

Improved Sales Volume and Pricing Strategy Anchor Performance

...Although Second Half Dynamics Changed

In line with our expectations, 2022FY marked a continuation of the revenue expansion theme sustained since 2020FY. On the back of expansion in distribution channels, increased sales volume and price increment across Over-the-Counter (OTC) products, Fidson Healthcare Plc. (**FIDSON**) recorded a significant double-digit topline uptick for the third consecutive year. The company's 2022FY revenue edged up by 31.67% YoY to NGN40.63bn (vs NGN30.86bn in 2021FY), with its three business segments - Ethical (+33.55% YoY), OTC (+12.13% YoY) and Consumer Healthcare (+1478.76% YoY) - recording impressive upticks. We view the consumer healthcare segment performance as a positive from the firm's manufacturing contract with **GLAXOSMITH**, as it resulted in the transfer of the production of five (5) wellness products to **FIDSON**.

Contrary to previous performances, however, **FIDSON's** performance in the year's first half bettered the second half. Given that the second half has typically contributed the most to revenue growth over the past five years (average of 72%), its contribution of c.23% in 2022FY comes as a negative surprise, especially as growth initiatives and the introduction of a new eye care product (Aventra ProVision) were expected to boost revenue. **We see room for continued topline expansion in 2023FY, given the firm's robust product portfolio, pricing strategy, and strong distribution network across the country. We also anticipate further price increases across the pharmaceutical industry as the cost of importation increases. Hinged on this, we project a topline expansion of 27.55%YoY to NGN51.83bn.**

Macroeconomic Headwinds impact Operating Margins

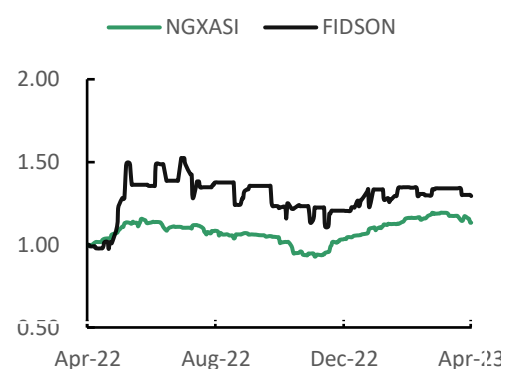
During the period, the growth in production costs (+48.83% YoY) significantly outpaced that of revenue, leading to a higher cost-to-sales ratio: (57.72% vs 51.06% in 2021FY). We opine that higher materials cost (due to increased inflationary pressures) and the volatility in the exchange rate negatively impacted the firm's direct costs for all segments. Despite the reduction in administrative expenses (-11.93% YoY), OPEX increased by 7.31% to NGN10.56bn anchored on higher sales (+27.10% YoY) and promotion expenses (+111.14% YoY). Owing to the aforementioned factors, the operating margin declined to 18.43% (from 19.00% in 2021FY). **We expect costs to remain pressured in 2023FY on the back of unabating inflationary challenges, expected fuel subsidy removal and prevalent challenges with FX sourcing for production.**

Debt Repricing Suppresses Profitability

FIDSON obtained a single-digit NGN2bn BOI term loan (9%) during the review period, leading interest-bearing liabilities higher by +37.26% YoY to NGN11.54bn. We also note that the 5% interest rate on some of the existing debts reverted to 9% during the period. Consequently, finance costs increased markedly by 45.03% YoY. As a result, interest cover declined to 4.22x from 4.80x, while Debt-to-Equity and Debt-to-Asset increased to 0.68x and 0.27x (from 0.61x and 0.25x in 2021FY), all reflecting the impact of a higher leverage position.

Overall, **FIDSON's** bottomline inched up by 12.56% YoY to NGN4.19bn (from NGN3.72bn in 2021FY). Thus, Shareholder's Return on Equity, Return on Asset and Net margin all

Company	FIDSON
Valuation (Trailing)	
Trailing EPS	NGN2.01
BVPS	8.11
P/E	4.76x
P/BV	1.18x
Target PE	5.04x
Dec-2021 Exp. EPS	NGN2.72
Dec 2021 Target price	13.71
Current Price	9.50
Up/Downside Potential	+44.30%
Ratings	BUY
Key metrics	
ROE	27.30%
ROA	11.01%
Net margin	10.30%
Asset Turnover	1.07
Leverage	2.48
	NGN
Yr Hi	9.89
Yr Lo	9.23
YTD return	+5.56%
Beta	0.58
Adjusted Beta	0.72
Shares outstanding	2.09bn
Market cap [NGN]	19.82bn
Dividend per share	NGN0.55
Financial year end	Dec
Most Recent Period (MRP)	2022FY



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worsened to 27.30%, 11.01% and 10.30% (from 30.63%, 11.24% and 12.05% in 2021FY), respectively. For 2023FY, we expect the bottom-line to sustain its uptick, expanding to NGN5.68bn (net margin of 10.95%) anchored on our optimistic projection for the topline.

Inventory Management Limits Liquidity Metrics

During the review period, we highlight that while the firm's current ratio seems to signal an improvement (1.59x vs 1.35x in 2021FY), its liquidity position worsened owing to a higher inventory balance (+30.95% YoY). Consequently, quick and cash ratios declined to 0.58x and 0.18x (from 0.65x and 0.33x in 2021FY), reflecting the reduced ability to meet short-term obligations. We also note that its trade receivables expanded faster than revenue (+42.60% YoY), raising concerns about indications of channel stuffing activities.

Recommendation

We revise our 2023FY target price downwards to NGN13.71 based on our EPS forecast of NGN2.72 and target P/E ratio of 5.04x. This represents a 44.30% upside compared to the closing price on the 6th of April, 2023. Hence we rate the ticket "**BUY**".

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	11.43
						Max	16.24
						EPS	
						2.52	2.62
						2.72	2.82
						2.93	
Target PE	4.5x	11.43	11.88	12.35	12.82	13.31	
	4.8x	12.06	12.53	13.03	13.52	14.04	
	5.0x	12.69	13.19	13.71	14.23	14.77	
	5.3x	13.32	13.84	14.39	14.94	15.50	
	5.5x	13.95	14.50	15.07	15.64	16.24	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Revenue	30.86	40.63	51.83	65.06	84.50	108.49	139.97
Cost of sales	-15.76	-23.45	26.28	34.01	40.61	51.76	67.13
Gross profit	15.10	17.18	25.54	31.06	43.89	56.73	72.84
Other income	0.60	0.86	0.81	1.12	1.50	1.85	2.32
Operating expense	9.84	10.56	15.22	19.29	25.35	33.02	42.18
Operating profit	5.86	7.49	9.74	11.15	17.81	22.46	28.68
Finance cost	-1.22	-1.77	1.51	0.87	0.72	0.76	0.75
PBT	4.72	5.78	8.35	10.43	17.28	21.90	28.23
PAT	3.72	4.19	5.68	7.09	11.75	14.89	28.23
<i>Balance Sheet</i>	2020AA	H1:2021A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	14.89	19.57	26.43	35.10	46.44	61.29	81.52
Total Debt	8.41	11.54	12.33	3.99	3.40	4.07	3.81
Total Assets	33.11	42.98	50.91	52.79	69.63	92.17	123.78
Total Equity	13.75	16.92	21.45	27.50	38.31	51.95	78.82
Total Current Liabilities	10.97	18.01	19.73	18.05	21.29	26.40	31.32
Non-Current Liabilities	8.38	8.05	9.73	7.24	10.03	13.82	13.63
Total Liabilities	19.35	26.06	29.46	25.29	31.32	40.22	44.95
<i>Financial Ratios</i>	2020A	H1:2021A	2021F	2022F	2023F	2024F	2025F
Gross Margin	48.94%	42.28%	49.29%	47.73%	51.95%	52.29%	52.04%
Operating Margin	19.00%	18.43%	18.80%	17.13%	21.08%	20.71%	20.49%
Net Margin	12.05%	10.30%	10.95%	10.90%	13.91%	13.73%	20.17%
Return on Asset	11.24%	11.01%	11.15%	13.43%	16.88%	16.16%	22.80%
Return on Equity	30.63%	27.30%	26.46%	25.79%	30.68%	28.67%	35.81%
Return on Invested Capital	16.85%	16.99%	16.77%	14.46%	18.02%	16.83%	15.85%
Asset Turnover	1.02	1.07	1.02	1.23	1.21	1.18	1.13
Financial Leverage	2.48	2.48	2.37	1.92	1.82	1.77	1.57
Current Ratio	1.59	1.27	1.21	0.95	1.07	1.10	1.24
Quick Ratio	0.58	0.46	0.60	0.03	0.09	0.04	0.09
Debt to Equity	0.61	0.68	0.57	0.14	0.09	0.08	0.05
Debt to Asset	0.25	0.27	0.24	0.08	0.05	0.04	0.03
Interest Coverage	4.80	4.22	6.45	12.87	24.82	29.60	38.25

(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
04-Jan-2023	9.00	15.70	15.70	BUY	BUY
06-Apr-2023	9.50	15.70	13.71	BUY	BUY

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Company	Disclosure
FIDSON Healthcare Plc	

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