

Cost Pressure Dents Earnings Performance

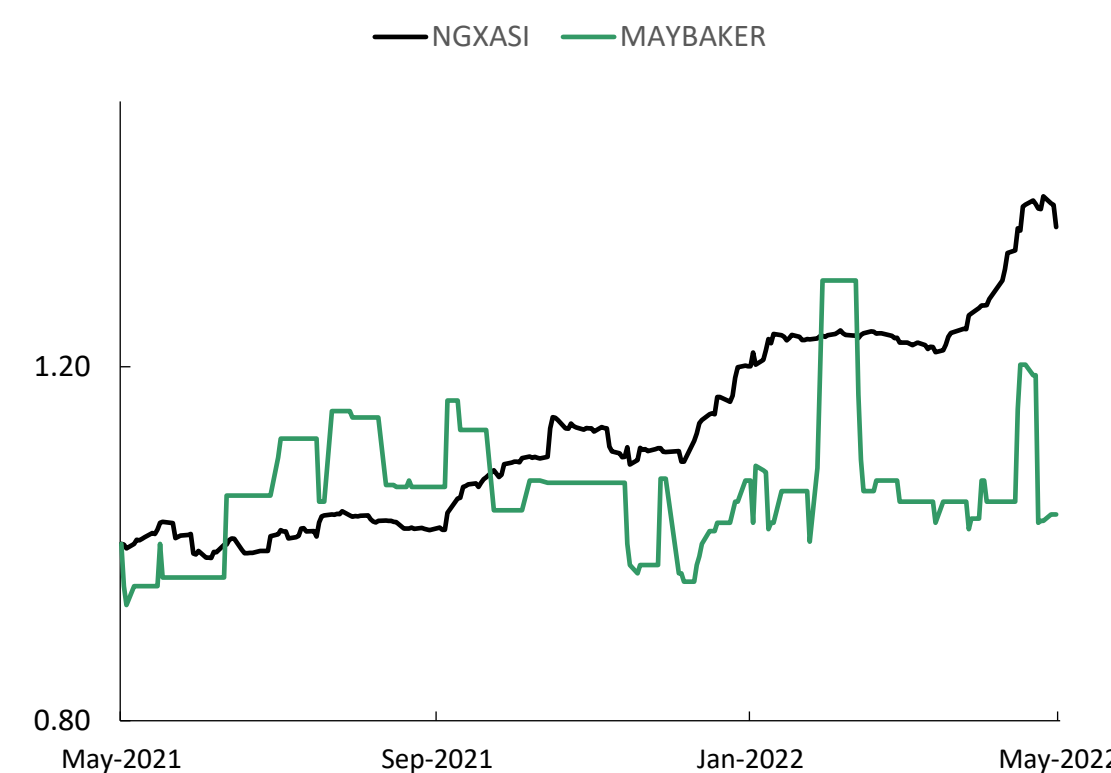
MAYBAKER delivered an impressive performance in Q1:2022, as topline grew by 23.54%YoY to NGN3.34bn, bolstered by increased sales in the Pharmaceutical segment (+23.37% YoY). The beverage segment also expanded (+324.59% YoY) for the first time in five (5) quarters.

Production cost increased significantly by 48.49% YoY to NGN2.31bn, outpacing revenue growth rate, and driving up cost to sales to 69.15% (vs. 57.53% in Q1:2021). In Q1:2022, the firm incurred higher operating expenses (10.01% YoY) owing to an increase in distribution cost (+6.52% YoY) and administrative cost (+17.39% YoY). Due to the increase in exchange gain (+127.21%YoY), operating income increased significantly by 170.46%YoY in the period. However, operating margin declined to 13.08% (vs 17.09%) due to lower operating profit (NGN357.03mn vs NGN418.98mn in Q1:2021). Overall, both profit before tax and profit after tax declined by 21.26% to NGN286.46mn and 194.79mn (vs. NGN363.78mn and NGN247.37mn in Q1:2021), respectively.

Positives: Quick ratio improved to 1.20x from 0.67x in 2021 FY.

Negative: Net margin, ROE and ROA declined to 5.43%, 13.35% and 5.60% from 10.94%, 14.98% and 6.57% in 2021 FY.

| Valuation | | Stock Highlights | |
|-----------------------|---------|--------------------|-----------|
| Trailing EPS | NGN0.58 | Yr Hi | NGN5.45 |
| BVPS | NGN4.33 | Yr Lo | NGN4.02 |
| P/E | 7.51x | YTD return | -5.27% |
| P/BV | 1.00X | Beta | 0.78 |
| Target PE | 7.50x | Adjusted Beta | 0.86 |
| Dec-2022 Exp. EPS | NGN0.67 | Dividend proposed | NGN0.30 |
| Dec 2022 Target price | NGN5.03 | Shares outstanding | 1.73bn |
| Current Price | NGN4.34 | Market cap [NGN] | NGN7.49bn |
| | | Financial year end | December |



| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 4.34 |
|---|------|------|------|------|------|------|------|
| Earnings Per Share | | | | | | Max | 5.78 |
| | | 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 | |

Recommendation: BUY TP: 5.03 CP: 4.34 UPP:15.90%

Financial Highlight (NGN'000)

| Profit and Loss Account | Q1:2022 | Q1:2021 | Y/Y Growth |
|-------------------------|-----------|-----------|------------|
| Revenue | 3,339,467 | 2,703,129 | 23.54% |
| Cost of sales | 2,309,095 | 1,486,727 | 48.49% |
| OPEX | 723,628 | 657,777 | 10.01% |
| Operating Profit | 357,034 | 418,979 | -14.78% |
| Finance Cost | 78,543 | 47,366 | 65.82% |
| PBT | 286,457 | 363,782 | -21.26% |
| PAT | 194,791 | 247,372 | -21.26% |

| Balance Sheet | Q1:2022 | 2021A | Y/Y Growth |
|-------------------------------|------------|------------|------------|
| Property, plant and equipment | 3,845,308 | 3,860,715 | -1.98% |
| Total Asset | 17,806,305 | 17,622,217 | 22.77% |
| Total Equity | 7,466,407 | 7,271,617 | 7.86% |
| Total Debt | 5,974,085 | 6,537,171 | 57.47% |
| Total Liabilities | 10,339,898 | 10,350,601 | 35.94% |

Key Metrics

| Profitability Ratio | 2022T | 2021A | 3-yr Hist. Avg |
|---------------------|--------|--------|----------------|
| ROA | 5.60% | 6.57% | 10.85% |
| ROE | 13.35% | 14.98% | 24.49% |
| Net Margin | 5.43% | 8.82% | 10.94% |

| Efficiency Ratio | 2022T | 2021A | 3-yr Hist. Avg |
|-----------------------|--------|--------|----------------|
| Asset Turnover | 0.61 | 0.75 | 0.99 |
| Cash Conversion Cycle | 190.77 | 128.97 | 106.87 |

| Liquidity Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-----------------|---------|-------|----------------|
| Current Ratio | 2.04 | 2.05 | 2.09 |
| Quick Ratio | 1.20 | 0.67 | 1.45 |
| Cash Ratio | 0.41 | 0.47 | 0.58 |

| Solvency Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-------------------|---------|-------|----------------|
| Interest Coverage | 8.84 | 4.01 | 5.54 |
| Debt to Equity | 0.80 | 0.50 | 0.53 |
| Debt to Asset | 0.34 | 0.21 | 0.24 |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

FIDSON Sustains Track Record

FIDSON sustained its double-digit growth rate in Q1:2022 as revenue surged by 61.23%YoY to NGN10.24bn from NGN6.32bn in Q1:2021. The firm witnessed significant revenue growth across all segments: Ethical (+75.95%YoY), Over-the-Counter (+29.86%YoY), Consumer Health Product (+542.05%YoY).

Production cost firmed up by 66.26% outpacing the growth in revenue, leading cost to sales upwards to 56.45% (from 54.74%YoY in Q1:2021). Similarly, operating expenses increased by 45.63%YoY to NGN2.59bn on the back of higher administrative expenses (+25.87%YoY) and distribution expenses (+66.76%YoY). However, operating margin improved to 20.11% from 18.46% in Q1:2021. During the period, finance cost increased from NGN323.88mn in Q1:2022 to NGN369.57mn due to higher interest-bearing liabilities (+27.14%). Profit before tax and net profit expanded by 99.84% and 98.37% to NGN1.70bn and NGN1.15bn respectively in Q1:2022.

Positives: Net margin improved to 11.22% from 9.17% in Q1:2021 due to higher earnings

Negative: ROE and ROA reduced to 28.79% and 11.79% from 30.63% and 12.33% in 2021FY

Valuation

| | |
|-----------------------|-----------------|
| Trailing EPS | NGN2.06 |
| BVPS | NGN7.14 |
| P/E | 5.35x |
| P/BV | 1.54x |
| Target P/E | 5.03x |
| Dec-2022 Exp. EPS | NGN8.15 |
| Dec 2022 Target price | NGN10.35 |
| Current Price | NGN11.00 |

Stock Highlights

| | |
|--------------------|-------------------|
| Yr Hi | 12.05 |
| Yr Lo | 6.22 |
| YTD return | 76.85% |
| Beta | 1.68 |
| Adjusted Beta | 1.45 |
| Dividend proposed | NGN0.50 |
| Shares outstanding | 2.09bn |
| Market cap [NGN] | NGN22.95bn |
| Financial year end | September |



Sensitivity Analysis of Dec-2022 Target Price to key model inputs

| | | | | | | Min | 9.65 | | | |
|-----------|--------|-------|-------|--------------|-------|--------------------|-------|------|------|------|
| | | | | | | Max | 11.07 | | | |
| | | | | | | Earnings Per Share | | | | |
| | | | | | | 1.96 | 2.01 | 2.06 | 2.11 | 2.16 |
| Target PE | 10.35x | 9.65 | 9.90 | 10.15 | 10.39 | 10.64 | | | | |
| | 4.93x | 9.75 | 10.00 | 10.25 | 10.50 | 10.75 | | | | |
| | 5.03x | 9.85 | 10.11 | 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 | | | | |

Recommendation: HOLD TP: 10.35 CP: 11.00 UPP: -5.91%

Financial Highlight (NGN'000)

| Profit and Loss Account | Q1:2022 | Q1:2021 | Y/Y Growth |
|-------------------------|------------|------------|------------|
| Revenue | 10,244,020 | 6,353,479 | 61.23% |
| Cost of sales | 5,782,985 | 3,478,202 | 66.26% |
| OPEX | 2,591,347 | 1,779,395 | 45.63% |
| Operating Profit | 2,059,995 | 1,173,1610 | 75.59% |
| Finance Cost | 369,573 | 323,884 | 14.11% |
| PBT | 1,703,213 | 852,284 | 99.84% |
| PAT | 1,149,669 | 579,553 | 98.37% |

| Balance Sheet | Q1:2022 | 2021A | Y/Y Growth |
|-------------------------------|------------|------------|------------|
| Property, plant and equipment | 16,355,231 | 14,892,994 | 11.24% |
| Total Asset | 36,381,455 | 33,105,410 | 21.52% |
| Total Equity | 14,901,503 | 13,751,835 | 30.48% |
| Total Debt | 10,885,656 | 8,381,914 | -21.30% |
| Total Liabilities | 10,559,363 | 19,353,575 | 15.87% |

Key Metrics

| Profitability Ratio | 2022T | 2021A | 3-yr Hist. Avg |
|---------------------|--------|--------|----------------|
| ROA | 11.79% | 12.33% | 6.46% |
| ROE | 28.79% | 30.63% | 15.81% |
| Net Margin | 11.22% | 15.29% | 7.18% |

| Efficiency Ratio | 2022T | 2021A | 3-yr Hist. Avg |
|-----------------------|----------|----------|----------------|
| Asset Turnover | 0.96x | 1.02x | 0.83x |
| Cash Conversion Cycle | 204 days | 197 days | 205 days |

| Liquidity Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-----------------|---------|-------|----------------|
| Current Ratio | 1.83x | 1.17x | 1.38x |
| Quick Ratio | 0.58x | 0.61x | 0.61x |
| Cash Ratio | 0.20x | 0.05x | 0.19x |

| Solvency Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-------------------|---------|-------|----------------|
| Interest Coverage | 5.57 | 4.80 | 2.81 |
| Debt to Equity | 0.73 | 0.61 | 0.76 |
| Debt to Asset | 0.30 | 0.25 | 0.32 |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

A Tale of Unimpressive Performance

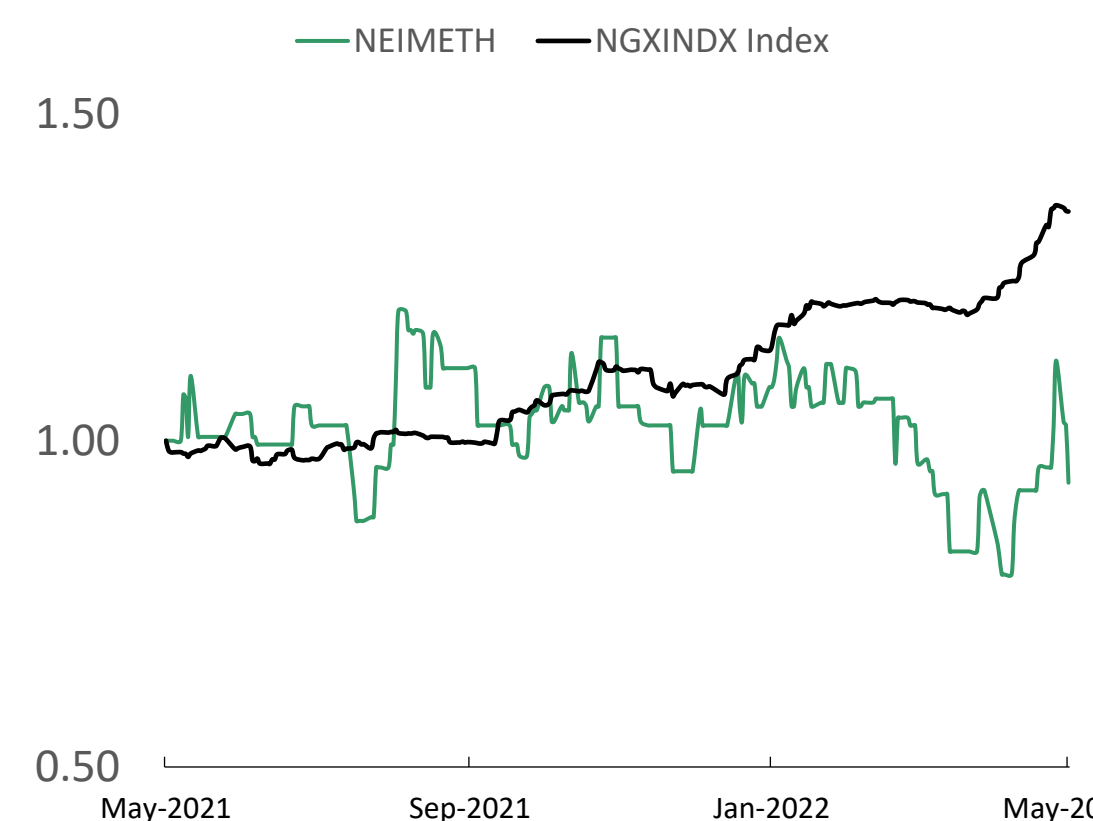
NEIMETH's performance remained unimpressive in the first half of its 2022 financial period (*year-end is September*) as its revenue declined by 23.12%YoY to NGN0.99bn from NGN1.28bn in H1:2021. Revenue from both the Pharmaceuticals segment (-6.57%YoY) and Animal Health segment (-88.16%YoY) declined in the period, reflective of the intense competition in the pharmaceutical market.

Closely mirroring the decline in revenue, production cost also reduced by -24.51% (NGN741.208mn vs NGN559.534mn in H1:2021), a result of lower raw material purchase (-51.63%). Operating expenses also expanded by 23.48%YoY due to an upsurge in administrative expenses (+40.89%YoY) and distribution costs (+9.00%YoY). Consequently, the firm recorded an operating loss: **NGN173.86mn** (vs. operating profit of NGN.70.626mn in H1:2021). Despite the increase in total debt obligations (+10.92%), finance costs declined by 17.11% to NGN35.08mn. The firm recorded a net loss of **NGN208.93mn** (vs. net profit of NGN28.31mn in H1:2021).

Positives: Decline in Finance cost (-17.11%), despite higher debt (+10.98%).

Negative: Liquidity position weakened as current and quick ratios declined to 1.89x and 1.24x (from 2.28x and 1.59x in 2021FY), respectively due to an increase in current liabilities.

| Valuation | | Stock Highlights | |
|-----------------------|---------|--------------------|------------------|
| Trailing EPS | NGN0.02 | Yr Hi | NGN2.05 |
| BVPS | NGN0.56 | Yr Lo | NGN1.36 |
| P/E | -95.15x | YTD return | 10.06% |
| P/BV | 2.96 | Beta | 1.40 |
| Target P/E | 2.55x | Adjusted Beta | 1.27 |
| Dec-2022 Exp EPS | NGN0.86 | Dividend proposed | NGN0.07 |
| Dec 2022 Target price | NGN2.19 | Shares outstanding | 1.90bn |
| Current Price | NGN1.59 | Market cap [NGN] | NGN3.17bn |
| | | Financial year end | September |



| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 1.63 |
|---|------|------|------|-------------|------|------|------|
| Earnings Per Share | | | | | | Max | 2.82 |
| | | 0.80 | 0.83 | 0.86 | 0.89 | 0.93 | |
| Target PE | 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 | 2.62 | 2.62 | 2.72 | 2.82 | |

Recommendation: BUY TP: 2.19 CP: 1.67 UPP: 31.14%

Financial Highlight (NGN'000)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|-------------------------------|-----------|-----------|------------|
| Revenue | 985,247 | 1,281,576 | -23.12% |
| Cost of sales | 559,534 | 741,208 | -24.51% |
| OPEX | 615,472 | 498,447 | 23.48 |
| Operating Profit | -173,856 | 70,626 | -146.16% |
| Finance Cost | 35,077 | 42,316 | -17.11% |
| PBT | -208,933 | 28,310 | -638.02% |
| PAT | -208,933 | 28,310 | -638.02% |
| Balance Sheet | H1:2022 | 2021A | Y/Y Growth |
| Property, plant and equipment | 1,537,726 | 1,411,998 | 20.15% |
| Total Asset | 6,298,521 | 6,274,670 | 2.00% |
| Total Equity | 1,072,193 | 1,414,067 | 10.94% |
| Total Debt | 1,937,583 | 3,032,461 | 1.33% |
| Total Liabilities | 5,226,325 | 4,860,603 | -5.22% |

Key Metrics

| Profitability Ratio | 2022T | 2021A | 3-yr Hist. Avg |
|-----------------------|---------|--------|----------------|
| ROA | 0.53% | 4.27% | 5.87% |
| ROE | 3.11% | 20.13% | 20.35% |
| Net Margin | -21.21% | 8.88% | 8.55% |
| Efficiency Ratio | 2022T | 2021A | 3-yr Hist. Avg |
| Asset Turnover | 0.57x | 0.61x | 0.99x |
| Cash Conversion Cycle | 376 | 306 | 297 |
| Liquidity Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Current Ratio | 1.89x | 2.28x | 2.00x |
| Quick Ratio | 1.24x | 1.59x | 1.38x |
| Cash Ratio | 0.70x | 0.96x | 0.74x |
| Solvency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Interest Coverage | -4.96 | 2.94 | 0.34 |
| Debt to Equity | 3.86 | 2.70 | 1.77 |
| Debt to Asset | 0.66 | 0.61 | 0.42 |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

DISCLAIMER

Analysts' 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.

Movements in Price Target

Company Name: May and Baker Nigeria Plc

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|-----------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 27-May-22 | 4.40 | 4.82 | 5.03 | HOLD | BUY |

Company Name: NEIMETH International Pharmaceuticals Plc

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 27-May- 22 | 1.82 | 4.81 | | 2.19 | BUY | BUY |

Company Name: Fidson Healthcare Plc

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 27-May -22 | 11.00 | 10.35 | 10.35 | BUY | HOLD |

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 |
|---|------------|
| May and Baker Nigeria Plc | |
| Neimeth International Pharmaceuticals Plc | |
| 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.

CONTACT INFORMATION

Brokerage and Retail Services

topeoludimu@meristemng.com
isaaconaolapo@meristemng.com
contact@meristemng.com

(+234 905 569 0627)
(+234 803 234 8275)

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com
seunlijofi@meristemng.com

(+234 806 022 9889)
(+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com
crmwealth@meristemng.com

(+234 803 355 0008)
(+234 01 738 9948)

Registrars

muboolasoko@meristemregistrars.com
martinaosague@meristemregistrars.com
www.meristemregistrars.com

(+234 803 324 7996)
(+234 802 303 1783)
(+23401-280 9250)

Group Business Development

saheedbashir@mersitemng.com
ifeomaogalue@meristemng.com
info@meristemng.com

(+234 802 454 6575)
(+234 802 394 2967)

Trust Services

damilolahassan@meristemng.com
trustees@meristemng.com

(+234 803 613 9123)

Investment Research

research@meristemng.com

Analyst : praiseihansekhien@meristemng.com

(+234 817 007 1512)

Client Services

adefemitaiwo@meristemng.com
car@meristemng.com

(+234 803 694 3034)
(+23401-280 9250)

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

Meristem Research can also be accessed on the following platforms:

Meristem Research Portal: research.meristemng.com

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