Fidson Healthcare Plc: *Interim Results – Q3 March, 2010*

FIDSON

May 13, 2010	BUY	Fair Value: N4.65	Current Price:N3.15

Valuation/Analyst Recommendation

Looking at the Q3 result, we maintain our earlier forecast and valuation for the Ordinary Shares of **Fidson**. We estimated **TO**, Earning Before Interest Tax Depreciation and Amortization (**EBITDA**) and **PAT** for the period ended June, 2010. We project a **TO** of **N5.69bn,** based on a growth rate of **13.35%** over the previous year. We project **EBITDA** of **N942.55mn** based on EBITDA margin of **16.57%** and a **PAT** of **N510.84mn** based on a PAT Margin of **8.98%.** We used **1.5bn** Ordinary Shares, which we expect to be in issue as at June 2010. The Earnings Per Share **(EPS)** generates **34kobo**. We estimated Dividend Per Share **(DPS)** of **26kobo** based on a dividend payout of **75.86%.** Applying Enterprise Value EV/EBITDA multiple of **6.46x,** a P/E multiple of **10.22x**, we arrived at **N5.60** per share using EV/EBITDA multiple and **N3.48** per share price using price earnings multiple. Applying a weight of **55%** on **N5.60** and **45%** on **N3.48**, we arrived at **N4.65** per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **7.33%** and **5.56%** respectively. We therefore place a **BUY** on the shares of Fidson at the current market price. However, we note that there are indications of new capital issue either by way of debt or equities. If this happens within the current financial year, it will further dilute the ordinary shareholders' value.

Business Description

The company is engaged in the manufacture and distribution of pharmaceutical products

Ticker	FIDSON
Sector	Healthcare
Date of Incorporation	March 13, 1995
Date of Listing	June 4, 2008
Year End	June
No of Ordinary Shares	1,500,000,000
Capitalisation (N)	N4,725,000,000
% of Market Capitalisation	0.07
52-Week High(N)	N3.23
52-Week Low(N)	N1.27
YTD Return (%)	76.96
52-Week Avg. Trade	1,117,812
Beta Value	0.76
Trailing EPS(N)	0.29
Trailing PE(x)	10.89

Adding Value To Life:

The unaudited Q3 2010 result of **Fidson Healthcare Plc (Fidson)** for the period ended 31 March, 2010 showed that its Turnover (TO) declined marginally by **1.37%** to **N3.97bn**, compared with N4.02bn in the corresponding period of 2009. Profit Before Tax (PBT) increased marginally by **1.27%** between 2009 and 2010 to **N543.10mn** from N536.29mn. The tax provision moved in a similar direction and magnitude, increasing by **1.27%** between 2009 and 2010 to **N173.79mn** from N171.61mn, bringing the Profit After Tax (PAT) to **N369.31mn** as against N364.67mn in 2009, representing a marginal growth of **1.27%.**

A cursory look at the company's profit margins reveals that the cost management strategies of the company are working well. The PBT Margin in Q3 2010 increased over the Q3 2009 and over the FY 2009 figure. The PBT margin increased marginally to **13.68%** in Q3 2010 from 13.33% as at Q3 2009, and up from **12.41%** as at the end of the financial year in June, 2009.This shows that the company's total cost as a percentage of TO stands at **86.32%**, down marginally from **86.67%** recorded in the corresponding period of 2009. PAT margin currently stands at **9.30%**, up marginally from **9.06%** in the corresponding period of 2009 and up from **8.55%** as at FY 2009.The result also indicated that the percentage of the TO, PBT, and PAT in the Q3 2010 result to the Full Year Audited TO, PBT and PAT for the period ended June, 2009 are: **79.08%, 87.17%** and **86.07%,** respectively. This suggests that Fidson should be able to surpass its previous year's performance at the current run rate in FY 2010.

A cursory look at the balance sheet position as at Q3 2010 compared with the position as at FY 2009 shows that the company continued its investments to expand its operations to gain additional markets. Its fixed assets increased marginally by **5.06%** to **N2.12bn** from N2.01bn in FY 2009, while the net assets also increased marginally by 4.69% to N5.67bn from N5.41bn as at FY 2009. Cash and bank balances however decreased significantly from N79.22mn in FY 2009 to N4.59mn in Q3 2010. The decrease in cash and bank balances was due to the payment of dividend during Q3 2010. Stocks increased by 11.22% to N740.98mn from N666.21mn during the review period. Fidson's working capital increased from N1.97bn to N2.17bn in Q3 2010. The trade debtors increased by 54.26% to N1.70bn in Q3 2010 from N1.10bn in FY 2009. However, trade creditors increased marginally by 0.47% to N375.68mn in Q3 2010 from N373.91mn as at FY 2009.

A review of the healthcare industry in Nigeria shows that the establishment of the National Agency for Food and Drug Administration (NAFDAC) has brought about sanity to the industry, which was bedeviled with fake and adulterated products. Lately, government appears to be more responsive to the industry with the suspension of the imposition of excise duties which came on stream in 2008 and which would have created a higher price tariff for consumers of pharmaceutical products in Nigeria. Furthermore, the action of government, in response to pleas made to it in removing Ampiclox from the import prohibition list, should have a positive impact on the company's business. Also the recovery in the global economy should stimulate public sector purchases of healthcare facilities and attracts grants from donor agencies. However, just like other manufacturing and distribution companies in Nigeria, poor infrastructure remains a major set-back for Fidson, thereby reducing profit margins. Fidson strategy is to continue to develop innovative products and an unflinching commitment to adding value to life. The company has been able to hatch a plan that continues to entrench its dominance and positions it for growing opportunities in the global marketplace.

As at June 2010, Fidson's investments in quoted companies and other investments not related to its core business was **N1.17bn** and accounted for **16.34%** of the total assets of the company. Of the total, a single investment accounted for **68.34%** of the total. Fidson needs to restructure its investment portfolio to avoid the risk of overconcentration. Fidson's product lines include **Arthocare**, **Astymin**, **Astyfer**, **Avipol**, **Ciprotab**, **Cutenex**, **Ferobin**, **Flutex**, **Gascol**, **Meprasil**, **Synject**, **Tribotan**, **Vinex and Zetgal.** As at June 2009, **Dr. Fidelis Ayebae** held **35.32%** of the ordinary shares of the company, **Intercontinental Finance & Investment Limited** held **7.27%**, while the balance of **57.21%** were held by Nigerian shareholders. Fidson has a wholly owned subsidiary, **Fidson Products Limited** that is spearheading the company's diversification into **Fast Moving Consumer Goods** (FMCG). The Subsidiary offers an array of unique products designed to meet the day-to-day needs of its customers. The products it offers includes: **Fluffy Tissue products**, **Formula 103**, **Cuddles Baby Diapers** and **Fortress Coconut Milk Powder**.

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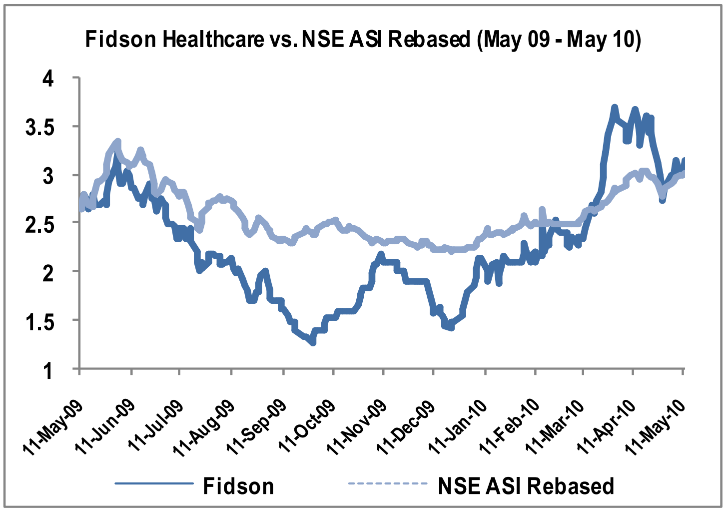
Industry Analysis (Nmn)							
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Fidson (June,2009)	5,020	623	429	8.55	8.42	0.29	10.89
Neimeth (March,2009)	1,867	(406)	(455)	-	-	-	-
GlaxoSmithKline(Dec. 2008)	12,545	1,851	1,277	10.18	23.43	1.89	13.39
May & Baker (Dec. 2008)	5,440	708	418	7.68	15.18	0.57	13.42

*Source: Company Annual Reports, NSE FACTBOOK. * Current*

Financial Performance (Nmn)	Q3 2009	Q3 2008	%∆	FY 2009	FY 2008	% ∆	FY 2010F
Turnover	3,969.00	4,024.00	(1.37)	5,019	4,503	11.50	5,690
PBT	543.10	536.29	1.27	623.04	526.38	18.40	751.24
PAT	369.31	364.67	1.27	429.07	189.30	126.70	510.84
PBT Margin (%)	13.68	13.33	0.36	12.41	10.49	1.92	13.20
PAT Margin (%)	9.30	9.06	0.24	8.55	3.77	4.78	8.98



Directors As At June 30, 2009

Name	Position	Holding
Mr. F.A.O. Ohiwerei	Chairman	30,000,000
Dr. F.A. Ayebae	Mgr. Director	532,745,543
Mr. O.O. Olayeye	Ex. Director	30,302,856
Mr. A.A. Adebayo	Ex. Director	30,054,288
Mr. O.B. Olanipekun	Ex. Director	12,000,000
Prof. O.O. Akinkugbe	Director	6,253,165
Mrs. O.O. Ayebae	Director	64,170,000
Mr. O.B. Ehinlaiye	Director	Nil

Contact us at Our Offices:

Port Harcourt:

Afribank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt.(Tel) 234-084-463308 (Fax) 234-084-463174

Lagos Office:

UAC House (6th-8th Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

Abuja Office:

Orji Uzor Kalu Plaza, Plot 979, 1st Avenue, Off Ahmadu Bello Way, Cadastral Zone AO, Central Business District, Abuja.

(Tel) 234-09-6700535

www.fsdhgroup.com, www.fsdhsecurities.com

(Email) fsdhsecurities@fsdhgroup.com