

March 2021

Future Energy Source Company Limited (the Company, FESCO)

Company Profile

Future Energy Source Company Limited (FESCO) markets transportation fuels, proprietary lubricants, and proprietary bottled water to its growing network of mainly dealer-owned dealer operated Service Stations (DODO). Most of their service stations are outfitted with fast-food restaurants, money transfer and bill payment services, expanded convenience stores, supermarkets, and ATMs. Additionally, the Company markets to industrial/commercial customers: fuel equipment solutions, transportation fuels and non-transportation petroleum-derived products such as Asphalt, Heavy Fuel Oil and Kerosene Oil. FESCO was incorporated in 2013 and registered as a private limited liability company. In 2014, the first FESCO branded Service Station was Heaven's FESCO in Mandeville and since then its network has grown to fourteen (14) Service Stations island wide. On December 8, 2020, the company registration was amended for FESCO to become a public company in preparation for the Initial Public Offer (IPO) and the Offer for Sale.

FESCO's Recent Activity

- For the **9 Months up to Dec 31, 2020**, FESCO's turnover, declined by **5.0%** to **J\$4.35 billion** when compared to the same period last year. Net profits also marginally declined by **3.57%** to **J\$70.93 million**.
- For **FY 2020** FESCO's turnover grew by **9.2%** to a record **J\$5.94 billion** when compared to FY 2019. Its Net profit of **J\$104.77 million** for FY 2020 reflected an increase of **164.0%** over FY 2019.
- On **November 26, 2020**, FESCO opened its first company-branded 'FYC' Supermarket in Bodles, St. Catherine. The FYC Supermarket provides customers with a one-stop shopping experience while being able to purchase fuel and a wide range of food, beverages, and household products. It also houses a Devon House Ice-cream outlet, ATM, and a deli.



Key Features:

IPO Offer Price	\$0.80
Proj FY 2022 EPS (J\$)	\$0.0626
Frwd P/E	12.79
Est. Fair Value	\$0.96
Implied Upside	20.62%

*as of March 28, 2021

Fair Value:
J\$0.96
Potential Upside:
20.62%


FESCO– Use of Proceeds – J\$400m



To enter the consumer cooking gas/LPG market within twenty-four (24) months of the listing of the Ordinary Shares on the Junior Market;

To increase the presence of FESCO in the KSA area by the introduction of a new Service Station on Beechwood Avenue, which is slated to be opened in June 2021;

To retail LNG for the transportation industry at the FESCO Ferry (Mandela Highway) Service Station by April 2021;

To reduce the Company's debt. More specifically, to eliminate the Directors' loans to the Company;

General corporate purposes, including working capital, operating expenses and capital expenditure;

Payment of the following expenses of the Invitation, which, the Company estimates, will not exceed J\$13,389,528.00

Global Investment Research Unit

Dania Palmer, CFA
Manager - Research
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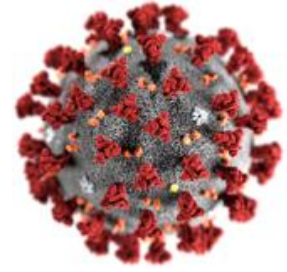
Invitation Details

Future Energy Source Company Limited (FESCO) is inviting offers for the subscription of **500,000,000** shares comprised of **300,000,000** newly issued Ordinary Shares priced at **\$0.80** each and sale of **200,000,000** existing Ordinary Shares by the Selling Shareholders priced at **J\$0.80** each. Up to **325,000,000** Shares are initially reserved for priority application by the Reserved Share Applicants which includes Key Partners, Brokers and Employees at **J\$0.80** per share. At least **175,000,000** Shares in the Invitation, shall be made available for subscription/ purchase by members of the General Public at **\$0.80** per share. If any of the Reserved Shares are not subscribed for or purchased by the persons entitled to them, they will become available for subscription or purchase by the General Public, at **J\$0.80** per share. The Company is seeking to raise at least **J\$400,000,000.00** through this public offer.

Summary of the Terms of the Offer				
Issuer	Future Energy Source Company Limited (FESCO)			
Arranger and Lead Broker	NCB Capital Markets Limited			
Selling Shareholders	Trevor Barnes	Hugh Coore	Lyden D. "Trevor" Heaven	Errol McGaw
	40,000,000	40,000,000	40,000,000	40,000,000
	Junior Williams	Neville Allen		
	20,000,000	20,000,000		
Invitation:	Up to 500,000,000 Shares (inclusive of 325,000,000 Reserved Shares)			
Offer Opens	9:00 a.m. on March 31, 2021 <input type="checkbox"/>			
Closing Date	4:00 p.m. on April 9, 2021, subject to early closing once fully subscribed <input type="checkbox"/>			
	Key Partner Reserve Shares	Broker Reserve Shares	Employee Reserve Shares	Shares for the General Public
Price	J\$0.80	J\$0.80	J\$0.80	J\$0.80
Share Allotment	125,000,000 Reserved	175,000,000 Reserved	25,000,000 Reserved	175,000,000 Non-Reserved
Use of Proceeds	The proceeds from the subscription of Shares from the Company will be used to support the growth of the existing businesses of the Company, allow the Company to pursue strategic investment opportunities and pay the expenses of the Invitation, the details of which are set out at Section 8.4 of this Prospectus. The proceeds from the Shares being sold by the Selling Shareholders will accrue to the benefit of the Selling Shareholders and not to the Company.			
Minimum Share Offering	Applicants must request a minimum of 1,000 Shares. Applications above this amount must be made in increments of 1,000 Shares.			

Impact of COVID-19

The unprecedented spread of COVID-19 has created a global health crisis. Its spread has caused many businesses around the globe to be counting losses and wondering what the recovery will likely be. Global lockdowns, particularly in the second quarter of 2020, to curtail the virus has resulted in economic turmoil only comparable to the Great Depression in the 1930s. These lockdowns accompanied by social distancing and travel restrictions led to a general decline in fuel demand and a subsequent plummet in oil prices, which hit negative territory for the first time. Many people also lost their jobs and consequently, unemployment rates peaked. While unemployment in most instances has since declined, they remain at historically high levels in many countries.



To counter their then weakening economies, many governments took large fiscal and monetary measures. The various stimulus packages passed, particularly in the developed world, have helped to maintain each household's propensity to spend and provided businesses with the necessary working capital and liquidity needed to stay afloat during the pandemic. In addition to shoring up economies, measures were made to bolster health care capabilities which when combined have gone a far way to reduce the economic contraction and stabilize global financial markets. Notwithstanding, the global economy contracted by an estimated **3.5%** in 2020 according to the International Monetary Fund (IMF). In Latin America and the Caribbean, the situation was even direr, with the IMF projecting that those economies declined by a combined **7.4%** in 2020.



Heading into the pandemic, Jamaica recorded 20 consecutive quarters of economic growth and was in a relatively strong economic position. Specifically, Jamaica's Debt to GDP was below **100%**, its Net International Reserve (NIR) was at **US\$3.16 billion**, and unemployment was at a record low of **7.3%**. However, the COVID-19 pandemic has resulted in a significant deterioration in the country's economic position. According to the Planning Institute of Jamaica (PIOJ), the Jamaican economy is expected to contract within the range of **10.5%-12.5%** in the FY 2020/21. The Government of Jamaica projects that debt will steadily decline from the projected **110.1%** as at the end of March 2021 to **76.8%** by the end of March 2025.

As the vaccines are being rolled out in some countries in the world, there is hope that the worst part of the virus could be behind us. With accelerated vaccine rollout and easing of restrictions in major economies such as the United States and the United Kingdom, there are hopes for economic recovery to take shape in 2021. However, given the degree of

uncertainty that remains it is likely that social distancing will continue throughout 2021 but gradually fade over time as the vaccines are distributed wider across the world.

Impact of COVID-19 on FESCO

The social distancing measures implemented by the local government to contain the spread of COVID-19 had negatively impacted FESCO operations during the lockdown. This was due to FESCO Service Stations reducing its opening hours and closing four of its St Catherine Service Stations during the lockdown period. The restrictions also negatively impacted FESCO's construction projects which suffered from workers being unavailable, as well as supply chain delays. To mitigate further challenges, FESCO equipped their head office staff with laptops, implemented sanitization practices, and partial work from home protocols to ensure work continuity while observing the social distancing protocols.

As 2020 progressed, FESCO saw an improvement in the litres of transportation sold, despite schools remaining closed, and work from home protocols observed by many companies. For the period April through December 2020 sales in 'litres of all fuels' and 'transportation fuels only' were up **9.2%** and **9.7%** respectively when compared to the same period in 2019. Management has indicated that the increase in sales was due in part to the following factors:

1. Opening/addition of new Service Stations resulted in an increase in FESCO branded stations relative to 2019.
2. Increased demand for fuels at some Service Stations which is in part due to increased demand by customers for convenience as reduced opening hours meant customers appreciate Service Stations that offer multiple services.
3. Increased supply to existing private clients who use fuel in their daily operations as well as the acquisitions of new private clients.

FESCO also highlighted that the demand for fuel continues to recover locally as the work from home protocols and other measures are gradually lifted.

Business Model and Strategies



Along with providing fuel FESCO provides differentiated service offering relative to other distributors in the market.

These include:

- Offering value-added services, including fast-food restaurants, money transfer and bill payment services, expanded convenience stores, supermarkets, and ATMs at many of their Service Stations;
- Marketing their own line of American Petroleum Institute certified lubricants (FUTROILTM), Coolants (FUTRLUBETM), and FESCO branded- (FYCTM) purified drinking water;
- Being the official fuel sponsor of the Red Stripe Premier League; and
- Being the official fuel sponsor of the Jamaica Tallawahs (CPL cricket).



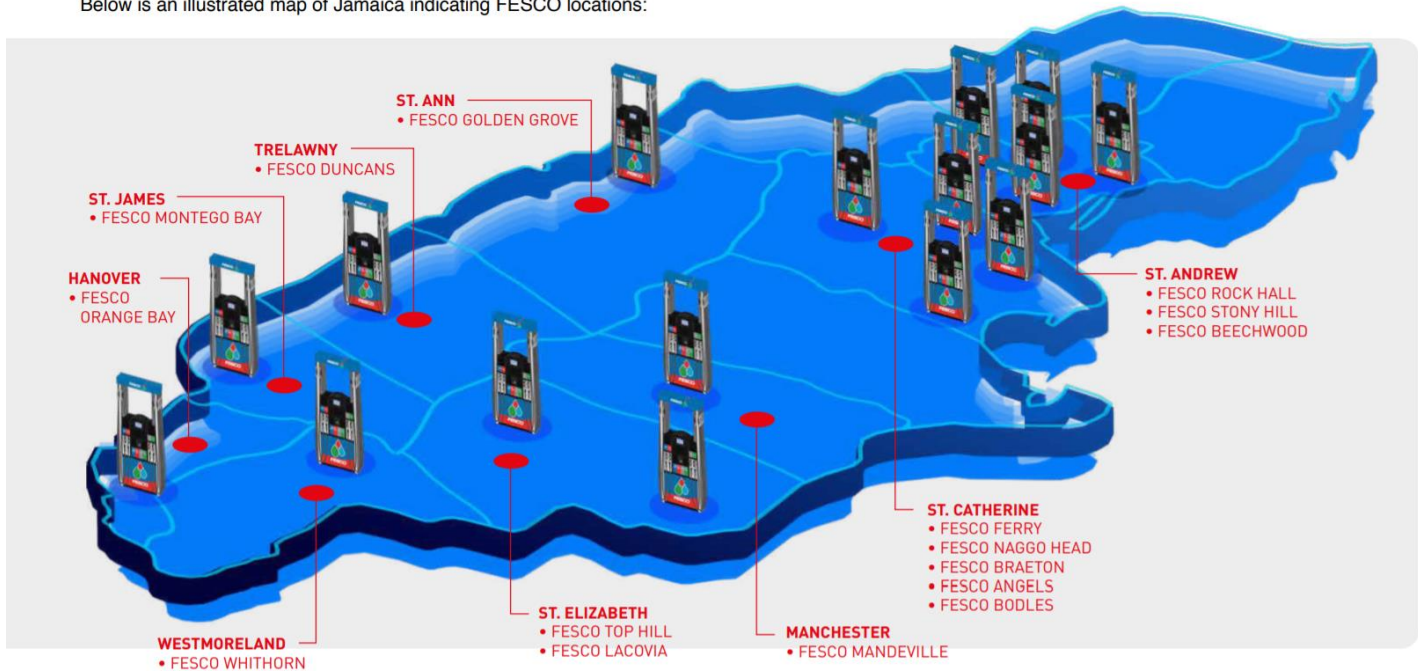
FESCO' business model has been primarily focused on the customer, the dealer and Jamaica since inception which includes:

- **Dealer Owned Dealer Operated (DODO)** – The dealer owns the site as well as operates it. If the site is branded as a FESCO branded Service Station, it will have a supply contract with FESCO, but this is not a requirement. There are currently ten (10) FESCO branded DODOs; and
- **Company Invested Dealer Operated (CIDO)** – This means that FESCO has invested in conjunction with a third party in the real property and/or physical assets of the site and the dealer operates it as a FESCO branded Service Station. There are currently four (4) FESCO branded CIDO's.

FESCO will continue to expand, brand and market to Service Stations that operate within varied ownership and operational structures and will evolve to include:

- **Company Owned Company Operated (COCO)** – This means that FESCO owns the site and operates it as a FESCO branded Service Station. FESCO currently has no branded COCOs but it intends to open its first COCO at Beechwood Avenue, St. Andrew by June 2021; and
- **Company Invested Company Operated (CICO)** – This means that FESCO has invested in conjunction with a third party in the real and/or physical assets of the site and FESCO operates it. FESCO currently has no branded CICO's.

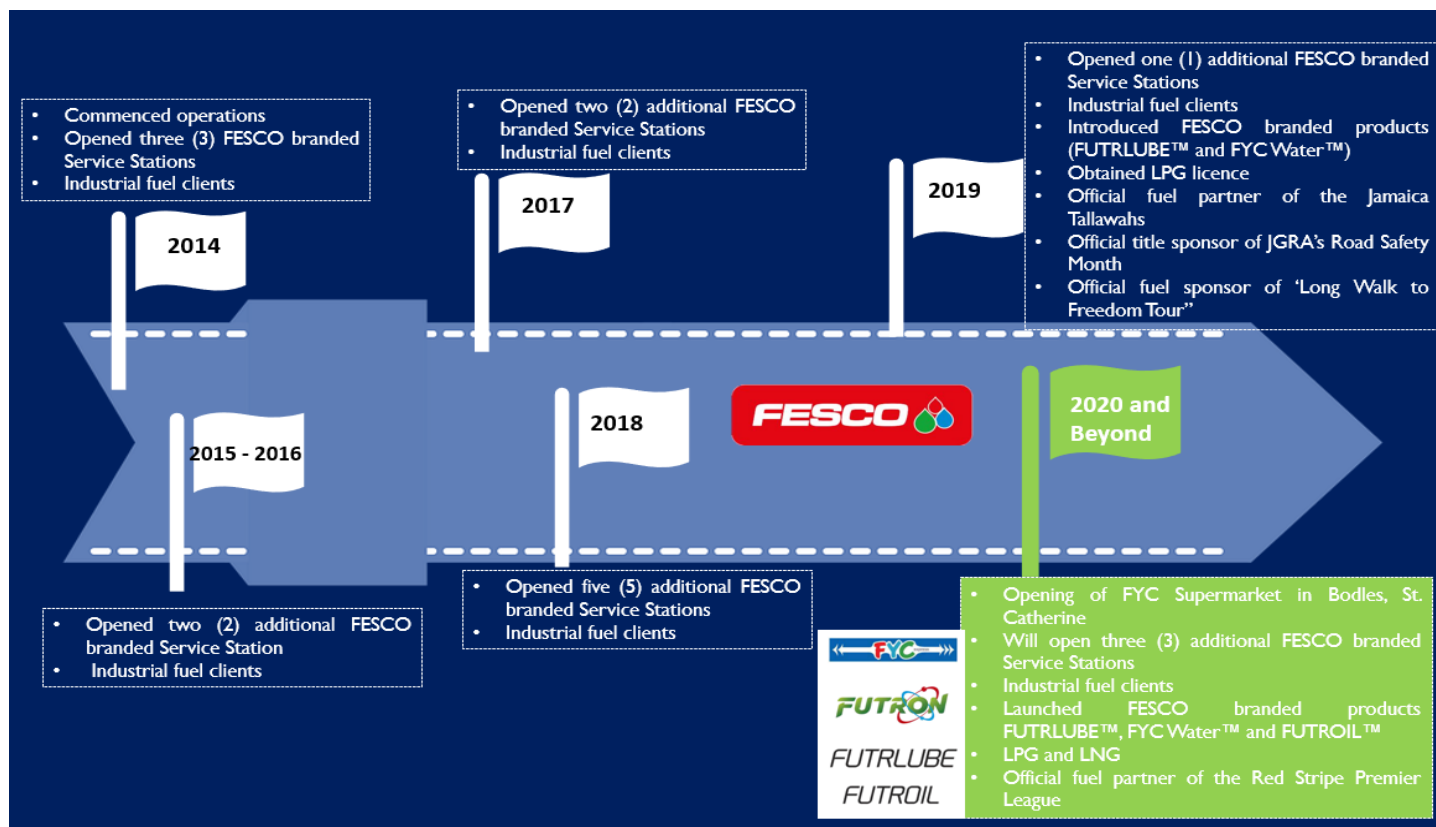
Below is an illustrated map of Jamaica indicating FESCO locations:



*Extracted from Prospectus

In line with the Company's expansion and diversification efforts, FESCO plans to enter the LPG/cooking gas and LNG market space. The Company plans to retail LNG for the transportation industry at its FESCO Ferry (Mandela Highway) Service Station in 2021. The Mandela Highway is in the main corridor for entry to and exit from KSA as well as for accessing both coasts of Jamaica (North and South). The Company plans to open an FYC Mart at the Ferry (Mandela Highway) Service Station and an FYC Express™ at the Beechwood Avenue Service Station, both of which will generate revenue for FESCO, unlike the other locations where dealers are free to use the trademark. In addition to these, FESCO plans to increase its sales of lubricants and other FESCO branded merchandise.

Over the years, FESCO has employed several strategies to grow its brand with great emphasis on organic growth with capital generated internally.

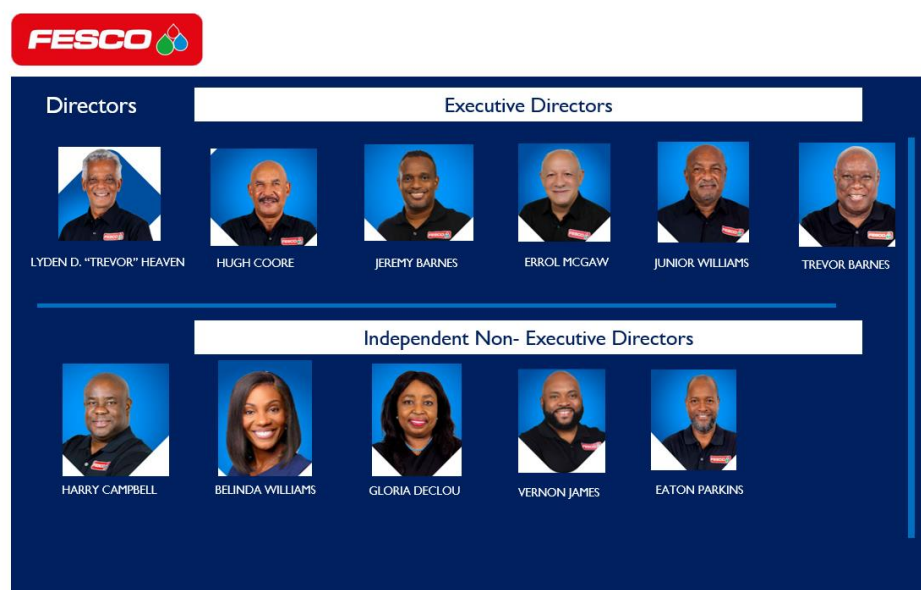


FESCO has indicated that it will continue to employ the following strategic initiatives to further enable growth:

- Increase Market Share/ Value Creation** – FESCO believes it will create value for customers using technology; its dealers expanding on the destination concept for their Service Station offerings; targeted sponsorship of events both local to the communities where FESCO operates and nationally.
- New Station Development** – FESCO has indicated that it will continue to seek COCO opportunities that can enable the Company to broaden its scope of operation and enhance its positioning in the marketplace.
- Acquisition Growth and/or Station Rebrands** – FESCO's management will continue to look for strategic acquisition or partnership opportunities and/or station rebrands locally that can enable it to broaden its scope of operation and enhance its positioning in the marketplace.
- New Markets, New Products** – FESCO plans to identify new energy markets and new product offerings to satisfy participants in those markets including, but not limited to the LNG for transportation.
- Technology Enhancement and Partnerships** – FESCO plans to leverage its relationships with equipment and technology providers to improve efficiencies and experience of its DODO Service Stations and their customers. Additionally, as it relates to the FESCO Fleet Card – FESCO will introduce its FLEET™, a personalized card that will enable better management of fleets by commercial customers. This will enable holders to track expenses more accurately, reduce the risk of incorrect fuel being used, among other things at FESCO's Beechwood Avenue Service Station.

Corporate Governance

The board comprises eleven (11) members; Six (6) Executive Directors, including the Executive Chairman Lyden D. “Trevor” Heaven and Five (5) Non-Executive Directors, where approximately 46% of the Board of Directors are independent¹. In theory, independent directors will not be subject to pressure, and therefore are more likely to act in the shareholders' interests when those interests run counter to those of entrenched management.



The Board has three committees. The members of each committee of the Board are as follows:

Audit Committee

Errol McGaw (Director)
 Gloria Declou (Independent Non-Exec. Director)
 Eaton Parkins (Independent Non-Exec. Director)
 Vernon James (Independent Non-Exec. Director)
 Hugh Coore (Vice Chairman)
 Trevor Barnes (Director)
 Harry Campbell (Independent Non-Exec. Director)

Remuneration Committee

Lyden D. “Trevor” Heaven (Chairman)
 Gloria Declou (Independent Non-Exec. Director)
 Eaton Parkins (Independent Non-Exec. Director)
 Vernon James (Independent Non-Exec. Director)
 Hugh Coore (Vice Chairman)
 Errol McGaw (Director)
 Belinda Williams (Independent Non-Exec. Director)

Corporate Governance Committee

Lyden D. “Trevor” Heaven (Chairman)
 Gloria Declou (Independent Non-Exec. Director)
 Eaton Parkins (Independent Non-Exec. Director)
 Vernon James (Independent Non-Exec. Director)
 Hugh Coore (Vice Chairman)
 Junior Williams (Director)
 Harry Campbell (Independent Non-Exec. Director)

¹ <https://www.cfainstitute.org/en/advocacy/issues/board-independence>

Related Party Transactions

1. Haulage Contractors

According to Management two of the haulage contractors that are employed by FESCO are owned by Directors Coore's Limited with its principal being Hugh Coore (a Director) and Mackville Car Rentals Limited with its principals being Trevor Barnes (a Director). Combined, Coore's Limited and Mackville Car Rentals Limited, on average, hauls 60-65% of the fuel sold by FESCO.

2. Service Stations Owned by Directors

Service Stations Owned by Directors of FESCO	
Fesco Braeton	Trevor Barnes (Mackville Car Rentals Limited)
FESCO Bodles Old Harbour	Trevor Barnes (Mackville Car Rentals Limited)
FESCO Angels	Hugh Coore (Coore Limited)
FESCO Ferry Mandela Highway	Hugh Coore (Coore Limited)
FESCO Naggo Head	Junior Williams (Alwil Limited)
FESCO Mandeville (Heaven's FESCO)	Lyden D. "Trevor" Heaven (TMT&T Limited)
FESCO Stony Gill	Errol McGaw (Petromac Limited)

3. Conflict of Interest

Due to the nature of the industry and the Company's ownership structure, conflicts of interests may arise based on inter-related party transactions. FESCO has indicated that considering this and in maintaining good corporate governance the following will be done:

- (1) Where there is a conflict of interest, the Director so affected shall declare his or her interest to the chairman and the details of the conflict are to be recorded by FESCO's company secretary.
- (2) Additionally, a Director who has a conflict of interest shall not participate in the deliberations on the matter and will excuse himself from the discussions in respect of those interests during the period of discussion of the matter.

Summary of Financial Analysis

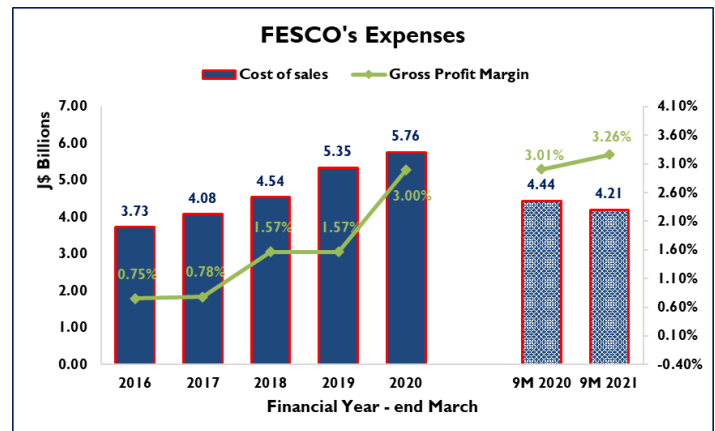
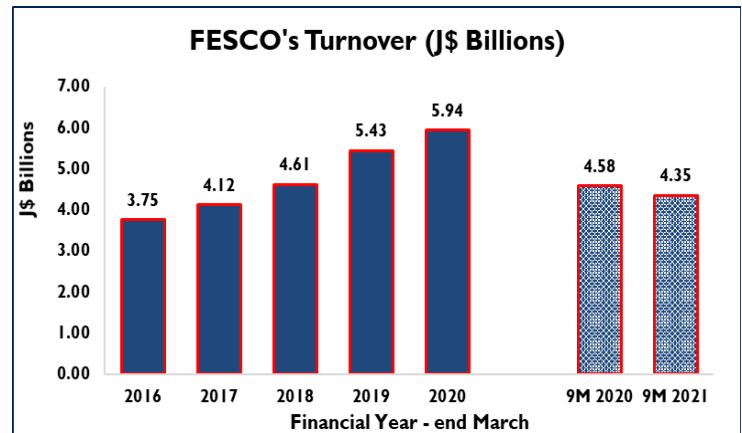
Revenue & Profitability

Over the last five years, between FY 2016 and FY 2020, FESCO has delivered strong results. FESCO's turnover (revenue) grew by a compound annual growth rate (CAGR) of **12.1%** to reach approximately **J\$5.94 billion** in 2020. The Company has been able to grow its revenues by increasing sales at its locations, expanding its distribution network by adding dealer-owned FESCO branded locations and increasing its supply to commercial/industrial private supply firms. Despite the

onset of the COVID-19 virus, for the 9 months ending December 2020 (9M 2021), the company's turnover was only lower by **5.03%** when compared to the prior year. Unsurprisingly, the decline was mainly driven by the reduction in sales of transport fuels due to the social distancing, curfews and quarantine measures which led to minimized transportation activities island wide. Notwithstanding, FESCO was able to mitigate most of the losses during the period through increased sales to private clients, the wide geographic spread of its locations, its expanded network and increased demand by customers for convenience at its Service Stations. FESCO's sales were only significantly affected in April and May when its four (4) St. Catherine Service Stations were forced to close during the lockdown period.

Looking ahead, FESCO plans to continue to increase its market share and distribution of transportation fuels in the local market, having increased its market share from **3.5%** in 2018 to **4.65%** as of September 2020. To ensure it achieves this target, it plans to open new Service Stations at Ferry (Mandela Highway) and Beechwood Avenue in 2021. They also believe that there is potential to increase business at established Service Stations and also gaining a stronger presence in the area of supplying fuel to private clients.

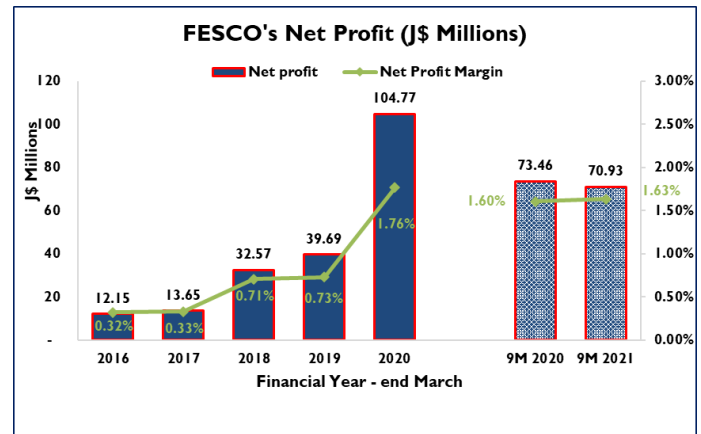
FESCO's Gross Margin which was **0.75%** in FY 2016 has seen great improvement over the review period climbing to **3.00%** at the end of FY 2020. The increasing awareness and recognition of the company's products in the marketplace had led to increased consumer demand. Consequently, the company was able to increase its dealer-owned service stations and the number of litres of fuel sold across its network. For the 9 months ending December 2020 (9M 2021), FESCO's gross margin increased further to **3.26%** and was higher than the gross margin recorded over the same period in FY 2020.



FESCO's operating expenses ratio exhibited an increasing trend over the period under review. Over the 5-year period, the operating expense ratio which was **0.30%** in FY 2016 climbed to **0.90%** in FY 2020. Owing to the reduction in sales recorded due to COVID-19 and additional expenses the Company incurred as it made changes to adapt to social distancing measures, the operating expenses ratio climbed to **1.40%** over the 9 months ended December 2020.

Notwithstanding the increased operating expenses, the knock-on effects of FESCO's growing revenues and improved gross margin is that profitability, as measured by Net Profit Margin, exhibited an increasing trend over the period. As of the end of FY 2020, FESCO's net profit margin improved to **1.76%** up from the **0.32%** realized in FY 2016.

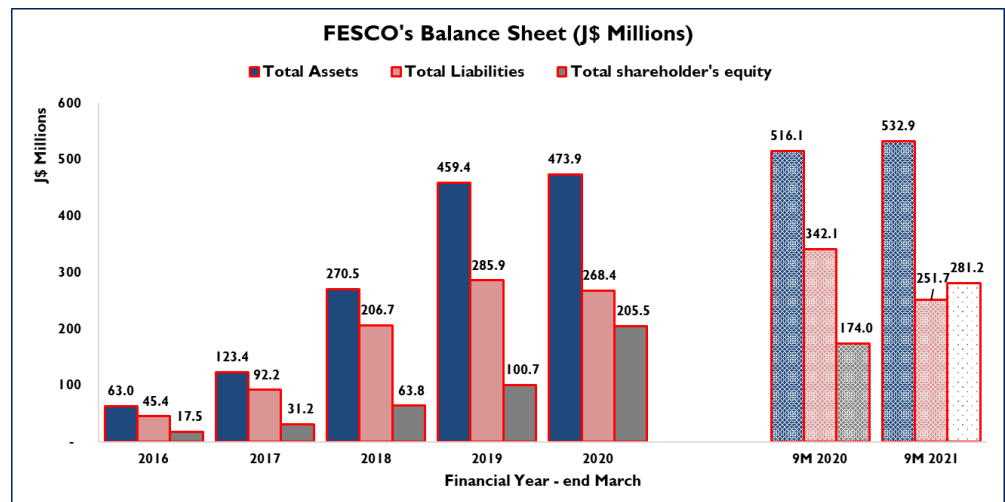
In FY 2020 FESCO recorded net profits of **J\$104.77 million** which was approximately **164.00%** higher than the profit recorded in FY 2019. However, for the nine months ended December 2020, the Company's net profits was **J\$70.92 million**, down **3.44%** from the previous year.



Balance Sheet

FESCO's balance sheet has grown rapidly over the last five years. As of the end of FY 2020 (March 31, 2020), the Company's assets stood at **J\$473.9 million**, having expanded by a CAGR of **65.6%** over the last five years. The main contributor to the growth in assets was property, plant, and equipment. Over the last two years, the company has invested significantly to build out its head office and COCO Service Station at Beechwood Ave, Kingston. At the end of the 9 months ended December 31, 2020, Total Assets stood at **J\$532.9 million**.

Total liabilities amounted to **J\$281.2 million** at the end of the 9-month ended December 31, 2020. The lion's share of its liabilities was



accounts payable which was **J\$113.23 million**. As of the end of that period, the company also report a loan of **J\$39.54 million** and related party loans of **J\$15 million**. A portion of the proceeds from this IPO will be used to reduce the related party loan to the company.

Over the 5 years, the Company's equity base has increased significantly, moving from **J\$17.5 million** at the end of FY 2016 to reach **J\$281.19 million** at the end of the nine months ending December 2020. The relatively large and growing

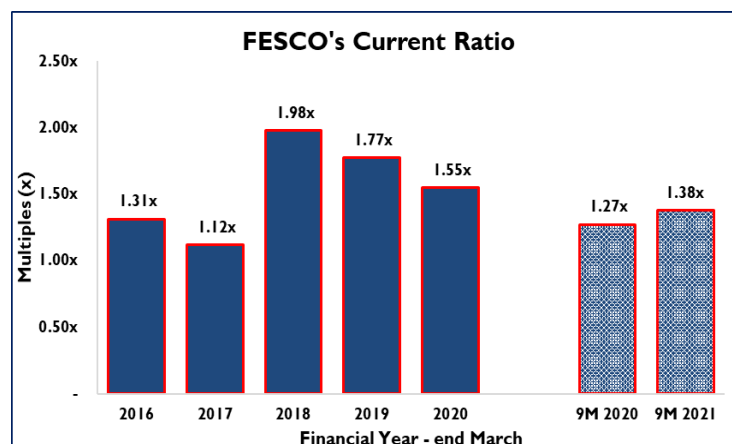
equity base is an indication of the Company's ability to withstand shocks and is critical especially in the context of COVID-19.

Liquidity

FESCO's liquidity as measured by its current ratio averaged **1.55x** over the period up to FY 2020. As of the end of the 9 months ending December 31, 2020, the current ratio declined to **1.38x** as a result of the simultaneous increase in bank overdraft and the decrease in cash and cash equivalents.

Receivable's turnover, however, has declined from **87.27x** in FY 2016 to **44.26x** in FY 2020. Generally, a higher accounts receivable turnover ratio, indicates that

the Company is more efficient at collecting from credit customers. FESCO's payables turnover has also decreased over the period, from **(88.16x** in FY 2016 to **34.95x in FY 2020)** and indicates that the company is paying its suppliers faster.



POSITIVES	RISKS/NEGATIVES
<p>Diversified business operations: The company's core product is to distribute and market petroleum products. However, in order to diversify its income stream, it has taken steps to offer non-petroleum products and services that provide clients with a one-stop shopping experiencing. Most of its service stations are outfitted with supermarket or convenience stores which includes services bill payment and ATM. The company also plans to expand its petroleum product offering by entering the LPG/Cooking Gas and LNG transportation market space. These additional services have not only led to increased revenues but have helped to improve the company's profit margins.</p>	<p>Weak Macroeconomic Environment: Jamaica's economy is projected to have contracted in 2020 and remains fragile due to the rising COVID-19 cases and social distancing restrictions. At the peak of the pandemic, this social distancing and reduced movement measures affected the profitability of the Company. While the company has mitigated some of these consequences, if the lockdowns are enforced continuously, fuel consumption would likely decrease. As a result, it would be more difficult for FESCO to increase sales and profits. However, the COVID-19 pandemic is not expected to be a permanent theme and Jamaica will likely return to growth this year.</p>
<p>Strong Distribution Network/ Geographical Footprint: Through its dealer-owned dealer operated Service Stations, FESCO is able to build its brand and distributes its petroleum and non-petroleum products. FESCO network has grown from three (3) branded Service Stations in 2014 to fourteen (14) island-wide in 2020. FESCO has indicated that it will continue to expand, brand and market to Service Stations that operate within different types of ownership and operational structures which should help them to increase their market share access. The opening of the two new service stations and the entry into the LPG/Cooking Gas and LNG transportation market should also give them a stronger footing.</p>	<p>Competitive Environment: FESCO operates in a very competitive environment with at least two participants controlling the lion's share of the market. These Multinationals account for approximately 72% of the market share. Notwithstanding, FESCO intends to increase its geographical footprint and become a more significant player in the KSA market via its FESCO Ferry and FESCO Beechwood stations to be opened in April 2021 and June 2021, respectively. These Service Stations will benefit from significant traffic volumes due to their locations.</p>
<p>Relatively Large and Increasing Equity Base: FESCO'S equity which was J\$17.5 million in 2016 has expanded to over J\$280.00 million in December 2020. The growing equity base is an indication of the companies increased capacity to withstand shocks which is critical especially within the context of COVID-19.</p>	<p>Regulatory and Market Risks: The Company operates in accordance with the license issued by the Minister of Science, Energy, and Technology and any changes in the existing regulatory regime in Jamaica may affect the Company's operation and profitability. FESCO is also at risk at its earnings or capital being reduced due to the possible volatility of interest rates, inflation rates, credit spreads, property prices, commodity prices, equity and bond prices and foreign exchange which can have a material adverse impact on positions in its banking, investments, and trading books.</p>
<p>Growth Potential: Currently FESCO has 14 outlets with two additional stations set to come on stream in 2021. Even after the addition of those two stations, the company will still lag the main players in the market in terms of their distribution. As a result, there is the opportunity for significant growth with the addition of new FESCO Service Stations in cities and towns across Jamaica. To this end, the company expects to continue to attract and satisfy the needs of services station owners through station rebrands, strategic ownerships and acquisitions to broaden its scope.</p>	

Valuation and Analysis

The estimated fair value of FESCO's stock was computed using the Price to Earnings method. However, as there are no similar companies currently listed on the Jamaica Stock Exchange, we used the P/E of the companies which were listed on the Junior Market over the last two years to create the comparable universe. The P/Es of the companies were taken at the time of IPO and averaged to derive an average P/E of **15.42X**. With a forward EPS² of **~J\$0.0626** the estimated fair value for FESCO's shares is **J\$0.96**. This fair value price indicates that the shares being offered in this IPO are undervalued and are being offered at a discount of **16.67%** to the offer price **J\$0.8**.

Analyst Opinion

FESCO is the newest of Jamaica's top ten (10) transportation fuel marketing firms, having been founded in 2013. FESCO is the sixth (6th) largest transportation fuel marketer in Jamaica and the third (3rd) largest local marketer, despite being the newest. The Company markets transportation fuels, proprietary lubricants, and proprietary bottled water to its growing network of mainly Dealer Owned Dealer Operated Service Stations. Additionally, the Company markets fuel equipment solutions, transportation fuels and non-transportation petroleum-derived products such as Asphalt, Heavy Fuel Oil and Kerosene Oil to industrial/commercial customers. The Company recently began construction (October 2020) of its head office and first company-owned company-operated Service Station on Beechwood Avenue, Saint Andrew which is scheduled to open in June 2021. FESCO also intends to enter the cooking gas/LPG market within twenty-four (24) months of listing its Ordinary Shares on the Junior Market.

Due to efforts to develop the brand and expand its presence, FESCO's revenues, profitability, assets, and equity have exhibited strong growth over the last five years. With the expansion of its distribution network and the introduction of its "add-on" services, the company has managed to not only grow revenues but also improve profit margins significantly. We believe that as the Company continues to expand, in terms of geography and product lines, its growth and profitability could continue to expand. However, future growth may be difficult due to the dominant position of the major players in the market, especially in Jamaica's busiest town centres. Despite this, the Company plans to use a part of the IPO profits to fund its existing businesses and pursue strategic investment opportunities in order to increase its market share.

Our valuation puts the Company's stock at **J\$0.96**, while the company's stock is being offered to the public at **J\$0.80** which implies a discount of **16.67%**. As a result of the foregoing, we assign a **Medium**-risk rating to the security and recommend that clients participate in this IPO.

APPENDIX

Future Energy Source Company Limited (FESCO)							
INCOME STATEMENT EXTRACT							
JAS- Mar Year End	2016	2017	2018	2019	2020	9M 2020	9M 2021
Turnover	3,754,099,608	4,115,233,824	4,610,895,083	5,434,246,867	5,936,346,825	4,577,295,397	4,347,243,361
Cost of sales	(3,725,913,612)	(4,083,070,607)	(4,538,638,076)	(5,348,995,804)	(5,758,006,328)	(4,439,549,701)	(4,205,319,494)
Gross Profit	28,185,996	32,163,217	72,257,007	85,251,063	178,340,497	137,745,696	141,923,867
Other income			1,838,886	257,511			
Total Income	28,185,996	32,163,217	74,095,893	85,508,574	178,340,497	137,745,696	141,923,867
Operating and administrative expenses	(11,365,185)	(13,718,204)	(28,665,902)	(37,764,007)	(54,042,768)	(44,985,947)	(58,722,538)
Impairment losses on financial assets	-	-	-	(2,539,346)	(487,423)		
Operating profit	16,820,811	18,445,013	45,429,991	45,205,221	123,810,306	92,759,749	83,201,329
Finance income, net	(1,007,458)	(633,174)	(1,033,277)	4,950,963	12,985,174	2,638,350	9,031,579
Profit before taxation	15,813,353	17,811,839	44,396,714	50,156,184	136,795,480	95,398,099	92,232,908
Taxation	(3,659,678)	(4,161,704)	(11,826,534)	(10,463,509)	(32,023,808)	(21,941,562)	(21,305,802)
Net profit being total comprehensive income	12,153,675	13,650,135	32,570,180	39,692,675	104,771,672	73,456,537	70,927,106

BALANCE SHEET EXTRACT							
JA\$- Mar Year End	2016	2017	2018	2019	2020	9M 2020	9M 2021
Assets							
Non-current assets:							
Property, plant and equipment	3,508,646	20,413,535	30,114,287	137,190,890	128,621,681	131,910,887	229,914,128
Right of use assets					5,824,258		5,265,795
Finance Lease					13,809,106	18,063,623	12,318,225
Total Non Current Assests	3,508,646	20,413,535	30,114,287	137,190,890	148,255,045	149,974,510	247,498,148
Current assets:							
Inventories	-	-	-	8,422,209	13,596,947	4,806,700	20,312,271
Receivables	43,017,529	59,352,966	93,327,835	138,269,635	129,971,728	142,741,932	122,515,891
Due to related parties	1,886	-	-	-	40,930,081	98,245,067	67,473,668
Taxation recoverable	9,025,813	9,025,813	90,116,811	86,177,026	188,898		
Current portion of finance lease	-	-	-	74,699	2,272,262	2,216,387	2,448,505
Cash and cash equivalents	7,416,684	34,636,224	56,896,526	89,313,486	138,661,460	118,138,890	72,668,019
Total Current Assets	59,461,912	103,015,003	240,341,172	322,257,055	325,621,376	366,148,976	285,418,354
Total Assets	62,970,558	123,428,538	270,455,459	459,447,945	473,876,421	516,123,486	532,916,502
Shareholder's Equity and Liabilities							
Shareholders Equity							
Share capital	900	900	900	900	900	900	4,802,000
Retained earnings	17,530,621	31,180,756	63,750,936	100,690,071	205,461,743	174,031,885	276,388,849
Total shareholder's equity	17,531,521	31,181,656	63,751,836	100,690,971	205,462,643	174,032,785	281,190,849
							263,659,328
Liabilities							
Non-current liability:							
Long-term loan				47,913,491	36,654,037	38,648,832	27,680,192
Lease liabilities					2,678,516		1,041,096
Deferred to income tax	78,028	125,217	1,606,785	357,323	677,029	674,278	677,029
Due to related parties			83,607,887	55,880,143	18,053,450	15,000,000	15,000,000
Total Non-current liability	78,028	125,217	85,214,672	104,150,957	58,063,032	54,323,110	44,398,317
Current Liabilities							
Payables	42,265,260	89,048,366	112,356,335	162,275,644	167,181,530	233,894,822	113,225,876
Current portion of long-term loan	-	-	-	10,404,634	11,212,373	11,004,741	11,859,068
Current portion of lease liabilities					2,994,757		1,673,500
Dividends payable							
Taxation	3,095,749	3,073,299	9,132,616	9,077,505	28,962,086	24,943,459	41,012,335
Bank overdraft						17,924,569	39,556,557
Total Current Liabilities	45,361,009	92,121,665	121,488,951	181,757,783	210,350,746	287,767,591	207,327,336
Total Liabilities	45,439,037	92,246,882	206,703,623	285,908,740	268,413,778	342,090,701	251,725,653
Total liabilities and shareholder's equity	62,970,558	123,428,538	270,455,459	386,599,711	473,876,421	516,123,486	532,916,502

CASH FLOW STATEMENT							
JAS- Mar Year End	2016	2017	2018	2019	2020	9M 2020	9M 2021
Cash Flows from Operating Activities							
Profit before taxation	15,813,353	17,811,839	44,396,714	50,156,184	136,795,480	95,398,099	92,232,908
Adjustments for							
Depreciation	468,022	2,409,348	3,648,984	2,266,860	1,470,805	1,128,810	2,424,023
Amortization on right-of-use asset					1,916,053		5,265,795
Impairment losses on financial assets				2,539,346	487,423		
Foreign exchange gain					(3,742,371)	1,128,450	(6,321,216)
Gain on disposal of property, plant and equipment			(1,677,602)	(257,511)			
Lease interest expense					422,525		228,603
Interest income		(13,955)	(1,042,355)	(5,673,642)	(13,693,006)	(3,774,877)	(2,710,362)
Interest expense		12,637		722,679	4,027,678	3,373,946	2,631,588
	16,281,375	20,219,869	45,325,741	49,753,916	127,684,587	97,254,428	93,751,339
Changes in operating assets and liabilities							
Increase in inventories					(5,174,738)	3,615,509	(6,715,324)
Decrease/(increase) in receivables	(12,303,269)	(16,335,437)	(76,712,362)	(50,234,686)	7,810,484	(4,472,297)	7,644,735
Increase in payables	(79,181,605)	46,783,106	68,606,498	49,919,309	3,777,436	71,619,178	(53,955,654)
Due to related parties, net	26,253,379		(44,147)	49,060,275	(65,427,982)	(125,796,418)	(29,597,037)
Cash provided by operating activities	(48,950,120)	50,667,538	37,175,730	98,498,814	68,669,787	42,220,400	11,128,059
Income tax paid	(1,477,124)	(4,136,965)	(4,285,649)	(11,842,781)	(11,933,720)	(6,075,608)	(9,255,553)
Interest received		13,955	1,042,355	5,673,642	13,693,006	3,774,877	2,710,362
Interest paid		(12,637)	-	(722,679)	(4,450,203)	(3,373,946)	(2,631,588)
Net cash (used in)/ provided by operating activities	(50,427,244)	46,531,891	33,932,436	91,606,996	65,978,870	36,545,723	1,951,280
Cash flows from Investment activities:							
Purchase of property, plant and equipment	3,100,577	(19,314,237)	(15,723,542)	(118,465,672)	(1,717,575)		(103,716,470)
Proceeds from disposal of property, plant and equipment			4,051,408	957,511	8,815,979		
Net cash used in investment activities	3,100,577	(19,314,237)	(11,672,134)	(117,508,161)	7,098,404	-	(103,716,470)
Financing activities:							
Issue of shares							4,801,100
Long term loans, net				58,318,125	(10,451,715)	(8,664,552)	(10,114,313)
Lease principal payments					(2,067,038)	(1,827,765)	(3,478,173)
Finance lease receivable, net		1,886			(16,081,368)	(14,024,121)	(1,314,638)
Net cash used in financing activities	-	1,886	-	58,318,125	(28,600,121)	(24,516,438)	(10,106,024)
Net increase in cash and cash equivalents during year	(53,527,821)	27,219,540	22,260,302	32,416,960	44,477,153	12,029,285	(111,871,214)
Effect of foreign exchange on cash and bank				-	4,870,821	(1,128,450)	6,321,216
Cash and cash equivalents at the beginning of the year	60,944,505	7,416,684	34,636,224	56,896,526	89,313,486	89,313,486	138,661,460
Cash and cash equivalents at end of year	7,416,684	34,636,224	56,896,526	89,313,486	138,661,460	100,214,321	33,111,462

KEY FINANCIAL STATISTICS							
	2016	2017	2018	2019	2020	9M 2020	9M 2021
Valuation Measures							
Earnings Per Share	0.01	0.01	0.01	0.02	0.05	0.03	0.03
Book Value Per Share	0.01	0.01	0.03	0.05	0.09	0.08	0.13
Net Profit Growth		12.31%	138.61%	21.87%	163.96%		-3.44%
Profitability Ratios							
Return on Equity	69.32%	56.04%	68.62%	48.28%	68.44%	53.48%	29.15%
Return on Assets	19.30%	14.65%	16.54%	10.88%	22.45%	15.06%	14.09%
Operating Margin	0.45%	0.45%	0.99%	0.83%	2.09%	2.03%	1.91%
Net Profit Margin	0.32%	0.33%	0.71%	0.73%	1.76%	1.60%	1.63%
Gross Profit Margin	0.75%	0.78%	1.57%	1.57%	3.00%	3.01%	3.26%
Efficiency Ratios							
Asset Turnover Ratio (x)	59.62x	44.16x	23.41x	14.89x	12.72x	9.96x	8.64x
Receivables Turnover Ratio	87.27x	80.40x	60.40x	46.93x	44.26x	33.41x	34.44x
Receivables (Days on hand)	4.18	4.54	6.04	7.78	8.25	10.92	10.60
Inventory Turnover Ratio				1290.46x	539.20x	511.89x	256.40x
Inventory (Days on hand)				0.28	0.68	0.71	1.42
Payables Turnover Ratio	88.16x	62.19x	45.07x	38.95x	34.95x	23.64x	29.99x
Payables (Days on hand)	4.14	5.87	8.10	9.37	10.44	15.44	12.17
Credit Ratios							
Leverage Ratio (x)	3.59x	3.83x	4.15x	4.44x	3.05x	3.55x	2.07x
Debt/ Equity (x)	-	-	-	0.58	0.23	0.29	0.14
Debt/ Assets (x)	-	-	-	0.13	0.10	0.10	0.07
Debt To EBITDA	-	-	-	0.01	0.01	0.01	0.01
Liquidity Ratios							
Current Ratio (x)	1.31x	1.12x	1.98x	1.77x	1.55x	1.27x	1.38x
Quick Ratio (x)	1.31x	1.12x	1.98x	1.73x	1.48x	1.26x	1.28x
Cash Ratio (x)	0.16x	0.38x	0.47x	0.49x	0.66x	0.41x	0.35x

Shareholders for Future Energy Source Company Limited (FESCO) as at December 30, 2020		
Name of Shareholder	Share Capital	Percentage Ownership
Errol McGaw	388,003,189	17.6%
Trevor Barnes	374,614,688	17.0%
Tweedside Holdings Limited	364,734,616	16.6%
FESCO Founders Pool Limited	309,999,998	14.1%
Trevor Heaven Holdings Limited	308,986,553	14.0%
Junior Williams	154,330,478	7.0%
Neville Allen	154,330,478	7.0%
Jeremy Barnes	65,000,000	3.0%
Hugh Coore	40,000,000	1.8%
Lyden D. "Trevor" Heaven	40,000,000	1.8%
Total Ordinary Shares	2,200,000,000	100.0%

Shareholders for Future Energy Source Company Limited (FESCO)		
Post IPO - If the Invitation is fully subscribed		
Name of Shareholder	Share Capital	Percentage Ownership
Tweedside Holdings Limited	364,734,616	14.6%
Errol McGaw	348,003,189	13.9%
Trevor Barnes	334,614,688	13.4%
FESCO Founders Pool Limited	309,999,998	12.4%
Trevor Heaven Holdings Limited	308,986,553	12.4%
General Public	175,000,000	7.0%
Broker Reserve Pool	175,000,000	7.0%
Junior Williams	134,330,478	5.4%
Neville Allen	134,330,478	5.4%
Key Partner Reserve Pool	125,000,000	5.0%
Jeremy Barnes	65,000,000	2.6%
Employee Reserve Pool	25,000,000	1.0%
Total Ordinary Shares	2,500,000,000	100.0%

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