

## Extended Distribution Channels Underscore Positive Performance

### All Segments Record Topline Expansion

Following the impressive performances recorded across board in 2020FY, players in the healthcare sector have continue to deliver significant topline growth driven by increased health consciousness of the populace which was induced by the coronavirus pandemic outbreak. **FIDSON** recorded even stronger performances across all its major business lines in 2021FY, attributable to the improved volume sales volumes and product price increments. The firm also introduced two new products in its Ethical segment during the period – Gibitor and Cresidox – targeted at patients dealing with terminal health issues. The Ethical unit (c.65% of total revenue) remained the main anchor of topline performance in the period as it expanded by 88.42%YoY to NGN20.11bn (from NGN10.67bn in 2020FY). Sales from the Over The Counter (OTC) segment also registered a topline growth of 39.86%YoY to NGN10.63bn. The firm recorded revenue to the tune of NGN117.37mn from its consumer healthcare segment due to the commencement of its manufacturing contract with **GLAXOSMITH**. An assessment of quarterly performance revealed that **FIDSON** recorded the most topline expansion in the fourth quarter (+96.79%YoY to NGN9.11bn vs. NGN4.63bn in Q4:2020). Cumulatively, **FIDSON**'s total revenue increased by 68.86%YoY to NGN30.86bn (vs. NGN18.28bn in 2020FY). **We see room for further volume expansion given the firm's Memorandum of understanding with Ekiti State government to supply affordable drugs as well as its production contract with International Finance Corporation to enhance increased production of Active Pharmaceutical Ingredient. The essential nature of its products, robust product portfolio and strong distribution network across the country should also result in significant topline expansion in 2022FY. Based on the aforementioned factors, we project a topline expansion of 29.72% to NGN40.03bn**

### Profitability Margins Undeterred by Rising Cost

During the period, cost to sales ratio improved slightly to 51.06% (from 53.05% in 2020FY) as the increase in revenue outpaced the growth in production costs (+62.54%YoY). Operating expenses also surged (+68.63%YoY) as the firm recorded higher exchange rate losses (+636.27%YoY), distribution expenses (+62.95%YoY) and personnel costs (+26.43%YoY). Operating margins however remained resilient expanding to 19.00% (vs. 16.95% in 2020). **We expect FIDSON's direct cost and operating expenses to expand in 2022FY given the high inflation rate and volatility of foreign exchange rate. In addition, manufacturing expenses of GLAXOSMITH products and an increase in production of SKU will further mount pressure on operating expenses.** Finance cost declined by 8.37%YoY to NGN1.22bn (from NGN1.33bn in 2020FY) due to lower short term debt obligations (-66.85%YoY) in the period. The firm, however, took on more long-term debt – **NGN1.50bn NEXIM loan and NGN2.00bn Bank of Industry loan** – to augment capital expenditure and working capital. The fresh debt which came at a relatively lower cost (9% and 11% vs. 15% and 24% on some previously existing debt), reflected the firm's strategy of obtaining cheaper debt. Interest coverage thereafter expanded to 4.80x (from 2.32x in 2020FY) given the improvement in operating profit. Profit after tax for the period increased significantly by 208.70%YoY to NGN3.72bn (vs. NGN1.21bn in 2020FY) while net margin, ROE and ROA improved to 12.05%, 30.63% and 12.33% (from 6.59%, 11.95% and 5.06% in 2020FY), respectively. **For 2022FY, we expect bottom-line to sustain the growth momentum, expanding to NGN4.30bn (+15.67%) based on our optimistic projection for top-line.**

### Working Capital Management Improves Liquidity Position

FIDSON ended the year with a higher working capital balance of NGN11.08bn (vs NGN7.63bn in 2020FY) as inventories (+64.50%), prepayment (+369.04%) and trade receivables (+9.10) trended higher. Although current liabilities also increased (+13.77%), the significant decline in short term liabilities (-66.85%) led current ratio higher to 1.59x (from 1.36x in 2020FY). We also note the improvement in its negative net operating accrual to **NGN3.43bn** (vs. **NGN1.68bn** in 2020), indicating a strong earnings quality position.

### Recommendation

We project a 2022FY expected EPS of NGN2.06 and a target PE of 5.03x to arrive at our NGN10.35 target price. This implies a potential 26.99% upside when compared to its closing price of NGN8.15 as of April 28th, 2022. We therefore recommend a **BUY**.

### Company

### FIDSON

### Valuation (Trailing)

EPS	NGN1.78
BVPS	NGN6.59
P/E	4.60x
P/BV	1.24x

Target PE	5.03x
Dec-2022 Exp. EPS	NGN2.06
Dec 2022 Target price	NGN10.35
Current Price	8.15

Up/Downside Potential	26.99%
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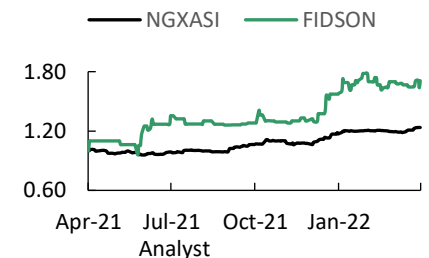
Ratings	<b>BUY</b>
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### Key metrics

ROE	30.63%
ROA	12.33%
Net margin	12.05%
Asset Turnover	1.02
Leverage	2.41

Yr Hi	8.55
Yr Lo	6.22
YTD return	1.32
Beta	1.46
Adjusted Beta	1.31

Proposed Dividend	NGN0.50
Shares outstanding	2.09bn
Market cap [NGN]	17.00bn
Financial year end	2021FY
Most Recent Period	December



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NGX: FIDSON | Bloomberg: FIDSON:NL | Reuters: FIDSON.LG

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	9.65
EPS						Max	11.07
	10.35	1.96	2.01	2.06	2.11	2.16	
Target PE	4.93x	9.65	9.90	10.15	10.39	10.64	
	4.98x	9.75	10.00	10.25	10.50	10.75	
	5.03x	9.85	10.10	10.35	10.60	10.85	
	5.08x	9.95	10.20	10.45	10.71	10.96	
	5.13x	10.05	10.30	10.56	10.81	11.07	

## Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	18.28	30.86	40.03	48.06	58.38	71.49	86.85
Cost of sales	9.20	15.10	21.39	25.79	30.47	36.97	45.15
Gross profit	9.08	15.76	18.64	22.26	27.91	34.52	41.69
Operating expense	5.52	9.69	10.97	11.84	12.78	13.60	14.65
Operating profit	3.10	5.86	7.60	10.40	15.15	21.02	27.23
Finance cost	1.33	1.22	1.33	1.49	1.42	1.34	1.16
PBT	1.77	4.72	6.33	8.98	13.80	19.78	26.19
PAT	1.21	3.72	4.30	6.10	9.38	13.44	17.79

Balance Sheet	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	13.39	14.89	16.10	17.76	19.76	21.97	24.55
Total Debt	10.69	8.41	9.82	10.63	10.29	9.66	8.36
Total Assets	27.24	33.11	34.02	38.66	45.64	53.19	60.69
Total Equity	10.54	13.75	17.14	21.31	28.27	37.99	50.61
Total Current Liabilities	9.55	10.97	11.60	12.64	14.33	17.97	17.90
Non-Current Liabilities	7.15	8.38	6.73	8.85	9.35	8.50	8.83
Total Liabilities	16.70	19.35	18.33	21.49	23.68	26.47	26.73

Financial Ratios	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	49.69%	51.06%	47.82%	46.58%	48.11%	48.65%	18.55%
Operating Margin	16.95%	18.97%	20.12%	20.77%	25.25%	28.63%	22.19%
Net Margin	6.59%	12.03%	10.53%	11.25%	15.12%	16.94%	18.55%
Return on Asset	5.06%	12.30%	11.75%	13.17%	18.04%	20.37%	22.19%
Return on Equity	11.95%	30.57%	25.65%	25.46%	32.25%	33.13%	33.06%
Asset Turnover	0.77	1.02	1.12	1.17	1.19	1.20	1.20
Financial Leverage	2.58	2.41	2.00	1.88	1.72	1.55	1.44
Current Ratio	1.36	1.59	1.64	1.80	2.03	2.22	2.44
Quick Ratio	0.65	0.58	0.81	0.90	0.84	0.95	1.10
Debt to equity	1.01	0.61	0.57	0.50	0.36	0.25	0.17
Debt to asset	0.39	0.25	0.29	0.28	0.23	0.18	0.14

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

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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

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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.

## Movements in Price Target

**Company Name:** FIDSON Healthcare Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-Mar-21	6.54	7.74	7.74	BUY	BUY
28-Apr-22	8.15	7.74	10.35	BUY	BUY

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Company	Disclosure
FIDSON Healthcare Plc.	

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