

Creating Value in Troubled Times

Pharmaceutical Division Anchors Topline Growth

MAYBAKER experienced a turning point in 2020FY, following two consecutive years of revenue contractions. Topline expanded in double digits, up by 16.21% YoY to NGN9.39bn, fueled by the 16.46% growth in revenue from the pharmaceutical division (NGN9.32bn from NGN8.00bn in 2019FY). An increase in health consciousness amongst the populace considering the COVID-19 pandemic, coupled with the associated rise in the demand for drugs and other pharmaceutical products, contributed to the positive performance recorded by the firm during the year. On the contrary, the pandemic-induced constraints on distribution chains suppressed revenue from the firm's beverage division- *Lily Water*. Revenue from this unit shrank by 9.64% to NGN69.74mn from NGN77.18mn in 2019FY. **Going forward, we expect the uptick in the firm's demand to be sustained and supported by the essential nature of the firm's products and the improving level of health consciousness amongst the populace. Waning consumer wallets and competitive pressures, however, pose a downside risk to our optimistic revenue projection (up by 14.50% to NGN10.75bn.**

Profitability Metrics Unfettered by Increased Cost Pressure

Production cost expanded by 8.38% to NGN5.61bn (vs. NGN5.17bn in 2019FY), particularly influenced by the increase in raw materials costs (+4.60%) and direct expenses (+63.63%). The double-digit revenue growth (+16.21%) provided support to margins, resulting in a decline in cost-to-sales ratio to 59.73% from 64.04% in the corresponding period last year. The cost-to-sales ratio is also significantly lower than its five-year average (64.73%), implying improved cost efficiency. On this note, gross margin widened to 40.27% from 35.96% in 2019FY whilst operating margin improved to 14.99% from 12.48% in 2019FY. There was a notable increase of 46.56% in finance cost to NGN228.80bn, influenced by additional debt facilities booked during the year. The firm's debt profile expanded to NGN4.15bn on the back of the NGN3.50bn intervention loan obtained to finance proposed capital projects and augment working capital. Interest coverage ratio dipped slightly to 6.15x from 6.46x in 2019FY, a result of the increase in finance cost. Overall, profit for the year improved by 34.69% in 2020FY to NGN964.56mn, implying a higher net margin of 10.27% from 8.86% in 2019FY. In the absence of a significant disruption to supply chains, we expect costs to hover around current levels inching up slightly in response to inflation, to result in a cost-to-sales ratio of 58% and a net margin of 8.75% in 2021FY.

Capital Restructuring improves Liquidity position

The NGN3.50bn intervention loan obtained from the CBN in 2020 is divided into a NGN1.00bn with a tenor of 5 years (moratorium period of 6 months) and a NGN2.5bn with a tenor of 10 years (moratorium period of 1 year). This debt injection also improved the company's liquidity position with quick and cash ratios improving to 1.77x and 1.04x from 1.09x and 0.23x in 2019FY.

Recommendation

We project a 2021FY expected EPS of NGN0.55 and a target PE of 7.50x. This yields a price target of NGN4.09, and an implied 2.66% downside potential based on the closing price on April 6th2021. Hence, we rate the ticker a HOLD.

Company	MAYBAKER
Valuation	
EPS	0.56
BVPS	3.91
P/E	7.5x
P/BV	1.1x
Target PE	7.5x
Dec-2020 Exp. EPS	0.55
Dec 2020 Target price	4.09
Current Price	4.20
Up/Downside Potential	-2.66%
Ratings	HOLD
Key metrics	
ROE	14.90%
ROA	8.09%
Net margin	10.27%
Asset Turnover	0.79
Leverage	2.13x
Share/Share Price Statistics	
Yr Hi	NGN5.02
Yr Lo	NGN3.21
YTD return	11.11%
Beta	0.71
Adjusted Beta	0.81
Shares outstanding	1.73bn
Market cap [NGN]	NGN6.90bn
Financial year end	December
Most Recent Period (MRP)	2020FY

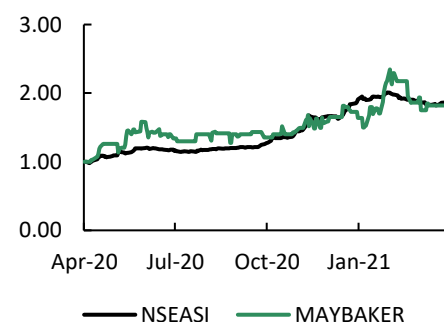


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	3.33	
						Max	4.97	
		EPS						
		0.49	0.52	0.55	0.57	0.60		
Target PE	6.8x	3.33	3.51	3.69	3.87	4.07		
	7.1x	3.51	3.69	3.88	4.08	4.28		
	7.5x	3.69	3.88	4.09	4.29	4.51		
	7.9x	3.87	4.08	4.29	4.51	4.73		
	8.3x	4.07	4.28	4.51	4.73	4.97		

Financial Highlights (NGN billion) MAY AND BAKER NIGERIA PLC 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	9.39	8.08	16.21%
Cost of sales	5.61	5.17	8.38%
Gross profit	3.78	2.91	30.16%
Other income	0.05	0.08	-46.17%
Operating expense	2.42	1.98	21.26%
Finance cost	0.23	0.16	46.56%
PBT	1.25	0.90	38.61%
PAT	0.96	0.72	34.69%
<i>Balance Sheet</i>	2020FY	2019FY	
Property, plant and equipment	3.94	4.17	-5.44%
Inventories	2.44	1.59	53.33%
Trade and other receivables	1.37	1.61	-15.91%
Cash and cash equivalents	3.97	0.53	648.51%
Other Assets	2.64	1.60	65.24%
Total Assets	14.35	9.49	51.18%
Shareholders fund	6.74	6.21	8.59%
Trade and other Payables	1.34	1.41	-4.85%
Tax liabilities	0.48	0.14	239.31%
Other liabilities	7.15	3.28	117.67%

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Company Name: May and Baker Nigeria Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-Apr-21	4.20	4.79	4.09	BUY	HOLD

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Company	Disclosure
May and Baker Nigeria Plc.	

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