

Asset Disposal Underscores Earnings Performance

Pharmaceutical Segment Drives Double-Digit Revenue Growth

May and Baker Nigeria Plc (**MAYBAKER**) sustained a double-digit topline expansion for the third consecutive year in 2022FY. The firm's topline expansion was anchored mainly by both increased sales volumes and price increments on products in the pharmaceutical segment (including some analgesic, anti-hypertensive, and anti-infective products). Thus, the pharmaceutical segment (99% of revenue) expanded by 20.51% YoY to settle at NGN14.30bn. Revenue from the Beverage segment – *Lily Water* – has however contracted for the third consecutive year (-20.75% YoY to NGN26.54mn vs. NGN33.49mn in 2021FY). **MAYBAKER's** H2:2022 revenue remained the major contributor to its cumulative full year revenue (52%) as the revenue recorded in Q4:2022 (NGN3.98bn) bettered previous quarters on record. Cumulatively, **MAYBAKER's** 2022FY revenue ticked up by 20.39% YoY to NGN14.33bn (vs NGN11.90bn in 2021FY). **For 2023FY, we expect the firm's plans to invest in new machines for the paracetamol plant and Pharmacentre and essential nature of its product to boost revenue in the pharmaceutical segment. The new Multi-Million Naira Lily Water factory which is expected to commence operations in 2023 should also boost revenue in its beverage segment. Lastly, MAYBAKER signed an MOU with the Federal Ministry of Health for the supply of routine immunization vaccines through JV Biovaccine Nigeria Ltd (its joint venture with the Federal government for production, sales and distribution of human vaccines). These strategies are expected to support the firm's topline expansion further in 2023FY by 20.06% to NGN17.20bn.**

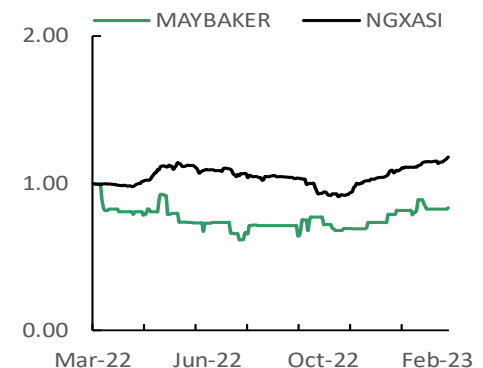
Disposal Props Profitability Metrics

During the period, production cost expanded by 45.14%YoY, outpacing the improvement in revenue. Consequently, its cost to sales ratio for the period came in higher at 72.95% (vs. 60.52% in 2021FY and 5-year average of 64.05%). This was mainly influenced by the increase (+43.67% YoY) in raw material and consumables – which account for c.83% of the total production cost – reflecting the impact of the rising inflationary pressure and FX volatility in the domestic market. Similarly, OPEX ticked up by 11.34% YoY to NGN3.38bn from NGN3.04bn in 2021FY, fueled by a 18.62%YoY increase in administrative expenses. During the period, the firm disposed its Ikeja factory, recording profit from the sale to the tune of NGN1.19bn, which led operating profit higher by 27.20%. Operating margin also expanded to 15.11% (vs to 14.30% in 2021FY). **MAYBAKER's** finance cost for the period ticked up marginally by 7.19% YoY despite the reduction in interest bearing liabilities (-14.97% YoY) and repayment of its CBN NGN1bn loan. In our opinion, the repricing of its BOI and CBN loans from 5% to 9% led to the increase in finance cost. Notwithstanding, the interest coverage ratio improved to 2.69x in 2021FY relative to 1.62x recorded in 2021FY. Bottom line grew by 42.06% YoY (highest since 2019) to NGN1.49bn (representing net margin of 10.40% vs 8.82%). Returns on equity and Returns asset also increased to 19.21% and 8.38% (vs. 14.98% and 6.57% in 2021FY), respectively. We note that growth in earnings was significantly supported by the sale of its Ikeja plant which contributed 79.53% to earnings. **Given the unabating inflationary environment, we posit that the major drag to the company's earnings would come from production, operations and finance related costs. Overall, we forecast net income would settle at NGN1.13bn (translating to a net margin of 6.55%).**

Recommendation

For 2023, we revise our target price downwards, premised on an expected EPS of NGN0.67 and a target P/E ratio of 5.98x resulting to a target price of **NGN4.01**. This represents an downside potential of -10.96% from its closing price of **NGN4.50** as of 12th April 2023. Hence, we rate the ticker a **"SELL"**.

Company	MAYBAKER
Valuation	
EPS	NGN0.86
BVPS	NGN4.78
P/E	5.21x
P/BV	0.94x
Target PE	5.98x
Dec-2023 Exp. EPS	NGN0.67
Dec 2023 Target price	NGN4.01
Current Price	NGN4.50
Up/Downside Potential	-10.96%
Ratings	SELL
Key metrics	
ROE	19.21%
ROA	8.38%
Net margin	10.40%
Asset Turnover	0.81x
Leverage	2.29x
Yr Hi	NGN4.85
Yr Lo	NGN4.20
YTD return	4.65%
Beta	0.60
Adjusted Beta	0.73
Proposed DPS	NGN0.30
Shares outstanding	1.73bn
Market cap [NGN]	7.76bn
Financial year-end	December
Most Recent Period	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	3.40	
						Max	4.68	
		EPS						
		0.62	0.64	0.67	0.70	0.72		
Target PE	5.5x	3.40	3.53	3.67	3.81	3.96		
	5.7x	3.55	3.69	3.84	3.98	4.14		
	6.0x	3.71	3.85	4.01	4.16	4.32		
	6.2x	3.86	4.02	4.17	4.33	4.50		
	6.5x	4.02	4.18	4.34	4.51	4.68		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	11.90	14.33	17.20	19.93	23.11	26.47	30.61
Cost of Sales	7.20	10.45	11.91	12.35	14.44	16.66	19.66
Gross Profit	4.70	3.88	5.29	7.58	8.67	9.81	10.96
Net OPEX	3.00	1.71	3.38	4.55	5.17	5.77	6.65
Other Income	0.04	1.67	0.49	0.53	0.67	0.84	0.96
Operating Profit	1.70	2.16	1.80	2.86	3.44	4.07	4.48
Finance Cost	0.27	0.29	0.31	0.30	0.29	0.28	0.28
PBT	1.46	2.08	1.66	2.78	3.43	4.15	4.65
PAT	1.05	1.49	1.13	1.89	2.33	2.83	4.65

Balance Sheet	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	3.86	5.01	5.25	5.56	5.93	6.40	6.40
Total Debt	6.54	5.56	4.52	4.51	4.55	4.62	4.74
Total Assets	17.62	17.96	17.41	21.10	26.89	32.96	23.28
Total Equity	7.27	8.24	8.85	10.31	12.13	14.35	18.31
Current Liabilities	6.07	6.10	6.79	7.86	8.94	10.14	8.58
Non-Current Liabilities	4.28	3.62	2.63	2.56	2.49	2.45	2.22
Total Liabilities	10.35	9.71	9.42	10.42	11.43	12.59	10.80

Financial Ratios	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Gross Margin	39.48%	27.05%	30.74%	38.04%	37.52%	37.06%	35.79%
Operating Margin	14.30%	15.11%	10.47%	14.38%	14.87%	15.38%	14.62%
Net Margin	8.82%	10.40%	6.55%	9.47%	10.10%	10.67%	15.18%
Return on Asset	6.76%	8.62%	6.48%	8.95%	8.68%	8.57%	19.96%
Return on Equity	14.43%	18.08%	12.73%	18.30%	19.25%	19.69%	25.39%
Return on Invested Capital	10.00%	13.17%	5.90%	7.28%	12.01%	10.10%	9.88%
Asset Turnover	0.68x	0.80x	0.99	0.94	0.86	0.80	1.31
Financial Leverage	2.42x	2.18x	1.97	2.05	2.22	2.30	1.27
Debt to Asset Ratio	0.40x	0.33x	0.26	0.21	0.17	0.14	0.20
Debt to EBIT Ratio	3.84x	2.57x	2.51	1.58	1.32	1.14	1.06
Current Ratio	2.07x	1.93x	1.62	1.83	2.22	2.51	1.84
Quick Ratio	1.48x	1.06x	0.99	1.26	1.62	1.88	0.95

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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
11-Apr-2023	4.50	5.03	4.01	BUY	SELL

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May & Baker Nigeria Plc.	

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