

MAYBAKER Sustains Growth Momentum

Highest Revenue in a Single Quarter

MAYBAKER ended 2021FY on a positive note as the firm's topline sustained the significant growth witnessed in 2020. Despite the intense competitive nature of the pharmaceutical market, the pharmaceutical segment remained the main anchor of revenue growth, expanding by 27.33%YoY to NGN11.87bn (vs. NGN9.32bn in 2020FY). The firm's performance was also supported substantially by volume growth and element of price increase on some pharmaceutical products. Revenue from the beverage division however declined for the second consecutive year (-51.98%) to NGN33.49mn (from NGN69.74mn in 2020FY). We also observed that Q4:2021 was the most promising for **MAYBAKER** as it recorded the highest revenue in a single quarter (NGN3.84bn). Cumulatively, topline in 2021FY expanded by 26.74%YoY to NGN11.90bn. **Going forward, while we view the rising inflationary environment as a risk to consumers' wallet, we expect the essential nature of the firm's product to sustain demand in 2022FY. Based on the aforementioned, we project a 15.46% expansion in revenue to NGN13.71bn.**

Cost Pressure Mutes Profitability Margins

MAYBAKER's production costs firmed up by 28.43% YoY in 2021FY, outpacing the growth in revenue and resulting in higher cost-to-sales ratio (60.52% from 59.73% in 2020FY). The spike in raw materials (36.57%) and labor expenses (7.82%), influenced this uptick in production costs. Similarly, operating expenses increased significantly by 24.52% to NGN3.04bn due to higher personnel (+37.21%), and distribution expenses (+159.30%). Hence, operating margin declined to 14.30% from 14.99% in 2020.

We note the increase in finance cost by 31.19% YoY to NGN207.30mn owing to higher short-term borrowings during the year. The firm's debt profile expanded to NGN6.54bn on the back of the NGN1.91bn import facility obtained to finance importation of major raw materials. Expectedly, interest coverage declined to 4.01x (from 6.15x in 2020FY). Overall, PBT and PAT expanded to NGN1.46nm (+16.99%) and NGN1.05bn (+8.28%), respectively while net margin and return on assets declined to 8.82% and 6.59% (from 10.27% and 8.09% in 2020FY), respectively. **Given the intense inflationary environment as well as exchange rate volatility in the domestic environment, we expect the cost pressure to persist in 2022. Consequently, we expect cost to sales ratio to hover around 61.83% while net margin should decline further to 8.43%.**

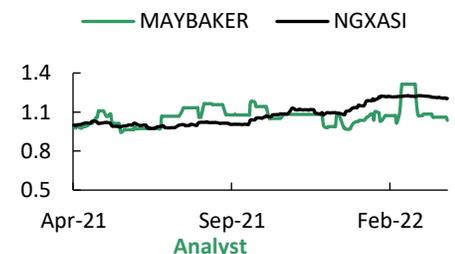
Short term Borrowings Impact Liquidity Position

We observed a decline in liquidity performance during the period as cash ratio, quick ratio and current ratio tapered to 0.47x, 0.67x, and 2.07x (from 1.04x, 1.40x, and 2.40x in 2020FY), respectively. This decline came on the heel of the higher short-term borrowings (+121.61%) during the period. **MAYBAKER's** earnings quality also dipped to **-2.20x** in 2021 (from 0.67x in 2020), while its net operating accruals worsened to NGN3.36bn (vs. NGN314.33mn in 2020) implying a weak earnings quality position.

Recommendation

We project a 2022FY expected EPS of NGN0.67 and a target PE of 7.50x. This yields a target price of NGN5.03 and an implied +14.20% upside potential based on the closing price on April 11th, 2022. Hence, we rate the ticker a **BUY**.

Company	MAYBAKER
Valuation	
EPS	NGN0.61
BVPS	NGN4.21
P/E	7.23x
P/BV	1.04x
Target PE	7.50x
Dec-2022 Exp. EPS	NGN0.67
Dec 2022 Target price	NGN5.03
Current Price	NGN4.40
Up/Downside Potential	14.20%
Ratings	BUY
Key metrics	
ROE	14.98%
ROA	6.51%
Net margin	8.82%
Asset Turnover	0.77x
Leverage	1.86
Yr Hi	5.45
Yr Lo	4.02
YTD return	6.51%
Beta	0.51
Adjusted Beta	0.67
Proposed Dividend	NGN0.30
Shares outstanding	1.73bn
Market cap [NGN]	7.59bn
Financial year end	December
Most Recent Period	2021 FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	4.34	
						Max	5.78	
		EPS						
		0.62	0.64	0.67	0.70	0.72		
Target PE	7.0x	4.34	4.51	4.69	4.87	5.05		
	7.3x	4.50	4.67	4.86	5.04	5.23		
	7.5x	4.65	4.83	5.03	5.22	5.41		
	7.8x	4.81	5.00	5.19	5.39	5.59		
	8.0x	4.96	5.16	5.36	5.56	5.78		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	9.39	11.90	13.74	15.52	17.73	20.15	22.95
Cost of sales	5.61	7.20	8.50	9.55	10.80	12.33	14.08
Gross profit	3.78	4.70	5.25	5.97	6.93	7.82	8.87
Operating expense	2.27	2.82	3.05	3.36	3.66	4.00	4.36
Operating profit	1.41	1.70	1.89	2.18	2.77	3.29	3.94
Finance cost	0.23	0.42	0.49	0.50	0.51	0.52	0.54
PBT	1.25	1.46	1.61	1.88	2.46	2.95	3.58
PAT	0.96	1.05	1.16	1.39	1.78	2.15	2.61
<i>Balance Sheet</i>							2026F
Property, Plant and Equipment	3.94	3.86	4.19	4.57	4.81	5.09	5.41
Total Debt	1.64	3.64	6.18	6.22	6.31	6.46	6.70
Total Assets	14.35	17.52	18.06	19.00	20.48	22.23	24.38
Total Equity	6.74	7.27	7.85	8.33	8.93	9.85	10.96
Total Current Liabilities	3.82	6.07	5.47	6.28	7.30	8.48	9.89
Non-Current Liabilities	3.79	4.28	4.73	4.39	4.24	3.90	3.53
Total Liabilities	7.61	10.35	10.20	10.67	11.54	12.37	13.42
<i>Financial Ratios</i>							
Gross Margin	40.27%	39.48%	38.17%	38.47%	39.10%	38.81%	38.64%
Operating Margin	14.99%	14.30%	13.75%	14.05%	15.65%	16.31%	17.16%
Net Margin	10.27%	8.82%	8.43%	8.93%	10.04%	10.65%	11.37%
Return on Asset	8.09%	6.59%	6.51%	7.48%	9.02%	10.05%	11.20%
Return on Equity	14.90%	14.98%	15.31%	17.14%	20.64%	22.85%	25.09%
Asset Turnover	0.79	0.75	0.77	0.84	0.90	0.94	0.98
Financial Leverage	1.44	1.86	2.01	2.02	2.07	2.15	2.24
Current Ratio	2.40	2.05	2.25	2.01	1.87	1.75	1.65
Quick Ratio	1.40	0.67	0.74	0.39	0.50	0.42	0.28
Debt to Equity	0.24	0.50	0.79	0.75	0.71	0.66	0.61
Debt to Asset	0.11	0.21	0.34	0.33	0.31	0.29	0.27

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

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Movements in Price Target

Company Name: May & 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
12-Apr-22	4.40	4.82	5.03	HOLD	BUY

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