

# ANALYST'S OPINION

Fosrich Company Ltd.

**Rating**

**Closing Price**

**Estimated  
Fair Value**

**Potential  
Return**

**Underweight**

J\$37.84

J\$25.33

-33.06%

Fosrich has significant growth opportunities in the near term attributable to investments the company has made to expand its business offerings and enhance its efficiency. Particularly, the decision to manufacture and distribute PVC pipe has been a significant driver of growth over the past two years and it is expected that this trend will continue into the short to medium term. We view favourably the company's pursuit of having its production facility in Hayes, Clarendon, designated as a Special Economic Zone. Such a designation would have positive long term tax implications for the company which would be accretive to shareholders considering that the company's five-year tax free concession from listing on the Junior Market of the Stock Exchange in 2017 is to expire this year. Fosrich's management has indicated that the company has met all the pre-conditions of application for its PVC company, Blue Emerald Ltd., to be registered under The Special Economic Zone Authority. Their application received no objection from Tax Administration Jamaica and the Jamaica Customs Agency and has been forwarded to the Ministry of Industry, Investment and Commerce for consideration by the Minister.

Meanwhile, the completion of a 30,000 square foot distribution facility on Molyne's road in October 2021 offers the company the opportunity to enhance efficiency. The

additional storage the facility offers should also allow the company the opportunity to optimize its inventory in the context of global supply chain disruptions and an inflationary environment (e.g. stockpile now to avoid disruptions and to lock in lower prices). That is, the additional capacity allows the company the opportunity to achieve economies of scale and to stave off rising prices relative to competitors who lacks similar/greater capacity.

Despite the aforementioned positives there are considerable threats from exogenous sources and a heightened level of systemic risk. The breakdown of the global supply chain has the potential to disrupt business operations, and has triggered a global inflationary environment. As a consequence, central banks around the globe has reacted by increasing interest rates, negatively skewing the global economic growth outlook. Locally, the Bank of Jamaica has increased the benchmark interest rates in seven consecutive Policy Interest Rate Decision Meetings. Higher interest rates have the potential to stymie growth/aggregate demand which could prove detrimental to the company. Additionally, approximately 25% of Fosrich's J\$1.6B in debt outstanding as at December 31, 2021, were variable rate loans. Therefore, the company is likely to incur additionally finance expenses going forward, and may find it difficult to secure capital at attractive rates to finance its investments. This is compounded by the fact Fosrich has only generated positive cash flows from its operations once in the past three financial years. This risk, however, is mitigated by the company's intention to seek shareholder's approval to raise additional equity capital.

Our forecasts estimate the fair value of Fosrich at J\$25.33 per share. However, Fosrich's stock are currently trading at an almost 50% premium on July 6, 2022, relative to our estimated fair value, at the current market price of J\$37.84 per share. At this price the stock is trading at an over 50 times earnings multiple. Consequently, on a fundamental basis, we recommend that investors hold an Underweight position in Fosrich's shares. However, given the positive sentiment surrounding the company's share and in anticipation of official corporate action (i.e. a stock split and the potential for a Rights



issue or an IPO) the price of the stock may continue to appreciate as investors make speculative investments.



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