

Fidson Hits a Home Run

Double Digits Expansion in Prescription Revenue

To a large extent, the Coronavirus pandemic was an enabler of prescription volume growth for **FIDSON**. The firm recently published its financial result, reporting a **16.17% YoY increase in its second-quarter revenue to NGN4.45bn- the highest Q2 top-line performance in its history. On a cumulative note, revenue expanded by 11.31% to NGN8.21bn in the first half. The increase in sales of prescription medicines (Ethical Business unit), up by 24.23% solely fueled the aggregate top-line performance. On the contrary, Over-the-Counter (OTC) drug sales ebbed slightly by 2.25% to NGN3.51bn in H1:2020.** As expected, the essential nature of the firm's products amidst the health crisis, prompted a spike in demand for drugs and affiliated products in households, hospitals and COVID-19 isolation centers. The firm's performance this period heralds a positive outlook for the rest of the year. Coupled with that is the fact that the firm habitually reports a stronger performance in the second half relative to the first. Based on the aforementioned, we forecast a 2020FY revenue of NGN18.24bn, implying a growth of 29.72% YoY.

Major Decline in Administrative Expenses

Direct costs edged higher by 29.69% in the second quarter to NGN2.61bn and cumulatively by 14.30% in H1:2020. The rise in direct cost was buttressed on a steady uptick across major line items: Ethical business (+30.33%), OTC segment (1.35%), Factory personnel (19.33%) and Energy (1.58%) in the cumulative six-month period. Premised on this, cost-to-sales inched up slightly to 56.49% (vs. 55.01% in H1:2019), moderating gross profit margin to 43.51% from 44.99% in H1:2019. On the back of a state-wide remote working policy for non-essential staff, the firm succeeded in cutting down administrative expenses by 17.88% to NGN1.25bn (vs. NGN1.52bn in H1:2019). Major declines were recorded on Conference expenses (69.34%), Diesel (70.16%), Training (77.64%), Travelling (12.60%) and Printing expenses (41.32%). On the contrary, a 365.85% spike in promotions and advertisement triggered an uptick of 58.98% in selling and distribution expenses. Ultimately, operating profit expanded by 29.97% to NGN1.42bn in H1:2020. We have forecasted a 22.59% growth in direct costs hinged on an expectation of improved volumes and the rise in general price levels. Hence, we expect cost-to-sales to settle at 55.08% and operating margin at 15.73% in 2020FY.

Growth in Bottom-line Enhances Profitability Ratios

During the period, **FIDSON** successfully accessed a term loan of NGN2.5bn from the CBN's healthcare intervention fund. Consequently, its interest-bearing loans expanded by NGN50.00% to NGN10.25bn from NGN6.83bn. Finance costs, however, contracted by 28.75% to NGN690.51mn on the back of a 7.47% decline in interest on bank loans. Given the growth in operating profit, interest cover improved to 2.06x from 1.42x in the comparable period last year. Overall, bottom-line surged by 166.08% in Q2 to NGN348.68mn and 81.43% in the cumulative six-month period to NGN500.64mn. On this note, net margin improved to 6.10% from 3.74% in H1:2019. Profitability ratios also edged higher- ROE and ROA pegged at 4.95% and 1.42% respectively in H1:2020 (vs. 2.92% and 1.42% in H1:2019). Assets turnover, on the other hand, remained flat at 0.34x during the period. We acknowledge the improvement in working capital to NGN4.38bn from NGN1.14bn in 2019FY on the back of a spike (472.13%) in cash and cash equivalents to NGN3.69bn. For the rest of the year, we expect sustained improvement in earnings supported by fast growth in top-line, resulting in a net margin forecast of 6.21% in 2020FY.

Outlook and Recommendation

Based on an Expected EPS of NGN0.54 and a Target P/E ratio of 7.4x, we are maintaining our target price of NGN4.00. We rate the ticker "BUY" on the back of an 26.98% upside.

Company	FIDSON
Valuation	
Trailing EPS	0.26
BVPS	4.85
P/E	9.48x
P/BV	0.65
Target PE	7.4x
Dec-2020 Exp. EPS	0.54
Dec 2020 Target price	NGN4.00
Current Price	NGN3.15
Up/Downside Potential	+26.98%
Ratings	BUY
Key metrics	
ROE	4.95%
ROA	2.06%
Net margin	6.10%
Asset Turnover	0.34x
Leverage	2.39x
Yr Hi	3.63
Yr Lo	2.21
YTD return	+1.61%
Beta	0.60
Adjusted Beta	0.73
Shares outstanding	2.09bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

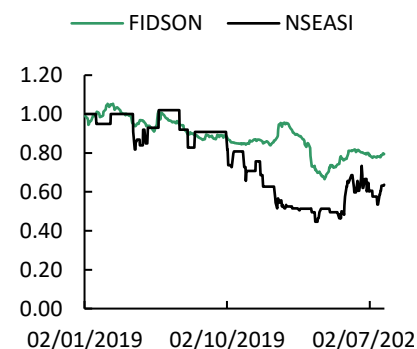


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	3.25
						Max	4.86
						EPS	
						0.49	0.51
						0.54	0.57
						0.60	
Target PE	6.68	3.25	3.43	3.61	3.79	3.98	
	7.03	3.43	3.61	3.80	3.99	41.9	
	7.40	3.61	3.80	4.00	4.20	4.41	
	7.77	3.79	3.99	4.20	4.41	4.63	
	8.16	3.98	4.19	4.41	4.63	4.86	

Financial Highlights (NGN billion) FIDSON Financial result

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	8.21	7.37	11.31%
Cost of Sales	4.64	4.05	14.30%
Gross Profit	3.57	3.32	7.65%
Other Income	0.14	0.13	8.22%
Operating Expense	2.29	2.17	5.30%
Finance Cost	0.69	0.90	-23.01%
PBT	0.74	0.41	81.43%
PAT	0.50	0.28	81.43%
<i>Balance Sheet</i>	H1:2020	FY: 2019	
Inventories	3.27	3.62	-9.61%
Trade and other Receivables	3.76	3.84	-2.13%
Cash and bank	3.69	0.65	472.13%
Property, Plant and Equipment	12.32	12.65	-2.60%
Other Assets	1.23	0.73	69.16%
Total Assets	24.27	21.48	12.97%
Shareholders' fund	10.12	9.46	7.04%
Trade and Other Payables	1.94	3.32	-41.61%
Tax Liabilities	1.34	1.13	18.37%
Total Liabilities	14.15	12.03	17.64%

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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-Jun-2020	NGN2.96	NGN3.83	NGN4.01	BUY	HOLD
03-Aug-2020	NGN3.15	NGN4.01	NGN4.00	BUY	BUY

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Company	Disclosure
Fidson Healthcare Plc	

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