

FIDSON Maintains Positive Outlook

Growth across all Business Segments

FIDSON Healthcare Plc (**FIDSON**) surpassed its growth milestones in Q1:2021. Both business segments (Ethical and Over-the-Counter) reported strong performance in the review period propelled by a slight element of price increase and significant volume growth. Revenue from sales of prescription medicines (Ethical Business unit) grew by 81.15% to NGN3.96bn while Over the Counter (OTC) drug sales improved by 50.84% to NGN2.36bn. Overall, the firm's Q1:2021 topline expanded by 68.48% to NGN6.32bn (vs NGN3.75bn in Q1: 2020). **Our top-line outlook for the near to mid-term is largely positive. The improved health consciousness of consumers stimulated by the pandemic is expected to continue driving demand and ultimately topline performance. Against this backdrop, we have revised our 2021FY revenue forecast to NGN23.40bn implying a revenue growth of 28.01%.**

Earnings Shun Cost Pressures

Direct costs edged higher by 71.70% to NGN3.48bn (vs. NGN2.03bn in Q1:2020). Upsurge in the cost of the firm's Ethical business (+105.94%), OTC segment (+42.12%), energy cost (+87.33%), Personnel cost (+43.44%) and factory overheads (+127.70%) influenced the increase in direct costs. Cost-to-sales ratio, thereafter, increased slightly to 55.03% (vs.54.00% in Q1: 2020) resulting in a lower gross margin of 44.97% from 46.00% in the corresponding period. Similarly, operating expenses shot higher during the quarter – up by 45.36% to NGN1.17bn on the back of an increase in advertisement and logistics costs. Notwithstanding, operating margin increased to settle at 18.56% from 14.79% in Q1:2020. This, alongside the 2.36% reduction in finance cost, gave rise to a significant boost in the bottom-line. Profit after tax advanced by 281.39% to NGN579.55mn. Profitability margins also increased significantly with Net margin, annualized ROE and ROA inching higher to 9.17%, 15.08% and 5.57% (from 4.05%, 10.61% and 2.05% respectively).

Imminent Capacity Expansion to Facilitate Debt Capital Raise

The firm's working capital position saw a significant uptick in Q1: 2021 on the back of the NGN4.50bn commercial paper issued during the period. Following this, liquidity position improved markedly as the current and quick ratio increased to 1.44x and 0.77x (vs. 1.36x and 0.65x) respectively. The firm's manufacturing contract with **GLAXOSMITH** is scheduled to commence in Q3:2021. We would expect the firm to approach the capital market to raise funds for capital expansion to meet its production requirements. While this might potentially increase finance cost, we expect the relatively-low yield environment to be beneficial in minimizing its impact.

Recommendation

We forecast a 2021FY EPS of NGN1.02 and a target PE of 7.0x. This yields a price target of NGN7.14, implying a 35.23% upside potential based on the closing price as of May 20th, 2021. Hence, we rate the ticker a **BUY**.

Company	FIDSON
Valuation	
Trailing EPS	0.78
BVPS	5.33
P/E	6.75x
P/BV	0.99x
Target PE	7.00x
Dec-2021 Exp. EPS	1.02
Dec 2021 Target price	7.14
Current Price	5.28
Up/Downside Potential	+35.23%
Ratings	BUY
Key metrics	
Trailing ROE	15.08%
ROA	5.57%
Net margin	9.17%
Asset Turnover	0.22
Leverage	2.71x
Share/Share Price Statistics	
Yr Hi	NGN6.15
Yr Lo	NGN4.28
YTD return	+17.33%
Beta	1.02
Adjusted Beta	1.01
Shares outstanding	2.09bn
Market cap [NGN]	NGN11.02bn
Financial year end	December
Most Recent Period (MRP)	Q1: 2021

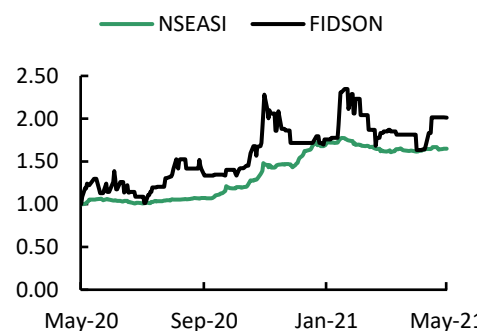


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	6.14
EPS						Max	8.24
		0.94	0.98	1.02	1.06	1.10	
Target PE	6.5x	6.14	6.38	6.63	6.88	7.14	
	6.8x	6.37	6.62	6.89	7.15	7.42	
	7.0x	6.61	6.87	7.14	7.41	7.69	
	7.3x	6.84	7.11	7.40	7.68	7.97	
	7.5x	7.08	7.36	7.65	7.94	8.24	

Financial Highlights (NGN billion) FIDSON HEALTHCARE PLC Q1:2021

<i>Profit & Loss Account</i>	Q1:2020	Q1: 2020	y/y Growth
Revenue	6.32	3.75	68.48%
Cost of sales	3.48	2.03	71.70%
Gross profit	2.84	1.73	64.70%
Other income	0.11	0.05	107.74%
Operating expense	1.78	1.22	45.36%
Finance cost	0.32	0.33	-2.36%
PBT	0.85	0.22	281.39%
PAT	0.58	0.15	281.39%
<i>Balance Sheet</i>	Q1:2021	2020FY	y/y Growth
Property, plant, and equipment	13.23	13.39	0.34%
Inventories	7.98	6.78	17.73%
Trade and other receivables	2.95	2.73	8.07%
Cash and cash equivalents	3.31	3.21	3.41%
Other Assets	3.71	1.14	225.96%
Total Assets	31.39	27.24	15.22%
Shareholders fund	11.12	10.54	5.50%
Trade and other Payables	2.83	2.18	30.06%
Tax liabilities	0.39	0.12	226.48%
Other liabilities	20.27	16.70	21.36%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 446 3118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.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

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
emekaikpechukwu@meristemng.com (+234 803 791 5731)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

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.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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
21-May-2021	5.28	6.00	7.14	BUY	BUY

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
FIDSON Healthcare Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2021 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.