



## MERISTEM EQUITY RESEARCH REPORT

### FIDSON HEALTHCARE LIMITED

Private Placement of 540million Ordinary Shares of 50k at N3.95k each

### SUMMARY REPORT

REPORTING DATE: November 6, 2007

### EXECUTIVE SUMMARY AND INVESTMENT RATIONALE

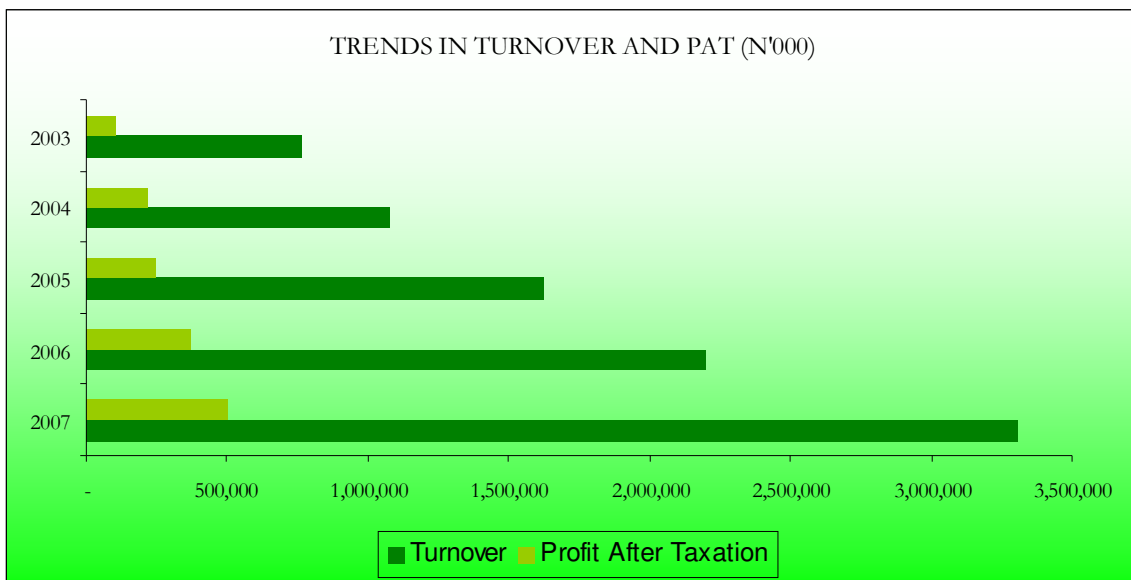
- Fidson Healthcare Limited, a wholly indigenous pharmaceutical company, is a member of the Fidson Group, with corporate Head Office in Lagos and manufacturing plant in Ota, both in Nigeria. The company, which was formed in 1995; manufactures markets and exports high quality pharmaceutical products in accordance with WHO/GMP, laid down standards.
- Fidson has been very prominent in the Nigerian pharmaceutical industry since its entry. It attained a significant height in the industry when it emerged the first indigenous pharmaceutical company to manufacture anti-retroviral drug. The drug, known as **Virex Anti-retroviral**, was 100% formulated and manufactured in Nigeria.
- Fidson also displays outstanding performance records. Its **compounded annual growth rates (CAGR)** in turnover and after-tax profit have been 44.2% and 46.7% respectively. Similarly, the company has consistently paid dividend in each past financial year. At its last financial year ended June 30, 2007; the company declared and paid a dividend of N2.27 in addition to a bonus issue of 2 for 1 Ordinary share held by the existing shareholders. As at date, the company still has over N800 million as distributable reserves.
- **As part of efforts to finance its growth and diversification plans, Fidson Healthcare Limited is planning to raise about N2.1 billion from the Nigerian Capital Market by privately placing 540 million Ordinary shares of 50k at a price of N3.95 each.**
- Our valuation of **Fidson Healthcare Limited** reveals a fair value of N5.22 for each Ordinary share of the company (including the shares to be freshly issued). **This therefore implies that the Private Placement price of N3.95 is being offered at a marked discount of 24.3% to valuation.**

## ANALYSIS OF FINANCIALS

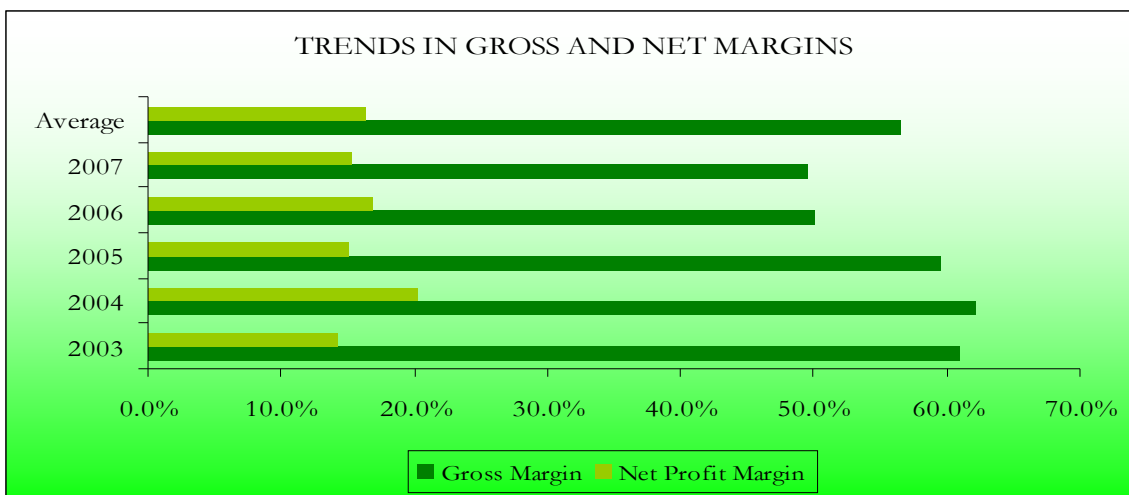
### **Growth and Profitability**

Fidson has an impressive growth record over the last five financial years. Turnover improves from N763.9 million to N3307.4 million between 2003 and 2007, thus achieving a Compounded Annual Growth Rate (CAGR) of 44.2%. This is a remarkable achievement in the light of the performance of comparable quoted companies like May Baker and Neimeth which recorded compounded annual growth rate of 15.3% and 12.1% respectively over same period.

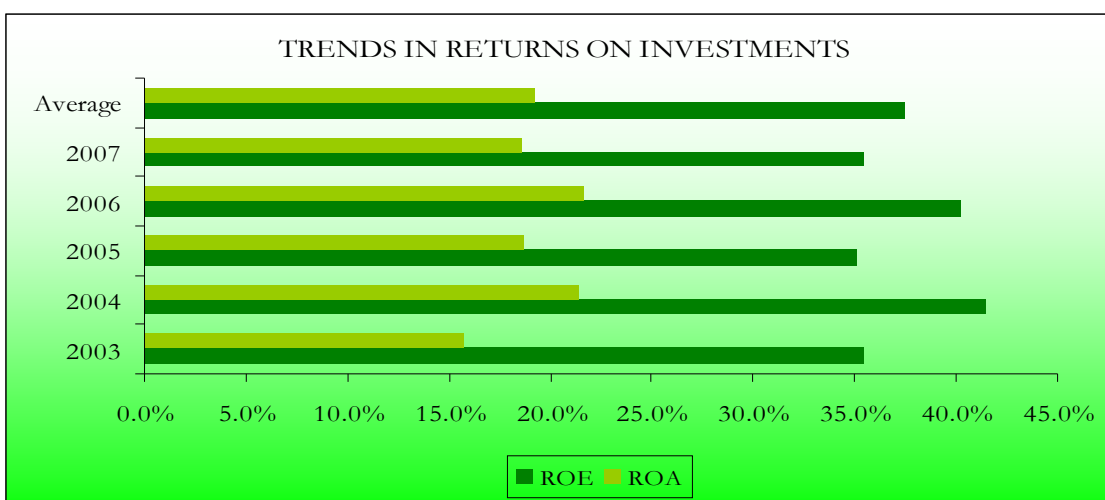
In addition, Fidson achieved a 5-year CAGR of 46.7% in its after-tax profit which improved from N109.1 million in 2003 to N505.3 million in 2007. Over a similar period, May Baker and Neimeth achieved CAGR of 50.6% and 22.3% in after-tax profit respectively.



In terms of profitability, Fidson performance so far is commendable. The company's gross margin, which averaged 56.5% over the past five years, currently stands at 49.6%, while its net profit margin averaged 16.4% over the last five financial years. May Baker's and Neimeth's gross margins for the most recent financial year stand at 46.1% and 59.6% respectively, while their net profit margins stand at 9.4% and 7.7% respectively.

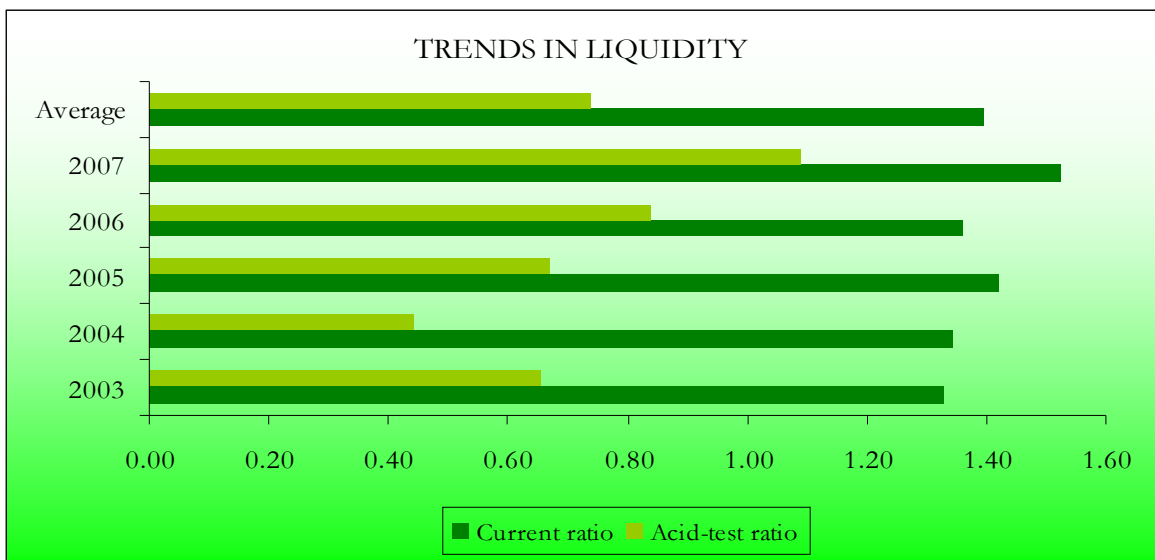


Fidson’s 5-year average returns on equity and asset stand at 37.5% and 19.2% respectively. This performance is impressive when compared with May Baker’s returns on equity and asset of 8.1% and 5.3%, and Neimeth’s returns on equity and asset of 7.2% and 4.3%.



### Liquidity and Long-term Stability

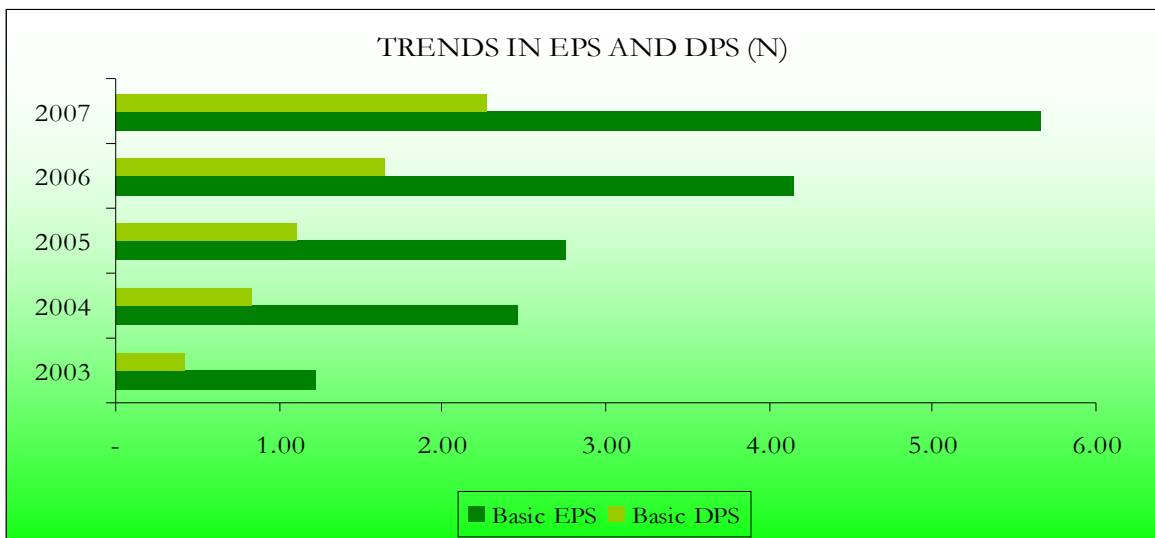
Fidson’s liquidity position, as measured by current asset ratio and acid-test ratio, has been relatively stable over the years. The company’s current asset ratio averaged 1.40 times, implying that its current assets cover 140% of its short-term obligation. However, the company’s acid test ratio which averaged 0.74 times indicates that the company’s short-term readily realizable assets only cover 74% of its total short-term obligations.



The company's long-term financial stability is strong. Debt-equity ratio which has been declining over the years until 2007 financial year averaged 93% over the past five financial years. However, the company's debts are mainly made up of interest-free liabilities, thus it has low interest payments obligations. Earnings before Interest and Tax (EBIT) sufficiently covers its interest obligations. Its interest cover, with a 5-year average of 4.1 times, rose from 2.5 times in 2005 to 5.3 times in 2007.

### Returns to Investors

Fidson's EPS grew from N1.22 to N5.67 between 2003 and 2007, thus achieving a 46.7% compounded annual growth rate in earnings. Over same period, the company has consistently paid dividend for each year ended June 30. In respect of the year ended June 30, 2007, the company gave a twin benefit of N2.27 dividend per share and 2 for 1 bonus.



## SUMMARY OF VALUATION OF FIDSON

In valuing the shares of Fidson Healthcare Ltd, five valuation methods – Price-to-Maintainable Earnings Basis, Price-to-Projected Earnings Basis, Price-to-Sales Basis, Net Asset Basis, and Discounted Dividend Valuation method- were used.

After attaching appropriate weights based on our judgment, we arrived at a valuation of N5.22 as the fair price of a unit of Fidson's ordinary shares.

## APPENDIX:

### FIVE YEAR FINANCIAL SUMMARY

#### **FIDSON HEALTHCARE LIMITED**

#### **PROFIT & LOSS ACCOUNT For the year ended June 30**

	<b>2007 N'000</b>	<b>2006 N'000</b>	<b>2005 N'000</b>	<b>2004 N'000</b>	<b>2003 N'000</b>
Turnover	3,307,421	2,200,167	1,624,471	1,080,231	763,937
Cost of Sales	(1,665,851)	(1,097,575)	(657,535)	(409,072)	(298,413)
<b>Gross Profit</b>	<b>1,641,570</b>	<b>1,102,592</b>	<b>966,936</b>	<b>671,159</b>	<b>465,524</b>
Operating expenses	(1,024,410)	(651,092)	(562,563)	(389,544)	(257,065)
Financial charges	(117,628)	(82,013)	(165,108)	(101,447)	(50,082)
Other operating	5,772	943	7,003	2,816	2,995
<b>Profit/(Loss) Before Taxation</b>	<b>505,304</b>	<b>370,430</b>	<b>246,268</b>	<b>182,984</b>	<b>161,372</b>
Taxation	-	-	(950)	36,074	(52,237)
<b>Profit After Taxation</b>	<b>505,304</b>	<b>370,430</b>	<b>245,318</b>	<b>219,058</b>	<b>109,135</b>
Proposed Dividend	(202,122)	(147,149)	(98,099)	(73,634)	(38,197)
<b>Profit for the year</b>	<b>303,182</b>	<b>223,281</b>	<b>147,219</b>	<b>145,424</b>	<b>70,938</b>
<b>Earnings per share (naira)</b>	<b>5.67</b>	<b>4.15</b>	<b>2.75</b>	<b>2.46</b>	<b>1.22</b>
<b>Dividend per share (naira)</b>	<b>2.27</b>	<b>1.65</b>	<b>1.10</b>	<b>0.83</b>	<b>0.43</b>

**FIDSON HEALTHCARE LIMITED**
**BALANCE SHEET**

<b>As at year ended June 30</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>ASSET</b>					
Fixed Assets	586,482	501,154	441,992	362,934	239,866
Finance Lease Assets	77,418	84,825	18,883	9,500	3,696
Investments	283,824	171,760	57,416	50,000	-
	<b>947,724</b>	<b>757,739</b>	<b>518,291</b>	<b>422,434</b>	<b>243,562</b>
<b>CURRENT ASSETS</b>					
Stocks	504,270	367,382	418,675	403,843	228,017
Debtors and prepayments	1,175,117	478,140	366,002	185,222	216,143
Inter-Company balances	43,105	52,840	-	-	-
Cash at bank and in hand	43,754	54,923	7,521	13,338	5,978
	<b>1,766,246</b>	<b>953,285</b>	<b>792,198</b>	<b>602,403</b>	<b>450,138</b>
<b>CREDITORS- Due within one year</b>	(1,007,395)	(528,094)	(445,464)	(448,093)	(284,857)
Dividend payable	(152,147)	(171,704)	(112,069)	-	-
Taxation	-	-	-	-	(53,643)
<b>NET CURRENT ASSETS</b>	<b>606,704</b>	<b>253,487</b>	<b>234,665</b>	<b>154,310</b>	<b>111,638</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
	1,554,428	1,011,226	752,957	576,744	355,473
<b>CREDITORS- Due after one year</b>	-	-	(1,086)	(848)	-
Obligation under finance lease	(51,681)	(24,300)	-	-	-
Deferred taxation	(49,974)	(49,974)	(49,974)	(47,054)	(47,054)
Staff retirement benefit	(26,047)	(15,530)	(3,756)	-	-
	<b>1,426,726</b>	<b>921,422</b>	<b>698,141</b>	<b>528,842</b>	<b>308,419</b>
<b>CAPITAL and RESERVES</b>					
Share capital	89,181	89,181	89,181	84,636	71,000
Share premium	81,818	81,818	81,818	61,363	-
Fixed assets revaluation reserve	26,279	26,279	26,279	29,199	29,199
Profit and Loss	1,229,448	724,144	500,863	353,644	208,220
	<b>1,426,726</b>	<b>921,422</b>	<b>698,141</b>	<b>528,842</b>	<b>308,419</b>

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