

## FIDSON Hits a Home Run

### Yet Another Outstanding Quarter

Through the heat of the pandemic in 2020, FIDSON's revenue maintained a robust growth trajectory- a reflection of the essential nature of the firm's products. So far, in 2021, the firm has recorded even stronger performances across major line items. In the first-half, revenue from both business units- **Ethical** and **Over-the-counter (OTC)**- expanded year on year against the backdrop of improved sales volume and increased price on select products.

The Ethical unit registered a top-line growth of 72.41% YoY to NGN8.10bn from NGN4.70bn in H1:2020. The sales from OTC products also leaped by 36.74% YoY to NGN4.79bn during the half-year period. An assessment of the firm's quarterly performance reveals a 47.64% revenue growth in the second quarter to NGN6.57bn in Q2:2021 (a significant milestone for the firm) from NGN4.45bn in Q2:2020.

Cumulatively, FIDSON's H1:2021 revenue improved by 57.17% to NGN12.90bn from NGN8.20bn in H1:2020. The second wave of the pandemic in the domestic scene, the spread of highly contagious variants, and the increased level of health consciousness continue to drive demand for healthcare and pharmaceutical products. Hinged on these factors, we see room for further improvement in revenue in the second half of the year. **We note the increased investment in capacity expansion (CAPEX ratio increased to 5.05% from 2.52% in H1:2020)- signaling the commencement of the firm's manufacturing contract with GLAXOSMITH and its organic expansion strategy to capture a larger share of the market. Premised on these factors, we expect FIDSON to deliver stronger revenues across business segments in 2021FY. We project a top-line growth of 42.61% to NGN26.06bn in 2021FY.**

### Topline Expansion Pass-through to Operating Margins

During the period, the cost-to-sales ratio tempered slightly, improving to 53.97% from 56.49% in H1:2020 as the growth in revenue outpaced the upsurge in production costs (+50.17%). Operating Expenses surged by 78.28% YoY, particularly influenced by the 119.83% increase in impairment loss and sales expenses. Despite this, operating profit expanded, by 36.21%, implying an operating margin of 17.99% from 17.33% in H1:2020. We see costs remaining elevated for the rest of the year, particularly due to foreign exchange volatility and supply chain disruptions. Direct costs are also expected to reflect the additional costs incurred due to the production contract with GSK. Hence, we project a **50.95% increase in direct cost in 2021FY, implying a cost- to-sales ratio of 53.69% from 50.31% in 2020FY.**

### Profitability Metrics Improve Markedly

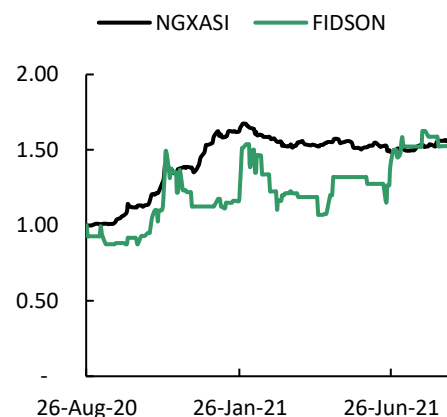
Finance cost declined by 11.70% during the period due to the reduction in interest-bearing liabilities (-33.33% to NGN7.12bn), its new single-digit NGN1.50bn NEXIM debt (9%), and the relatively cheap costs of existing debt. Debt ratios improved - interest coverage ratio expanded to 3.80x from 2.06x; Debt to Asset and Debt to EBIT both declined to 0.22x and 1.67x (from 0.39x and 5.26x in 2020FY). We do not rule out the possibility of additional debt raise during the year to fund the needed capacity expansion.

**Overall, Profit before tax and Profit after tax improved by 137.17% to NGN1.75bn and NGN1.19bn, respectively. Shareholders' return (Trailing-ROE) improved markedly to 17.01% vs. 6.27% in H1:2020 owing to the increase in net margin (9.23% vs. 6.10% in H1:2020), asset turnover (0.78x vs. 0.63x) and financial leverage (2.65x vs 2.36x). For the rest of the year, we expect bottom-line to sustain the growth momentum, expanding to NGN2.48bn based on our optimistic projection for top-line.**

### Recommendation

We project a 2021FY Target price of NGN7.74 based on our EPS forecast of NGN1.19 and target P/E ratio of 6.5x. This represents a 26.80% upside based on the closing price on the 26<sup>th</sup> of August 2021. Hence we rate the ticket "**BUY**".

TICKER	FIDSON
<b>Valuation (Trailing)</b>	
EPS	0.91
BVPS	5.62
P/E	6.72x
P/BV	1.09x
Target PE	6.5x
Dec-2021 Exp. EPS	1.19
Dec 2021 Target price (NGN)	<b>7.74</b>
Current Price (NGN)	6.10
Up/Downside Potential	<b>+26.80%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	17.01%
ROA	6.41%
Net margin	9.23%
Asset Turnover	0.78
Leverage	2.65
<b>Share Price Data</b>	
Year High	6.50
Year Low	4.28
YTD return	+35.56%
Beta	0.97
Adjusted Beta	0.95
Shares outstanding	2.09bn
Market cap [NGN]	12.73bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	6.61	
						Max	8.98	
		EPS						
		1.10	1.14	1.19	1.24	1.28		
Target PE	6.0x	6.61	6.87	7.14	7.41	7.69		
	6.3x	6.88	7.15	7.44	7.72	8.01		
	6.5x	7.16	7.44	<b>7.74</b>	8.03	8.33		
	6.8x	7.43	7.73	8.03	8.34	8.65		
	7.0x	7.71	8.01	8.33	8.65	8.98		

**Financial Highlights and Forecasts (NGN billion)**

<b>Profit &amp; Loss Account</b>	<b>H1:2020</b>	<b>H1:2021</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Revenue	8.20	12.90	23.84	27.72	33.58	39.97	45.94
Cost of sales	-4.63	-6.96	-11.26	-13.02	-16.13	-18.85	-21.54
Gross profit	3.57	5.94	12.57	14.70	17.45	21.12	24.40
Other income	0.14	0.46	0.60	0.49	0.66	0.82	0.94
Operating expense	2.29	4.08	-8.58	-9.47	-11.12	-13.30	-15.48
Operating profit	1.42	2.32	4.59	5.72	6.99	8.63	9.85
Finance cost	-0.69	-0.61	-1.22	-0.76	-0.44	-0.33	-0.30
PBT	0.74	1.75	3.42	5.02	6.62	8.39	9.64
PAT	0.66	1.48	2.33	3.42	4.50	5.71	6.55
<b>Balance Sheet</b>	<b>2020FY</b>	<b>H1:2021</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Property, Plant and Equipment	13.95	13.39	13.87	14.43	15.26	16.31	17.64
Total Debt	7.12	10.69	12.06	6.31	4.59	3.02	3.00
<b>Total Assets</b>	<b>27.24</b>	<b>31.84</b>	<b>30.78</b>	<b>29.95</b>	<b>34.43</b>	<b>34.83</b>	<b>39.53</b>
<b>Total Equity</b>	<b>10.54</b>	<b>11.54.73</b>	<b>12.29</b>	<b>14.97</b>	<b>18.54</b>	<b>23.30</b>	<b>28.60</b>
<b>Total Current Liabilities</b>	<b>955.</b>	<b>11.71</b>	<b>11.93</b>	<b>8.50</b>	<b>8.70</b>	<b>9.05</b>	<b>10.04</b>
<b>Non-Current Liabilities</b>	<b>8.40</b>	<b>7.15</b>	<b>7.07</b>	<b>6.56</b>	<b>7.31</b>	<b>9.27</b>	<b>13.23</b>
<b>Total Liabilities</b>	<b>20.11</b>	<b>16.70</b>	<b>19.00</b>	<b>15.07</b>	<b>16.02</b>	<b>18.32</b>	<b>23.27</b>
<b>Financial Ratios</b>	<b>2020FY</b>	<b>H1:2021</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Gross Margin	52.75%	53.03%	51.96%	52.83%	53.11%	52.75%	53.03%
Operating Margin	19.27%	20.64%	20.81%	21.59%	21.45%	19.27%	20.64%
Net Margin	9.76%	12.32%	13.41%	14.27%	14.27%	9.76%	12.32%
Return on Asset	7.56%	11.25%	13.99%	16.48%	17.63%	7.56%	11.25%
Return on Equity	18.94%	25.06%	26.88%	27.27%	25.25%	18.94%	25.06%
Return on Invested Capital	8.40%	13.47%	14.63%	18.74%	20.04%	22.40%	22.22%
Asset Turnover	0.77	0.91	1.04	1.15	1.24	1.15	1.24
Financial Leverage	2.51	2.23	1.92	1.66	1.43	2.51	2.23
Current Ratio	1.36	1.75	2.14	1.99	2.14	1.36	1.75
Quick Ratio	0.79	1.05	1.24	0.92	0.99	0.79	1.05

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### 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.

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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.

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**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.

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## Movements in Price Target

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**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
26-Aug-2021	6.10	7.14	7.74	BUY	BUY

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Company	Disclosure
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