

Valuation Report

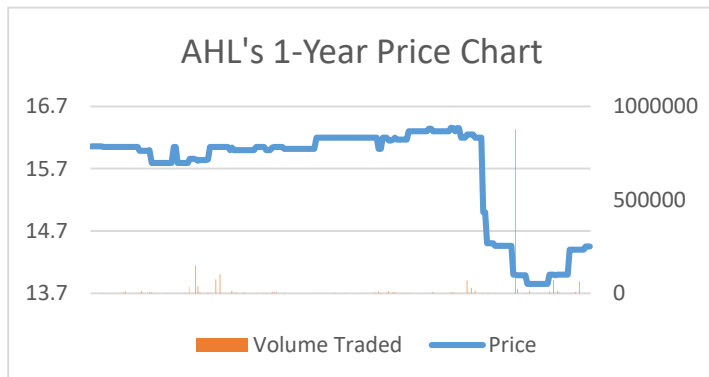


June 2020
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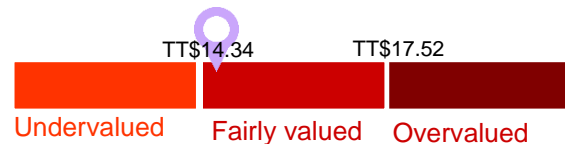
Angostura Holdings Limited (AHL)

PLEASE SEE IMPORTANT DISCLOSURES

Angostura Holdings Limited (AHL) is a limited liability Group incorporated and domiciled in the Republic of Trinidad and Tobago. The Group has its primary listing on the Trinidad and Tobago Stock Exchange. It is a holding Group whose subsidiaries are engaged in the manufacture and sale of rum, ANGOSTURA® aromatic bitters and other spirits, and the bottling of beverage alcohol and other beverages on a contract basis.



Key Ratios			
	ROE	ROA	Trailing EPS
AHL	12.9%	11.1%	\$0.70
WCO	96.7%	61.7%	\$1.68
UCL	-24%	-14.8%	\$0.20**
GML	-2.2%	-1.7%	\$0.03
NFM	2.4%	1.4%	\$0.08
OCM	-9.7%	-6.8%	\$0.62**



Company Facts	
Symbol:	AHL
Target Price:	TT\$15.93
Sector:	Manufacturing
Market Cap.:	\$2,980,711,753.50
Issued Capital:	206,277,630
Financial Year End:	31-Dec

Stock Performance		
Manufacturing	YTD Price Change	Trailing Dividend Yield
AHL	-10.80%	1.66%
WCO	-3.40%	3.63%*
UCL	-26.13%	0.00%*
GML	-12.00%	0.00%
NFM	40.74%	0.00%*
OCM	-35.88%	3.64%*
Sector Avg.		1.49%

*Dividend cut due to COVID-19.

**Adjusted for one off events.

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Company Overview

Angostura Holdings Limited (AHL) is one of the Caribbean's leading rum producers with a variety of rum brands and is the world's market leader for bitters. AHL's portfolio include: rum brands like Angostura 1824, Angostura 1787, Angostura 1919, Angostura 7-year-old rum, Angostura 5-year-old, Angostura Reserva, Angostura Single Barrel, White Oak, Forres Park Puncheon, Fernandes Black Label, Royal Oak, and the Angostura AMARO, Angostura orange bitters, Angostura aromatic bitters and a signature beverage Angostura Lemon Lime and Bitters. According to AHL, Angostura aromatic bitters has not been changed since the first bottle was introduced to the world in 1824. Besides being a Royal Warrant holder to the Queen of England for its Angostura aromatic bitters, the company has successfully marketed its iconic bitters globally and has a geographic reach into 170 markets. Many of its brands have been around for generations in its Trinidad and Tobago market. Angostura's international rums have won gold medals at many international competitions in the past decade and have been named 'the world's most awarded rum range' by the Rum Masters.

History

In 1824, Dr. Siegert perfected the formula for aromatic bitters (AMARGO AROMATICO) to use in his medical practice as Surgeon General to the armies of Simon Bolivar. At the time Dr. Siegert resided in the town of Angostura in Venezuela (the town is now called Ciudad Bolivar).

By 1875, the family business moved to Trinidad under the management of Dr. Siegert sons Carlos, Alfredo and Luis. The company was called Dr. J.G.B. Siegert & Hijos. Bitters manufacturing commenced in a small factory in Port of Spain, Trinidad.

In 1903, Carlos Siegert died leaving Alfredo and his youngest brother, Luis in possession of the formula and the company. By 1904, Alfredo was appointed purveyor of Angostura aromatic bitters to the king of Prussia and in 1907 to King Alfonso XIII of Spain. In 1909, the partnership of J.G.B Siegert & Hijos was converted into a public limited liability company registered in England. In 1912, the company was appointed purveyor of AAB to his majesty King George V.

Angostura Bitters (Dr. J.G.B Siegert & Sons) Limited was formed on August 30, 1921. In 1922, the company changed its name to Angostura Limited and retains that name to date.

In 1949, Trinidad Distillers Limited was established, a state of the art multi-column commercial distillery located in Laventille. Although rum blending began as far back as the 1900's by the Siegert's, the company stepped up its expertise in 1936 when Robert Siegert, a qualified chemist joined the company. Additional skills were added in 1942 when Albert Clyde Gomez, a sugar technologist joined the company, and in 1944 when Thomas Gatcliffe, an industrial chemist joined the company. These additions positioned the company as a leader in the manufacture of fine rum.

In 1971, Trinidad Distillers Limited was the largest non-oil exporter in Trinidad & Tobago; winning the Prime Ministers' Exporter of the year trophy in 1972 for bulk rum exports. White Oak Rum was successfully marketed in Trinidad and Tobago. By 1973, Fernandes Distillers Limited was acquired. In 1985, Angostura Limited became the proud recipient of the Humming Bird Gold Medal, for its contribution to industry in Trinidad & Tobago, the first company to be so honored.

In 1997, the CL Financial Group, acquired 78% of Angostura Holdings Limited. The company engaged in a series of international drink company acquisitions. By 2003, CL World Brands is formed to market and distribute rum and bitters internationally.

In 2016, AHL launched a new 15-year-old rum (Angostura 1787). It was named after the year the first sugar factory was opened (Lapeyrouse Estate).

In February 2017, Genevieve Jodhan makes history by becoming the first female CEO to be appointed by AHL. The current CEO is Mr. Peter Sandstrom.

Business Model

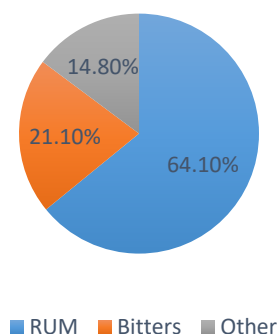
AHL is a holding Group whose subsidiaries are engaged in the manufacture and sale of rum, Angostura aromatic bitters and other spirits, and the bottling of beverage alcohol and other beverages on a contract basis. AHL products are sold and distributed in 170 markets worldwide.

AHL suite of products include:

RUM & Spirits	Bitters	Beverage
Angostura® 1824	Amaro di Angostura®	Angostura® Lemon, Lime and Bitters
Angostura® 1787	Angostura® orange bitters	
Angostura® 1919	Angostura® aromatic bitters	
Angostura® 7 Year Old Rum		
Angostura® 5 Year Old Rum		
Angostura® Reserva		
Angostura® Single Barrel		
White Oak		
Forres Park Puncheon		
Black Label		
Royal Oak		

In 2019, rum accounted for 64.1% of revenue, while sales of bitters accounted for 21.1% of total revenue. The other category is made up of Angostura Lemon, Lime and Bitters, and beverages on a contract basis.

AHL 2019 Revenue By Segment



The Rum Making Process



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Molasses - As a general rule, rum can be divided into those produced by distilling sugar cane juice, and those made from molasses. AHL produces its rum from molasses.

Fermentation - Yeast is then added to the mash (molasses diluted with water or sugar cane juice), which is then fermented and gradually converted into alcohol.

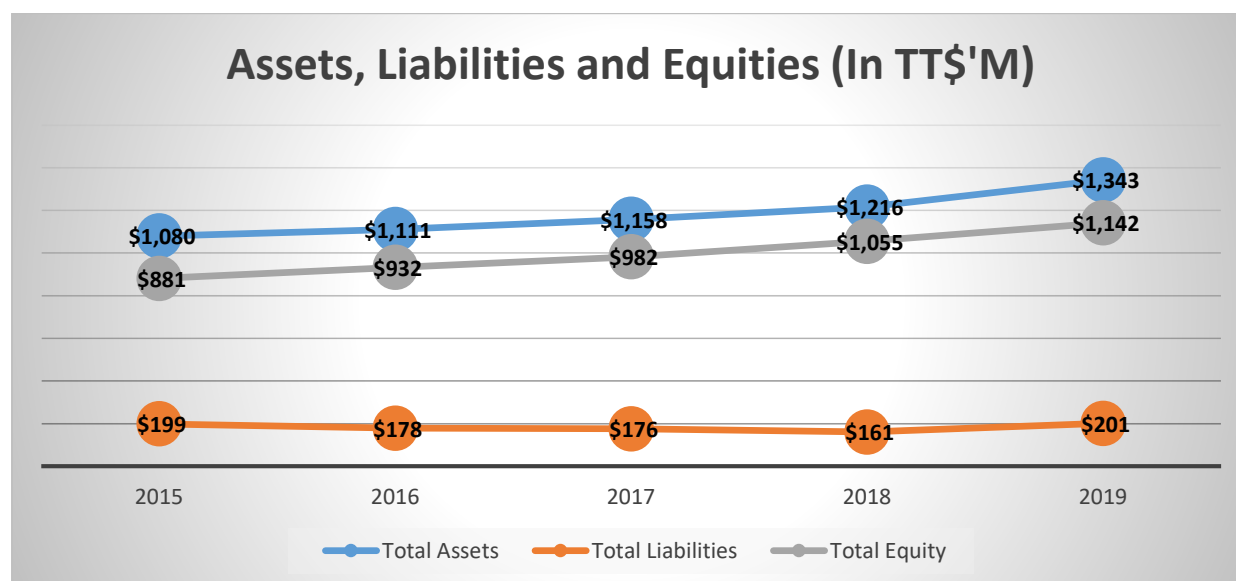
Distillation - Like many other spirits, rum can be distilled in a column still, continuously, or in a pot still (used by the more traditional producers). AHL uses column still – continuous distillation.

Aging - Since there are no legal regulations, the ageing process and associated designations vary from one producer to another. While most ageing takes place in old bourbon barrels, rum can also be aged in cognac barrels and new oak barrels.

Blending - Almost all rum is blended with other batches from the same distillery, often marrying rums of different ages. Some rum gets infused with herbs, fruits, and spices or deliberately blended with juices or extracts to produce a flavored rum product such as AHL's White Oak Sorrel.

Financial Analysis

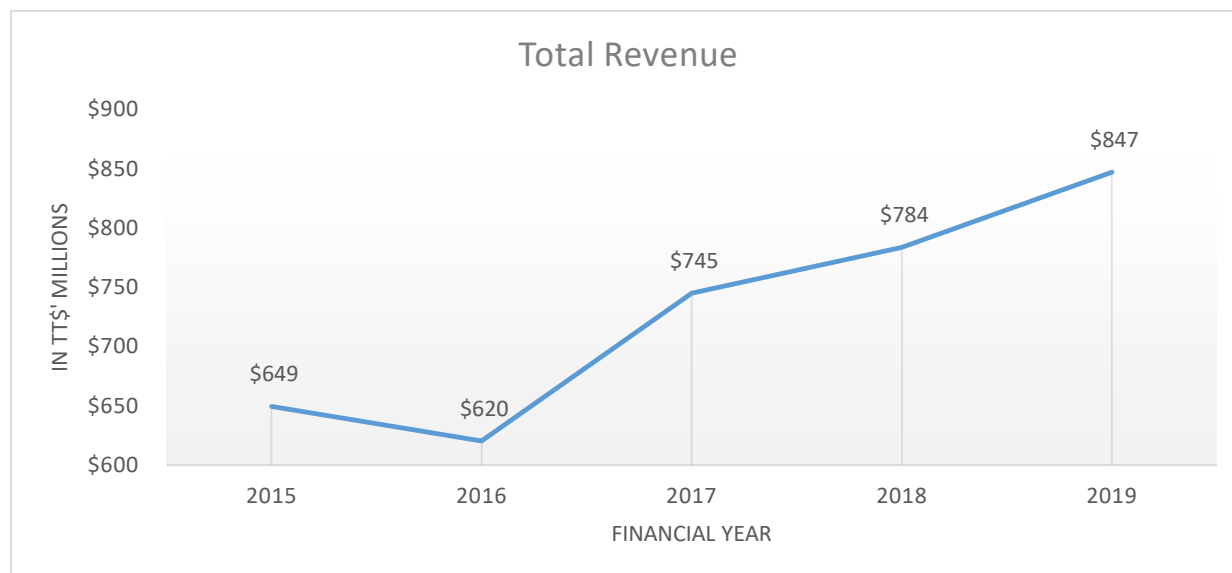
Since 2015, Total Assets have increased by 24.1% at an annualized rate of 6.1%. The increase in Total Assets over the period was mainly due to increases in investments held by AHL. Over the 5-year period, Other Assets and Investments increased by TT\$ 377.3 million. In 2019, Other Assets and Investments consist mainly of a TT\$ fixed deposit and a repurchase agreement supported by GORTT US\$ bonds.



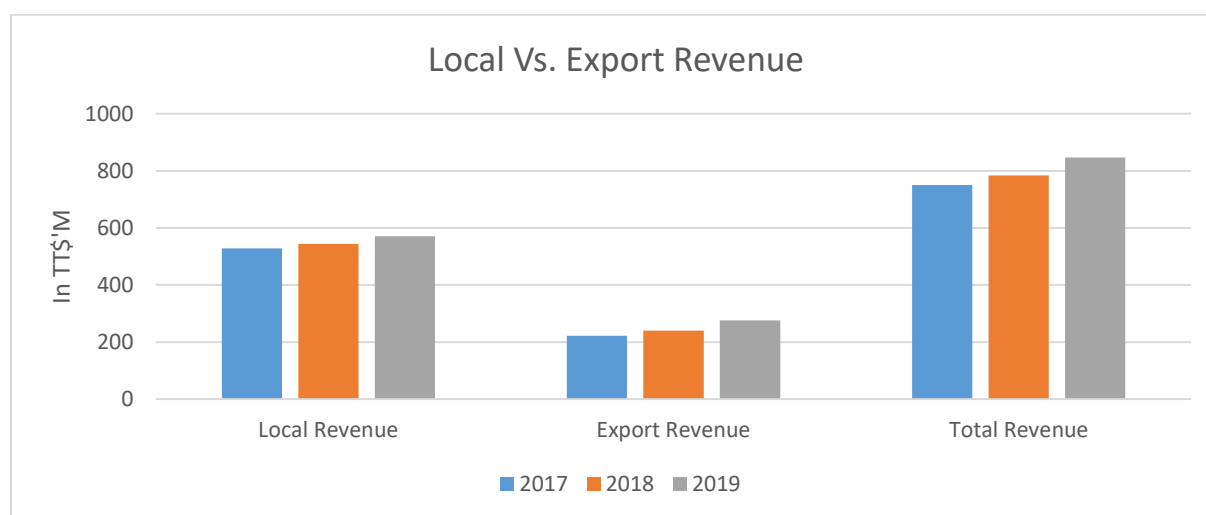
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Over the period, Total Equity increased by 29.6% while Total Liabilities remained flat. The increase in Total Equity was driven by increases in Retained Earnings as AHL maintains a low payout ratio.

AHL's revenue increased by 8.1% to \$847.2 million from \$783.7 million in the prior year. Its revenue has increased by 36.5% since 2016. According to the CEO's report, revenue increased in the local and export markets, particularly in the USA market for the bitters brand. Significant growth was also recorded in the UK, Canada and Europe markets.



In 2019, AHL was able to achieve growth in its export markets of 14.8% despite a slowdown in the global economy. And on the local front, revenue grew by 5.1% within a very challenging economic environment.

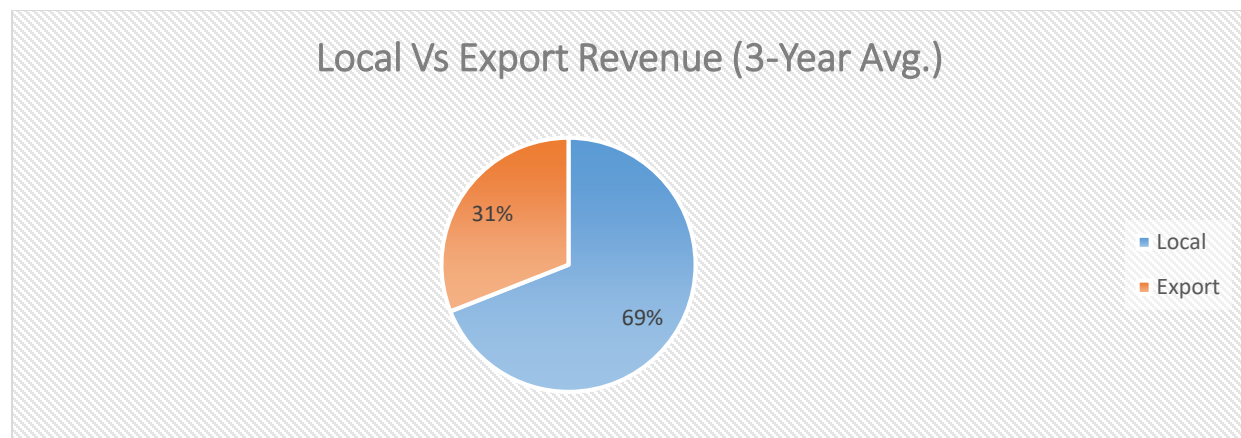


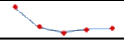
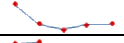
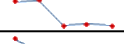

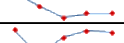

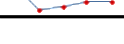
According to the CEO's report, export revenue growth was mainly due to the continued strong performance of the Bitters segment which increased by 11.3% in 2019. The fastest growing Bitters market, the USA, reported several gains as distribution growth in top retailers in the North American market resulted in increased demand throughout the year. The UK, Canada and Europe markets also reported significant growth, each exceeding 15% over prior year.

Export rum reported modest growth of 3%, driven mainly by duty free sales which increased by 12%, and sales in the USA, up 67%. Local rum sales were boosted by the introduction of White Oak Sorrel, which seemed to be very popular over the Christmas period.

Angostura Lemon Lime and Bitters revenue in Trinidad and the wider Caribbean grew by 10% as the brand exposure gained from sponsorship of the 2019 CPL Tournament quickly materialized. However, this was offset by lost sales in Australia due to the termination of the appointed distributor on account of legal issues, resulting in an overall decline in this segment of 2% in 2019.

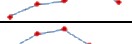
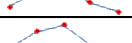

Total locally generated revenue has averaged 69% over the last 3 years while export revenue has averaged 31% of total revenue.



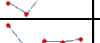
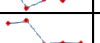
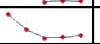
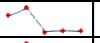
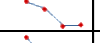
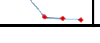
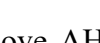
Profitability	2015	2016	2017	2018	2019	Trend	5 Year Avg.
Return on Equity	19.77	13.45	11.61	12.76	12.91		14.10
Return on Assets	15.38	11.13	9.80	10.95	11.09		11.67
Gross Profit Margin	59.04	59.85	49.26	49.95	49.28		53.47
Operating Margin	32.76	27.35	21.32	22.21	21.75		25.08
Net Profit Margin	25.20	19.66	14.91	16.58	16.74		18.62
Retention Ratio	67.50	46.00	61.10	66.73	65.18		61.30
Sustainable Growth Rate	13.34	6.19	7.09	8.51	8.42		8.71

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Return on equity (ROE) for AHL has been on the rise since 2017 and it now stands at 12.91%; this however, is still below its 5-year average of 14.1%. The same trend is seen in the Return on Assets (ROA) metric. In 2019, AHL had a gross profit margin of 49.28%, which was less than 2018 gross profit margin of 49.95%. Operating profit margin was 21.75% in 2019 compared to 22.21% in the prior year. These measures were lower than prior year due to the increased cost of production and operating expenses associated with repairs to the waste water treatment plant.

Liquidity	2015	2016	2017	2018	2019	Trend	5 Year Avg.
Current Ratio	4.78	7.22	7.83	9.82	7.7		7.47
Quick Ratio	3.05	4.83	5.48	3.54	2.51		3.88
Cash Ratio	1.12	2.95	3.78	1.4	0.83		2.02

AHL is in a very strong liquidity position as both its current and quick ratios are well above 1. AHL is also in a very strong cash position as it has enough cash to cover most of its current liabilities. AHL currently has no long term debt on its books.

Efficiency Ratios	2015	2016	2017	2018	2019	Trend	5 Year Avg.
Total Asset Turnover	0.61	0.57	0.66	0.66	0.66		0.63
Days Payable Outstanding	120	37	67	63	74		72
Days in Inventory	307	323	207	214	212		253
Days Sales Outstanding	149	106	81	85	89		102
Cash Conversion Cycle	336	392	222	236	228		283
Free Cash Flow/Net Income		1.63	1.37	0.78	0.80		1.14
EBITDA Margin %		29.89	25.41	25.02	24.84		26.29

Since 2017, AHL has maintained its asset turnover ratio at 0.66. This is above AHL's 5-year average and is a very healthy ratio when compared to other rum manufacturers. In 2019, the time taken to pay AHL's suppliers stood at 74 days; this is also very low when compared to others in the industry. On the other hand, the average time taken to collect payment from customers stood at 89 days, which is well within AHL's 5-year average of 102 days. In 2019, AHL took 212 days to sell all its inventory; this is a considerable improvement from 2016 when AHL took 323 days to sell its inventory. AHL's cash conversion cycle has been on the downward trend since 2016 when the company took 392 days to convert its inventory into cash flow, to 2019 when it took only 228 days. In 2019, free cash flow to net income stood at 0.80, below the 4-year average of 1.14. The decline in this ratio is as a result of AHL increasing its short-term investments over the years. AHL's EBITDA margin has been on the decline since 2016, this was primarily as a result of difficulties with its waste water treatment plant which contributed to increased costs. AHL has since moved to rectify the issue by re-engineering of their waste water treatment plant. When the project is complete the company is expected to benefit from cost savings.

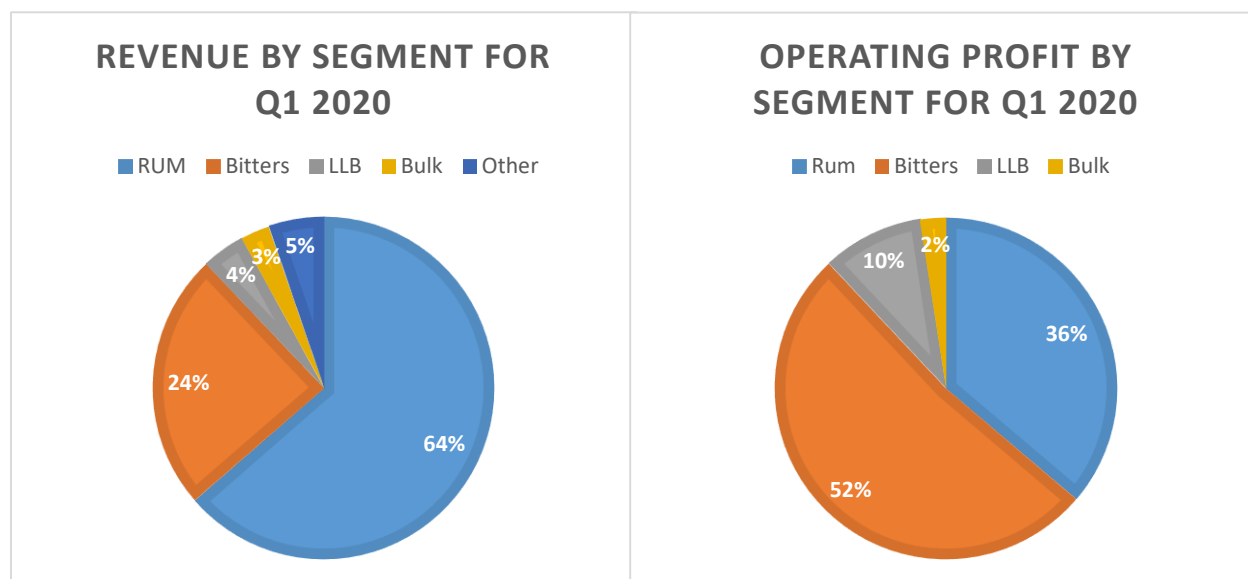
Recent Financial Performance

AHL	Q1 Ended Mar 31st, 2020	Q1 Ended Mar 31st, 2019	Change	% Change
	\$'000	\$'000	\$'000	%
Total Revenue	\$153,145	\$137,361	\$15,784	11.5%
Gross Profit	\$79,113	\$65,211	\$13,902	21.3%
Results From Operations	\$21,591	\$16,266	\$5,325	32.7%
Net Profit After Tax (PAT)	\$13,096	\$10,917	\$2,179	20.0%
Earnings Per Share (EPS)	\$0.06	\$0.05	\$0.01	20.0%

For the Q1 2020, AHL recorded PAT of TT\$ 13.1 million, a TT\$ 2.2 million or 20% growth over Q1 2019. Total revenue increased by 11.5% while operating margins improved to 14.1% in Q1 2020 from 11.8% in Q1 2019.

Revenue By Segment	Q1 Ended Mar 31st, 2020	Q1 Ended Mar 31st, 2019	Change	% Change
	\$'000	\$'000	\$'000	%
RUM	\$97,415	\$93,427	\$3,988	4.3%
Bitters	\$37,301	\$26,349	\$10,952	41.6%
LLB	\$6,329	\$4,064	\$2,265	55.7%
Bulk	\$4,130	\$6,245	\$(2,115)	-33.9%
Other	\$7,970	\$7,276	\$694	9.5%
Total	\$153,145	\$137,361	\$15,784	11.5%

Bitters segment reported the largest growth over Q1 2019 of 42% or TT\$11 million. This was due to increased sales in the USA, UK and South Africa, which offset the decline in the Australian market. Local rum revenue grew by 8% or TT\$ 6.4 million as the market acceptance of White Oak Sorrel, continued into January 2020. In January, AHL also added White Oak Coconut to its portfolio. Revenue from LLB increased by 56% over Q1 2019; this was as a result of increased demand locally and regionally.



As can be seen by the charts above, in Q1 2020, although the Rum segment contributes the most to AHL's top line, the bitters segment is the most profitable segment.

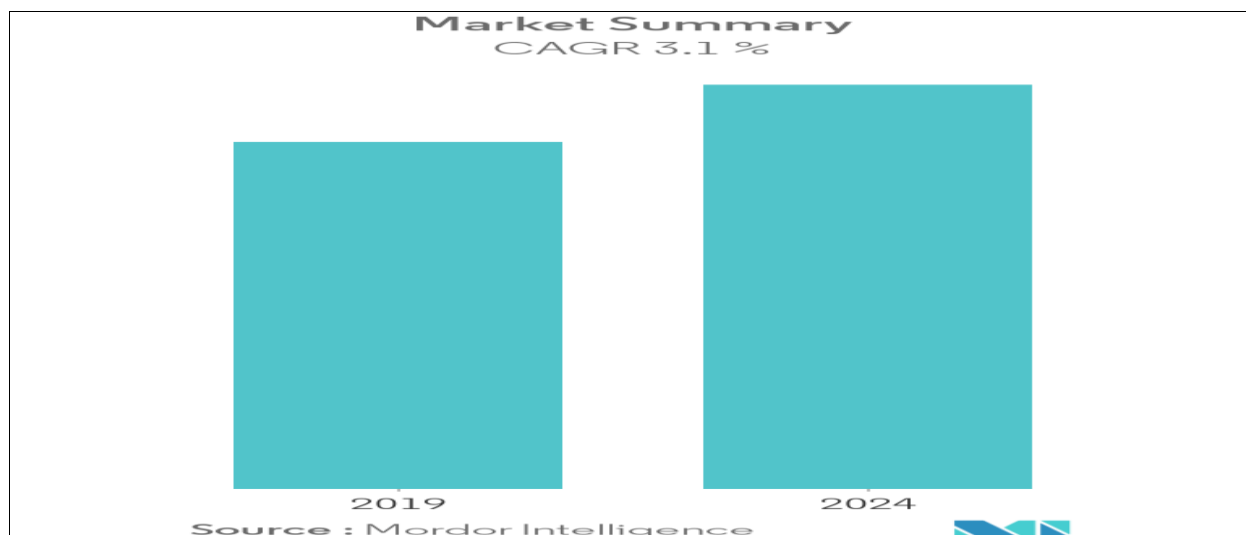
AHL comparison with Diageo PLC (FY 2019)

The product of a merger between Grand Metropolitan and Guinness in 1997, Diageo is the world's leading producer of branded premium spirits. It also produces and markets beer and wine. Brands include Johnnie Walker blended scotch, Smirnoff vodka, Crown Royal Canadian whiskey, Captain Morgan rum, Tanqueray gin, Baileys Irish Cream, and Guinness stout. Diageo also owns 34% of premium champagne and cognac maker Moët Hennessy, a subsidiary of French luxury-goods maker LVMH Moët Hennessy-Louis Vuitton, and a near-55% stake in India's United Spirits.

	AHL	DEO
ROA %	11.09	10.36
ROIC %	11.04	16.39
Gross Margin %	49.28	62.18
Operating Margin %	21.75	31.41
Net Margin %	16.74	24.56
Retention Ratio %	65.18	44.57
P/E Ratio (Trailing)	22.24	22.17
P/B Ratio (Trailing)	3.09	8.84

The major differences in metrics are in the margin ratios, this is as a result of AHL issues with its waste water treatment plant.

The Alcoholic Beverage Market



According to Mordor Intelligence, the global alcoholic beverage market is forecasted to grow at a CAGR of 3.1% to 2024. This growth will be driven by the increase in the global young-adult demographic, coupled with high disposable income and consumer demand for premium/super-premium products. Asia-Pacific is expected to dominated the global market during the forecasted period. These projections include the direct impact of COVID-19 on this market, as well as the indirect impact from other industries.

The Aromatic Bitters Market

Growing consumer demand for alcoholic drinks has fueled and will continue to fuel the demand for aromatic bitters in the years to come. The market for Aromatic bitters is a global one as different regions use the product for different purposes.

Aromatic bitters are widely produced and consumed in Europe, as a traditional practice. Increased number of beverage processing industries also account for the high production. In North America, Aromatic bitters are consumed mostly in social outlets. In Latin America, the Aromatic bitters are mostly consumed for its well-known health benefits such as improving digestive functions. Aromatic bitters are mostly consumed in the form of cocktails in Asia Pacific due to increased consumption of alcoholic drinks. In the Middle East and Africa, Aromatic Bitters are being marketed as herbal extracts along with beverage products. It is expected that the demand for Aromatic bitters will continue to increase in the global market.

AHL is the market leader in the Aromatic Bitters market. Besides AHL, some of the major players of Aromatic bitters includes Strongwater LLC, Hella Cocktail Co., Fee Brothers, Peychaud's Bitters, Dashfire Bitters, The Bitter Truth, Wild Turkey, Jack Daniel's, Noilly Prat.

Free Float

Shareholders December 31st, 2019	Shareholdings	%
Rumpro Company Limited (formerly Bacardi)	92,551,212	44.87%
National Investment Fund Holding Company Limited	61,677,011	29.90%
National Insurance Board	9,665,190	4.69%
Colonial Life Insurance Company (Trinidad) Ltd.	5,294,866	2.57%
MASA Investments Ltd.	1,993,961	0.97%
Tatil Life Assurance Co. Ltd.	1,866,716	0.90%
Tatil Life Assurance Limited A/C C	1,800,000	0.87%
Republic Bank Ltd. -1162	1,542,922	0.75%
First Citizens Trust and Asset Management-PT7	1,518,497	0.74%
RBC Trust (Trinidad and Tobago) Ltd.- T534	1,476,360	0.72%
Free Float	26,890,895	13.02%

Key Value Drivers

Improvement in AHL gross margins (Waste Water Treatment Plant)- It is expected that when AHL is complete with its Waste Water Treatment Plant Project, it will benefit from a reduction in cost goods and this will lead to increased profitability for the company. We forecast that after the completion of the project gross margins will increase to ~55%.

International revenue growth (Increased demand for bitters internationally)- Given the growth in the young adult demographic and their preference for cocktail type drinks, AHL could benefit from significant revenue in its international markets. This however maybe tempered by the lasting effects that COVID-19 may have on social activities. We forecast that total revenue will fall by 12% in FY 2020 and return to 2019 levels in FY 2021.

Local Revenue growth (Increased demand for flavored rum)- given the popularity of White Oak Sorrel and to a lesser extent White Oak Coconut in the local market, AHL could benefit from increased revenue if they are able to extend their line of flavored rums.

Valuation

Four valuation models were utilized to obtain an estimated intrinsic value range for AHL. Firstly, a discounted free cash flow (DCF) model was utilized. Two relative valuation models were applied; a simple P/E method and a simple P/B method using the average multiple over the last 5 years. Lastly a dividend discount model was utilized.

DCF Model

The discounted cash flow model is based on a detailed analysis and projection of company cash flows and accompanying financial statements. The basis of this forecast is assumptions made about the main value drivers for AHL. We projected EPS to be TT\$ 0.57 at the end of financial year 2020 (17.4% down from prior year) and TT\$ 0.22 at the end of six month ended June 30th, 2020. We expect gross margins to significantly improve thereafter. Intrinsic valuation on the FCF model shows a share price of TT\$ 20.50 vs. a market price of TT\$ 14.90.

Simple P/E Insights

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. It uses the market implied multiple for AHL for the past 5 years and forecasts the firm's EPS to arrive at the firms 'fair value'. The analysis shows that UCL is Overvalued by TT\$ 1.22.

Simple P/B Insights

Simple P/B multiple, has a similar methodology to the simple P/E. It uses the average P/B multiple for the past 5 years then determines a fair value by projecting book value per share (BVPS). The forecasted BVPS is simply beginning BVPS increased by the firms' current fundamental growth rate; so it implicitly assumes the same retention ratio. The analysis shows that the stock is undervalued by TT\$ 3.69.

DDM Model

Our DDM assumes AHL will increase its payout ratio from 35% to 60% over a 5-year period and grow its EPS (and hence dividends) at the firm's fundamental growth rate for the next 5 years. Intrinsic valuation on the DDM shows a share price of TT\$ 11.26 vs. a market price of TT\$ 14.90.

AHL Risk Factors

- The alcohol industry is subject to heavy regulation and taxation. Governments may enact policies that place restrictions on AHL's business activities or increase liquor taxes, resulting in a demand headwind.
- Distilled spirits is more cyclical than some other consumer staples industries and more closely tied to economic growth.
- As a result of AHL's participation in many markets around the world foreign exchange fluctuations can impact AHL's financial results.

Recommendation

Fair Value Range		
	Price	Weight
FCFF	\$ 20.50	40%
DDM	\$ 11.26	40%
Simple PE Val	\$ 13.68	10%
Simple PB Val	\$ 18.59	10%
Weighted Price	\$ 15.93	
10% Under	\$ 14.34	
10% Over	\$ 17.52	

Our models give a range of values from \$11.26 to \$20.50, each with its own margin of error. The FCFF model and the DDM model was given a 40% weight each, while the P/E & P/B models were given a 10% weight each. Given the uncertainty due to the COVID-19 pandemic we apply an increased margin of error of 10% to the weighted price to give a fair value range of \$14.34 - \$17.52. This is compared to the current market price of \$14.90. We recommend AHL with an MARKETPERFORM rating.

This MARKETPERFORM rating is given on the following basis:

- Significant expense reduction is expected after the completion of the water treatment plant project.
- Increased demand for AHL's Aromatic bitters in the international market is expected to drive profitability going forward.
- Further innovation in the local rum market will drive local rum sales.
- Revenue and profitability for financial year 2020 will be tempered by the effects of COVID-19 prevention measures.

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 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM - up to 10% of your portfolio

MARKETPERFORM - 5% of your portfolio

UNDERPERFORM - 2.5% to 4.9% of your portfolio

STRONGLY UNDERPERFORM - less than 2.5% of your portfolio

SELL - 0% of your portfolio