



## Republic Wealth Management Limited

### GRACEKENNEDY LIMITED [GK / GKC]

June 2023 (Q2 2023)

Last Price	J\$ 76.3/ TT\$ 3.35	52 Wk. Range:	TT\$3.15– TT\$6.15	Market Cap	TT\$ 3,333 M
YTD Price Change (TTSE)	(24.50%)	EPS (TTM)	J\$7.62		
Sector	Conglomerates	Dividend Yield (TTM)	2.81%		

*GKC's profits increased due to growth in its largest segment, Food Trading*

#### Company Overview:

- GKC's 2030 objective is to become the number one Caribbean brand in the world with 70% of its revenues and profits earned outside of Jamaica.
- In March 2023, GK completed its acquisition of Scotia Insurance Caribbean Limited (SICL) which will be rebranded GK Life. This was purchased with an initial cash payment amounting to J\$3,015M and contingent consideration amounting to J\$556M.
- The company declared an interim dividend payment of J\$0.50/sh, payable on September 22<sup>nd</sup>, 2023, totaling approximately J\$1.5 billion.

**Table 1: GKC EPS, DPS and Dividend yield for fiscal year end**

	2018	2019	2020	2021	2022
Earnings per share (J\$)	\$5.05	\$4.52	\$6.28	\$8.27	\$7.09
Dividends per share (J\$)	\$1.35	\$1.55	\$1.60	\$1.93	\$2.02
Dividend Yield	2.46%	2.34%	2.72%	2.09%	2.08%

- GraceKennedy continues to expand its operations in its core segments, with strategic mergers and acquisitions within these segments to capture greater market share and penetration of new and existing product lines.
- GraceKennedy reported 7.77% QoQ increase in revenues of \$72.6M in Q2 2022 to \$78.2M in Q2 2023.
- Food Trading, GK's largest segment by revenue, recorded growth of +5.91% in June 2023. In June 2023, PBT increased by +30.01%, reflecting the company's improved operational efficiencies and expanding the manufacturing and distribution portfolios. In April 2023, GK Foods & Services Limited entered into an agreement with Nestle Jamaica Limited to expand GKC's channel and product coverage for the Nestle portfolio, on a non-exclusive basis through World Brands Service (WBS). In January 2023, Hi-Lo hosted the official opening of its new supermarket in Negril, Jamaica. Additionally, in 2022 the merger with National Processors (Nalpro) and GFP Canning (Canning) was completed and is expected to improve operational efficiency. The international food business recorded overall growth in revenue and PBT, due to successful cost savings initiatives implemented across all markets.
- Revenue from GK's second largest segment by revenue, Insurance business grew +24.58% during the 6-months ended June 2023, due to the successful expansion of the life insurance portfolio following GK's acquisition of Scotia Insurance Caribbean, which has been rebranded GK Life. Similarly, profits increased by +25.63% due to the aforementioned expansion. Additionally, in April 2023 GK Life secured regulatory approval to expand into the Dutch Caribbean via St. Maarten. Revenue from Banking and Investments, grew +16.97% YoY ending June 2023. This increase in revenue was driven by the exceptional performance by First Global Bank Limited (FGB) during the first half of 2023. However, in June 2023, PBT recorded a drastic decline by -50.15% due to increased operating expenses the first half of June 2023.

#### Performance Review/ Financials

Financial Highlights J\$ MM's	Year ended		6-months ended	
	Dec-21	Dec-22	Jun-22	Jun-23
Revenues	\$129,310	\$142,931	\$72,590	\$78,231
Operating Profit	\$11,902	\$10,240	\$5,390	\$6,105
Profit Before Taxation (PBT)	\$11,676	\$10,221	\$5,427	\$6,144
Profit After Tax (PAT)	\$8,940	\$7,594	\$3,953	\$4,485
Total Assets	\$199,797	\$201,023	\$196,657	\$196,657
Total Equity	\$71,006	\$75,757	\$73,548	\$73,548
Total Liabilities	\$128,791	\$125,266	\$123,109	\$123,109
Net Profit Margin	6.91%	5.31%	5.45%	5.73%
Return on Assets	4.47%	3.78%	2.01%	2.28%
Return on Equity	12.59%	10.02%	5.38%	6.10%

This was primarily attributed to unrealized gains recorded in the prior year associated with the execution of two successful initial public offerings of Spur Tree Spices Jamaica Limited and Jamaica Fiberglass Products Limited and GK Capital's, which contrasts with the first half of 2023, when these gains did not recur. Additionally, GK Capital Management has been negatively impacted by the below par performance of Jamaica's equity market (The JSE is down -0.40% to August 30<sup>th</sup> 2023).

- The company's Money Services segment reported a revenue decline of -1.93% primarily attributed to lower remittance flow and volatility of the Jamaican dollar against the US dollar. However, in June 2023, PBT increased by +2.58%. This increase is due to GK Money Services expanding its Jamaican remittance business through its strategic partnership with Unicomer Jamaica Limited and its network of Courts retail stores in Jamaica.
- Overall, GK's revenue increased +7.77% in Q2/2023 given the strong results from its largest segment, Food Trading. Similarly, PBT was J\$6.14B higher than the corresponding June 2022 due to increases in other income and interest income. Net profit attributable to stockholders was J\$4.19B, 14.3% higher compared to June 2022 and EPS was J\$4.22 in Q2/2023 (Q2/2022: J\$3.70).

#### Key Risks

- GK's Food Trading segment is susceptible to prevailing global supply chain disruptions and inflationary pressures. These issues are further exacerbated by the conflict between Ukraine and Russia, and may result in increased commodity prices, shipping costs and difficulties in distribution.
- The company may experience increased pressure on its Money Services segment as inflationary pressures loom on the global economy, and recessionary outlook fears continue to increase.
- As a net earner of foreign exchange, GK is subject to exchange rate volatility of the currencies in which it earns revenues, relative to the Jamaican dollar.

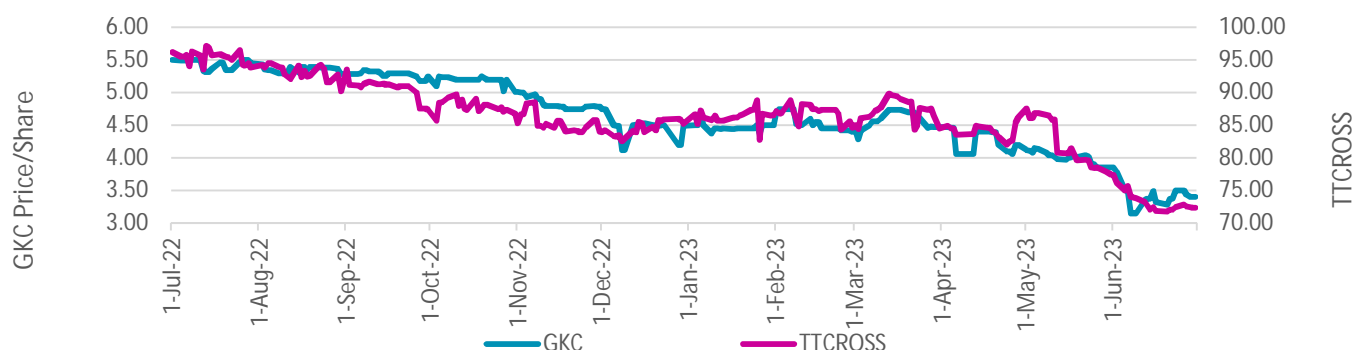


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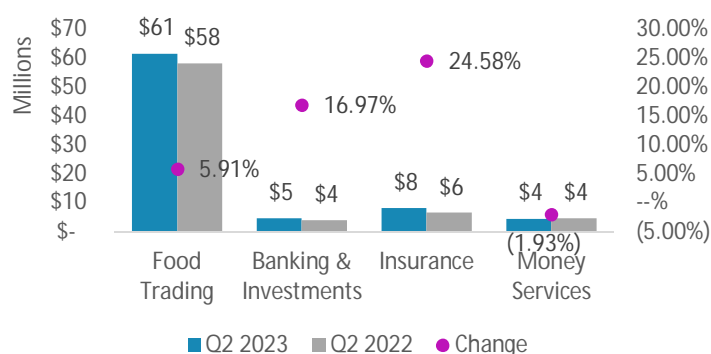
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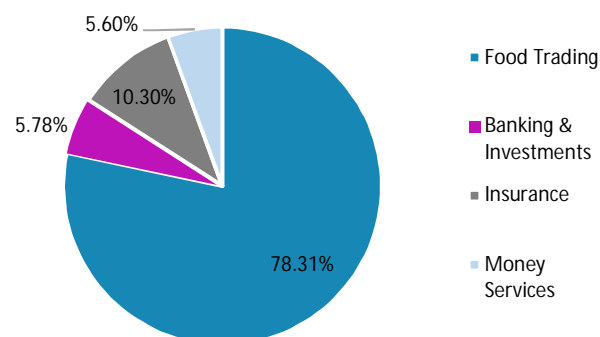
**Figure 1: GKC share price vs TTCROSS Index**



**Figure 2: : GKC Operating Profit and Growth by Operating Segment (\$ M)**



**Figure 3: GKC Revenue by Geographical Segment Q2 2023**



**Table 2: Historic Dividend Payments**

Year	Payment Type	Payment Dates	Dividends	Total Dividend per Share JMD	Total Dividend per Share TTD
2020	Interim	Apr-20	\$0.40	\$1.60	\$0.07
	Interim	Jun-20	\$0.25		
	Interim	Sep-20	\$0.40		
	Interim	Dec-20	\$0.55		
2021	Interim	Apr-21	\$0.45	\$1.93	\$0.08
	Interim	Jun-21	\$0.45		
	Interim	Sep-21	\$0.48		
	Interim	Dec-21	\$0.55		
2022	Interim	Apr-22	\$0.48	\$2.02	\$0.09
	Interim	Jun-22	\$0.48		
	Interim	Sep-22	\$0.48		
	Interim	Dec-22	\$0.58		
2023	Interim	Apr-23	\$0.50	\$1.02	\$0.04
	Interim	Jun-23	\$0.50		
	Interim	Sep-23	\$0.52		

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