency both in administration and operations to yield a 10.6% increase in net profits.

### Financial Performance 2016/17

While Q1 may have experienced some challenges, the overall financial performance for the recently concluded financial year was impressive. The Company recorded a net profit of J\$315.5 million, compared to J\$122.14 million earned in the prior year; **this represents an increase of 158%**. For the review period, Net Sales increased to J\$2.36 billion, **an increase of 15%** compared to the similar period in 2015/16. The company attributes its improved performance to overall team work. Notably, the Operations, Marketing and Sales teams delivered creditable performances.

In terms of new product offerings, Berger Jamaica pushed its wood-care line of products with the launch of water and oil based stains under the “**Berger Woodtech**” brand. The new product offerings allowed for greater variety in terms of wood colours for both interior and exterior finishes. The company also launched its own interior joint compound to take market share from a very competitive and growing segment of the market with the Berger promise of quality. Berger Jamaica also introduced its “**Berger Roller-TEX**” textured paint during the financial year. The new textured paint has made it easier for customers to add interesting textures to their interior and/or exterior walls.

### Key Ratios-Quarterly

Historical Performance	FY-2008	FY-2011	FY-2012	FY-2014	FY-2016	FY-2017
Net Profit	15.56 mill	67.8 mill	33.3 mill	54.9 mill	122.1 mill	315.5 mill
Book Value	1.89	2.17	2.20	2.0	3.12	4.55
Price/Book Value	1.05	1.37	1.34	0.84	1.27	2.71
Dividend Yield	10.5	3.3	40	7.6	5.0	2.4

Source: JMMBIR estimates, company financial statements, Bloomberg.

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### RECOMMENDATION :

Price as at September 14, 2017  
 Price target (J\$) / Intrin. Value J\$10.27  
 52-week range J\$4.50 to J\$24.0

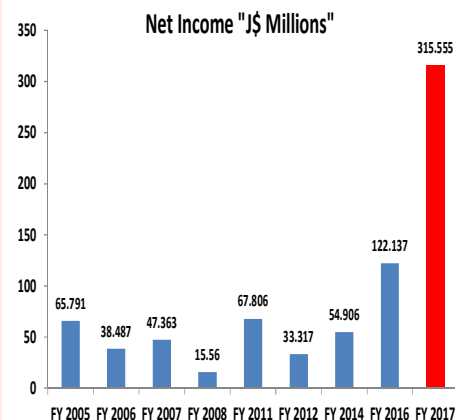
### Company Profile

**Company Profile**—Berger Paints Jamaica Limited manufactures and distributes industrial, motor vehicle and decorative paints and paint-related processed materials in Jamaica and internationally. The company offers paints, primers, textures, wood finishes and light industrial finishes. The company serves both residential and institutional customers. Berger, which commenced manufacturing in the Caribbean in 1953 is the largest paint manufacturing company in the English speaking Caribbean and trades under the symbol “BRG” on the Jamaica Stock Exchange.

Berger Paints Jamaica Limited is a subsidiary of Berger International Private Limited (BIPL), itself a subsidiary of Asian Paints Limited (APL), a conglomerate which ranks among the top four decorative coating companies in the world. In November 2002, Asian Paints Limited, the largest paint manufacturer in India, acquired a controlling 51% stake in BIPL (formerly Berger International Ltd, BIL), the parent company of Berger Jamaica. During the year ended March 31, 2014 Asian Paints acquired the remaining stake in BIL.

The US\$2 billion Asian Paints Group, with a presence in 17 countries, is spread across the Caribbean, the Middle East, Africa, South Asia, South East Asia and the South Pacific region. It has 23 paint manufacturing facilities worldwide which service customers in over 65 countries.

### Profitability



The product has been designed for the DIY (Do It Yourself) user and can also be used to create multiple designs through patterned rollers for expert applicators. The company also continued its aggressive marketing campaign focused on increasing its market share in the **luxury segment** of the market. Royale Satin Luxury Interior Emulsion and Weatherproof Ultra Exterior Emulsion continued to be pushed while other core brands were reinforced. This strategy, according to management, has continued to bear fruit with Berger increasing market share in all segments of the market.

In terms of improving the ease of customer choice of paint, Berger created 6 new **Ezycolor** Centres in key hardware stores across the island. Customers and dealers alike have indicated that the Ezycolor Centres have helped to simplify the paint selection process. The company has also maintained its commitment to environmentally safe production with the introduction of upgraded equipment to facilitate the process. In keeping with this commitment, they have invested in upgrading their facilities, adding a filling line, chiller, solvent recovery plant and a new air compressor.

**Challenges**

Berger is exposed to the rigours and challenges associated with the **Jamaican economy**. Jamaica is a small, lower middle income sovereign located in the Caribbean and susceptible to external shocks—weather related or otherwise. The country has also experienced two selective defaults (JDX & NDX) due to years of unsustainable debt and fiscal dynamics. The country's average GDP growth has come in below 1% over the last 30 years. While the new government and the Economic Growth Council is projecting growth of approximately 5% in 4 years, it is difficult to envision such prospects given the historically weak performance.

Berger faces **competition** from Sherwin Williams, EdgeChem and other overseas brands carried by local wholesalers/distributors. EdgeChem is a local brand which has taken off tremendously over the last decade and has done well especially in the automotive segment. Sherwin Williams, like Berger, is a traditional brand that has maintained its following/loyal customers and market share.

The **Atlantic Hurricane** season has begun in very aggressive fashion. Category 5 hurricane **Irma** has already lashed parts of the Eastern Caribbean and could affect Haiti/Dom Rep and Cuba. Hurricane **Jose** is slowly gaining strength and could affect those Caribbean countries spared by Irma. While the medium to long term recovery effort should involve the utilization of paint, the near term effect is the reallocation of resources to recovery efforts and less of a focus on beautification.

**Positives**

On the positive side the company continues to benefit from the **negotiating strength of the parent** company and its **size**. This has allowed Berger to negotiate large and long duration volume contracts. This has effectively locked in low prices which help to maintain low cost and thereby relatively wider margins. Despite Jamaica's historical challenges, the future is less dim given the recent performances guided by **IMF recommendations**. Inflation has declined due to reduced global oil prices, the exchange rate is well behaved due to improvements in the current account and the fiscal balance has been tightened.

The low fiscal deficits (and occasional surplus) have helped to reduce the debt. In fact based on **JMMB Research estimates**, the government is scheduled to meet its IMF target of **reducing the debt/GDP below the 100% mark by fiscal year 2019/20**. The containment of the debt should, over time, create more fiscal space for responsible spending on needed capital infrastructure, security and health; this argues well for Berger's long term sales thrust.

On **the local construction side**, the NHT continues to build homes, though it has been deprived of billions by successive governments. Had this money been used for the purposes for which it was intended, there would have undoubtedly been more positive spill-off benefits for Berger. In 2016 the construction sector grew by only 0.4% though this represented the fourth consecutive year of growth. The sector contributed a respectable 7.2% of GDP.

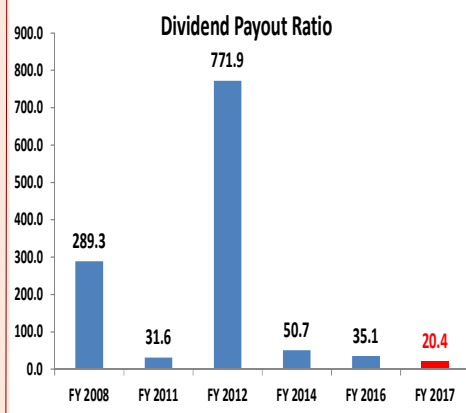
Growth in the construction sector for 2017 is projected to be driven by ongoing hotel renovation and expansion, the build-out of office space for Business Process Outsourcing (BPO), the logistics hub and the Caymanas Economic Zone projects. All the above should have positive spill-off effects for Berger, leading to possibly consistent sales and profitability.

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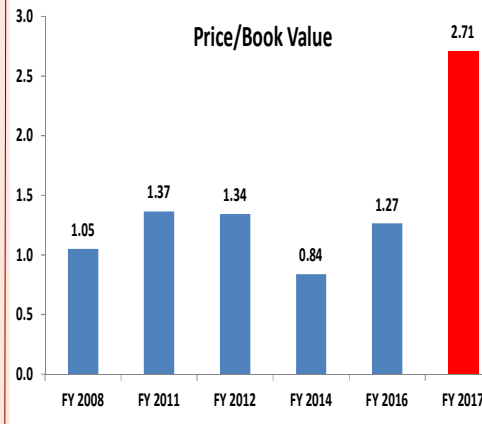
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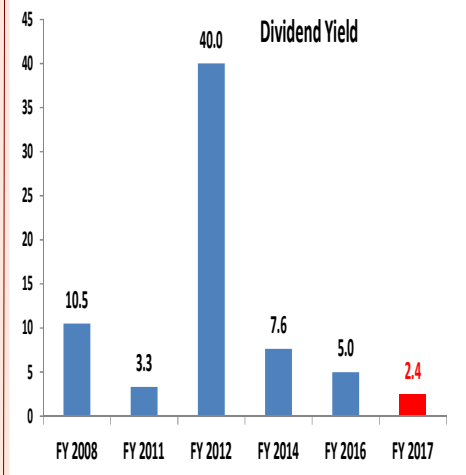
**Dividend Payout Ratio**



**Price/Book Value**



**Dividend Yield**





### What Do We Like About The Stock/Company?

Berger's management has been very practical and pragmatic in the past. During periods of economic adversity and / or difficulties for the company, management normally makes the **prudent decision** to suspend dividends until the company recovers. Consequently in 2009 (the full brunt of the global crisis) and 2004 to 2005 no dividends were paid. To repay investors for their faith in the company management made aggressive pay-outs in 2008, 2012 and 2014.

**Berger has little or no debt on its books.** This allows the company to utilize cash flow for a myriad of reasons including reinvesting in new capital equipment. This provides Berger with a well needed edge and the ability to respond to changes in the economic environment with innovation.

Berger Paints is a **strong brand**, recognised both locally and globally. The company's ISO 9001:2000 quality standard certification as well as its ISO 14001: 2004 **environmental standard** ensures the quality of the company's products and more importantly access to markets globally.

In terms of the company's strategy going forward, new products, increased penetration of its product range across the dealer network and increased export sales are expected to drive the company forward.

Berger's **cash flow from operations** has been consistently positive over the last decade or more except for one year (2014). While net cash flow has been consistently negative, this is as a result of investing activities (acquiring fixed assets) and financing activities (pay-out of dividends).

Berger is the hub of innovation in the Caribbean region and export to other destinations does offer some **diversity**.

### What We Don't Like About the Stock/Company

Berger Jamaica faces the challenges of exposure to a high risk region with small open economies which are highly susceptible to shocks. The company's performance tends to be highly correlated with economic activity in the region and there seems little possibility of strong counter cyclical profitability. To Berger's credit, there is diversity across sectors of the economy; construction, the automotive sector, and high end paint products do offer some protection—but for the most part the company faces the negatives of exposure to the economy in general.

The latest data for the first quarter saw the company experience a 10% decline in sales due to the impact of local cement shortages and adverse weather conditions. Weather conditions throughout the Caribbean have been adverse for the September-2017 quarter (hurricanes Irma, Jose, Katia), again highlighting Berger's ongoing vulnerability and possibly lower profits/sales for the upcoming quarter.

As noted before, Berger faces competition from other established brands such as **Sherwin Williams** (main high quality locally entrenched competitor), **EdgeChem** (quality low cost solution with rapidly diversified options especially in autos), **Rapid True Value** also has their own brand (Easy Care) and Rapid has also introduced a new brand, **Painter's Select. Ace Super Centre** at White Marl St. Catherine has its own brand of paints which provides further diversity of paint offerings to Jamaicans. This is also a threat to Berger's ongoing competitiveness.

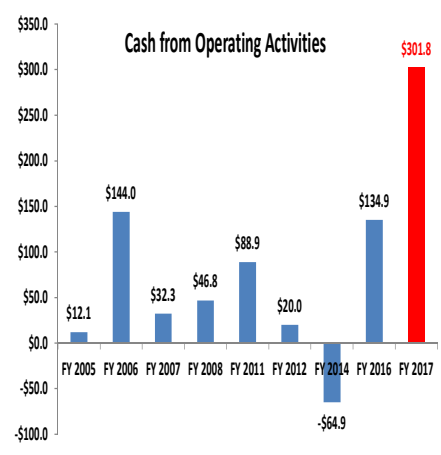
### Significant News

The Directors proposed a **special dividend** of 20 cents per share totaling \$42.86 million and a final dividend of 30 cents per share totaling \$64.30 million for the year ended March 31, 2017 to be paid on August 11, 2017 to shareholders on the company's register of members at the close of business, July 31, 2017.

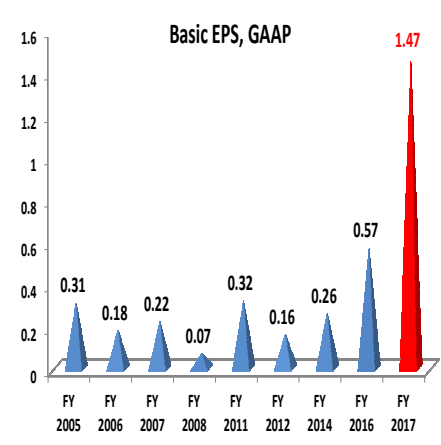
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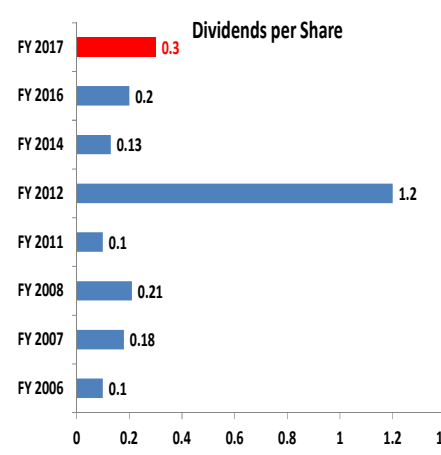
### Cash Flow From Operations



### Earnings Per Share



### Dividends Per Share





**Is The Stock Properly Priced?**

SYMBOL	YTD % change	His. EPS Last 4 Qtrs	His. P/E Last 4 Qtrs	Price to Book	Return on Equity	Return on Assets	Dividend Yield 2017
<b>Manufacturing</b>							
BRG	192%	1.48	11.04	3.51	38.6%	24.1%	8.93%
CCC	-20%	1.57	17.83	2.70	16.4%	11.9%	0.00%
JBG	19%	1.86	9.42	1.46	16.2%	8.6%	1.22%
SALF	12%	0.87	10.91	1.27	12.0%	10.3%	0.00%
SEP	13%	2.13	15.62	1.68	10.5%	6.3%	2.03%
<b>Sector Average</b>		<b>1.58</b>	<b>12.96</b>	<b>2.12</b>	<b>18.7%</b>	<b>12.3%</b>	<b>2.44%</b>

source: [www.jamstockex.com](http://www.jamstockex.com), JMMBIR

In terms of earnings per share (EPS) over the last four quarters, Berger (1.48) is below the manufacturing sector's average (1.58). In terms of the P/E ratio the stock is cheap (11.04) compared to the market average (12.96) but more expensive when compared to a few manufacturing sector stocks such as Jamaica Broilers (9.42) and Salada (10.91). The price to book value comes in at 3.51 which suggests that Berger is expensive when compared to the sector average (2.12) and all other individual stocks in the sector.

Berger's ratios are impressive when we look at ROE, ROA and dividend yield. Berger outperforms the sector average as well as all individual stocks using these matrices. This is likely the reason that the market has rewarded Berger in terms of it being sold at higher multiples of its book value when compared other companies in the sector.

**Intrinsic Value**

Given Berger's historical performance of strong and relatively consistent dividend payments, the current economic climate and the outlook for domestic and global growth, a multi stage dividend discount model was used to estimate the company's long run intrinsic value. Our model utilized our economic forecast for the Jamaican economy, growth forecasts for the company given this outlook and the risk premium attached to GOJ to aid the process.

**Our multi-stage DDM model indicated a price of J\$10.95 as the long run intrinsic value.**

**Using the P/B ratio the stock's value is approximately J\$9.65.**

**Using the P/E ratio the stock's value is estimated at J\$10.22.**

**Our conservative recommended value is consequently J\$10.27.**

**Conclusion**

*Given our outlook for the domestic economy as well as the outlook for the local construction sector combined with our ratio and intrinsic value pricing—we have a recommended price of **J\$10.27 for Berger**. This price is slightly below the last traded price of J\$11.00. Berger has run-up over the last year or two based on both its strong performance as well as the performance of the market on a whole. As the stock's performance normalises we envision further reductions in price.*

*We see the stock as a **SELL** at this time; not because it is not fundamentally sound but because of its recent run-up, the possibility of profit taking and the expectation of a return to normality over the next 12 to 18 months.*

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**Return on Assets (ROA)**

