



## MASSY Holdings Limited Update

Massy Holdings Limited was born in 1932 as Neal & Massy Engineering Company Limited. Massy Holdings Limited has grown to become the largest conglomerate operating in the Caribbean region. The company primarily operates in Trinidad and Tobago, Barbados, the Eastern Caribbean, Guyana, Jamaica and Colombia. Massy has diversified its revenue streams amongst its business units which include Automotive and Industrial Equipment, Integrated Retail, Insurance, Energy and Industrial Gases and Information Technology and Communications.

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Strong regional brand presence and experience.</li> <li>• The largest conglomerate in the region.</li> <li>• Diversified operations. Massy operates in multiple industries including consumer staples, energy, financial services and technology.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Lack of geographic operational diversification. In 2015, over 50% of Massy's revenue came from Trinidad and Tobago.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Recently closed acquisitions, such as Massy Energy Colombia, may create synergistic and financial returns for company.</li> <li>• Expansion of product offerings into new markets such as Colombia.</li> <li>• Divestiture of businesses which did not align with overall strategy may yield returns.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Economic downturns in geographic areas of operation.</li> <li>• Exposure to energy markets and falling energy prices.</li> <li>• Foreign exchange exposure</li> </ul>

[ We rate Massy Holdings Limited as a **BUY**. The company is facing economic headwinds against its business units as well as in its operating territories. However, we believe that the company has begun to position itself to weather the storm. We believe that there is limited upside potential for the company and its shares in the short term; our target price is **\$61.95**. ]



## MASSY Holdings Limited Update

### Financial Performance

Overall in 2015, Massy Holdings Limited reported 12 percent growth in third party revenue (total revenue less intersegment revenue) which rose to TT \$11.9 billion from TT \$10.7 billion reported at the end of the financial period in 2014. In terms of profits, Massy reported a 9% growth in operating profits (before rebranding costs). The business units of Massy made varying contributions to the growth in revenue and overall profit, examination of the top 3 business units will illustrate the drivers behind Massy's overall performance.

<b>Key Metrics</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>TTD '000</i>	<i>TTD '000</i>	<i>TTD '000</i>
Revenue	9,391,521	10,703,801	11,944,843
Operating Profit	827,184	880,801	959,851
Net Income Attributable to Shareholders	555,872	555,003	638,406
Total Assets	8,869,109	9,849,228	10,418,761
Total Liabilities	4,843,637	5,624,666	5,828,434
Total Equity	4,025,472	4,224,562	4,590,327
EBIT Margin	8.8%	8.2%	8.0%
Net Profit Margin	5.9%	5.2%	5.3%
ROE	15.4%	14.2%	15.3%
ROA	6.4%	5.9%	6.3%
Current Ratio	1.42	1.82	1.80
Debt to Equity	34.0%	61.9%	49.8%

### *Key Metrics*

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### ***The Energy and Industrial Gases Business Unit (Trinidad, Jamaica and Columbia)***

The growth in overall revenue was largely driven by the Energy and Industrial Gases business segment which reported revenue growth of 53% during the period. The primary driver of this growth was the newly acquired Massy Energy Colombia, whose revenue contribution of TT \$582 million offset negative impacts in the segment's topline. The negative impacts came from reduced sales and slowdown in activities in Trinidad as well as overall downward pressure on commodity prices. It is likely that this downward pressure will continue and operators in Trinidad, Columbia and geographic areas that this business unit has exposure too will cut costs and defer capital expenditures; this will continue to impact Massy's energy unit.

### ***The Automotive and Industrial Equipment Business Unit (Trinidad and Columbia)***

This unit reported an 8% increase in revenue during the period and growth of 10% in profits before rebranding costs and tax. Growth in the business unit has come from the Colombia operations with contributions from Massy Automotive Contributions in Trinidad; but the growth has been tempered by several factors. These factors have materialized in both operating geographies, Massy Automotive in Trinidad has been experiencing a slowdown in sales, which is expected with the general economic climate and reduced consumer spending, as well as gross margin pressure, likely caused by Trinidad's foreign exchange constraints. In Colombia, the growth in sales volumes was impacted by the steep (56%) devaluation of the Colombian Peso against the US dollar. These negative factors will likely continue to be a factor in the unit's profitability as the economic climate persists in the operating regions.

### ***The Integrated Retail Business Unit (Trinidad, Barbados, St. Vincent and St. Lucia)***

The business unit reported an 8% increase in revenue and a 1% increase in profits before rebranding costs and tax. This growth was largely driven by the performance of retail and distribution operations in Trinidad along with contributions from retail acquisitions in St. Lucia, St. Vincent and the Grenadines and by effective cost reduction measures initiated in the Barbadian operation. The Trinidad market's performance benefitted from relatively low inflation as well as an increase in the customer basket size.



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However, the unit continues to face headwinds in its operating territories. These headwinds include continued flat revenue growth in Barbados due to economic climate and continuous pressure on margins for the entire business unit. Consumer spending in Trinidad will be impacted by the widening of the range of goods that VAT will be charged on. Additionally, as downward pressure on the Trinidadian dollar increases, prices will also increase as imports become more expensive and retailers transfer the increased costs to consumers, as they protect already thin margins (Integrated Retail profit margin 2014: 4.1%, 2015: 4%). The rest of the operating territories will follow a similar trend within the next financial year.

### Balance Sheet Performance

Massy's total assets increased from TT \$9.8 billion to TT \$10.4 billion at the end of September 2015, driven primarily by acquisitions in the Integrated Retail and Energy and Industrial Gases business units. Despite growth in its asset base, balance sheet based performance metrics have increased YoY, illustrating better management of assets in the production of profits for shareholders.

The Group's financial leverage decreased from 62% to 50% at the end of the financial period. The restructuring of debt led to higher interest payments which impacted coverage ratios negatively. However, we believe that Massy's leverage position remains strong, particularly given that over 80% of their long term debt is in TT dollars and operating cash flows remain strong.

### Cash Flow Position

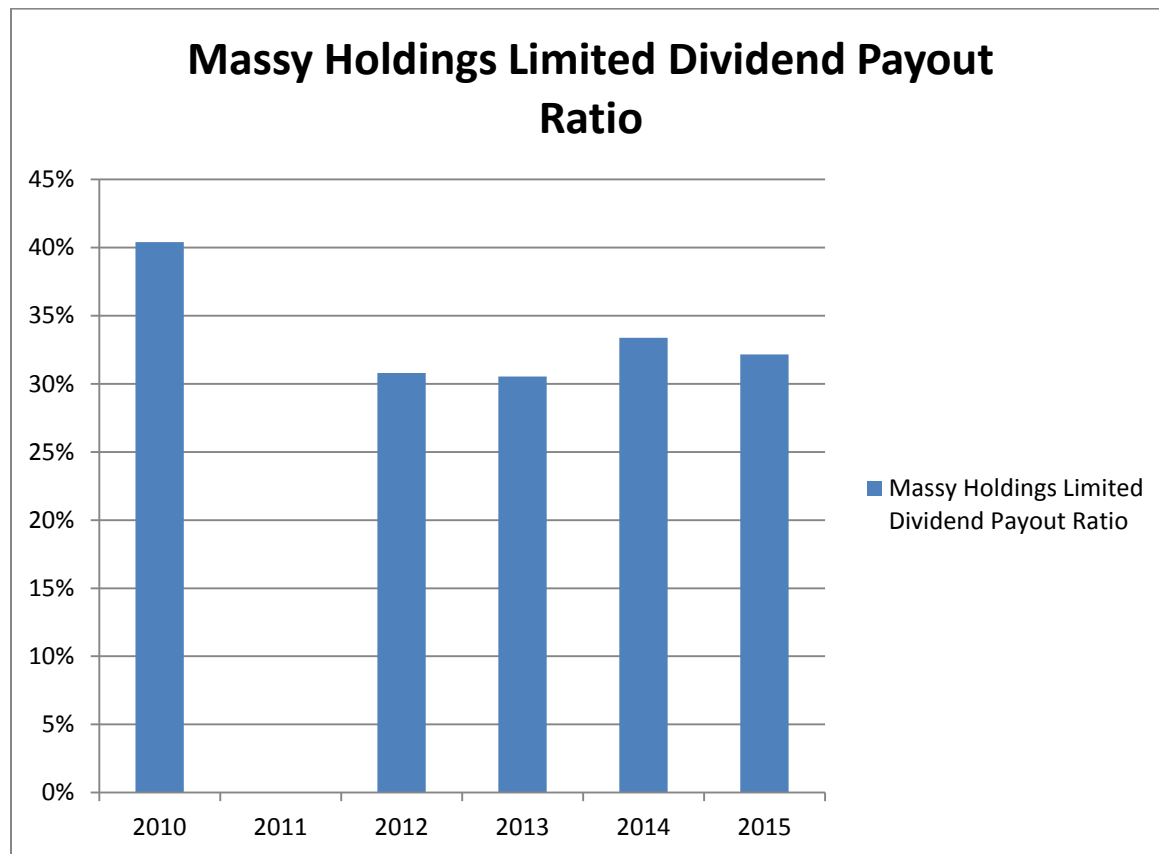
Massy has reported more robust operating cash flows. This was in part due to topline growth, but also driven by positive changes in working capital management. The Group invested TT \$268 million into new acquisitions and new businesses, such as Massy Energy Colombia and the Natural Gas to Petrochemicals Plant with Mitsubishi Corporation, the Mitsubishi Gas Chemical Corporation and the Government of Trinidad and Tobago. Massy has also had regular capital expenditure mainly focused on Guyana and Trinidad; largely in the automotive and retail business units. Massy reported net cash outflows for financing as USD denominated debt in Trinidad and higher cost debt in Barbados was repaid during 2015.



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### Valuation and Forecast

Based on a dividend discount model, assuming a dividend payout ratio of 32%, we derived a valuation price of \$61.95. This model takes the current and expected economic climate into consideration as well as the stability of Massy's historical dividend policy.



From a relative value perspective, Massy currently trades at 9.5x earnings, which is below its historical average price-earnings multiple of 10.8x, and below the average of its peer group on the TTSE of around 11x.

The combination of the relative and absolute valuation information, illustrates that the expected impact to Massy's operations, by the economic climate is already priced in at this price level and the shares are close to fairly valued.

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## **MASSY Holdings Limited Update**

### Recommendation

We believe that Massy's business units operate in territories that have low economic growth and therefore headwinds to Massy's growth. There is also significant exposure to the current energy market in both the largest contributing territory (Trinidad and Tobago), but also one of the largest business units. Taking these risks into consideration, we believe that Massy has taken appropriate steps to put themselves in a better position to face these challenges. These steps include refinancing of their debt to reduce leverage as well as divestiture of non-performing operations (i.e. shipping services operations in Trinidad). Looking at the results of the valuation models, we believe that the expected turbulence has been priced in and the shares are fairly valued with limited upside in the short term.

Based on our absolute valuation model, we derived a price of \$61.95 and recommend Massy as a **BUY**.