

FIDSON Gets Back on Track

Ethical Unit Fuels Revenue Performance

Following the upward price review of its products in Q4:2018, **FIDSON** recorded low patronage throughout the 2019 financial year. Topline contracted to NGN14.06bn, representing a 13.36% drop from NGN16.23bn in 2018FY. Consumer's cold reaction to the price adjustment, saw performances across its Ethical and Over-the-counter business segments slump by 13.48% and 12.28% respectively in 2019FY. The firm's fortunes have however taken a positive turn since the commencement of 2020.

During the first quarter, revenue improved by 6.04% to NGN3.75bn from NGN3.53bn in Q1:2019, after four consecutive quarters of lackluster performances. Revenue from the ethical unit (prescription drugs) which typically accounts for c.60% of overall revenue, advanced by 11.02% to NGN2.18bn, solely fueling the growth in overall top-line. Competition within the generic medicine market intensified, resulting in a marginal revenue drop (-0.04%) in revenue from the Over-the-Counter Unit.

Going forward into the next quarters, the essential nature of medical supplies and products, amidst the Coronavirus pandemic puts the firm at a vantage point to grow sales volume. Coupled with that is the potential for capacity expansion off the back of concessionary credit and intervention funds made available by the Central Bank for Pharmaceutical firms. Premised on these, we anticipate a solid revenue growth of 15.61% to NGN16.28bn in 2020FY.

FIDSON Puts a Lid on Costs

Cost-to-sales improved to 58.28% in 2019FY (although a lot higher than its six-year average of 45.85%) from 61.06% in 2018FY, driven by a moderation in the major items of direct costs (raw materials, energy and factory overheads). The firm reported a further moderation in direct costs to NGN2.03bn in Q1:2020, driving cost-to-sales lower to 54.00% from 57.76% in Q1:2019. **Energy cost contributed significantly to the improvement in the overall costs, down by 28.27% as the firm continues to benefit from its transition to cheaper energy sources.** Consequently, gross margin improved to 46.00% from 42.24% in the corresponding quarter last year. In a bid to drive sales volume, the firm invested significantly in advertisement and sales expenses (up by 110% to NGN607mn)- the highest quarterly spending since Q1:2018. This muted the impact of the cost savings on direct costs, causing a contraction in operating margin to 14.79% from 17.12% in Q1:2018. **In the near term, lockdown measures employed worldwide could impede the ease of importing raw materials. Also, the congestion at the seaport has only gotten worse, posing potential risks to logistics costs. While we anticipate an increase in direct costs, our 15.61% revenue projection is expected to provide succor, moderating cost-to-sales to 55.44% in 2020FY.**

Reaping the Benefits of Balance Sheet Restructuring

In 9M:2019, **FIDSON** paid down 79.63% of its short-term obligations, easing the pressure on finance costs and eventually, earnings. The firm continued reaping the benefits of its restructuring as finance costs declined further in Q1:2020 to NGN331mn on the back of a 12.92% reduction in short-term loans to NGN3.14bn. Consequently, interest cover improved slightly to 1.67% from 1.54% in Q1:2019. There is a possibility for further reduction given the ongoing access to concessionary loans and CBN intervention funds for working capital and term loan purposes. **Based on these, we anticipate a further moderation in finance costs, allowing EBIT to trickle down to bottom-line. Thus, we forecast an increase in PAT to NGN881mn in 2020FY, which implies a net margin of 5.42% from 2.21% in 2019FY.**

Outlook and Recommendation

Premised on the above, our target price has been revised upwards to NGN4.01 on the back of a target P/E of 9.5x and an Expected EPS of NGN0.42. We, therefore, recommend a **BUY** Rating on the ticker.

Company	FIDSON
Valuation	
Trailing EPS	0.15
BVPS	9.41
P/E	15.37
P/BV	0.31
Target PE	9.5x
Dec-2020 Exp. EPS	0.42
Dec 2020 Target price	4.01
Current Price	2.96
Up/Downside Potential	+35.62%
Ratings	BUY
Key metrics	
ROE	1.55%
ROA	0.77%
Net margin	4.05%
Asset Turnover	0.19
Leverage	2.01
Yr Hi	3.25
Yr Lo	2.21
YTD return	+5.71%
Beta	0.68
Adjusted Beta	0.78
Shares outstanding	2.09
Market cap [NGN]	6.19bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

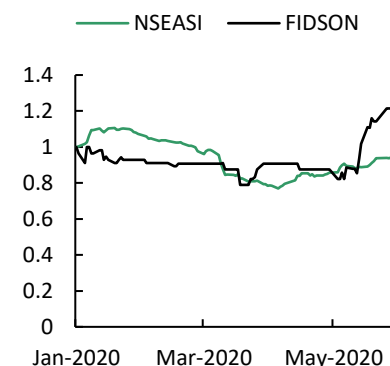


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	3.25
						Max	4.86
						EPS	
						0.38	0.40
						0.42	0.44
						0.46	
Target PE	8.55	3.25	3.43	3.61	3.79	3.97	
	9.03	3.43	3.62	3.81	4.00	4.20	
	9.50	3.61	3.81	4.01	4.22	4.42	
	9.98	3.79	4.00	4.22	4.43	4.64	
	10.45	3.97	4.20	4.42	4.64	4.86	

Financial Highlights (NGN billion) FIDSON Financial result

<i>Profit & Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	3.75	3.54	6.04%
Cost of Sales	2.03	2.04	-0.85
Gross Profit	1.73	1.49	15.47%
Other Income	0.05	0.06	-8.24%
Operating Expense	1.23	0.94	29.86%
Finance Cost	0.33	0.39	-15.66%
PBT	0.22	0.21	4.87%
PAT	0.15	0.14	4.87%
<i>Balance Sheet</i>	Q1:2020	FY: 2019	
Property, plant and equipment	12.01	12.65	-5.09%
Inventories	2.82	3.62	-22.11%
Trade and other Receivables	3.01	3.84	-21.61%
Cash and bank	0.72	0.64	11.72%
Other Assets	1.08	0.73	48.90%
Total Assets	19.64	21.48	-8.58%
Shareholders' fund	9.79	9.46	3.57%
Trade and Other Payables	1.05	3.32	-68.35%
Tax Liabilities	1.25	1.13	10.50%
Total Liabilities	9.85	12.03	-18.13%

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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We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

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Movements in Price Target

Company Name: Fidson Healthcare Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-Apr-2019	NGN4.05	NGN5.87	NGN5.96	BUY	BUY
02-May-2019	NGN4.20	NGN5.96	NGN4.73	BUY	BUY
15-Aug-2019	NGN4.50	NGN4.73	NGN4.14	BUY	HOLD
01-Nov-2019	NGN4.00	NGN4.14	NGN3.83	HOLD	HOLD
03-Jun-2020	NGN2.96	NGN3.83	NGN4.01	BUY	HOLD

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Company	Disclosure
Fidson Healthcare Plc	

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