

Wigton IPO Analysis: The “CliffsNotes Version”

About the Offer

The Petroleum Corporation of Jamaica (PCJ) is seeking to raise \$5.5Bn by offering up to 11,000,000,000 ordinary shares in the capital of Wigton Windfarm (WWF) Limited on the Jamaica Stock Exchange Main Market. The offer represents 100% of WWF’s post-IPO share capital. That is all the shares in the company.

Of the 11,000,000,000 shares on offer, 2,200,000,000 is reserved for public sector employees and 8,800,000,000 will be available for sale to the general public. Notably, none of the proceeds from the IPO will enter the capital structure of Wigton.

Company Overview



WWF, the largest renewable energy provider in the English Speaking Caribbean and a wholly owned subsidiary of PCJ, specializes in the generation of wind energy.

The company was incorporated in April 2000 and is focused on diversifying, developing, facilitating, and promoting the use of alternative renewable energy solutions in Jamaica. As a clean energy facility, it contributes positively to the environment. The clean energy generated by WWL is estimated to reduce Jamaica’s oil consumption by approximately 100,000 barrels annually .

With three plants and a total generation capacity of 62.7MW, the Company produces 6% of the total energy consumed locally. All of the energy it produces is sold to JPS under three Power Purchase Agreements (PPAs). WWF’s multi-decade strategy for capacity expansion is expected to play an integral role in the achievement of the government’s plans to diversify the country’s energy mix.

Key Statistics

Financial Year End	March 31st
Offer Price	\$0.50
EPS	\$0.08
Normalized EPS	\$0.07
Book Value Per Share	\$0.23
Price/ Book	2.19x
Offer P/E	6.66x
Normalized Offer P/E	7.49x
Fair Value Estimate	\$0.60
Recommendation	BUY

The company’s policy is to pay out 25% of its annual profits as dividends.

Investment Positives

- The equity is attractively priced at J\$0.50 per share
- The renewables energy sector has potential for growth based on the government’s plan to diversify the country’s energy mix to allow for the sector to contribute up to 56% of the country’s total power output by 2037.
- The company currently enjoys a strong market presence as its current market share stands at 41.4% of the renewable energy consumed locally
- Current long term contracts extend up until 2036 and there is certainty of revenues under the PPA contracts with JPS

Investment Negatives

- The company relies heavily on debt to finance the expansion and production efforts. Wigton is currently highly leveraged and this may limit its ability to secure new funding for expansion.
- Wigton must enter a competitive bid to sell new generation capacity to JPS. To win bids it must produce energy at lower cost than competitors. Its last bid for expansion was rejected.
- Locally, a large majority shareholder is a key influencer in businesses. The lack of a large majority shareholder could impede strategic decision making.

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Investment Positives

- The current 10% shareholding cap placed on any single investor for five years, will ensure that the stock is widely held and support good liquidity.
- There are plans to expand into other forms of renewable energy through the construction of solar energy plants and the acquisition of new wind turbines.

Investment Negatives

- The need to reinvest in the business to support expansion plans may limit the company's ability to make dividend payments.
- None of the funds from the IPO will be reinvested into Wigton.

Financial Summary

Financial Highlights	Year ended March 31 2014	Year ended March 31 2015	Year ended March 31 2016	Year ended March 31 2017	Year ended March 31 2018	CAGR Mar 2014-2018	LTM ended December 31, 2018
Financial Performance ('\$000)							
Revenue	1,495,137	1,543,970	1,831,149	2,162,412	2,356,766	12%	\$2,401,356
Gross Profit	1,127,557	1,177,739	1,456,132	1,504,407	1,652,350	10%	\$715,076
Operating Profit	999,687	1,116,255	1,242,386	1,334,961	1,885,149	17%	740,692
Net Income	53,106	424,906	302,327	186,205	826,152	89%	730,608
Financial Position ('\$000)							
Non-Current Assets	4,556,220	5,306,653	9,483,165	8,833,199	8,430,507	17%	8,194,555
Current Assets	1,777,469	1,765,210	1,451,524	1,625,272	925,577	-15%	1,620,099
Current Liabilities	938,138	629,520	2,090,545	1,319,949	895,907	-1%	232,128
Non-Current Liabilities	4,987,149	5,648,324	7,764,602	8,021,109	6,556,596	7%	6,964,583
Equity	408,402	794,019	1,079,543	973,973	1,780,316	44%	2,509,807
Key Financial Ratios							
Profitability							
Gross Profit Margin (%)	75%	76%	80%	70%	70%	NA	70%
Operating Profit Margin (%)	67%	72%	68%	62%	80%	NA	84%
Net Profit Margin (%)	4%	28%	17%	9%	35%	NA	30%
Return on Equity (%)	13%	71%	32%	18%	60%	NA	34%
Liquidity							
Current Ratio (x)	1.89x	2.80x	0.69x	1.23x	1.03x	NA	6.98x
Solvency							
Debt-to-Equity Ratio (%)	1217%	695%	693%	777%	334%	NA	253%
Debt-to-EBITDA (x)	5.87x	5.65x	4.24x	3.79x	2.81x	NA	2.58x

Our Recommendation (BUY)

Based on Wigton's financial performance, the outlook for the renewable energy locally, the entity's structure and business strategy, we concluded that the Wigton has growth potential. In valuing the company, we balanced the downside of the company not winning any further capacity bids and assumed that it adds no additional generation capacity over the long term but is able to continue to produce and sell its current capacity. We are projecting full FY 2019 and 2020 Income for March 2019 and 2020 of approximately \$2,401Mn and \$2,473M, respectively.

In choosing our Valuation methods, we considered the company's non-cyclical business model, high and stable EBITDA margin, and the nature of the transaction being executed. Using the Discounted Cash Flow (DCF) model, we obtained a fair value of \$0.60 per share.

This price implies a P/E of 8.95x the Company's normalized March 31, 2018 earnings and a P/B of 2.65x the Company's December 30, 2018 equity book value, which are both below the main market P/E and P/B averages of 17.22x and 6.07x, respectively. Wigton's offer price of \$0.50 per share represents a discount on our fair value estimate, hence we recommend that investors PARTICPATE in the Wigton IPO as it is a good diversification play and is suitable for investors with a long-term investment horizon.