

Impressive Q1 Masks Poor Q2 Performance.

NEIMETH Reports Mixed Fortunes

NEIMETH INTERNATIONAL PHARMACEUTICAL PLC. (NEIMETH) recently released its first-half financial results (year-end is September), posting revenue growth of 19.38% to NGN1.17bn from NGN975.98mn in H1:2019. Revenue from both business lines edged higher, especially the Animal Health segment, which surged by 897.42% YoY to NGN182.94mn from NGN18.34mn in the corresponding period last year. The firm also posted revenue of NGN982.23mn in the pharmaceutical division, which typically contributes about 90% to the overall top-line. **Nonetheless, it is important to note that NEIMETH lost its growth momentum in the second quarter (Q2 standalone) as revenue slumped by 42.28% YoY from NGN730.57mn in Q2:2019 to NGN421.68mn.** This is largely attributed to the sales volume decline during the period, as competition within the Over-the-Counter (OTC) space intensified. However, we are quite upbeat about the firm's performance in the coming quarters. **Not only does the firm have a history of registering better performances in the second half of the year, the essentiality of the firm's products puts its on the right platform to churn out volumes amidst the outbreak of the COVID-19 pandemic. Against this backdrop, we project a 2020FY revenue of NGN2.83bn, implying a growth rate of 19.17% from NGN2.37bn in 2019FY.**

Rise in Costs Moderate Margins

In line with revenue growth, direct costs advanced by 16.50% to NGN611.90mn during the first half of 2020. This was particularly influenced by a 15.94% increase in the salaries and wages of production workers. Nonetheless, the robust growth in revenue provided succor to cost to sales, resulting in a slight moderation to 52.52%, down from 53.82% in H1:2019. The firm recorded a surge in operating expenses to NGN427.25mn, owing to the disconcerting 44.96% spike in marketing and distribution expenses. Operating profit, however, remained strong, settling at NGN140.26mn, an uptick from NGN49.66mn in H1:2019, thereby pegging operating margin at 12.04% (vs.5.09% in H1:2019). Ultimately, bottom-line edged higher to NGN56.60mn (vs. NGN5.44mn in H1:2019), implying a net margin of 4.86% (up from 0.56% in H1:2019). We acknowledge the improvement in earnings quality during the cumulative half-year period. The firm registered a negative net operating accrual of NGN5.64mn as net cashflow from operating activities exceeded net income by 9.97%.

The narrative is, however, significantly different when evaluating the Q2 standalone figures as the firm's performance went down the pits. Cost-to-sales advanced by 8.19% in Q2:2020 to 55.15%- the highest in five quarters. Operating expenses also trod a similar path to settle at NGN227.40mn, a 3.29% uptick from NGN220.16mn in Q2:2019. The combination of a rise in costs and a decline in revenue consequently depressed margins, as gross and operating margins pegged at 44.85% (vs. 53.04% in Q2:2019) and 5.12% (vs. 22.56% in Q2:2019) respectively. As an offshoot of the import facility (NGN488mn) and BOI loans (NGN750mn) taken during the period, finance cost spiked by 124.35% to NGN54.64mn, the highest recorded in a single quarter. Overall, bottom-line sank to a loss of NGN26.06mn at the end of the second quarter. **While we do not anticipate significant moderation in costs in the coming quarters, our 19.17% revenue growth forecast is expected to hold the firm's performances in place to deliver earnings of NGN355.62mn and a net margin of 12.58% in 2020FY.**

Outlook and Recommendation

Premised on factors such as the essential nature of the firm's products, access to concessionary loans offered by the CBN, and possible partnerships with the Governments for the production of essential medicines, we expect an improvement in the firm's performance in coming periods. We maintain our 2020FY target price of NGN0.76 on the back of a target P/E of 3.60x and an expected EPS of NGN0.21.

Company	NEIMETH
Valuation	
Trailing EPS	0.15
BVPS	0.65
P/E	4.62x
P/BV	1.02
Target PE	3.60x
Dec-2020 Exp. EPS	0.21
Dec 2020 Target price	0.76
Current Price	0.66
Up/Downside Potential	15.15%
Ratings	BUY
Key metrics	
ROE	5.06%
ROA	1.59%
Net margin	4.86%
Asset Turnover	0.33
Leverage	3.18
Yr Hi	0.66
Yr Lo	0.40
YTD return	6.45%
Beta	0.51
Adjusted Beta	0.67
Shares outstanding	1.73bn
Market cap [NGN]	1.04bn
Financial year end	September
Most Recent Period (MRP)	H1-2019

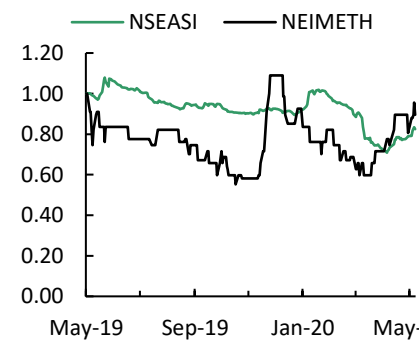


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	0.62	
						Max	0.92	
		EPS						
		0.19	0.20	0.21	0.22	0.23		
Target PE	3.25	0.62	0.65	0.68	0.72	0.75		
	3.42	0.65	0.68	0.72	0.75	0.79		
	3.60	0.68	0.72	0.76	0.79	0.83		
	3.78	0.72	0.75	0.79	0.83	0.88		
	3.97	0.75	0.79	0.83	0.88	0.92		

Financial Highlights (NGN billion) H1:2020 Financial result

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	1.17	0.98	19.38%
Cost of Sales	0.61	0.53	16.50%
Gross Profit	0.55	0.45	22.75%
Other Income	0.01	0.00	517.40%
Operating Expense	0.43	0.39	8.68%
Finance Cost	0.08	0.04	89.23%
PBT	0.06	0.01	939.64%
PAT	0.06	0.01	939.64%
<i>Balance Sheet</i>	H1:2020	FY:2019	
Inventories	0.71	0.77	-7.79%
Trade and other Receivables	0.98	0.91	7.69%
Cash and bank	0.81	0.12	575.00%
Property, Plant and Equipment	0.77	0.76	1.32%
Other Assets	0.29	0.19	52.63%
Total Assets	3.56	2.75	29.45%
Shareholders' fund	1.12	1.07	4.67%
Trade and Other Payables	0.45	0.47	-4.26%
Total Liabilities	2.44	1.68	45.24%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
abisoyeoludipe@meristemng.com (+234 708 000 7861)
contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)
www.meristemwealth.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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Movements in Price Target

Company Name: Neimeth International Pharmaceutical Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
14-May-2020	0.66	0.76	0.76	BUY	BUY

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Company	Disclosure
Neimeth International Pharmaceutical Plc.	

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