

### Q1 Revenue Hits Record High

**Summary:** FIDSON reported a topline growth of 11.33% YoY to NGN11.40bn (from NGN10.24bn in Q1:2022), supported mainly by growth in the OTC (+20.64%) and consumer healthcare segments (+316.38) as the firm's manufacturing contract with GLAXOSMITH continues to support growth in the latter. On the other hand, for the first time in 12 quarters (since Q1:2019), the ethical segment (which accounts for c.60% of its revenue, contracted by -2.13% YoY in Q1:2023).

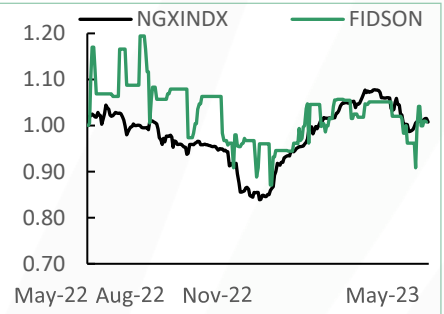
Owing to the significant uptick in material expenses in the consumer healthcare segment (+304.85%) higher energy cost (+66.21%) and direct labor cost (+99.08%), total production cost shot up by 12.66%, outpacing growth in revenue. As a result, cost to sales ratio worsened to 57.13% (from 56.45% in Q1:2022). Operating expenses also increased moderately (+1.28%), on the back of higher administration expenses (+14.13% YoY), outweighing the effect of lower logistics (-25.92% YoY) and promotion (-33.20% YoY) expenses. Notwithstanding operating profit increased to 21.83% (from 20.11%). We note the uptick in finance costs by 27.91% to NGN472.73mn (vs NGN369.57mn in Q1:2022) owing to the marginal uptick in interest bearing liabilities (+0.27% YoY) and higher debt cost which continues to pressure margins. FIDSON's Profit after tax advanced by 18.40% YoY NGN1.36bn (vs NGN1.15bn in Q1:2022). Net margin and trailing Shareholders return on asset increased

**Positives:** Net margin, trailing return on asset and Shareholders return on equity increased to 11.94%, 10.00% and 27.29% (from 11.22%, 9.74% and 24.75% in 2022FY)

**Negative:** Earnings quality deteriorated as the firm recorded a positive net operating accrual of NGN1.07bn (from a negative net operating accrual of NGN1.33bn in 2022FY), signaling an uptick in operating transactions settled on credit. Unsurprisingly, trade receivables increased by 49.27% in the first quarter

**Outlook:** We expect FIDSON's partnership with Serum Institute of India (SIPL) for the marketing of the R21 malaria vaccine in Nigeria to enhance revenue growth and increase profitability margins in the upcoming quarters for FIDSON

Valuation		Stock Highlights	
Trailing EPS	1.92	Yr Hi	9.89
BVPS	7.97	Yr Lo	8.50
P/E	5.00x	YTD return	+6.67%
P/BV	1.20x	Beta	0.58
Target PE	5.04x	Adjusted Beta	0.72
Dec-2023 Exp. EPS	2.72	Shares outstanding	2.29bn
Dec 2023 Target price	NGN13.71	Market cap [NGN]	22.03bn
Current Price	NGN9.60	Financial year end	December



Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	11.43
EPS						Max	16.24
		2.52	2.62	2.72	2.82	2.93	
Target P/E	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	

**Recommendation: BUY TP: 13.71 CP: 9.60 UPP: +42.81%**

### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Revenue	11.40	10.24	+11.33%
Cost of Sales	6.52	5.78	+12.66%
Operating Expense	2.62	2.59	+1.28%
Operating Profit	2.49	2.06	+20.83%
Finance Cost	0.47	0.37	+27.91%
PBT	2.02	1.70	+18.40%
PAT	1.36	1.15	+18.40%

Balance Sheet	Q1:2023	2022A	YTD Growth
Property, Plant and Equipment	19.27	19.57	-1.51%
Total Assets	43.97	42.98	+2.21%
Total Equity	18.28	16.92	+8.05%
Total Debt	10.90	11.54	-5.58%
Total Liabilities	25.69	26.02	-1.45%

### Key Metrics

Profitability Ratio	Q1:2023	2022A	3-yr Hist. Avg
ROA	10.00%	9.74%	8.47%
ROE	24.06%	24.75%	21.08%
Net Margin	11.94%	10.30%	9.65%

Efficiency Ratio	Q1:2023	2022A	3-yr Hist. Avg
Asset Turnover	0.95x	0.95x	0.85x

Liquidity Ratio	Q1:2023	2022A	3-yr Hist. Avg
Current Ratio	1.37x	1.27x	1.36x
Quick Ratio	0.52x	0.46x	0.56x
Cash Ratio	0.12x	0.12x	0.21x

Solvency Ratio	Q1:2023	2022A	3-yr Hist. Avg
Interest Coverage	5.27x	4.27x	3.78x
Debt to Equity	0.60x	0.68x	0.77x
Debt to Asset	0.25x	0.27x	0.30x

### Capacity Expansion to Define Drugmaker's Fortune

**Summary:** MAYBAKER kicked off 2023FY on an impressive note, recording a 27.22% YoY revenue growth to NGN4.25bn in the first quarter (vs. NGN3.34bn in Q1:2022). This also represents the firm's highest quarterly revenue performance. The topline growth remained anchored on the pharmaceutical segment (+27.36% YoY) as it settled at NGN4.24bn (vs NGN3.33bn in Q1:2022). The beverage segment however continued the trend witnessed since Q2:2020, as it declined by 42.33% YoY to NGN3.73mn (vs NGN6.48mn in Q1:2022).

Production cost increased significantly by 34.38% YoY to NGN3.10bn, surpassing revenue growth rate, and driving up cost to sales to 73.04% (vs. 69.15% in Q1:2022). Likewise, despite recording lower marketing expenses (-8.24% YoY), operating expenses shot up by 0.76% YoY on the back of higher administration expenses (+18.04% YoY). As a result, operating margin declined to 10.49% (vs 10.69% in Q1:2022). Finance cost however declined marginally by 0.26%YoY in the period, evinced by a reduction in its interest-bearing liabilities (-5.76% YoY). Debt ratios thus improved; Debt to equity and Debt to asset ratio declined to 0.66x and 0.30x (from 0.67x and 0.33x in 2022FY). Overall, Profit after tax advanced by 46.03% to NGN284.45mn (vs NGN194.79mn in Q1:2022).

**Positives:** Profitability ratios also increased: Net margin and trailing returns on equity advanced to 6.70% and 18.53% (from 5.83% and 18.08% in Q1:2022).

**Negative:** Current and quick ratio declined to 1.90x and 0.99x (vs 1.93x and 1.06x in Q1:2022).

**Outlook:** 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.

Valuation		Stock Highlights	
Trailing EPS	0.92	Yr Hi	4.85
BVPS	4.94	Yr Lo	4.00
P/E	4.57x	YTD return	-6.98%
P/BV	0.85x	Beta	0.60
Target PE	5.98x	Adjusted Beta	0.73
Dec-2023 Exp. EPS	0.67	Shares outstanding	1.73bn
Dec 2023 Target price	NGN4.01	Market cap [NGN]	6.90bn
Current Price	NGN4.00	Financial year end	December

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 P/E	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				

**Recommendation: HOLD TP: 4.01 CP: 4.00 DSP: 0.25%**

#### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Revenue	4.25	3.34	+27.22%
Cost of Sales	3.10	2.31	+34.38%
Operating Expense	0.73	0.72	+0.76%
Operating Profit	0.45	0.36	+24.82%
Finance Cost	0.08	0.08	-0.23%
PBT	0.42	0.29	+46.03%
PAT	0.28	0.19	+46.03%

Balance Sheet	Q1:2023	2022A	YTD Growth
Property, Plant and Equipment	4.80	5.01	-4.25%
Total Assets	19.02	17.96	+5.93%
Total Equity	8.53	8.24	+3.45%
Total Debt	5.63	5.56	+1.29%
Total Liabilities	10.49	9.71	+8.04%

#### Key Metrics

Profitability Ratio	Q1:2023	2022FY	3-yr Hist. Avg
ROA	8.31%	8.30%	6.99%
ROE	18.53%	18.08%	15.30%
Net Margin	6.70%	10.40%	9.83%

Efficiency Ratio	Q1:2023	2022FY	3-yr Hist. Avg
Asset Turnover	0.80x	0.80x	0.71x

Liquidity Ratio	Q1:2023	2022FY	3-yr Hist. Avg
Current Ratio	1.90x	1.93x	2.14x
Quick Ratio	0.99x	1.06x	1.43x
Cash Ratio	0.60x	0.48x	0.66x

Solvency Ratio	Q1:2023	2022FY	3-yr Hist. Avg
Interest Coverage	5.69x	7.57x	8.12x
Debt to Equity	0.66x	0.67x	0.76x
Debt to Asset	0.30x	0.33x	0.34x

### Revenue Hits 21-Quarter Low

Recommendation: HOLD TP: 6.75 CP: 6.40 UPP: 5.47%

**Summary:** GlaxoSmithKline Consumer Nigeria Plc (**GLAXOSMITH**) recorded a significant contraction in its revenue for Q1:2023. The firm's topline contracted significantly by 45.39%YoY to NGN4.02bn (from NGN7.36bn in Q1:2022). This also represents the firm's lowest quarterly revenue since Q4:2017. The contraction was majorly caused by lower sales volume in the pharmaceutical segment as revenue from the segment declined by 70.57%. We also observe that revenue in the segment has been declining since Q3:2022. Revenue from the consumer healthcare segment however advanced by 12.53%YoY, making it the highest contributor to revenue (c.62%) for the first time since 2016FY (when the sale of Lucozade and Ribena brands were discontinued).

The firm's production cost also declined by 52.97%YoY to NGN2.54bn (vs NGN5.40bn in Q1:2022) in line with the decline in revenue. Consequently, cost to sales ratio margin improved to 63.21% (vs 73.39% in Q1:2022). Operating expenses also declined by 19.21% to NGN1.31bn (vs. NGN1.62bn in Q1:2022) on the back of lower selling and distribution expenses (-30.91% YoY). In addition, operating profit dwindled by 50.51% YoY from NGN335.63mn to NGN166.09mn in Q1:2023. Operating margin however improved marginally to 3.96% (vs 3.69% in Q1:2022). Overall, Profit after tax declined by 20.17% YoY from NGN194.37mn to NGN155.17mn in Q3:2023.

**Positives:** Net margin ticked up to 3.86% (vs 2.64% in Q1:2022). Quick and cash ratios improved to 1.25x and 1.08x (vs. 1.22X and 0.67x), respectively.

**Negative:** Asset turnover declined to 0.74x (vs 0.95x in 2022FY).

**Outlook:** While intense competition exists in the pharmaceuticals market, we expect the essential nature of the firm's product to sustain its demand. However, the firm's premium pricing model poses a downside risk to this optimistic projection

#### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Revenue	4.02	7.36	-45.39%
Cost of Sales	2.54	5.40	-36.79%
Operating Expense	1.31	1.62	-19.12%
Operating Profit	0.17	0.34	-50.51%
Finance Income	0.08	0.03	+196.38%
PBT	0.23	0.29	-19.47%
PAT	0.16	0.19	-20.17%

Balance Sheet	Q1:2023	2022FY	YTD Growth
Property, Plant and Equipment	0.42	0.41	1.31%
Total Assets	30.75	29.39	+4.64%
Total Equity	9.69	9.53	+1.63%
Total Liabilities	21.06	19.85	+6.09%

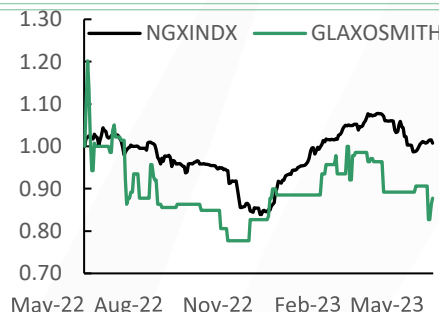
#### Key Metrics

Profitability Ratio	Q1:2023	2022FY	3-yr Hist. Avg
ROA	2.38%	2.62%	2.59%
ROE	7.56%	8.09%	7.33%
Net Margin	3.86%	3.04%	2.96%

Efficiency Ratio	Q1:2023	2022FY	3-yr Hist. Avg
Asset Turnover	0.72x	0.86x	0.87x

Liquidity Ratio	Q1:2023	2022FY	3-yr Hist. Avg
Current Ratio	1.40x	1.41x	1.44x
Quick Ratio	1.25x	1.22x	1.19x
Cash Ratio	1.08x	1.01x	0.88x

Valuation		Stock Highlights	
Trailing EPS	0.61	Yr Hi	6.95
BVPS	8.10	Yr Lo	5.75
P/E	10.49x	YTD return	4.07%
P/BV	0.79x	Beta	0.65
Target PE	10.07x	Adjusted Beta	0.77
Dec-2023 Exp. EPS	0.67	Shares outstanding	1.20bn
Dec 2023 Target price	<b>NGN6.75</b>	Market cap [NGN]	<b>7.65bn</b>
Current Price	NGN6.40	Financial year end	December



#### Sensitivity Analysis of Dec-2023 Target Price to key model inputs

	Min	EPS					Max
		0.62	0.64	0.67	0.70	0.72	
Target P/E	9.6x	5.93	6.17	6.41	6.66	6.91	
	9.8x	6.09	6.33	6.58	6.83	7.09	
	10.1x	6.24	6.49	<b>6.75</b>	7.00	7.27	
	10.3x	6.40	6.65	6.91	7.18	7.45	
	10.6x	6.55	6.81	7.08	7.35	7.63	

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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.

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**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:** FIDSON Healthcare Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-May-2023	9.60	13.71	13.71	BUY	BUY

**Company Name:** MAY & BAKER Nig. Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-May-2023	4.00	4.01	4.01	SELL	HOLD

**Company Name:** GlaxoSmithKline Consumer Nig. Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-May-2023	6.40	6.75	6.75	HOLD	HOLD

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Company	Disclosure
FIDSON Healthcare Plc	
MAY & BAKER Nig. Plc	
GlaxoSmithKline Consumer Nig. Plc	

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