Valuation Report

JMMB Investments

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Jair Blackman
Investment Analyst
Jair_blackman@jmmb.com

Trinidad Cement Limited (TCL)

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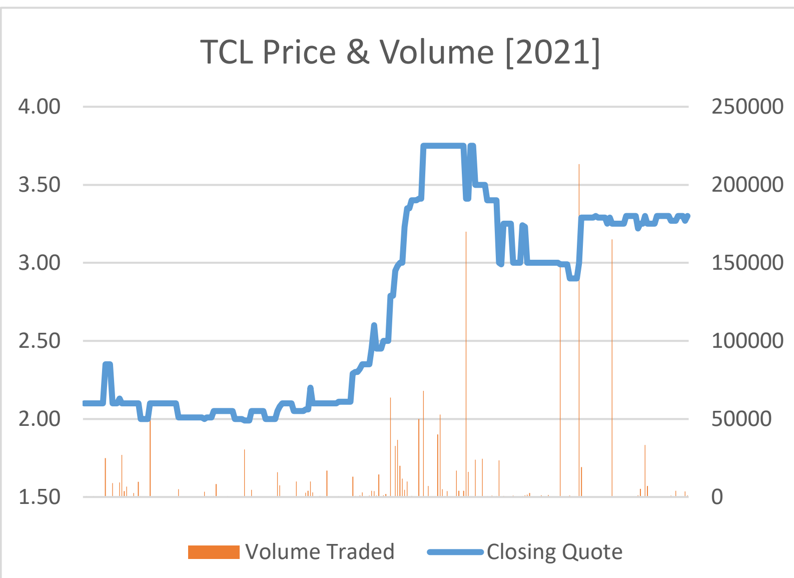
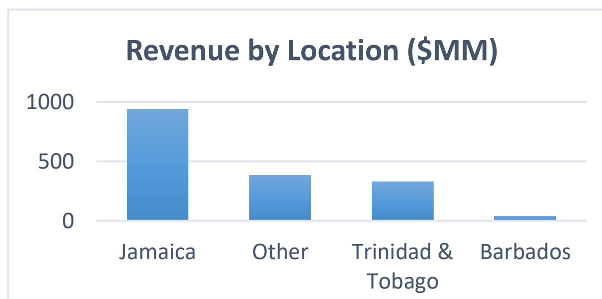
The TCL Group, which has been in operation since 1954, is a manufacturing chain with operations throughout the Caribbean islands. The Group's main products are cement, concrete and packaging.

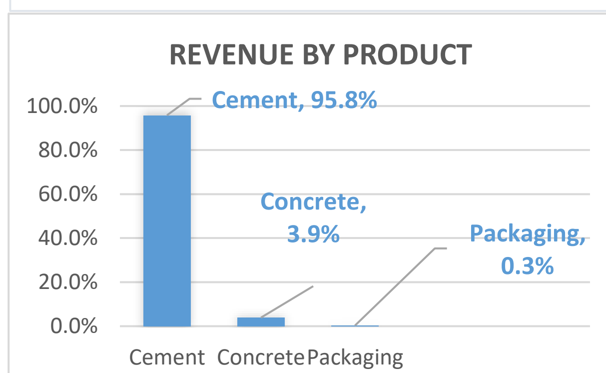


Company Facts	
Symbol:	TCL
Target Price:	$3.99
Sector:	Manufacturing II
Market Cap.:	$ 1,236,337,423.20
Issued Capital:	374,647,704
Financial Year End:	31 December



Peer Comparison

	P/E	P/B	Revenue Growth	EPS Growth	Dividend Yield
TCL	N/A	2.09	1.3%	N/A	0%
NFM	14.06	1.01	1.3%	400%	1.33%
UCL	18.77	1.51	1.9%	125%	3.67%



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Company Overview & History

In 1954, Trinidad Cement Limited (TCL) began production as a subsidiary of the British Rugby Portland Cement Company Limited. TCL received all of their export markets in the Caribbean and they focused on increasing production capacity and export efficiency for the following years.

TCL was purchased by the Government of Trinidad & Tobago (GOTT) in 1976. By 1994, TCL had opened operations and made purchases which allowed them to do Quarrying and Slurry manufacturing, clinker manufacturing, grinding, cement storage, packaging and distribution throughout the Caribbean chain. Around this time, CEMEX S.A. of Mexico also acquired 20% of TCL's shareholding.

In 1996, TCL acquired controlling interest in Readymix (west indies) Ltd and 1 year later TCL Trading Limited (TTL) was incorporated in Anguilla. By 1999, GOTT had divested all of its shareholding in TCL while TCL's holding in Caribbean Cement Company Limited sat at 74.1%.

In recent years, TCL has undergone structural changes. They underwent capital restructuring after it was delisted from the Barbados Stock Exchange, Eastern Caribbean Stock Exchange and Guyana Association of Securities Companies and Intermediaries. As of June 2021, CEMEX owns 69.83% of TCL's ordinary shares while the TCL group continues its operations in the islands of the Caribbean.

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Business Model

The TCL group generates revenue from its business units through different applications of their 3 main activities:

1. Cement Manufacture
2. Concrete Manufacture
3. Packaging

TCL's business units are:

Trinidad Cement Limited (TCL) which commenced operation in Trinidad in 1954. Its primary activities are the manufacture and sale of Portland Pozzolan Cement, Ordinary Portland Cement and Class G High Sulphate Resistant Oilwell Cement.

Readymix (West Indies) Limited (RML) which TCL has had majority ownership of since 1996. Its primary activities are the manufacture and sale of pre-mixed concrete, the winning and sale of sand and gravel (aggregates) and participation in other ventures that promote the utilization of concrete and aggregates.

Caribbean Cement Company Limited (CCCL) which started operating in Jamaica in 1952. TCL owns 74.09% of its shares. Its primary activities are the manufacture and sale of Portland Pozzolan Cement and Ordinary Portland Cement.

Arawak Cement Company (ACC) which was incorporated in Barbados in 1981 and was wholly acquired by TCL in 1994. Its primary activities are the manufacture and sale of Portland Pozzolan Cement

TCL Ponsa Manufacturing Limited (TPM) – TPM was incorporated in Trinidad in 1995. Its primary activities are the manufacture and sale of single-use slings. It is also involved in the sale of jumbo bags, reusable slings, safety harnesses and polypropylene sacks, as well as webbing for use in the furniture industry.

TTLI Trading Limited (TTLI) – TTLI was incorporated in Barbados on November 4, 2016. Its primary activity is trading in cement and cement-related products. The company is fully owned by Trinidad Cement Limited.

TCL Guyana Incorporated (TGI) – TGI was incorporated in the Republic of Guyana on March 17, 2004. Its primary activity is the packaging of bulk cement for sale on the Guyanese market (cement terminal facility).

On February 15th, 2021 TCL Packaging Limited ceased operations. Its primary activities were the manufacture and sale of paper sacks.

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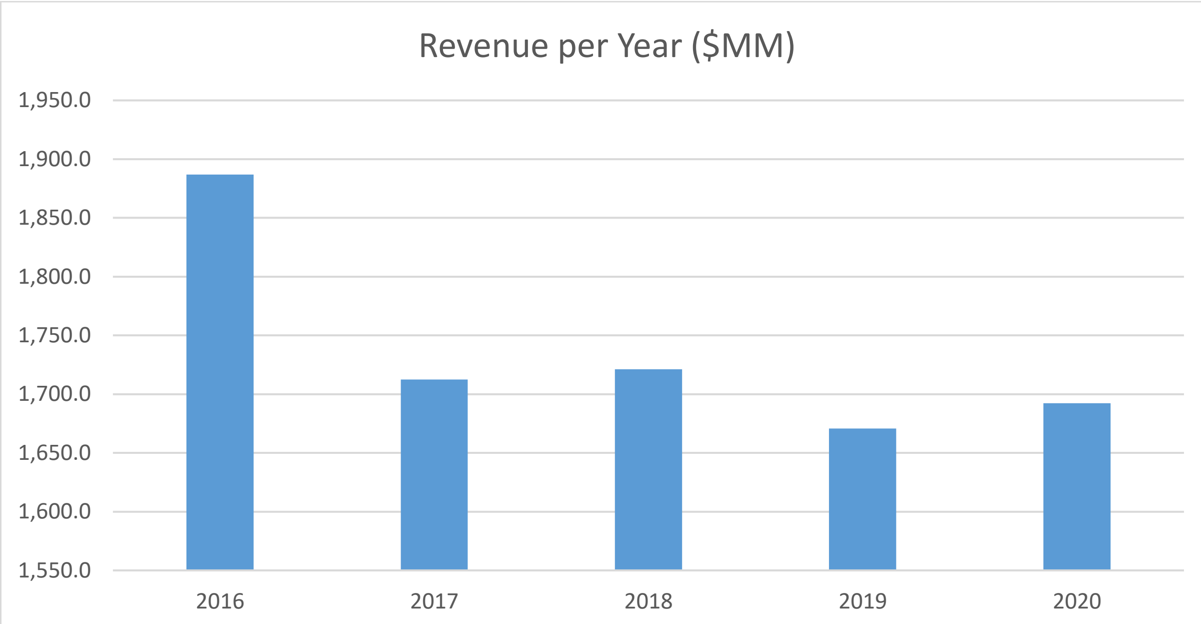
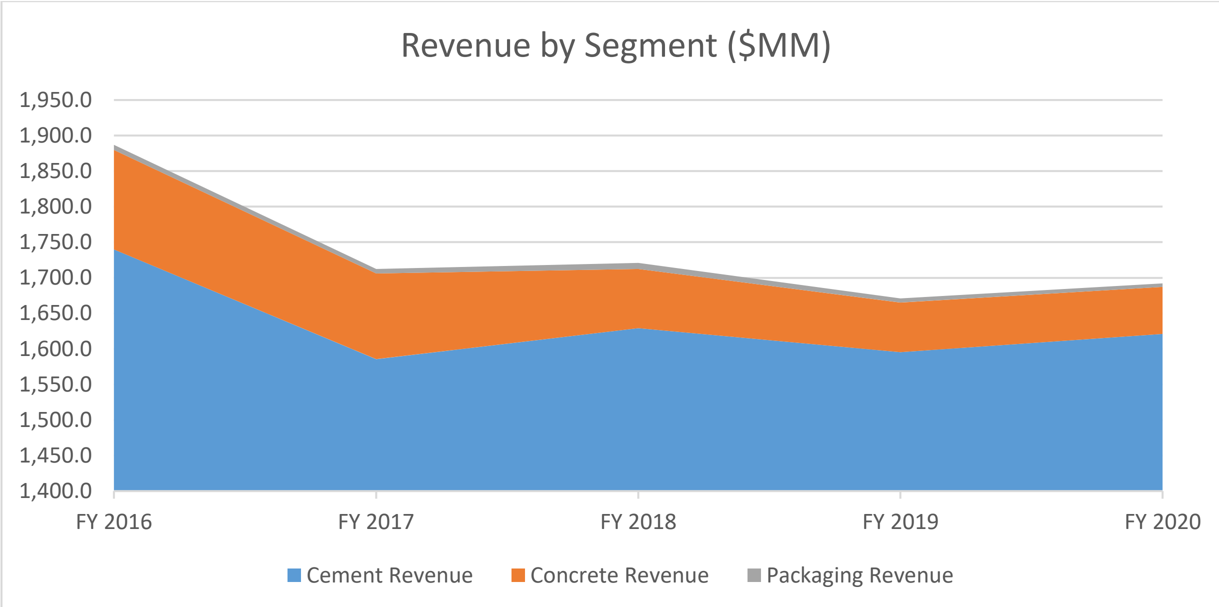
Financial Analysis

Income Statement

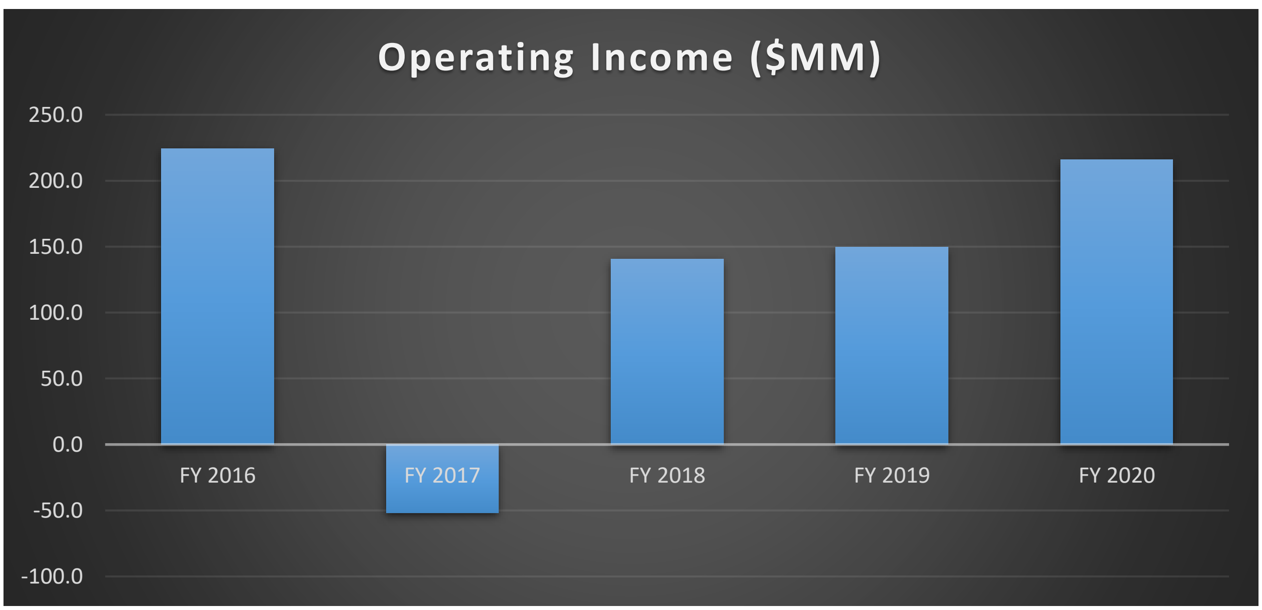


From 2017, the group's total revenue has averaged around TTD$1.7 billion. For the 3 years prior, it averaged higher at around $2 billion. This trend reflects the fact that TCL's revenue is highly dependent on the macroeconomic factors of the countries they supply. When the economies were doing well and had aggressive fiscal policies, TCL's revenue increased. Surprisingly, though, total revenue didn't decrease between FY 2019 and FY 2020. The decrease was expected as Covid-19's onset caused lockdowns which halted construction in some of the Caribbean islands.

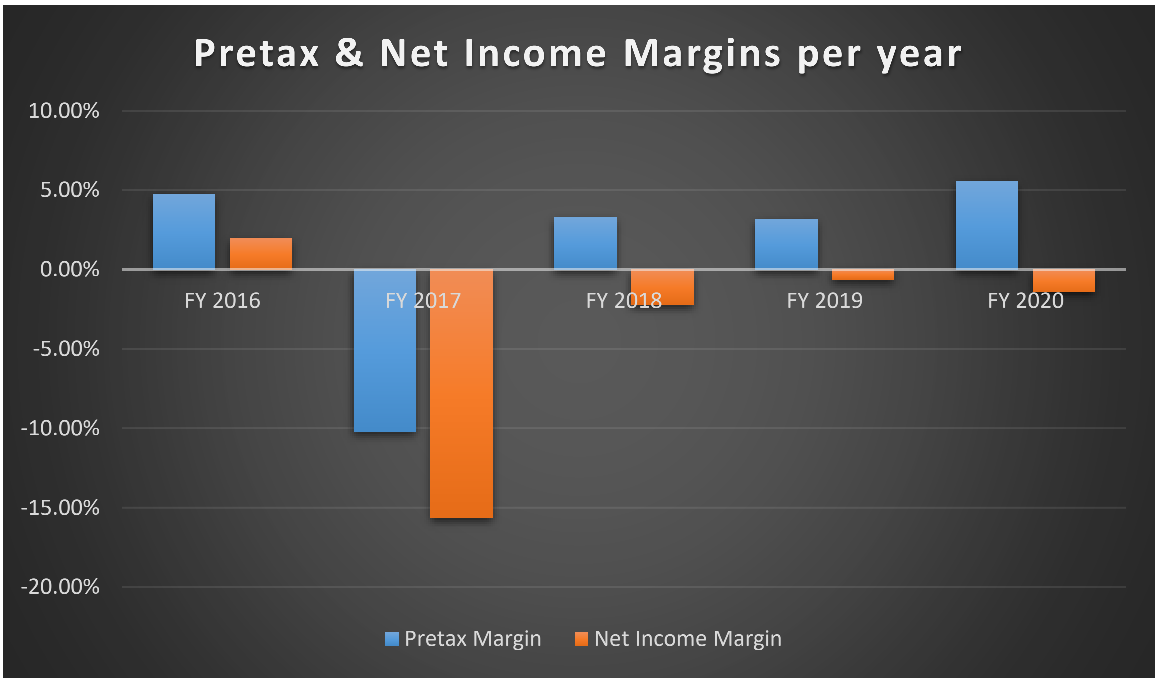
The increase in total revenue for FY 2020 was due to favourable developments in the Jamaican economy. There was high confidence in real estate investments in the Jamaican economy and that drove demand for TCL's products in the country. While Trinidad, Barbados and other country's contributions decreased, Jamaica's contribution increase was enough to offset them.



Since 2016, Cement related activities have contributed an average of 94.1% to the group's total revenue. Concrete related activities contributed on average 5.5% and Packaging contributed 0.4%. Since Covid-19's impact, revenue from concrete production decreased 5%, revenue from Packaging decreased 10%, but revenue from cement production grew 2%. That 2% increase from the Cement related activities offset the decreases in the others.



Operating Income has been volatile over the past 5 years. FY 2017 was the only year since 2012 in which the group returned an operating loss. Since then, there was a positive trend for operating income and operating margin. Year on year, both metrics have increased with FY 2020 showing the highest operating margin of 12.75%. The TCL group attributes this steady improvement to strategic Capex investments which have improved efficiency and reduced operational costs.



While pretax margin has increased year on year since FY 2017, Net Income margin has shown no such trend. The Pretax trend can be attributed to the group's investments in operational efficiencies but the Net Income trend is largely due to the group's drastic tax expenses for the years. On average, the group has had an Effective Tax Rate of 89.41% for the last 3 financial years. This is due to the deferred tax liability they incurred in the previous years they returned operating losses.

The group's net finance cost has also continued to be an area of weakness. It increased by 26% in FY 2020 to $122.1 million. This was driven by foreign exchange losses and a decrease in financial income.

Balance Sheet

Liquidity:

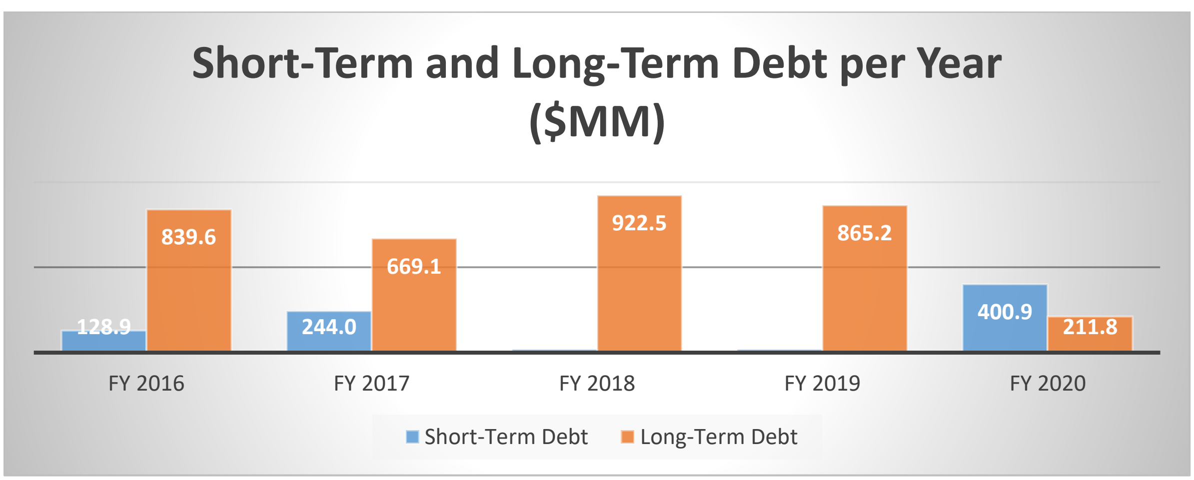
Financial Year	2016	2017	2018	2019	2020
Current Ratio	1.14	0.61	0.86	0.90	0.44
Quick Ratio	0.53	0.35	0.45	0.43	0.20

Over the last 5 years, the group hasn't shown improvement in their liquidity ratios. Between FY 2017 – FY 2019, there was improvement in the Current Ratio due to a repayment of $200 million in short term debt. In FY 2020, both liquidity ratios fell as the group took on an additional $400 million in short-term debt and repaid long-term debt of approximately $650 million. As at FYE 2020, the group is at its most illiquid position within the last 5 years.

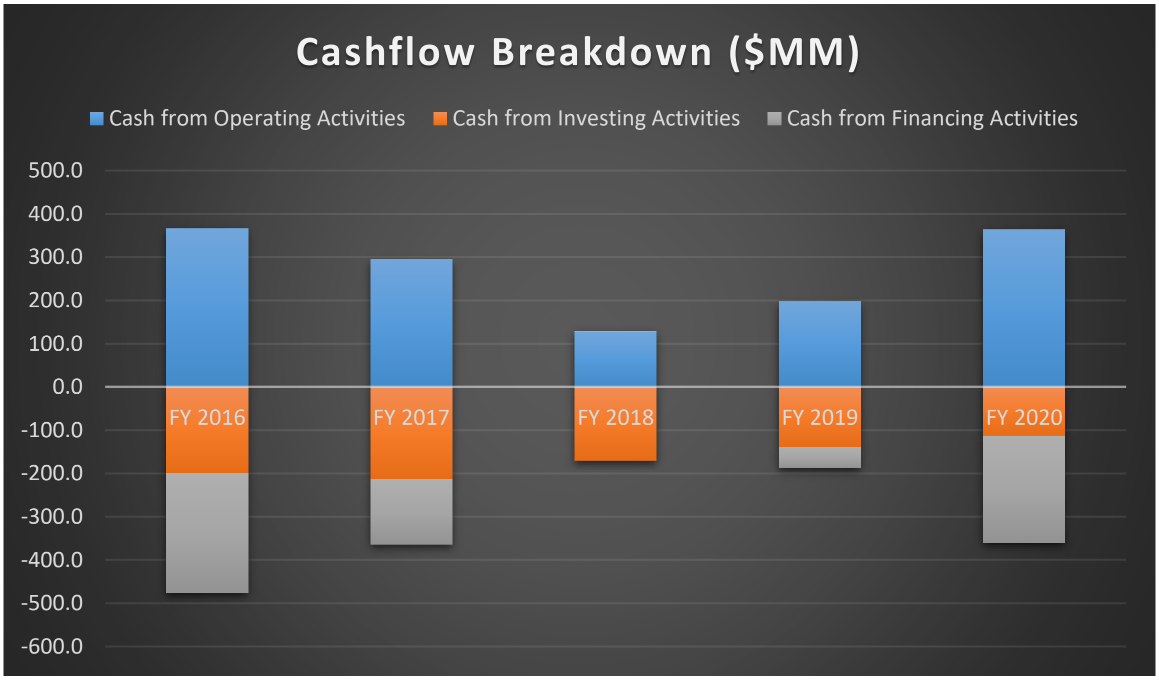
Solvency:

Financial Year	2016	2017	2018	2019	2020
Debt to Assets Ratio	0.33	0.34	0.37	0.34	0.26
Total Liabilities to Total Equity	1.87	2.72	2.76	2.70	2.53
Equity Multiplier	2.87	3.72	3.76	3.70	3.53

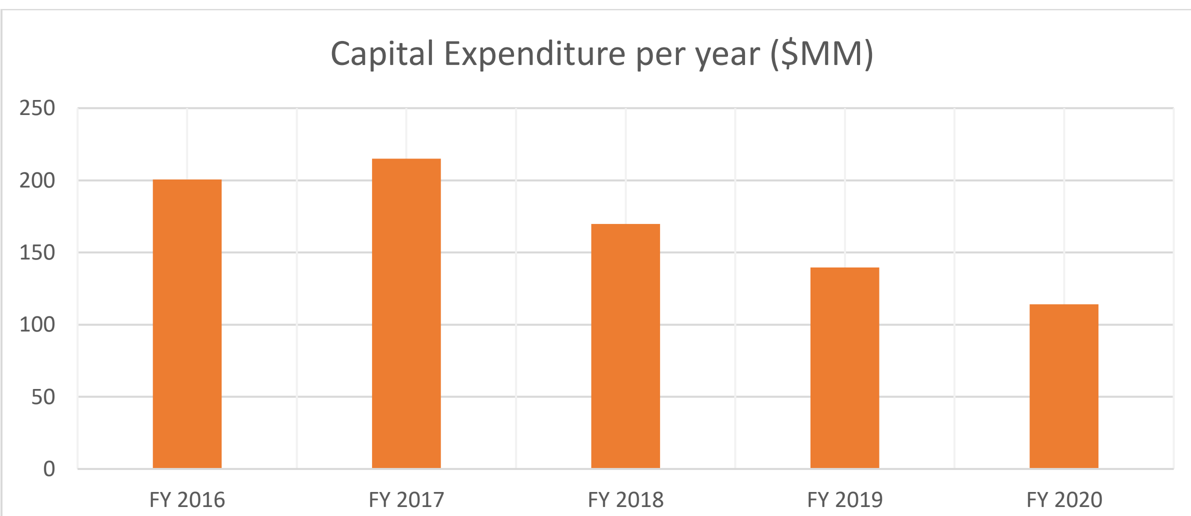
TCL has maintained a healthy Debt-to-Assets ratio. There was a significant decrease in the ratio for FY 2020 due to the long-term debt repayment in that year. This repayment also decreased the Total Liabilities to Total Equity and Equity Multiplier values for FY 2020. While the Debt-to-Assets can be said to be healthy, the other 2 ratios reflected how there are still significant liabilities remaining unchanged on TCL's balance sheet. In particular, TCL's deferred tax liabilities has averaged around $277 million for the past 5 years. Also, the group's Pension Liabilities have grown year over year for the past 5 years while averaging $176 million. These factors, if left unaddressed, represent risk.



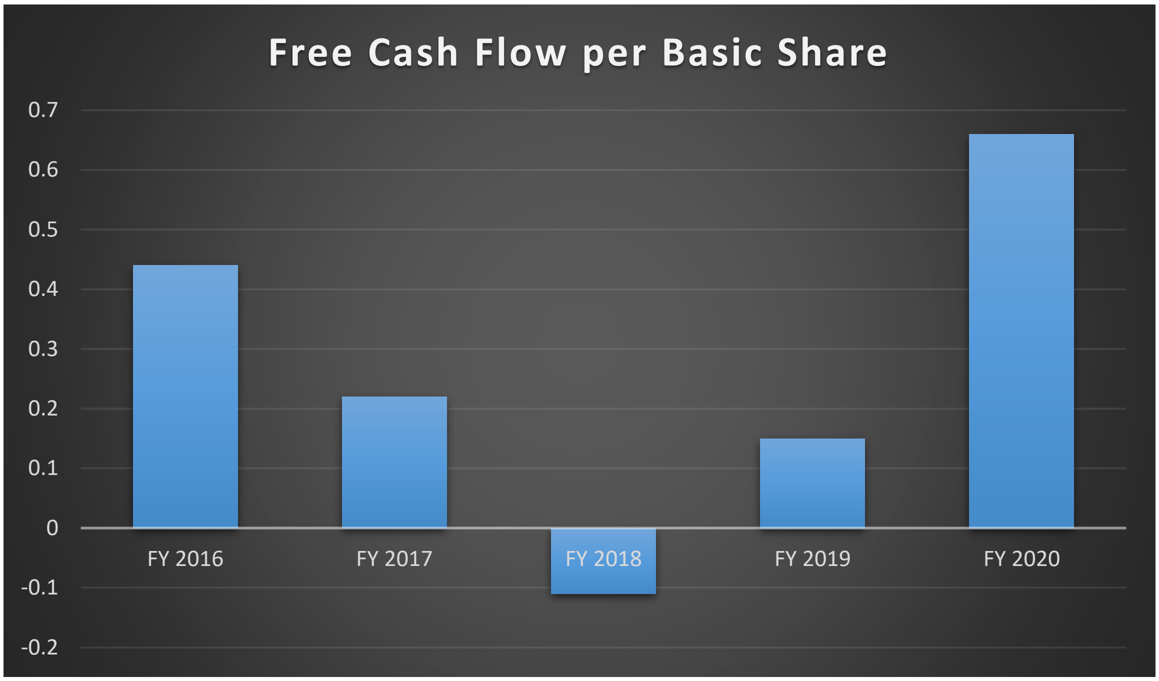
Cash Flow Statement



As expected, Cash from Operating Activities followed a similar trend to the group's revenue. The group's entire inflow of cash was derived from sales of their products and services as Investing Activities and Financing Activities held negative cash balances for the period shown. The cash flow from Investing was primarily Capex spending. Although Cash from Financing Activities grew and fell at the same times as Cash from Operating Activities, there is no direct cause for such. The cash flow from Financing Activities was primarily debt repayments at their contracted times.



The group has acknowledged their multi-year capex plans which aims to improve operational efficiencies. A significant portion of those investments were made in FY 2016 and FY 2017 as we see Capex follow a decreasing trend for the years after. Despite Covid-19's restrictions, the multi-year plan continued through 2020 with emphasis placed on safety upgrades. Business units in Jamaica and Barbados received the majority of those upgrades. The group plans to continue investments through 2021.



Free Cash Flow per basic share has been volatile for the past 5 years. Although there is an upward trend as at FYE 2020, this indicates instability in the group's ability to convert operations into free cash flow.

Recent Developments

In January 2021, a Quota and Import Licencing Regime was placed in effect in Trinidad & Tobago. This regime drastically affected TCL's direct competitor, Rock Hard Cement. Rock Hard Cement pleaded its case to the Caribbean Court of Justice (CCJ) and has since received a temporary reprieve until final judgement. Before the regime, Rock Hard Cement sold their 42.5 kg bags at $43 while TCL sold theirs at $48. With the effects of the regime, Rock Hard Cement's bags would wholesale at $65.25 which would effectively eliminate them as TCL's domestic competitor. The CCJ has not yet passed its ruling.

On July 1st 2021, Rock Hard Cement increased their prices to account for rising prices worldwide and volatility of shipping during the second half of the year. Their price increased above TCL's. This implies a clear competitive advantage for the domestic producer moving forward.

As at July 2021, the latest earnings report released by TCL is their Q1 earnings. Most notably, their Revenue, Gross profit and Net Income grew year over year. In particular, Net Income grew over 400% when compared to Q1 2020. However, we expect their Q2 earnings to be affected by Trinidad & Tobago's construction lockdown which took effect between May – July.

Key Value Driver

Economic Cycle – The majority of TCL's value is driven by its ability to sell cement-related products. Demand for these products increase during periods of high construction. Macroeconomic theory suggests that we are about to enter into such a period as Governments try to counter the contractionary effects the pandemic had on economies. If theory is correct, TCL will gain significant value over the next 3 years.

Risk Factors

Macroeconomic Dependency – With new variants of the Coronavirus being discovered as time progresses, the rate at which Covid-19's effect subsides in TCL's territories is unpredictable. TCL's revenue is highly dependent on the Caribbean economy's ability to move past the pandemic and focus on expansion again. If vaccines prove to be ineffective against the newer strains, then the economies won't have the flexibility needed to progress towards a favourable state for TCL.

Illiquid Shares – Currently, Sierra Trading (CEMEX) owns 69.83% of TCL's shares and NIBTT owns another 11.92%. As these entities rarely engage in the stock's trading, TCL's free float is only 18.25% of the total stock volume. For the past year, there has been an average weekly volume of approximately 31,000 shares traded.

Operational Potential – Since TCL's major investments, there hasn't been high levels of demand for their products. Due to this, the limits of their operational efficiency and ability to meet high demands have not been tested.

Valuation Report

Four valuation models were utilized to obtain an estimated intrinsic value range for TCL. A Discounted Free Cash Flow [DCF] model and a Residual Income [RI] model was utilized to reflect intrinsic value. Then, two relative valuation models were applied; A Simple Forward P/E and a Simple forward P/B method which both utilized the analyst's estimate of FYE 2021 EPS.

Discounted Cash Flow [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 are assumptions made about the main value drivers for TCL. We projected EPS to be TT$ 0.06 at the end of financial year 2021. The key determinants of TCL's projected cash flows are key value drivers affecting the firm's 1) Revenue 2) Profit Margin 3) Working Capital Spending and 4) Fixed Capital Spending. Intrinsic valuation on the FCFE model shows a share price of TT$6.80 vs. a market price of TT$3.30.

Residual Income Model [RI]

For a business with unpredictable dividend payments and cashflows, the Residual Income model is a powerful tool to forecast intrinsic value. It utilizes revenue projections in line with the analyst's estimates for the next 5 years and onwards. Intrinsic valuation on the RI shows a share price of TT $1.70 vs. a market price of TT$ 3.30.

Simple Price/Earnings [PE] Insights

This model is a simple yet powerful measure of value that relies on historical market sentiment of the growth prospects of the stock. The forward method uses the market implied multiple for TCL for the past 5 years and the analyst's forecast of the firm's EPS over the next 12 months to arrive at the firm's 'fair value'. The analysis shows that TCL is Overvalued by $0.73.

Simple Price/Book [PB] 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 using the current book value per share (BVPS). The analysis shows that the stock is Overvalued by $0.91.

Recommendation

Model	Intrinsic/Fair Price	Overvalued (Undervalued) by	Weighting
Discounted Cash Flow	$ 6.94	(3.64)	40.0%
Residual Income	$ 1.80	1.50	40.0%
Simple P/E Valuation	$ 2.53	0.77	10.0%
Simple P/B Valuation	$ 2.39	0.91	10.0%
Weighted average Intrinsic Value		$ 3.99	
10% Above Average		$ 4.39	
10% Below Average		$ 3.59	

Our models give a range of values from $1.80 to $6.94. The models have been assigned various weightings as detailed in the table above. A 10% margin of error was applied to the weighted price to give a fair value range of $3.59 - $4.39. This is compared to the current market price of $3.30. We recommend TCL with an OUTPERFORM rating.

This OUTPERFORM rating is given on the following basis:

- As the economies of the Caribbean rebound from the Covid-19 pandemic, fiscal policies will likely include construction which will drive demand for the group's products.

- Demand for the group's cement-related products have already shown improvement in Jamaica as their economy took an aggressively early approach towards re-expansion.

- In July, Rock Hard increased their cement prices above TCL's. There is now a competitive advantage for TCL in Trinidad & Tobago's market which can provide a boost to the group's earnings. Also, if the CCJ rules against Rock Hard Cement, they may be effectively eliminated as a viable competitor in the market.

APPENDIX 1

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

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APPENDIX 2

Financial Summary – 10 Year Consolidated Review

	UOM	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Group Third Party Revenue	TT$M	1,560.86	1,615.89	1,941.05	2,104.81	2,115.45	1,887.01	1,712.57	1,721.12	1,670.88	1,692.15
Group Operating Earnings (Loss)	TT$M	62.53	(0.76)	271.56	111.08	446.31	224.43	(51.61)	140.72	149.76	215.92
Group Earnings (Loss) before Taxation	TT$M	(162.05)	(351.74)	33.79	(102.47)	487.49	89.63	(174.74)	56.16	53.22	93.89
Group Earnings (Loss) Attributable to Shareholders	TT$M	(167.17)	(292.91)	58.20	(214.39)	405.11	36.86	(267.57)	(37.66)	(10.38)	(24.18)
Foreign Exchange Earnings	TT$M	271.90	279.60	352.00	309.90	298.40	245.70	219.20	229.60	252.50	235.30
EPS	TT$	(0.68)	(1.19)	0.24	(0.87)	1.19	0.10	(0.72)	(0.10)	(0.03)	(0.07)
Ordinary Dividend per Share	TT$	-	-	-	-	-	0.04	0.02	-	-	-
Issued Share Capital – Ordinary	TT$M	466.20	466.20	466.20	466.20	827.73	827.73	827.73	827.73	827.73	827.73
Shareholders' Equity	TT$M	781.99	485.72	561.53	276.98	963.29	997.58	736.35	669.35	647.07	567.95
Group Equity	TT$M	810.26	461.07	536.30	245.53	950.97	990.53	719.31	671.83	707.03	658.27
Total Assets	TT$M	3,506.48	3,452.76	3,399.14	3,010.00	3,033.08	2,931.10	2,674.86	2,527.01	2,614.33	2,324.24
Net Assets per Share	TT$	3.24	1.85	2.15	0.98	2.54	2.64	1.92	1.79	1.89	1.76
Return on Shareholders' Equity	%	(21.38)	(60.30)	10.36	(77.40)	42.05	3.69	(36.34)	(5.63)	(1.60)	(4.26)
Share Price (Dec 31)	TT$	1.79	1.49	2.20	2.50	3.99	4.40	3.75	2.73	2.00	2.50
No. of Shares Outstanding (Dec 31)	'000	249,765.00	249,765.00	249,765.00	249,765.00	374,647.70	374,647.70	374,647.70	374,647.70	374,647.70	374,647.70
Market Capitalisation (Dec 31)	TT$M	447.08	372.15	549.48	624.41	1,494.84	1,648.45	1,404.93	1,022.79	749.30	936.62
Total Long Term Debt	TT$M	1,678.40	2,046.12	1,951.80	1,848.90	1,166.06	968.50	913.11	941.59	910.13	641.23
Total Long Term Debt/Equity Ratio	%	207.14	443.78	363.94	753.03	122.62	97.78	126.94	140.15	128.73	97.41

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