

Pandemic Boosts Demand for Drugs

Veterinary Revenue Growth Slides Off the Charts

NEIMETH recently published its third quarter financial scorecard (*year end is September*), reporting tremendous growth in top and bottom line. Standalone revenue for the April-June financial period grew by 93.49%, thus, resulting in a cumulative growth of 42.21% to NGN2.01bn for the nine-month period from NGN1.41bn in the comparable period. **The impressive performance was founded on a collective growth in both business segments. Revenue from the animal health segment surged by 1,629.41% to NGN317mn from NGN18mn in 9M:2019. In the same manner, the revenue from the pharmaceutical segment edged higher by 76.35% to NGN1.69bn (vs. NGN957mn in 9M:2019). In line with expectations, the COVID-19 pandemic boosted demand for drugs across several therapeutic categories stimulating volumes and eventually, topline for drug manufacturers.** Given the expectation of sustained growth in demand for drugs and related products, we maintain our positive outlook for the firm's revenue. We forecast a full-year revenue of NGN3.01bn, implying a growth rate of 27.14%.

Moderation in Cost-to-Sales Prop Performance

Direct costs increased at a slower rate (+18.84%) relative to revenue, resulting in a moderation in the cost to sales ratio to 45.29% from 54.20% in 9M:2019. Hence, gross profit edged higher to 54.17% from 45.80% in the corresponding period last year. Operating expenses surged by 29.24%, majorly due to the uptick in advertisement and promotion fees (73.91%) plus product registration expenses. On this account, **NEIMETH's** OPEX margin moderated slightly to 33.59% from 36.97%. In addition to the rise in OPEX, a foreign exchange loss of NGN34.73mn was recorded during the nine-month period, dwarfing the extra income realized from its leased property (NGN17.54mn). During the period, finance cost surged by 96.26% on the back of a rise in its interest on debenture. Given the recent devaluation of the currency, the firm's exposure to foreign loans, puts it in a disadvantaged position both in servicing and the eventual repayment of the principal. Nevertheless, the growth in top-line provided support to EBIT, ultimately resulting in an improvement in interest cover ratio to 2.41x from 1.36x in 9M:2019. For the rest of the year, the heightened likelihood of a further naira devaluation would trigger an uptick in finance and importation costs. However, our revenue growth forecast is expected to provide a buffer, keeping cost-to-sales ratio at current levels in 2020FY.

CBN Intervention Expands Debt Position

Earnings expanded by 606.38% in the third quarter and 664% in the cumulative nine-month period on the back of growth in top-line. Accordingly, the negative position of retained earnings moderated even as the firm's profitability ratios improved- ROE (20.94% vs 2.90% in 9M:2019); ROA (5.32% vs. 1.23% in 9M:2019). We acknowledge the surge in total assets by 124.43% riding off the back of a spike across major line items, particularly PPE (+55.65%), receivables (+47.09%) and Cash (+2,020.47%). In spite of the revenue growth recorded during the period, asset turnover contracted to 0.47x from NGN0.60x in 9M:2019. The firm's working capital position, however, expanded to NGN3.52bn from NGN560.84mn in 2019FY. Notably, interest bearing loans expanded by 226.66% to NGN4.72bn on the back of the CBN's NGN2.4bn Intervention fund. Consequently, the firm's equity multiplier expanded to 4.75x from 2.57x indicating an increase in the value of debt employed in financing the firm's assets.

Outlook and Recommendation

Premised on the above, our target price has been reviewed upwards to NGN1.45 on the back of an Expected EPS of NGN0.29 and a target P/E of 5.0x. This represents a downside of 3.33% based on its closing price of NGN1.50 on the 29th of July. We rate the ticker **"BUY"**.

Company	NEIMETH
Valuation	
Trailing EPS	0.22
BVPS	3.26
P/E	6.96
P/BV	0.46
Target PE	5.0x
Dec-2020 Exp. EPS	NGN0.29
Dec 2020 Target price	NGN1.45
Current Price	NGN1.50
Up/Downside Potential	-3.33%
Ratings	HOLD
Key metrics	
ROE	20.94%
ROA	5.32%
Net margin	11.85%
Asset Turnover	0.47x
Leverage	4.75x
Yr Hi	2.57
Yr Lo	0.40
YTD return	141.94%
Beta	0.81
Adjusted Beta	0.87
Shares outstanding	1.90bn
Market cap [NGN]	2.85bn
Financial year end	September
Most Recent Period (MRP)	9M:2020

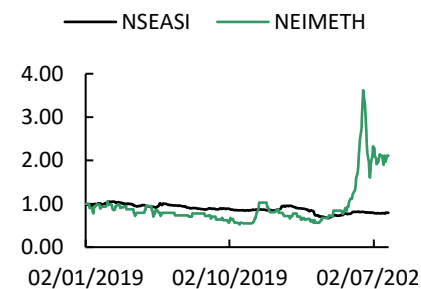


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.18	
						Max	1.76	
		EPS						
		0.26	0.28	0.29	0.30	0.32		
Target PE	4.51	1.18	1.24	1.31	1.37	1.44		
	4.75	1.24	1.31	1.38	1.45	1.52		
	5.00	1.31	1.38	1.45	1.52	1.60		
	5.25	1.37	1.45	1.52	1.60	1.68		
	5.51	1.44	1.52	1.60	1.68	1.76		

Financial Highlights (NGN billion) NEIMETH Financial result

<i>Profit & Loss Account</i>	9M:2020	9M:2019	y/y Growth
Revenue	2.01	1.41	42.21%
Cost of Sales	0.98	0.76	18.84%
Gross Profit	1.10	0.65	69.87%
Other Income	0.02	0.00	653.26%
Operating Expense	0.67	0.52	29.24%
Finance Cost	0.17	0.09	96.26%
PBT	0.24	0.03	664.77%
PAT	0.24	0.03	664.77%
<i>Balance Sheet</i>	9M:2020	FY: 2019	
Inventories	0.89	0.77	15.73%
Trade and other Receivables	1.33	0.91	47.09%
Cash and bank	2.58	0.12	2020.47%
Property, Plant and Equipment	1.18	0.76	55.65%
Other Assets	0.20	0.19	0.33%
Total Assets	6.18	2.75	124.43%
Shareholders' fund	1.30	1.07	21.25%
Trade and Other Payables	0.49	0.49	4.21%
Tax Liabilities	0.14	0.19	-23.03%
Total Liabilities	4.88	1.68	190.17%

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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
03-Aug-2020	1.50	0.76	1.45	BUY	HOLD

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Company	Disclosure
Neimeth International Pharmaceutical Plc.	

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