

Pandemic Boosts Drug Maker's Fortune

Improved Demand Bolsters Topline Performance

Fidson Healthcare Plc. turned a corner in 2020FY after a revenue contraction experienced in 2019FY on the back of an upward repricing of its products. The firm's 2020FY performance was largely influenced by the surge in the demand for pharmaceutical products during the heat of the COVID-19 global pandemic. This performance also reflected consumers' willingness to prioritize health over higher prices as the pandemic raged on. The third quarter of the year had the most impact on revenue, as a 75.32%YoY increase was recorded in Q3 standalone- the highest revenue growth in a single quarter since 2017. **On a cumulative note, topline grew by 29.97% to NGN18.28bn (vs. NGN14.06bn in 2019FY). Both business segments contributed to the uptick in top-line: Ethical business (+35.70%) and Over-the-Counter (+22.75%). We expect the demand for pharmaceutical products to remain heightened on the back of the increase in health consciousness of the populace and the essential nature of the firm's products. On this note, we have modelled a top-line growth of 20.74% to NGN22.07bn in 2021FY.**

Operating Margins Survive Higher Cost Pressures

Against the backdrop of an increase in sales volume, direct costs increased by 19.85% driving production cost up by 18.42% to NGN9.69bn. Major increases in cost components across the firm's business segments- Ethical (+26.25%) and OTC (+11.74%), influenced the surge in overall cost levels. Notwithstanding, Cost-to-sales reduced slightly to 53.05% in 2020FY (vs.58.22% in 2019FY) supported by the elevated topline position. Gross profit thereafter increased by 46.05% after two consecutive years of decline in 2018 and 2019. Operating margins also increased slightly settling at 16.95% from 16.02% in 2019FY.

Cheaper Debt Supports Bottom-line

The firm's strategy of obtaining cheap financing has begun to yield positive results. While the firm's debt profile increased by 69.03% to NGN10.67bn in 2020FY, finance cost declined by 23.12% to NGN1.33bn, reflecting the impact of cheaper debt on its financial performance. Interest coverage ratio inched higher to 2.32x from 1.30x on the back of improved operating profit and lower finance cost. Overall, bottom line surged by a whopping 195.94% to NGN1.21bn, resulting in an expansion in the firm's profitability ratios- ROE:11.95% (vs. 4.04%); ROA: 5.06% (vs.1.71%) and Net margin: 6.59% (vs. 2.90%) respectively. The company generated higher cash from its operations (NGN3.20 bn vs - NGN107.45mn in 2019FY) compared to its earnings during the year (NGN1.18bn vs NGN407mn), implying an improvement in earnings quality. Current and cash ratio also improved slightly to 1.36x and 0.34x from 1.17x and 0.05x in 2019FY.

We expect our revenue projection to translate into improved earnings in 2021FY as Management continues its cost efficient and cheaper debt initiatives. PAT is also expected to be further supported by the income from contract manufacturing with GLAXOSMITH which is meant to commence in Q3:2021.

Recommendation

We have forecasted a 2021FY EPS of NGN0.80 and a target PE of 7.5x. This yields a price target of NGN6.00, implying a 26.32% upside potential based on the closing price as of April 8th, 2021. Hence, we rate the ticker a **BUY**.

Company	FIDSON
Valuation	
EPS	0.58
BVPS	5.05
P/E	8.22x
P/BV	0.94x
Target PE	7.5x
Dec-2020 Exp. EPS	0.80
Dec 2020 Target price	6.00
Current Price	4.75
Up/Downside Potential	+26.32%
Ratings	BUY
Key metrics	
ROE	11.95%
ROA	5.06%
Net margin	6.59%
Asset Turnover	0.77
Leverage	2.58x
Share/Share Price Statistics	
Yr Hi	NGN6.15
Yr Lo	NGN4.41
YTD return	5.56%
Beta	0.99
Adjusted Beta	1.00
Shares outstanding	2.09bn
Market cap [NGN]	NGN9.91bn
Financial year end	December
Most Recent Period (MRP)	2020FY

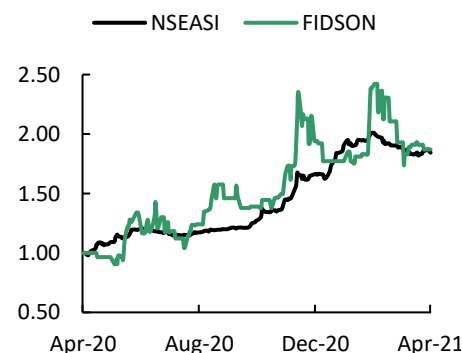


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	4.89	
						Max	7.29	
		EPS						
		0.72	0.76	0.80	0.84	0.88		
Target PE	6.8x	4.89	5.14	5.42	5.69	5.97		
	7.1x	5.14	5.42	5.70	5.99	6.28		
	7.5x	5.42	5.70	6.00	6.30	6.62		
	7.9x	5.69	5.99	6.30	6.62	6.95		
	8.3x	5.97	6.28	6.62	6.95	7.29		

Financial Highlights (NGN billion) FIDSON HEALTHCARE PLC 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	18.28	14.06	29.97%
Cost of sales	9.69	8.19	18.42%
Gross profit	8.58	5.88	46.05%
Other income	0.35	0.30	17.90%
Operating expense	5.83	3.92	48.86%
Finance cost	1.33	1.74	-23.14%
PBT	1.77	0.58	207.96%
PAT	1.21	0.41	195.94%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Property, plant, and equipment	13.38	11.99	11.39%
Inventories	6.78	3.41	98.70%
Trade and other receivables	2.73	3.23	-16.31%
Cash and cash equivalents	3.21	0.30	954.67%
Other Assets	1.14	1.39	-18.02%
Total Assets	27.24	20.36	33.78%
Shareholders fund	10.54	9.62	9.55%
Trade and other Payables	2.18	1.40	55.65%
Tax liabilities	0.12	0.09	20.60%
Other liabilities	10.74	16.70	-36.68%

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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
08-Apr-2021	4.75	6.00	6.00	BUY	BUY

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FIDSON Healthcare Plc	

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