

2022FY Off to a Rocky Start

NEIMETH Records Lowest Revenue in 20 Quarters

In its first-quarter scorecard (FY ends in September), **NEIMETH's** topline performance was unimpressive as it declined by 51.31% YoY to NGN192.11mn (from NGN394.56mn in Q1:2021). This topline performance rested solely on its pharmaceutical segment in the quarter as the animal health segment recorded zero revenue. **Although the management has made no divestment announcement concerning the animal health segment, we note that no revenue has been recorded from the segment since Q3:2021 (April- June 2021).** Given the firm's impressive performance in its 2020 and 2021 financial periods, the turnout in Q1:2022 was significantly less than expected. The decline in revenue from the pharmaceutical unit is reflective of the intense competition in the industry. **The performance in Q1:2022 and absence of revenue from the animal health segment dampens our FY revenue expectations. However, the firm typically records higher revenue in the second half of the year. Therefore, anticipate a moderate topline decline of -1.80% to NGN3.01bn in 2022FY.**

Cost to Sales Significantly Above Historical Levels

The firm's production costs declined by 39.90%YoY to NGN178.23mn, closely mirroring the decline in revenue in the quarter. However, cost to sales increased significantly to 92.77%, more than double its six-year average of 43.37%, and higher than its Q1:2021 level of 75.17%. The reduction in total production expenses was mainly anchored by lower material (-78.78%) as it made up the lion share (c.45%). This also signaled a reduction in procurement of raw materials for production. Operating expenses were however up by 25.77% widening the operating losses by 106.88% to **NGN295.84mn** (from **NGN143.14mn**). Operating loss margin thereafter widened significantly to **-153.99%** in Q1:2022 (vs **-36.28%** in Q1:2021). We anticipate a moderate decline in production costs during the year premised on our expectation of modest topline decrease.

Increase in Short-term Debt Impacts Liquidity Ratios

NEIMETH obtained the second tranche of its NGN2.4bn debt obligation from the Central Bank of Nigeria during the quarter (of NGN400.00MN) which is to be utilized in augmenting working capital. Despite this, its total debt obligations (both short- and long-term debt) reduced slightly by 2.43% due to repayment of previously existing debt obligations. Finance costs thereafter declined by 22.29% to NGN13.27mn. Liquidity ratios- Current and acid test ratio however slowed to 1.98x and 1.33 (from 2.53x and 1.77x in 2021FY) following the increase in the firm's short-term debt by 40.67% to NGN1.49bn (vs. NGN1.06bn in 2021FY).

Overall, the firm ended the quarter in a loss position which increased to **NGN309.11mn** (from **NGN178.80mn** in Q1:2021). While we expect 2022FY's earnings to turn around and end on a positive note (NGN240.35mn), we view the loss in Q1 as a significant downside which will result in lower net margin of 7.98% in 2022FY (vs. 11.04% recorded in 2021FY).

Recommendation

We revise our target price to NGN2.19 using a target Price to Book Value ratio of 2.55x and an expected book value of NGN0.86. This represents a 20.29% upside based on the closing price on the 2nd of March 2022. Hence, we rate the ticket "BUY".

| Company | NEIMETH |
|-----------------------------|-------------|
| Valuation (Trailing) | |
| Trailing EPS | 0.11 |
| BVPS | 0.58 |
| P/E | 16.8x |
| P/BV | 3.1x |
| Target P/BVPS | 2.55x |
| Dec-2022 Exp. BVPS | 0.86 |
| Dec 2022 Target price | 2.19 |
| Current Price | 1.82 |
| Up/Downside Potential | +20.29% |
| Ratings | BUY |
| Key metrics | |
| ROE | 16.37% |
| ROA | 3.29% |
| Net margin | -160.90% |
| Asset Turnover | 0.45 |
| Leverage | 4.97 |
| Yr Hi | 1.98 |
| Yr Lo | 1.76 |
| YTD return | +3.43% |
| Beta | 1.13 |
| Adjusted Beta | 1.08 |
| Shares outstanding | 1.90bn |
| Market cap [NGN] | 3.46bn |
| Financial year end | Sep |
| Most Recent Period (MRP) | Q1:2022 |

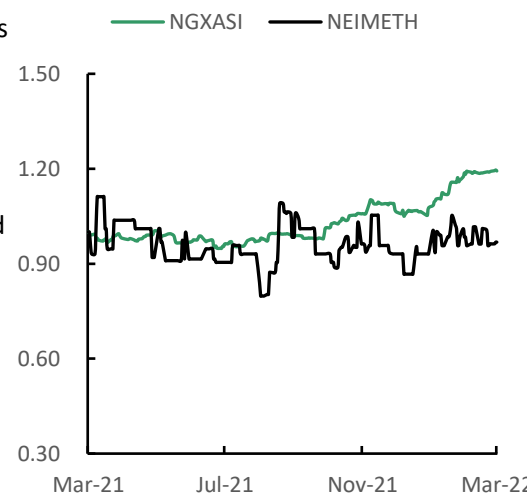


Chart 1: Sensitivity Analysis

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 1.63 | |
|---|------|------|------|-------------|------|------|------|--|
| | | | | | | Max | 2.82 | |
| | | B/V | | | | | | |
| | | 0.80 | 0.83 | 0.86 | 0.89 | 0.93 | | |
| Target P/BV | 2.0x | 1.63 | 1.69 | 1.76 | 1.83 | 1.90 | | |
| | 2.3x | 1.83 | 1.90 | 1.97 | 2.05 | 2.13 | | |
| | 2.5x | 2.03 | 2.11 | 2.19 | 2.27 | 2.36 | | |
| | 2.8x | 2.23 | 2.31 | 2.40 | 2.50 | 2.59 | | |
| | 3.0x | 2.42 | 2.52 | 2.62 | 2.72 | 2.82 | | |

Financial Highlights and Forecasts (NGN billion)

| Profit & Loss Account | Q1:2021A | Q1:2022A | 2022F | 2023F | 2024F | 2025F | 2026F |
|----------------------------------|-----------------|-----------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 0.39 | 0.19 | 3.01 | 3.30 | 3.68 | 4.18 | 4.82 |
| Cost of sales | 0.30 | 0.18 | 1.35 | 1.54 | 1.72 | 1.95 | 2.27 |
| Gross profit | 0.10 | 0.01 | 1.66 | 1.76 | 1.96 | 2.23 | 2.55 |
| Operating expense | 0.24 | 0.31 | 1.03 | 1.15 | 1.21 | 1.40 | 1.63 |
| Operating profit | -0.14 | -0.30 | 0.46 | 0.42 | 0.53 | 0.60 | 0.67 |
| Finance cost | -0.04 | -0.01 | 0.10 | 0.11 | 0.11 | 0.03 | (0.07) |
| PBT | -0.18 | -0.31 | 0.35 | 0.31 | 0.42 | 0.57 | 0.60 |
| PAT | -0.18 | -0.31 | 0.24 | 0.21 | 0.29 | 0.39 | 0.41 |
| Balance Sheet | 2021AA | Q1:2022A | 2022F | 2023F | 2024F | 2025F | 2026F |
| Property, Plant and Equipment | 1.41 | 1.45 | 1.55 | 1.72 | 1.94 | 2.11 | 2.28 |
| Total Debt | 3.81 | 4.20 | 3.49 | 2.13 | 1.59 | 0.46 | (1.06) |
| Total Assets | 6.33 | 6.25 | 5.97 | 4.75 | 4.48 | 3.76 | 2.31 |
| Total Equity | 1.41 | 1.10 | 1.59 | 1.66 | 1.79 | 2.02 | 2.25 |
| Total Current Liabilities | 1.93 | 2.41 | 1.80 | 1.65 | 1.50 | 1.38 | 2.10 |
| Non-Current Liabilities | 2.92 | 2.74 | 2.58 | 1.44 | 1.19 | 0.36 | 0.77 |
| Total Liabilities | 4.85 | 5.15 | 4.39 | 3.09 | 2.69 | 1.74 | 2.87 |
| Financial Ratios | 2020A | H1:2021A | 2021F | 2022F | 2023F | 2024F | 2025F |
| Gross Margin | 24.83% | 7.23% | 55.20% | 53.37% | 53.32% | 53.36% | 52.96% |
| Operating Margin | -36.28% | -153.99% | 15.20% | 12.60% | 14.53% | 14.43% | 13.94% |
| Net Margin | -45.32% | -160.90% | 7.98% | 6.37% | 7.79% | 9.29% | 8.48% |
| Return on Asset | -2.81% | -4.93% | 4.02% | 3.92% | 6.21% | 9.42% | 13.48% |
| Return on Equity | -13.30% | -24.54% | 15.14% | 12.97% | 16.65% | 20.39% | 19.15% |
| Asset Turnover | 1.08 | 0.45 | 0.50 | 0.62 | 0.80 | 1.01 | 1.59 |
| Financial Leverage | 4.73 | 4.97 | 3.76 | 3.31 | 2.68 | 2.16 | 1.42 |
| Current Ratio | 2.50 | 1.98 | 2.43 | 1.81 | 1.67 | 1.17 | 1.17 |
| Quick Ratio | 1.74 | 1.33 | 1.81 | 1.10 | 0.76 | 0.00 | (0.89) |

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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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 |
|-------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 03-Mar-2021 | 1.82 | - | 2.19 | - | BUY |

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