

Neimeth International Pharmaceuticals Plc: Interim Results – Q3 December, 2009



March 24, 2010

SELL

Fair Value: N1.19

Current Price: N1.40

Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of **Neimeth**, we estimated **TO**, Earning Before Interest Tax Depreciation and Amortization (**EBITDA**) and **PAT** for the period ended March, 2010. We project a **TO** of **N1.95bn**, based on a growth rate of **4.43%** over the previous year. We project **EBITDA** of **N292.51mn** based on **EBITDA** margin of **15%** and a **PAT** of **N78mn** based on a **PAT** Margin of **4%**. We used **821.57mn** Ordinary Shares, which we expect to be in issue as at March 2010. The Forward Earnings Per Share (**FEPS**) generates **9kobo**. We estimated Dividend Per Share (**DPS**) of **8kobo** based on a dividend payout of **80.09%**. Applying Enterprise Value **EV/EBITDA** multiple of **6.41x**, a **P/E** multiple of **10.22x**, we arrived at **N1.38** per share using **EV/EBITDA** multiple and **97kobo** per share price using earnings multiple. Applying a weight of **55%** on **N1.38** and **45%** on **97kobo**, we arrived at **N1.19** per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **7.95%** and **6.37%** respectively. We therefore place a **SELL** on the shares of **Neimeth** at the current market price.

Business Description

The company is engaged in the manufacture, marketing and distribution of a wide range of healthcare brand

Ticker	NEIMETH
Sector	Healthcare
Date of Incorporation	August 30, 1957
Date of Listing	September 21, 1979
Year End	March
No of Ordinary Shares	821,576,000
Capitalisation (N)	1,207,716,672
% of Market Capitalisation	0.02
52-Week High(N)	4.30
52-Week Low(N)	1.37
YTD Return (%)	0.17
52-Week Avg. Trade	166,213
Beta Value	0.17
Trailing EPS(N)	-
Trailing PE(x)	-

Recovering From Losses:

The unaudited Q2 2009 result of **Neimeth International Pharmaceuticals Plc. (Neimeth)** for the period ended 31 December, 2009 shows that its Turnover (TO) increased by **10.10%** to **N1.35bn**, compared with **N1.23bn** in the corresponding period of 2008. Profit Before Tax (PBT) increased substantially by **143.80%** between 2008 and 2009 to **N54.17mn** from a Loss Before Tax of **N123.76mn**. The Profit After Tax (PAT) increased to **N36.84mn** from a Loss After Tax of **N123.76** in 2008, representing an impressive recovery of **129.77%**. During the financial year ended March 2009, **Neimeth** recorded a Loss After Tax of **N455.2mn** due to a combination of provision of **N109.96mn** due to diminution in value of investments; bad & doubtful debts of **N315.96mn** and exchange rate/finance charge of **N203.48mn**.

Therefore the quarterly growth & profitability is not real growth, but a recovery. The Chairman of the company said the firm's goals for the FY 2009 were missed as demand for its product declined marginally by 4%, especially in HY2 of its trading year. Also, the expected contribution from its new subsidiaries did not come into realisation due to the adverse developments in the global and local economy.

The PBT margin increased to **4.01%** in Q3 2009 from a negative **10.08%** as at Q3 2008, and up from a negative of **21.77%** as at the end of the financial year in March, 2009. This shows that the company's total cost as a percentage of TO stands at **95.99%**, down from **110.08%** recorded in the corresponding period of 2008. PAT margin currently stands at **2.72%**, up significantly from a negative of **10.08%** in the corresponding period of 2008 and up from a negative of **24.38%** as at FY 2009.

A cursory look at the balance sheet position as at Q3 2009 compared with the position as at FY 2009 shows that the company's fixed assets decreased by **11.38%** to **N477.91mn** from **N539.28mn**, while the net assets increased by **17%** to **N1.29bn** from **N1.10bn** as at FY 2009. Cash and bank balances decreased from **N37.15mn** in FY 2009 to **N28.64mn** in Q3 2009. Stocks increased **42.06%** to **N1.15bn** from **N808.11mn** during the review period. **Neimeth's** working capital increased from **N660.25mn** to **N917.82mn** in Q3 2009. The management of **Neimeth** however needs to put in place strategies to reduce the trade debtors which increased by **103.77%** to **N282.48mn** from **N138.63mn** in order to improve its cash position. Also, trade creditors increased marginally by **6.51%** to **N50.58mn** in Q3 2009 from **N47.49mn** 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 had been 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 attract grants from donor agencies. However, just like other manufacturing and distribution companies in Nigeria, poor infrastructure remains a major set-back for **Neimeth**, thereby reducing profit margins.

We are of the opinion that **Neimeth** needs to concentrate on its core business and establish strict risk management framework on investing its surplus funds to avoid excessive provisioning from diminution in value. It can also outsource the management of such funds to a professional fund manager with good track records. The management should also consider optimal capital structure that will minimize interest cost payments in order to improve the bottom line. **Neimeth's** product lines include **Combantrin, Urah (Glucosamine), Ben Gay (Methyl Salicylate), Miniplus, TCP, Homtamin Ginseng, Nomoretic, Ciklavit, OBRON-6, Neimycin Chick Formula, Unabenm and Neimycin-NEO Soluble Powder**. The shareholding structure as at March 2009 showed that **Dr. A.B.C. Orjiako** held **17.17%** of the ordinary shares of **Neimeth**, while **Mazi S.I. Ohuabunwa** held **5.39%**. The remaining **77.45%** were held by other shareholders.

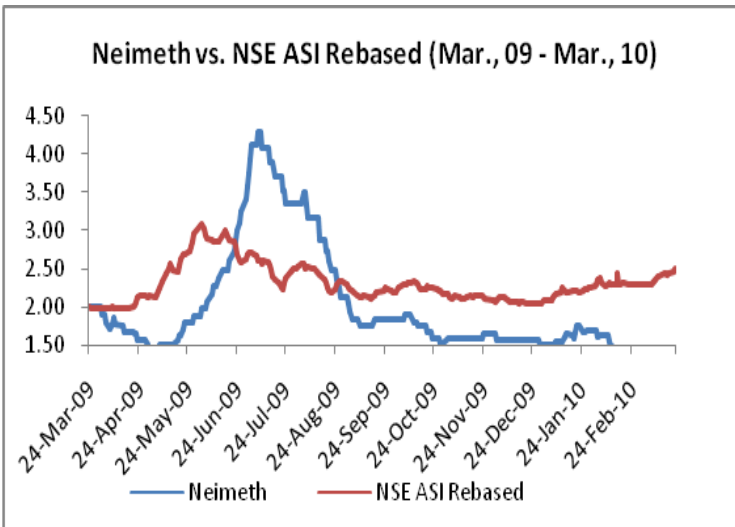
Industry Analysis (NmN)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Neimeth (March, 2009)	1,867	(406)	(455)	(24.37)	-	-	-
Fidson (June, 2009)	5,020	623	429	8.55	8.42	0.29	10.55
GlaxoSmithKline (Dec. 2008)	12,545	1,851	1,277	10.18	23.43	1.89	16.38
May & Baker (Dec. 2008)	5,440	708	418	7.68	15.18	0.57	9.29

Source: Company Annual Reports, NSE FACTBOOK. * Current

Financial Performance (NmN)

	Q3 2009	Q3 2008	%Δ	FY 2009	FY 2008	% Δ	FY 2010F
Turnover	1,352	1,228	10.10	1,867	1,946	(4.1)	1,950
PBT	54.17	(123.76)	143.77	(406.38)	165.13	(346.10)	114.71
PAT	36.84	(123.76)	129.77	(455.21)	98.27	(563.20)	78.00
PBT Margin (%)	4.01	(10.08)	14.08	-	8.49	-	5.88
PAT Margin (%)	2.72	(10.08)	12.80	-	5.05	-	4.00



Directors As At March 31, 2009

Name	Position	Holding
Dr. A.B.C Orjiako	Chairman	141,052,085
Mazi S.I. Oluabunwa	Mgr. Director	44,253,466
Mr. D.C. Anochie	Ex. Director	3,280,998
Mr. E.P. Ekunno	Ex. Director	3,728,057
Alhaji Z.K. Momodu	EX. Director	3,636,981
Mr. E.K. Adefemi	Ex. Director	2,194,513
Mr. A.O. Balogun	Director	1,402,987
Mr. G.N. Oluabunwa	Director	10,777,367
Engr. G.E. Omene	Director	4,190,631

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