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In the Face of the COVID-19 & Beyond

Healthcare Sector Update

Content Highlights

The Industry value chain flows from the manufacture of drugs to the dispensary making it an aggregate of various clusters. To ensure that medicines reach the end users at the right time and pristine condition, a complex value chain is conceived.

An analysis of the Industry Challenges, Regulations and Healthcare Indicators.

While the pharmaceutical industry is recession-proof to a very large extent, it is by no means insulated from the global economic slowdown and disruptions.

The pandemic has disrupted the global economy and the healthcare industry being at the forefront has not been exempted. It has been a learning cycle so far and there is the imminent need to prepare for live after the pandemic wears out and even for the next pandemic. As a consequence of our collective learning experience during this period, key stakeholders will have to undertake crucial healthcare reforms once the crisis takes a back seat.

EXECUTIVE SUMMARY

Over the past decade, the global healthcare industry has witnessed immense growth, driven specifically by a rise in orphan diseases, the prevalence of communicable diseases, the expansion in the market for generic drugs, and the increase in the elderly population, amongst several others. A flurry of mergers and acquisitions, joint ventures, strategic alliances, partnerships and private-equity deals are further expanding the reach and capacity of the industry.

As the Nigerian population expands, the demand for healthcare products and service have been on the rise. However, not only is demand rising, the diversity of healthcare needs is increasing rapidly as the nation battles with myriads of disease outbreaks, notably the most recent pandemic- the COVID19.
The pandemic has once more established that nations with substandard healthcare infrastructure are more vulnerable to a health crisis.

Healthcare indicators in Nigeria are some of the worst in the world and even amongst its African peers. It is one of the developing nations faced with the double burden of a high prevalence of infectious diseases and an increasing prevalence of non-communicable diseases. The decrepit state of the health system contributes to the annual loss of about USD1bn spent on medical tourism and the rising migration rate of health workers.

The paltry budgetary allocation to the healthcare sector limits the system's capacity and undermines the efforts of health officials. While the Federal Government's allocation to the health industry has increased in multiple folds in the past decade, the budgetary allocation to the health industry still falls below 5% of total expenditure. More than half of the Federal Ministry of Health's budget is appropriated to recurrent expenditure leaving capital investment projects underfunded.

In a bid to close out the deficit in the healthcare system, private participation has intensified over the year. However, muted consumer spending and the abysmally-low level of health-insurance penetration, stifles the private sector's growth and ability, validating the stance that the efficacy of a robust market is in its purchasing power.

In this report, we analyze the structure and value chain of the healthcare system in Nigeria, exposing the challenges faced by the public and private sector participants. We have provided a detailed evaluation of the impact of COVID, juxtaposing the unpreparedness of the health system with success recorded so far, and our outlook for the post-COVID era.

The Nigerian Healthcare Landscape

Nigeria currently operates a decentralized public healthcare delivery structure. Accredited by the National Health Policy and National Health Bill, all three tiers of Government (Federal, State and Local) are charged with the overall functions of the health system: financing, stewardship, service delivery and supervision of the public healthcare system. The different arms of government exercise substantial independence and discharge their responsibilities through parastatals, boards and agencies.

The Federall Government is responsible for the provision of policy guidance, facilitating disease surveillance, vaccine management and drug regulation. Complementing all these, the Federal Government coordinates the affairs in Federal Medical Centres, Orthopaedic, Psychiatric and University Teaching Hospitals. The State Governments, on their part, ensure the effective running of general hospitals, health facilities and personnel training programmes while Local Government oversees the operations of dispensaries and primary health facilities.

Established in 1988, the primary healthcare centre (PHC) serves as the public's initial point of interaction with the health system. It's sphere of influence cuts across preventive medicine and healthcare services at the grassroot through immunizations and vaccine dispensations, HIV/AIDS campaigns, maternal care amongst others. Primary healthcare centres are mainly miniature clinics, mini hospitals, maternity homes amongst others and they are usually set up by individual professionals, non-governmental organizations, religious organizations and government bodies.

The Primary Healthcare System is designed in line with the Nigeria Political Ward System. The ward is the smallest political structure, consisting of a geographical area with a population array of 10,000-30,000 people. Based on the Ward Health System, the three recognized facility types are health posts, primary health clinics and primary health centres. The minimum standards for PHCs are contained in the Ward Minimum Healthcare Package which includes the following interventions:

a) control of communicable diseases; b) health education and community mobilization; c) child survival and nutrition; d) prevention of noncommunicable diseases and e) maternal and newborn care.

The Pharmaceutical Sub-sector

The Nigerian pharmaceutical industry has come a long way from the early independence period when the industry operation was entirely based on the distribution of drugs imported from Pfizer, Glaxo and Beecham. The estimated market size is in excess of $2bn and the industry grows at an annual rate of 13%. Even though the sector contributes less than 0.25% to Nigeria's total GDP, its output accounts for 60% of the total drug production in the ECOWAS (Economic Community of West African States) sub-region.

Industry Composition and Leaders

The estimated market size for prescription drugs stands at USD500mn and that for OTC (Over the Counter) pharmaceuticals stands at about USD900mn. The market for biological products is considered a budding one and products marketed in this space is estimated to be worth USD100mn.

The pharmaceutical market is home to companies involved in the research, development, manufacture and distribution of drugs for human and veterinary purposes. There exists a clear dominance of stellar brands by virtue of their track records, installed and operational capacity and strategic international alliances. Firm size and performance are positively correlated in the Nigerian pharmaceutical market.

The sector currently consists of over 150 drug manufacturers. The leaders in this space include the unlisted Emzor, listed Fidson, and GlaxoSmithKline.

Industry Capacity

The United Nations Industrial Development Organization (UNIDO) and the Nigeria Investment Promotion Commission (NIPC) estimated that the pharmaceutical sector has the capacity to service (25%-45%) of the total population. The supply gap is bridged by importation of drugs from developed markets like India, China, United States, Germany and Canada.

The pharmaceutical manufacturers in Nigeria currently have the capacity and skill to produce vaccines, capsules, tablets, liquid preparations, ointments and creams. However, the current installed capacity is underutilized due to various internal constraints, coupled with the high influx of imported drugs. As at 2016, the sector had an installed capacity for research and development for discovering new active substances, the production of formulations from pharmaceutical starting material and the repackaging of finished dosage forms. However, there is currently no manufacturer of pharmaceutical starting materials, otherwise known as Active Pharmaceutical Ingredients (APIs).

Value Chain Analysis

The Industry value chain flows from the manufacture of drugs to the dispensary, making it an aggregate of various clusters. To ensure that medicines reach the end users at the right time and in pristine condition, a complex value chain is involved.

Chart 1: Diagrammatical Representation of Industry Value Chain

MANUFACTURING	DISPENSARY	END-USER
• Research • Development • Innovation • Quality Assurance • Approvals	**• Ensuring Continuous Drug Supply**	**• Medicine Availability • Pharmacist Counsel • Additional Health Services**

Source: Analyst Compilation, Meristem Research

The process of drug development springs from drug discovery to market launch. Typically, after a drug is discovered, a patent is filed to protect the intellectual property of the researchers. Hereafter, a license is issued by the drug regulatory body (National Agency for Food and Drug Administration and Control- NAFDAC), before active manufacturing begins. The first batch of drugs are manufactured and put through successions of pre-clinical and clinical trials (human trials) to test for toxicity and safety. The aim of these tests is to prove whether the drug works as intended with few adverse side effects. If it is confirmed safe, the drug is then approved by the regulatory body and marketed with a monopoly granted by the patent issued. Otherwise, if the drug is considered to be dangerous to human and animal health, then the development process is aborted and all investment in trials and research are lost.

Ideally, the distribution, transportation and handling of drugs from the manufacturer to the end user is strictly regulated. The complexity or otherwise of the distribution journey, however, depends on regulatory agencies, structure of the pharmaceutical industry, activities of middle-men and geographical location of end-users. The ultimate phase in a value chain is the delivery of drugs in an adequate proportion and form to the right patient, in an appropriate and timely manner. In conjunction with their routine duties, pharmacists go all the way to give professional advice on drug prescription, diagnosis and treatments, thereby delivering more value to the consumers.

The Pre-COVID State of the Industry

Before the outbreak of the COVID-19 pandemic, the Nigerian healthcare system has been grappling with many challenges. Long hospital queues, shortage of essential medicines, industrial actions (doctors on strike) and the unavailability of medical equipment are some of the challenges faced by healthcare professionals and stakeholders at different points in the Nigerian healthcare value chain. These challenges have become synonymous with the industry, with little or no indications of improvements. The other key issues in the sector are highlighted as follows:

Low level of Funding

The poor state of the sector and the high burden of disease is as a result of the poor funding of the sector at all levels. In the 2020 budget, the allocation for healthcare spending was c.4.5% of planned spending, much less than the 15% benchmark pledged by the member countries of the African Union in 2001 and 13% of annual budget as recommended by the WHO. Since the declaration in 2001, the highest health allocation was in 2012 when 5.95% of the budget was set aside for the healthcare sector. The average budgetary allocation to healthcare at the State levels has also mirrored the posture of Government at the Federal level, as healthcare expenditure account for less than 5% of expenditure in most States.

Hence, out-of-pocket expenditure as a percentage of total health expenditure has fluctuated between 60% and 75% in the past decade (compared to 40.29% in Ghana and 24.03% in Kenya).

Efforts to address this menace prompted the birth of the Basic Health Care Provision Fund (BHCPF) as mandated by the National Health Act of 2014 to provide the much-needed financing requirements that will enable Nigerians to access a Basic Minimum Package of Health Services (BMPHS). The scheme was designed to be non-contributory and predominantly tax-financed (1% of the Consolidated Revenue Fund), to ensure the most vulnerable segment of the population have access to basic healthcare. A portion of the fund is also to be set aside to address the deteriorating state of primary healthcare (PHC) facilities, provide operational budgets to improve their overall capacity, upgrade their facilities and provide access to essential drugs. The BHCPF also aims to provide the National Health Insurance Scheme with funds to scale up capacity for the provision of essential health services amounting to sixty percent of the current burden of diseases. The success of the fund is still a long shot as not all states are captured by the BHCPF and disbursement has been a drag.

Medical Tourism

Given the gross inefficiency in the sector, many Nigerians seek medical care outside the country. Official statistics show that Nigerians spend over USD1bn annually on medical tourism. Over sixty per cent of these trips are for the treatment of four specialty disease areas- Oncology (treatment of cancer), Cardiology (treatment of heart diseases), Nephrology (treatment of kidney diseases) and Orthopedics (treatment of bone diseases). The amount expended on medical tourism is about twenty per cent of the total government spending on the domestic healthcare sector, including recurrent expenditure like salaries of healthcare workers, as well as health programmes on priority diseases like Malaria, HIV/AIDS, Tuberculosis and Polio.

Priority Diseases

Nigeria has one of the highest burdens of HIV/AIDS in the world, only second to South Africa. According to estimates provided by the United Nations Programmes on HIV/AIDS (UNAIDS), over 1.9mn Nigerians live with the virus, characterized by an adult prevalence rate ranging from 3.6%-8.0%. Mother-to-child transmission is one sizeable part of the epidemic in Nigeria, evidence of the country's weak testing and treatment capacity in response to the crisis. In a similar vein, Nigeria accounts for twenty-five percent of the global incidences of malaria and twenty-four percent of global malaria deaths, according to the 2019 World Health Organization's (WHO) World Malaria Report.

In recent times, there has also been a rising burden of non-communicable diseases such as Diabetes, Stroke, Hypertension, Mental disorders, Cardiovascular, Respiratory and Coronary heart diseases, amongst others. Epidemic prone diseases such as Cerebral Spinal Meningitis, Lassa fever, Monkey pox and yellow fever, continue to plague the welfare of the domestic industry, exposing the slacks in the efforts of the Disease Prevention and Control Unit of the Federal Ministry of Health.

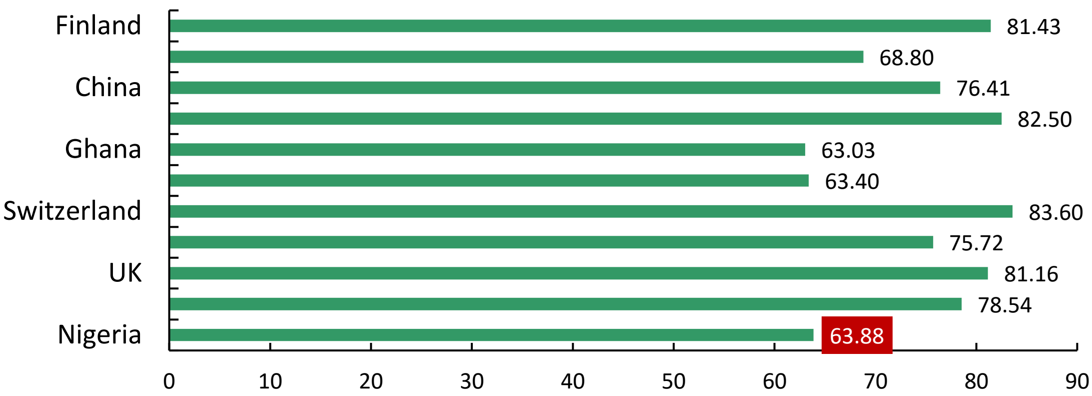
Table 1: Priority Diseases Ranking

2007 RANKING	2017 RANKING
Malaria	**Lower respiratory infection**
Diarrheal diseases	**Neonatal disorder**
HIV/AIDS	**HIV/AIDS**
Lower respiratory infection	**Malaria**
Neonatal disorder	**Diarrheal diseases**
Tuberculosis	**Tuberculosis**
Meningitis	**Meningitis**
Cirrhosis	**Ischemic heart diseases**
Ischemic heart diseases	**Stroke**
Stroke	**Cirrhosis**

Source: IHMS, Meristem Research

Life expectancy is the most popularly used measure to aggregate mortality data in describing a population's health. While the life expectancy statistic has redirected upwards in recent years, Nigeria's position is still far behind other countries of the world.

Chart 3: Life Expectancy Across Selected Countries



Source: World Bank, Meristem Research

The poor indicators do not stop at being mere figures and statistics used in unfolding the realities of the country; they are omens of worse things. The consequences could be in form of lower labour productivity and declining incentive to invest or save. When a disease has a fatal effect on an individual, it lowers the amount of effort put towards work. In some cases, affected individuals remain in the labour force, but their productivity is severely impaired. The most prevalent diseases in Nigeria such as malaria occur in recurrent bolts of illnesses which prevent individuals from putting their bests at work.

The implications of the ailing health indicators are not limited to absenteeism from work and lower productivity. As can be deduced from the Ebola virus crisis in 2014, such incidences have massive impact on foreign and domestic investment, tourism and internal mobility of labour. According to the WHO, returns on investment in agriculture, mining, manufacturing and tourism are likely to decline by incidences of illnesses and viral diseases.

To further buttress this, Illness typically leads to increased household expenditures on health services and goods and may also reduce time spent producing income that allows them to consume market goods. In response to this change in income and expenditure, households may reduce their consumption of non-health goods and or liquidate household savings or assets and by so doing diminish their opportunities to generate the stock of financial and physical capital that will enable it to maintain or increase its consumption of non-market activities.

Counterfeiting and Smuggling

The effect of smuggling and counterfeiting over time has stunted the overall growth of the industry. Although the increasing patronage of counterfeits, smuggled medical supplies and sub-standard healthcare is partly due to the high poverty rate, however, the lax state of regulation within the healthcare space is a major causal factor. Activities of smugglers have rendered locally manufactured products uncompetitive, compared to the cheap medical supplies illegally imported via the nation’s porous borders.

There is also the proliferation of sub-standard healthcare providers, such as unlicensed pharmacies, illicit hawking of drugs and alternative medicines. The high cost of accessing private specialty care and particularly the bureaucratic structure of the government hospitals drives the growth of this informal health segment.

Robust Population and Growing Middle Class

According to the World Bank, Nigeria is home to about 200 million people and the population is expected to grow at a rate of 2.6% annually. As a result, private healthcare players bank on the enormous population to drive volumes despite the diminishing disposable income of consumers. However, the enormous population has also been a challenge, putting pressure on the inadequate public health facilities and supplies.

There has also been an increase in the middle-class demographic with the ability to pay for health care services and products. This category of people is also increasingly conscious of their health and well-being, thereby fueling the growth of healthcare sub-segments such as fitness centers, nutritional clinics, dental care & spas, and others. The increasing incidence of chronic disease in recent times has also sparked the interest of foreign direct investors in the Nigerian market as specialty service providers such as dialysis centers, blood banks, diabetes clinics and radiology centers amongst others have begun to spring up.

Government and Regulatory Opportunities

To protect the local health industry, the government put in place strategic measures such as the imposition of a twenty percent duty on imported finished pharmaceutical products. The National Agency for Food and Drug Administration and Control (NAFDAC) has also made efforts to enhance local production of pharmaceutical products in Nigeria. The five plus five NAFDAC policy mandates foreign manufacturers to set up a manufacturing plant or form partnership with domestic manufacturers between zero to seven years. All these measures have been put in place to drive down the volume of drugs imported into the country (which currently stands at seventy percent of total drug consumption), and further strengthen the capacity of domestic players.

The preference for foreign products and services over the domestically available counterparts further compounds the woes of domestic health providers and manufacturers. However, with the establishment of world-class and competitive systems and infrastructure, demand for local services and products is expected to hit record highs in the nearest future. However, it goes without saying that there is the need to grant local producers access to cheap capital and concessionary facilities, tax holidays, enforcement of the Executive Order 003 (which states that the Federal Government shall grant preference to local manufacturers of goods and service providers in its procurement of goods and services), and enforce strict penalties on smuggling and counterfeiting within the domestic healthcare space.

A lot also needs to be done in addressing the migration of medical personnel to developed countries. The mass exodus is due to poor working conditions, below average compensation, paucity of equipment to carry out their job to the best of their abilities and an overwhelming workload. It is widely known that the Nigerian health sector is significantly understaffed. About seventy-two thousand doctors are registered with the Medical and Dental Council of Nigeria and more than half of that number practice outside the country. That brings the ratio of doctor to patient to 1:5000, way below the WHO recommendation of one per 600 people.

The Impact of COVID-19 on the Industry

The most recent outbreak of the COVID-19, following closely behind recent endemic diseases such as the Ebola outbreak, Lassa Fever and Meningitis has tested the resilience and exposed the fragility of the Nigerian healthcare system. With over 6,000 confirmed cases and 182 deaths, the unpreparedness of the domestic health sector is laid bare. Since the announcement of the index case in Lagos, there has been a deluge of dire news about the exponential increase in confirmed cases and deaths. The current number of confirmed cases, although relatively small compared to other countries already puts a strain on the health system. More so, it is being touted that the low number of infected persons does not necessarily mean the country has been able to contain the spread of the virus. The case is most likely a reflection of low testing capacity.

In fighting the deadly disease, healthcare professionals are also having to battle inadequate Personal Protective Equipment (PPE), ventilators, essential medicines, among others. Isolation centers are quickly running out of bed spaces, hindering the ability of healthcare officials to care for infected persons.

Unfortunately, the narrative is a bit different in the private health care sector as it is beginning to witness a fall in patient visits and bed occupancy levels. To contain the spread of the virus, patients with less severe cases are being advised to stay away from the hospital, potentially translating into revenue loss. Hospitals are also having to put precautionary measures in place to keep the virus away, incurring extra CAPEX and even in the face of downward spiral in hospital visits.

CBN NGN100bn Intervention Fund

To expand the capacity of the private healthcare sector in the face of the ongoing pandemic, the Central Bank of Nigeria introduced a NGN100 billion credit support intervention. The objectives of the scheme are broadly to reduce health tourism and provide long-term, low-cost finance for healthcare infrastructure development. Eligible participants include healthcare product manufacturers and service providers and medical products distribution and logistics services.

For working capital purposes, an eligible firm can access twenty per cent of its three-year average turnover with a limit of NGN500 million. For capital expenditure purposes, however, eligible firms can access a maximum of NGN2bn per obligor.

Top-line and Cost Implications

To the advantage of pharmaceutical producers, there is an expectation of increased volumes for over-the-counter medications as a result of the COVID-19 pandemic. Manufacturers of sore throats and coughs medications, painkillers, fever relievers should see a surge in sales in the near to midterm. Most of the pharmaceutical players in the domestic market have these drugs in their product portfolios and as such an improvement in top-line is anticipated.

While the pharmaceutical industry is recession-proof to a very large extent, it is by no means insulated from the global economic slowdown and disruptions. The Nigerian pharmaceutical industry is highly dependent on importation of Active pharmaceutical Ingredients and a disruption in the global supply chain for these pharma products would adversely affect its production and capacity utilization. We recall the case in 2018 when China announced the closure of some of its pharmaceutical manufacturing plants over the violation of some environmental laws. As a result, importation into Nigeria was a severe challenge, driving the cost-of-sales of some of these manufacturers to record-highs (e.g. FIDSON 61.06%). Juxtaposing the previous occurrence with the Coronavirus-induced-supply shortfall, there is a high likelihood that since the Chinese economy was shut down for quite a while the domestic pharmaceutical manufacturers will encounter challenges in sourcing for raw materials (APIs). While we do not rule out the possibility of securing an alternative market, we expect demand pressures to drive price upwards, resulting in an increase in cost of these APIs and consequently a contraction in gross margin.

While there are over 150 registered pharmaceutical firms in Nigeria, only a handful are into manufacturing and as such the industry is heavily skewed towards firms who import finished pharmaceutical products to sell to consumers. In addition to the twenty per cent import duty charged on importation of finished pharma products (FPP), a further devaluation of the naira also spells doom for these firms as they would have to make the tough decision to bear the costs or pass on the costs to consumers. In addition to the aforementioned, we expect to see a rise in cost of distribution and logistics, as the congestion at the seaport has only gotten worse since the outbreak of the pandemic.

Ultimately, the impact of the COVID-19 pandemic on the performance of the health care sector is a double-edged sword. On one hand, demand for healthcare products and services (particularly the generics and OTC market) should rise while on the other hand, costs are likely to head for the roof as firms spend more on raw materials, royalties, research and developments, logistics, amongst others. Therefore, the efficiency of these firms will be appraised by how much they are able to put a lid on costs to benefit from the improvement in top-line.

The Post-COVID Industry Outlook

Near-to-Mid Term Outlook

Expansion of budgetary spending on healthcare
A lot has been said about the need to expand the budget allocation for healthcare spending. Nigeria clearly falls short of the WHO recommendation for healthcare budgetary allocation (13% of annual budget) and the 15% pledge made by countries in the African Union. However, since the outbreak of the pandemic, Government, regulatory authorities and private institutions alike have been forced to invest more resources in the health care system. The CBN has made available concessionary facilities and private institutions have also made donations with no strings attached. In the near term, while the economy continues to battle with the deadly disease and its adverse consequences (lockdowns and layoffs amongst others), we expect increased spending, donations and investments in the healthcare space. In the coming years, we anticipate an increase in budgetary allocations to healthcare and increased provision and accessibility to concessionary healthcare intervention facilities for healthcare product manufacturers and service providers.

Increase in Public Private Partnerships
From the onset, it was clear than the burden of COVID-pandemic could not be borne solely by the Nigerian Government. In response to this fact, more than fifty private institutions came together to set up the Coalition Against COVID-19 (CACOVID). So far, CACOVID has contributed immensely in setting up isolation centers, renovating hospitals and providing medical supplies and equipment in the fight against COVID. Although, the private healthcare sector is currently disallowed from treating patients with the virus, we expect a change in policies as soon as the public sector begins to run out of its capacity. The capacity of the public health care sector is severely pressured and as such, there would be a need for the private stakeholders to match up with the public sector to close out the deficit in rendering medical services to COVID-19 patients.

Rekindled Investment in Primary Health Care Facilities
The primary healthcare Center (PHC) serves as the populace's initial point of interaction with the health system. In Nigeria, its sphere of influence cuts across preventive medicine and healthcare services at the grass root through immunizations and vaccine dispensations, HIV/AIDS campaigns, maternal care amongst others. Investment in primary health care centers, translates to investments in community-led preventive care. Focusing on renovating and upgrading PHC will trigger a shift in resource allocation and ease the burden on tertiary health instructions to focus on critical and specialty care. We envisage a rapid adoption of procedures such as task shifting to allow more basic services like administration and distribution of medical services/products to be carried out by non-essential workers. In the face of COVID and beyond, PHCs are essential in administering preventative care, first-aids and non-critical medical services to patients. As such only critical cases are transferred to tertiary medical institutions, easing out the burden on tertiary institutions and qualified specialists.

Industry Consolidation

There are currently over 150 registered pharmaceutical firms in Nigeria, five indigenous companies control fifty five percent of the domestic manufacturing of pharmaceutical products. The industry is clearly saturated with the minority and given our outlook on costs pressures and stricter regulations; we envisage a further consolidation in the industry. A number of these companies have struggled to keep their heads above waters and as such we foresee mergers and acquisitions in the midterm. Coupled with that, the high costs of drug research and development, intensifying competition in the OTC markets as well as the expectation of stricter regulations regionally and internationally is expected to put a strain on the capacity of the small players.

Mid-to-Long Term Outlook

The establishment and adoption of telemedicine

The pandemic has widely reinforced the importance of remote diagnosis, consultation and treatment. With the increasing adoption of video conferencing platforms for regular business meetings, the world is rapidly shifting to the era of the adoption of the same in healthcare. The World Health Organization highlighted telemedicine among essential services in strengthening the health systems in response to the pandemic. Telemedicine is expected to finally get the attention it deserves riding on the back of the continued adherence to social distancing measures. More so, healthcare practitioners at the frontline of the COVID-19 pandemic are at a very high risk of getting infected with the virus and also infecting others. Telemedicine will help assuage this risk by minimizing face-to-face consultations and contact with exposed persons. In the mid to long term, we anticipate a rise in the telemedicine space as existing firms begin to expand their scale and new entrants gain access to the wide market. The priorities of the stakeholders will center around patient-to-doctor confidentiality, data security and analytics, patients history reports, billings and online payment, audio and video conferring among others. We also foresee a solid partnership between telehealth developers and data service providers. In a developing nation like Nigeria, data costs are off the charts and this could discourage rapid adoption of the service especially among the poor population. However, just as we have seen with internet service providers like MTNN offering free data services for browsing the NCDC and WHO website, there is an expectation of a partnership which drives affordability and eventually early adoption and usage.

Establishment of domestic industries

On the back of a disruption in global supply chain, the absence of local industry to domestically manufacture essential medical supplies and products, countries will need to reexamine their healthcare value chain. Consequently, we anticipate a surge in establishment of such industries with respect to the need to produce the much needed and scarce medical equipment and supplies and reduce the dependence on importation.

Company Analysis

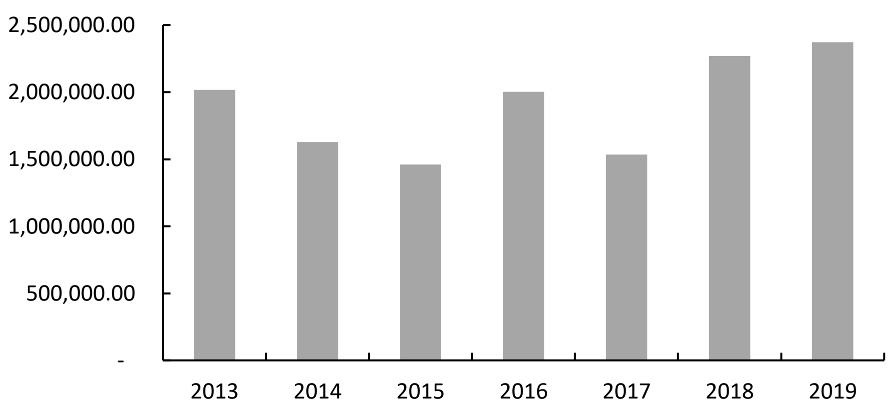
Neimeth International Pharmaceuticals Plc.

NEIMETH was borne from a sixty-per cent buy-out of equity held by the management of Pfizer Incorporation NY. The crux of the firm's activities is centered around the production and distribution of human and animal healthcare products. While it has been able to make a name for itself in the human healthcare space, the veterinary business line is all skin and bones, accounting for less than 5% of its total revenue. In fairness to the firm, the Nigerian veterinary industry is still in an embryonic stage, intensely flooded with imported brands and with little to zero government participation.

Neimeth's human healthcare business segment is subdivided into the **Consumer** and **Ethical Product lines.** The Consumer product line is its category for **Over-The-Counter** products, which are drugs sold directly to consumers (patients) without a prescription. Major classes of topical therapeutic, curative and preventive remedies are wholly represented in this basket, spanning through Analgesics, Antimalaria and Multivitamin, amongst others. Integral in this category is its flagship low-priced sickle cell medication-*CIKLAVIT*. The flagship product is the first indigenous natural nutritional supplement for the sickle cell disease. The second business segment- the Ethical product line consists of drugs that legally require a medical prescription to be dispensed. Represented in this basket are the Antifungal, Antihypertensive, and Antibacterial remedies. As described earlier, the veterinary business line is a small cog in a large wheel, comprising of a handful of products: Multivitamins, Antibiotic and Worm Expeller.

NEIMETH's top-line has taken severe beatings, moving in a flurry over the years. Between financial years 2013-2018, top-line advanced at a Compounded Annual Growth Rate of 2.39%, with several highs and lows in between. After two consecutive years of revenue decline, 2016 made an impression in the firm's books, settling at NGN2.00bn (implying a growth rate of 37.04%) despite the receding state of the economy and soaring inflation at the time.

Chart 2: Neimeth Revenue Trajectory



Source: Company's Financials, Meristem Research

In its recently released results, the firm posted 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 it 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.

In line with revenue growth, direct costs advanced by 16.50% to NGN611.90mn during the first half of 2020 (year end is September). This was particularly influenced by a 15.94% increase in the salaries and wages of production workers. Nonetheless, the robust growth in revenue moderated the cost to sales, resulting in a slight decline to 52.52%, down from 53.82% in H1:2019.

The firm recorded a surge in operating expenses to NGN427.25mn, owing to the 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 slumped. Along with the 42.48% decline in revenue, 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.

The firm's ROE of 5.06% in the first-half of 2020 (up from 0.49% in H1:2019) due largely to the improvement in net margin to 4.86% and financial leverage to 3.18x. Interest coverage ratio also advanced in the first-half to 1.68x from 1.12% in H1:2018.

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 to produce 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.

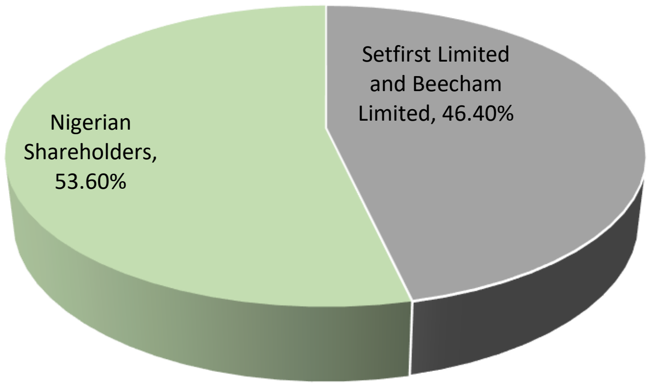
In valuing **NEIMETH**, we employed a blend of intrinsic valuation methodologies and applied 50% weightings to each- **Free Cashflow to Equity (FCFE) and Free Cashflow to the Firm** (FCFF). We utilized the average yield-to-maturity on risk free Federal Government bonds, considering that the projected cashflows are expected at various time horizons. The beta adopted was estimated by regressing the equity returns on NEIMETH to the NSEASI returns, and then subsequently adjusted using the Blume's approach to reflect its movement towards the market beta of one over the covered period. We employed the Capital Asset Pricing Model in estimating the cost of equity and applied a 4% sustainable growth rate in estimating our terminal value arrived at a Fair Value of NGN2.91 for **NEIMETH**.

Valuation Metrics	
Risk free rate	11.38%
Beta	0.51
Adjusted Beta	0.67
Risk Premium	8.21%
Cost of Equity	16.90%
WACC	11.48%
Sustainable Growth Rate	4%
Fair Value Estimate	NGN2.91

GlaxoSmithKline Consumer Nigeria Plc.

GlaxoSmithKline is the most capitalized healthcare stock on the Nigerian Stock Exchange. 46.4% of the company's shares are held by Setfirst Limited and SmithKline Beecham Limited who are direct subsidiaries of the ultimate parent company- GlaxoSmithKline Plc. UK. About 54% of the stock is available as free float to be traded on the exchange.

Chart 3: Shareholding Structure



Source: Company's Financials, Meristem Research

The firm's principal activities are centred around the production, marketing and distribution of healthcare and pharmaceutical products in Nigeria. Its products are categorized into the Pharmaceutical and Consumer divisions.

On 30th September 2016, GSK Nigeria Plc. announced the divestment of its Drinks and Bottling business (Ribena and Lucozade Drinks) to Suntory Beverage and Food Nigeria Limited. This decision was made in a bid to focus its operations on building a portfolio of healthcare, vaccines and pharmaceutical products. This in turn was expected to drive competitive advantage and further strengthen the route to market of the retained brands.

In April 2019, GLAXOSMITH announced the selection of Fidson Healthcare Plc. as a local contract manufacturing partner, as part of the restructuring process of its supply chain effective from Q3:2021. GLAXOSMITH will be transferring the manufacturing of its wellness and respiratory products to Fidson from Q3:2021. The products in the pharmaceutical basket (Antibacterial, vaccines and prescription drugs) are imported from its sister companies overseas.

GLAXOSMITH has positioned itself as a premium brand in the Nigerian market. Its main revenue driver, Over the Counter (OTC) drugs are relatively more expensive when compared to other generic brands. For context, Panadol Extra sells for NGN200 on average while M&B Paracetamol costs NGN50.

Prior to the divestment of its beverage business, **GLAXOSMITH's** topline grew at a CAGR of 6.57%. However, the sale of its nutritional product line triggered a decline of about 53.04% in the firm's revenue. Top-line continued to grow steadily, hitting a record-high post-divestment level of NGN18.41bn from NGN16.09bn in 2017FY, indicating a growth of 14.43%. In its most recent financials- 2019FY, the firm registered a top-line growth of 12.90%YoY, mainly driven by a 21.37% expansion in its pharmaceutical product line. Given the essential nature of the firm's products, we anticipate an improvement in the firm's top-line driven by a sales volume boost amidst the COVID-19 pandemic. Particularly, we expect the pharmaceutical business division which typically contributes 65% to top-line to chart the course of the firm's revenue. We forecast a 2020FY revenue growth of 10.80% to NGN23.03bn from NGN20.79bn in the corresponding period last year.

The firm typically reports the highest cost-to-sales amongst its listed peers. In 2017FY, cost to sales settled at 72.16%, moderating to 63.30% in 2018FY on the back of a reduction in the value of raw materials consumed during the period. The moderation was short-lived as cost-to-sales trended upwards to settle at 72.43% in 2019FY, driven by a 29.18% increase in direct costs.

During the 2019 financial year, OPEX had a breather, following a moderation in admnistrative expenses to NGN1.93bn, from NGN2.25bn in 2018FY.

However, the pressure from direct costs weighed significantly on operating margin, triggering a contraction to 4.18% from 9.75% in 2018FY. Our outlook on costs is quite bearish as we maintain that the risks are tilted to the downside for the firm. Prior to the economic slowdown and the outbreak of the COVID-19 pandemic, the costs typically headed for the roof. Incorporating the impact of the outbreak so far and the projected growth in revenue will see costs head further northwards. We do not aniticpate a moderation in the major cost drivers and on that note we expect an increase by 10.13% in direct costs, which should bring cost-to-sales to peg at 71.99% in 2020FY.

GLAXOSMITH is the only firm in the industry to boast of zero interest bearing debts, thriving on its scale of operation and international alliance. What it would have ordinarily recorded as debts and interest-bearing facilities is charged to trade payables as amount due to related parties. This has grown steadily over the years to settle at NG3.90bn in 2019FY (vs. NGN3.50bn in 2018FY). This account is due to its sister companies across the world and its settled within six months on average.

Bottom-line contracted significantly in 2019FY to come in at NGN605mn (vs. NGN1.25bn the previous period), implying a net margin of 2.91% (vs. 6.80% in 2018FY). Consequently, Return on Equity moderated to 6.85%, a significant decline from 14.17% in 2018FY. Return on Assets followed suit contracting from 7.97% to 3.45% during the period.

The combination of factors such as the firm's market leadership, budding partnership with FIDSON, brand reputation due to international alliance and premium pricing model fuel our outlook. Our revenue growth projection is expected to offset the uptick in costs, resulting in a bottom-line of NGN1.06bn, implying a net margin of 4.58% in 2020FY. On the back of an Expected EPS of

NGN0.88 and target P/E of 8.0x, we have revised our target price upwards slightly to NGN7.04. This implies a 3.53% upside to its last traded price of NGN6.80 on 19th of May. Therefore, we rate the ticker as HOLD.

In valuing **GLAXOSMITH**, we employed a blend of intrinsic valuation methodologies and applied discretionary weightings to each- Dividend Discount (40%) Residual Income (20%) Free Cashflow to Equity (40%). We utilized the average yield-to-maturity on risk free Federal Government bonds, considering that the projected cashflows are expected at various time horizons. The beta adopted was estimated by regressing the equity returns on GLAXOSMITH to the NSEASI returns, and then subsequently adjusted using the Blume's approach to reflect its movement towards the market beta of one over the covered period. We employed the Capital Asset Pricing Model in estimating the cost of equity and applied a 6% sustainable growth rate in estimating our terminal value arrived at a Fair Value of NGN12.22 for GLAXOSMITH.

Valuation Metrics	
Risk free rate	11.38%
Beta	0.24
Adjusted Beta	0.50
Risk Premium	8.21%
Cost of Equity	15.45%
Sustainable Growth Rate	6%
Fair Value Estimate	NGN12.22

May and Baker Nigeria Plc.

Established in 1944 as the foremost pharmaceutical firm in Nigeria, May & Baker has had many firsts to its name. MAYBAKER was the first pharmaceutical firm to set up an antiretroviral plant in Nigeria and the first to initiate local vaccine production. May and Baker principally focuses on the production and distribution of pharmaceutical products. Installed in the facilities of the firm, is a plant with the capacity to produce in excess of six (6) billion tablets and forty-nine (49) million bottles of liquid preparations per annum for a range of over 80 products.

The World Health Organization (WHO) certified May and Baker Plc. as a pharmaceutical firm with adequate facilities and processes that meet global current Good Manufacturing Practice (cGMP). The certification puts the firm on a platform to participate in international tenders for medicines against the three major pandemics in Africa- HIV, Malaria & Tuberculosis.
In previous years, May and Baker operated three business lines: pharmaceutical, food and beverage lines. However, in a bid to achieve efficiency, productivity and profitability, the firm divested from the food business in 2018.

In June 2018, **MAYBAKER** obtained a Federal Executive Council license to partner with the National Institute of Pharmaceutical Research and Development (NIPRD) in the production of NIPRISAN- a sickle cell management drug. The commercialization of this product is expected to further drive sales volume upwards, increase brand recognition and essentially increase profitability to the magnitude of sales growth.
It is worthy of note that the firm has an ongoing joint venture with the Federal Government for the local production of vaccines. The Federal Government holds 49% of the joint venture while May & Baker holds 51% of the company – Biovaccines Nigeria Ltd.

As mentioned above, in 2018, the firm divested its food product line (Minimee Chin-chin and Minimee Noodles). Dufil Prima Foods acquired May and Baker food product line for NGN775m. The payment transferred the ownership of the Noodles factory, the equipment and trademark of the Minimee brand to Dufil Prima Foods.

Over a review period of five years- 2013 and 2017- **MAYBAKER's** top-line grew at a Compounded Annual Growth Rate (CAGR) of 5.06%. Following the divestment of the food business in 2018 (which previously contributed about 25% to total revenue), top line hit a brick wall for the first time in five (5) years, contracting by 8.56% to NGN8.55bn from NGN9.35bn in 2017FY.
The decline in top-line persisted into the 2019 financial year as revenue dipped by 5.52% to NGN8.08bn (vs. NGN8.55 in 2019FY). Top line mirrored the gloomy performance in the pharmaceutical business segments which contracted to NGN8.48bn from NGN8.00bn in 2018FY. Intense competition in the Over-the-Counter (OTC) market, counterfeiting, increased adoption of alternative medicines and reduced consumer spending, all contributed to the southwards

slope in top-line. Nonetheless, the beverage unit showed some resilience, improving by 9.58% to NGN77.18mn. We expect top-line to grow by 11.48% as demand for drugs and medical supplies increase during the COVID-19 pandemic. MAYBAKER is in a vantage position as it has existing partnerships with the Government. In addition, the firm has been approached by the NAFDAC to produce an emergency stock of chloroquine. Against these premises, we forecast a revenue of NGN8.81bn, implying of 8.99% in 2020FY.

During the 2019 financial year, direct costs inched lower by 4.14% to NGN5.17bn, driven by a decline in raw material costs to NGN4.25bn, from NGN4.87bn in 2018FY. The firm also recorded a 5.80% decline in operating expenses to NGN7.16bn (vs. NGN7.60bn in 2018FY), driven by a significant contraction in personnel expenses. However, the decline in revenue filtered into operating profit, resulting in a 14.84% increase to NGN1.03bn.

In 2018, the firm conducted a rights issue exercise, the proceeds of which were set aside for: Equity Contribution to Biovaccines- its joint venture with the Federal Government (17.8%), Reduction of short-term debt (16.3%), Working Capital (20.5%), Marketing/ Brand building (20.4%) and Capital Expenditure (22.1%). As a result, finance costs slumped by 33.67% and 64.90% in 2018 and 2019 respectively.

A combination of a decrease in direct costs, operating expenses and finance costs resulted in an improvement in bottom-line to NGN716.44mn in 2019FY. While we anticipate an uptick in costs, our revenue growth forecast should sufficiently deliver growth in earnings of 17.56% to NGN746mn, implying a net margin of 8.47% from 7.85% in the corresponding period last year.

We have revised our target price upwards to NGN3.52 on the back of a target PE of 8.0x and Expected EPS of NGN0.44. This represents a 15.41% upside to its closing price of NGN3.05 on May 19. Therefore, we recommend the ticker as BUY.

In valuing **MAYBAKER**, we employed a blend of intrinsic valuation methodologies and applied discretionary weightings to each- Dividend Discount (30%) Residual Income (20%) Free Cashflow to Equity (50%). We utilized the average yield-to-maturity on risk free Federal Government bonds, considering that the projected cashflows are expected at various time horizons. The beta adopted was estimated by regressing the equity returns on MAYBAKER to the NSEASI returns, and then subsequently adjusted using the Blume's approach to reflect its movement towards the market beta of one over the covered period. We employed the Capital Asset Pricing Model in estimating the cost of equity and applied a 7% sustainable growth rate in estimating our terminal value arrived at a Fair Value of NGN4.23 for **MAYBAKER**.

Valuation Metrics	
Risk free rate	11.38%
Beta	0.25
Adjusted Beta	0.50
Risk Premium	8.21%
Cost of Equity	19.21%
Sustainable Growth Rate	7%
Fair Value Estimate	NGN4.23

Fidson Healthcare Plc.

FIDSON is unarguably, one of the leading pharmaceutical firms in Nigeria and Sub-Saharan Africa with a market capitalization of about NGN10billion. *The firm has pioneered a decent deal of breakthroughs in the Nigerian pharmaceutical industry. One of such is its ground-breaking production of Anti-retroviral drugs in Sub-Saharan Africa.* The firm currently has an estimated 6% market-share in the pharmaceutical industry producing over 150 different products which address several therapeutic and treatment classes typical to the Nigerian populace.

The pharmaceutical giant started out as a local distributor of pharmaceutical products. Subsequently, it moved on to the importation of its own brand of drugs. In 2017, the firm completed the construction of its World Health Organization compliant factory. The facility is equipped with six production lines for the creation of pharmaceutical products in different forms such as capsules, ointments, powder, tablets, liquids and intravenous infusions (IV). The firm delivers on three major brand categories most of which have become household names within the borders of Nigeria. Chief among its brands are the multivitamins and antibiotic product line with which it has secured its position as a giant in the industry and with a growing market share. The firm’s products are sub-divided into two segments: Over-the-Counter Unit (non-prescription medications, which typically contributes an average of 58.36% to overall revenue) and the Ethical Unit (prescription products).

Following the completion of its WHO compliant factory, the firm doubled up on installed capacity, achieving an average utilization rate of 75% and 71% in the infusion and pharma plants. One chief enabler of revenue growth has been intravenous fluids which has gained momentous traction, contributing an average of 15% to overall revenue on the back of the product’s high demand. With a Compounded Annual Growth Rate (CAGR) of 14.59% between 2012 and 2018, Fidson has habitually churned out impressive top-line despite soaring competition, save for 2015 and 2016 (during the economic downturn) economic downturns and soaring competition.

Revenue growth resumed on its double digits track in 2017FY, rising by 83.64% to NGN14.06bn (vs. NGN7.66bn in 2016FY). This was followed by an impressive revenue growth of 15.45% in 2018FY, amounting to NGN16.23bn. Increase in sales volume, on the back of demand steadiness has been the main driver of growth considering the supply-demand gap for medications in Nigeria. The ethical unit made its debut as a growth driver, accelerating by 35.56% to deliver revenue worth of NGN9.09bn from NGN6.71bn in 2016FY. However, Price reduction by other market players in the generics space (OTC) triggered a decline in revenue from the unit during 2019FY.

In its most recent financial scorecard, FIDSON reported a 13.36% decline in revenue from NGN16.23bn in 2018FY to NGN14.06bn in 2019FY. Revenue began to thin out in the first quarter when the firm’s management repriced its products upwards. Consumers’ cold reaction to this resulted in weaker volumes across the business divisions, as consumers shifted to cheaper alternatives and substitutes. The Over the Counter (OTC) business unit which contributes the most to the group's top-line (average of 56.5% in five years), recorded a decline in revenue of 7.59% to NGN6.70bn, from NGN6.19bn in 2018FY. The Ethical division also took a hit, contracting by 8.36% to NGN7.87bn from NGN8.58bn the previous financial year. We acknowledge that it would take longer for consumers to get accustomed to the upward review in prices and the firm might have to invest in promotions and advertising to drive volumes. However, the COVID-19 outbreak is expected to drive product volumes regardless of prices. In the long run, the employment of other tactical strategies (Government partnerships, new products, research and development, etc.) should offset the impact of the product price increase. We expect revenue to rise by 17.14% YoY by 2020FY to NGN16.47bn.

With an average cost-to-sales ratio of 48.02% in five years, FIDSON has demonstrated some levels of cost efficiency relative to its industry peers. Since 2012, the ratio hovered between 43% and 49% before hitting record high of 61.06% in 2018FY from 49.10% in 2017FY. The firm experienced substantial setback in the import of raw materials from China. The Chinese Government interrupted production in about 40% of Chinese factories on the back of defaulting environmental pollution regulations. This resulted in import disruption, causing firms like FIDSON to source raw materials elsewhere. Hence, the spike in cost-to sales to 61.06%. Complementing the importation hurdles, is the Apapa gridlock which has been a thorn in the flesh for most manufacturing firms. The difficulties in transporting raw materials from the port to the factory, increased the pressure on logistics cost.

In line with the drop-in revenue in 2019FY, direct costs contracted by 12.70% to NGN8.65bn from NGN9.91bn in 2018FY. The firm reported significant decline in cost of sales across both business divisions as costs from the Ethical and Over-the-Counter business units dropped by 23.16% and 11.67% respectively. A number of shared expenses such as energy and factory overheads also declined by 28.84% and 43.18% respectively. Consequently, the cost-to-sales ratio settled lower at 58.28%, from 61.06% in 2018FY. The 38.27% decline in logistics cost drove overall operating expenses down by 10.90% to NGN4.03bn.

The largest cause of concern has been the firm's stock of debt. Finance charges to revenue has been on a steady rise, hitting an all-time high of 11.86% in 2018FY from 7.13% in 2017FY. Sequel to the construction of its biotech plant, FIDSON accumulated series of interest-bearing debts, bringing the firm's total debt to NGN5.83bn (vs. NGN2.99bn in 2017FY). In a bid to deleverage, the firm carried out a rights issue in April 2019, the proceeds of which it used in settling about 30% of its outstanding obligations.

During the 2019 financial year, the firm restructured its balance sheet, paying down a significant portion of its short-term obligations. As a result, short-term interest-bearing debts declined by more than half 57.80%, to NGN1.99bn from NGN4.71bn in 2018FY. Consequently, finance costs dipped by 10.81% to NGN1.72bn, further easing the pressure on bottom-line. Given the reduction in current liabilities, the current ratio improved to 1.69x from 0.72x in the corresponding period. Interest coverage ratio also inched upwards slightly to 1.23x from 1.06x in 2018FY.

In 2020FY, we expect the firm to maintain the momentum, putting a lid on short-term obligations to reduce the pressure on its earnings. Against this backdrop, we are projecting a bottom-line of NGN9.31mn, which implies a net margin of 5.66% from 2.21% in 2018FY.

In the same vein, we have revised our 2020FY target price upwards to NGN4.05 using an Expected EPS of NGN0.45 and Target P/E of 9.0x. This represents a 30.64% upside to its closing price of NGN3.10 on May 19. Therefore, we rate the ticker as BUY.

In valuing **FIDSON**, we employed a blend of intrinsic valuation methodologies and applied discretionary weightings to each- Dividend Discount (30%) and Free Cashflow to Equity (70%). We utilized the average yield-to-maturity on risk free Federal Government bonds, considering that the projected cashflows are expected at various time horizons. The beta adopted was estimated by regressing the equity returns on **FIDSON** to the NSEASI returns, and then subsequently adjusted using the Blume's approach to reflect its movement towards the market beta of one over the covered period. We employed the Capital Asset Pricing Model in estimating the cost of equity and applied a 6% sustainable growth rate in estimating our terminal value arrived at a Fair Value of NGN6.25 for **FIDSON**.

Valuation Metrics	
Risk free rate	11.38%
Beta	0.51
Adjusted Beta	0.50
Risk Premium	8.21%
Cost of Equity	16.90%
Sustainable Growth Rate	6%
Fair Value Estimate	NGN6.25

Appendix

Neimeth Summarized Financial Statement

Figures are stated in billions of naira	2018	2019	2020f	2021f	2022f	2023f	2024f
Revenue	2.27	2.37	2.83	3.40	4.02	4.78	5.61
Cost of sales	1.11	1.18	1.38	1.60	1.86	2.22	2.50
Gross Profit	1.16	1.20	1.45	1.80	2.16	2.56	3.10
Distribution & Administration	0.54	0.38	0.54	0.71	0.80	0.80	0.78
Marketing & Distribution Expenses	0.36	0.38	0.43	0.47	0.69	0.74	0.77
Other Income	0.02	0.00	0.02	0.03	0.05	0.12	0.03
Operating profit	0.28	0.45	0.50	0.64	0.72	1.14	1.52
Financial charges	0.08	0.11	0.14	0.09	0.09	0.23	0.45
Profit before tax	0.48	0.34	0.36	0.55	0.63	0.91	1.07
Taxation	0.02	0.08	0.00	0.04	0.02	0.04	0.06
Profit After Tax	0.46	0.25	0.36	0.52	0.61	0.87	1.14
Total Asset	2.31	3.39	4.35	4.99	5.03	5.31	6.23
Net Asset	0.99	1.24	1.59	2.11	2.72	3.59	4.73
Liabilities	1.32	2.15	2.75	2.88	2.31	1.72	1.50
Interest bearing liabilities	0.82	1.40	1.93	1.73	1.50	1.21	0.90
Non-interest-bearing liabilities	0.50	0.75	0.83	1.15	0.81	0.52	0.60

GLAXOSMITH Summarized Financial Statement

Figures are stated in billions of naira	2018	2019	2020f	2021f	2022f	2023f	2024f
Revenue	18.41	20.79	23.03	24.57	27.01	29.06	31.04
Cost of sales	11.65	15.06	16.58	17.16	19.10	20.50	21.98
Gross Profit	6.76	5.73	6.45	7.41	7.91	8.56	9.06
Other Operating Income	0.38	0.23	0.30	0.31	0.36	0.40	0.83
Selling & Distribution Costs	3.10	3.33	3.05	3.68	4.10	4.28	4.44
Administrative Expenses	2.25	1.93	2.19	2.57	2.67	2.99	3.43
Operating profit	1.79	0.87	1.51	1.48	1.50	1.67	2.03
Financial charges	-	-	-	-	-	-	-
Profit before tax	1.79	0.87	1.51	1.46	1.50	1.67	2.03
Taxation	0.54	0.26	0.45	0.44	0.45	0.46	0.53
Profit After Tax	1.25	0.61	1.06	1.02	1.05	1.23	1.49
Total Asset	15.70	17.32	17.72	18.89	19.29	20.75	20.69
Net Asset	8.83	8.84	9.42	9.96	10.53	11.23	12.29
Liabilities	6.87	8.48	8.30	8.94	8.77	9.47	8.40
Interest bearing liabilities	-		-	-	-	-	-
Non-interest-bearing liabilities	6.87	8.48	8.30	8.94	8.77	9.47	8.40

MAYBAKER Summarized Financial Statement

Figures are stated in billions of naira	2018	2019	2020f	2021f	2022f	2023f	2024f
Revenue	8.55	8.08	8.81	9.82	10.56	12.14	13.96
Cost of sales	5.39	5.14	5.48	5.89	6.44	7.35	8.79
Gross Profit	3.16	2.94	3.32	3.93	4.11	4.79	5.17
Other Operating Income	0.29	0.11	0.09	0.05	0.04	0.09	0.42
Selling & Distribution Costs	1.17	1.16	1.18	1.37	1.50	1.54	1.68
Administrative Expenses	1.03	0.81	0.93	1.13	1.03	1.24	1.60
Operating profit	1.25	1.08	1.31	1.48	1.63	2.09	2.32
Financial charges	0.40	0.15	0.07	0.39	0.42	0.49	0.56
Profit before tax	0.91	0.93	1.24	1.09	1.21	1.60	1.76
Taxation	0.48	0.30	0.50	0.35	0.39	0.51	0.56
Profit After Tax	0.43	0.63	0.75	0.74	0.82	1.09	1.19
Total Asset	8.10	9.08	9.79	10.34	11.11	12.14	13.96
Net Asset	3.62	4.08	4.65	5.22	5.79	6.70	6.70
Liabilities	4.48	4.99	5.13	5.12	5.23	5.44	7.26
Interest bearing liabilities	1.80	2.25	2.82	3.07	3.04	3.10	4.35
Non-interest-bearing liabilities	2.68	2.75	2.31	2.05	2.29	2.34	2.90

FIDSON Summarized Financial Statement

Figures are stated in billions of naira	2018	2019	2020f	2021f	2022f	2023f	2024f
Revenue	16.23	14.06	16.47	18.34	20.56	22.62	24.88
Cost of sales	9.91	8.20	9.38	11.01	12.34	13.01	14.93
Gross Profit	6.32	5.87	7.10	7.34	8.22	9.61	9.95
Other Operating Income	0.25	0.30	0.10	0.21	0.05	0.12	0.72
Administrative Expenses	2.61	2.58	2.74	2.88	3.35	3.96	3.73
Selling & Distribution Costs	1.91	1.45	2.16	2.61	2.57	3.39	3.85
Operating profit	2.05	2.12	2.22	2.01	2.31	2.38	3.10
Financial charges	1.93	1.72	1.13	0.73	0.67	0.74	1.12
Finance Income	0.04	0.06	0.25	0.32	0.23	0.32	0.37
Profit before tax	0.16	0.46	1..34	1.59	1.88	1.95	2.35
Taxation	0.26	0.15	0.41	0.45	0.53	0.54	0.66
Profit After Tax	(0.10)	0.31	0.93	1.14	1.35	1.41	1.69
Total Asset	19.09	20.05	21.96	22.93	24.19	25.13	26.19
Net Asset	7.30	7.30	7.81	8.54	9.47	10.46	11.74
Liabilities	11.79	12.75	14.15	14.39	14.72	14.66	14.45
Interest bearing liabilities	5.83	5.50	5.66	8.20	6.62	5.87	5.78
Non-interest-bearing liabilities	6.84	5.10	8.49	6.19	8.10	8.80	8.67

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