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## INTRODUCTION

This report has been prepared to unravel hidden investment prospects in Neimeth International Pharmaceuticals Plc. Given a number of reforms going on in the industry, it is not controvertible that investment in the industry is in right direction. However, determining the entry price and time remain something critical for investors. It is in view on this that this report has been put together to unravel hidden values, risks and other valuable prospects in the company

## HISTORY AND BUSINESS OF

### THE COMPANY

Neimeth International Pharmaceuticals Plc. is the resultant company from the Mazi Sam I Oluwabunwale Management-Buy-Out of the 60 per cent equity holding of Pfizer Inc. New York, USA in Pfizer Products [Plc. This Management-Buy-Out took place in May 1997 when Pfizer Inc. in pursuit of its global repositioning strategy, divested 60 per cent equity in Pfizer products Plc in favour of the existing management.

The name Neimeth was chosen to honour Mr Robert Neimeth, an American who contributed immensely to the establishment of Pfizer in Nigeria. He relentlessly used his position to stop Pfizer's early divestment from Nigeria as a result of his belief in the economic potentialities of Nigeria and its strategic importance in Africa. He could rightly be said to be the "alien father" of Pfizer operations in Nigeria, especially as a manufacturer. He retired as President, Pfizer International Pharmaceuticals Group in January 1997 and in May same year, Pfizer Inc. divested its shares in Pfizer Products Plc.

Prior to this investment and subsequent change of name to Neimeth, the company had operated in Nigeria for 40 years, manufacturing, marketing, and distributing Pfizer brands of pharmaceutical and veterinary products in tablets, capsules, ointment/cream, powder, injectables, and oral liquid forms. During the 40- year period (1957 – 1997), the company established its pharmaceutical manufacturing plant in at Aba, Nigeria,

which was destroyed during the Nigerian civil war.

It then set up and opened the most modern pharmaceutical plant in the West African sub-region in 1976 at Oregon, Lagos. These represent great milestones for a company that started as a trading venture in 1957 at a location in Ebute Metta, Lagos.

At inception, Neimeth business operation was anchored on its manufacturing and distribution licence agreements with Pfizer. The manufacturing licence allowed Neimeth to manufacture, market and distribute Pfizer's traditional brands in Nigeria while the distribution agreement allowed Neimeth to distribute the newer, high-tech Pfizer brands imported as finished products.

This co-operation with Pfizer has remained in place and was recently strengthened when Pfizer allowed Neimeth to sell TCP in the West Africa market. Also, following these agreements, Neimeth benefits from Pfizer technical supervision to ensure maintenance of Good Manufacturing Practice (GMP) standards to international levels.

With the recent recapitalisation of the company and the eventual utilization of the proceeds, the company would be able to meet the NEEDS projection that by 2007, local manufacturers should be meeting 70 per cent of local essential drugs needs. At the time of recapitalization, the company had already achieved about 40 per cent and this has grown significantly afterwards. In recent times, the company has launched six new products in the market. Among these new products are the mini block, which is a new anti-hypertensive product, Nicotrin, a brand of clotomasin, also a brand of atronic, which is a branch of metromidosin etc.

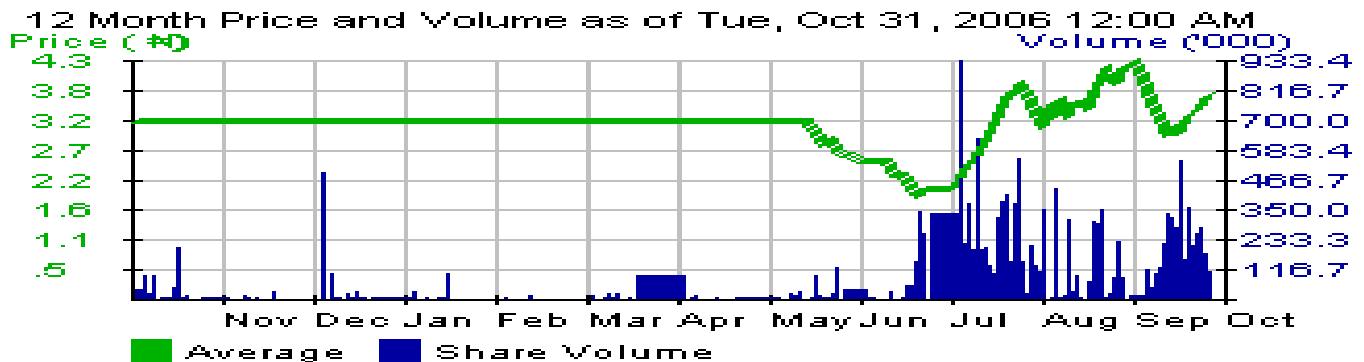
## STRUCTURE

The Company is structured into four (4) business units, each headed by an Executive Director: The business units are: Pfizer Products Group (PPG), Neimeth Products Group (NPG), Veterinary Products Group (VPG) and ECOWAS Business Group (EBG). These business units are serviced by four (4) divisions: Finance, Manufacturing, Human Resources and Medical/Research

## NEIMETH INTERNATIONAL PHARMACEUTICALS PLC

### PRIMARY STOCK STATISTICS

Market Cap.(N)	<b>N2.41billion (US\$18.82 million)</b>
Stock Yield (%)	<b>3.10%</b>
Return On Equity (ROE)	<b>5%</b>
Operating Margin (%)	<b>24%</b>
Net Profit Margin (%)	<b>7%</b>
Price as at Date - 30/10/06	<b>N3.68</b>
Times Earned Interest	<b>1.17</b>
P/E Ratio	<b>25.7</b>
Price to Book Value	<b>1.4</b>
52-Week Price range (High-Low)	<b>N4.41 - N1.97</b>
Shares Outstanding	<b>654,541,752</b>
No of Shareholders	<b>26,231</b>
Estimated EPS(N)	<b>N0.30k</b>



## Product Portfolio.

The company produces a number of drugs that meet customers demand. These include household names such as Trosyd, Combantrin, Feldene, Diabinese, Vibramycin (Pfizer partnership products). There are also Cikalavit, Normoretic, Antimal, Obbron-6, TCP e.t.c which are made locally. Most of these products contribute significantly to the company's bottom-line due to market-wide acceptance of the products.

## Pharmaceutical Industry Review

The pharmaceutical industry is so pivotal to the survival of every country's economy. Pharmaceuticals, especially drugs, are so invaluable and central that no nation can survive without them and every serious-minded government pays great attention to drugs. Drugs are so important that the World Health Organization (WHO) recommends a National Drug Policy for every country. Most progressive countries have formulated and implemented their national drug policies, thereby ensuring good health for their citizens and great wealth for their nation.

The development of pharmaceuticals in Nigeria has undergone significant evolution from the concoctions infused from a cocktail of leaves, fruits, barks and roots to small tablets made through chemical synthesis. Modern science and technology has turned drugs into extremely valuable products and continues to aim at delivering them in forms with enhanced efficacy, precision in action, safety and appearance. This poses a great challenge to the pharmaceutical industry as there is always a need to improve on previous inventions and develop even better drugs. As a result of this evolution, many new entrants into the pharmaceutical industry have emerged

Globally since the mid-1930s and this entrance has led to intense competition with its attendant problem —products of suspect quality infiltrating the markets as players in the industry struggle to get more of the market shares. The problem is exacerbated by the double regulatory standards adopted by exporting countries, as well as the lack of inbuilt security measures that should be included during product development by drug manufacturers to forestall counterfeiting.

The pharmaceutical industry in Nigeria has passed through a tortuous path, from the rudimentary era of pre-1957 to the foundation-laying era of the 1960s, through the oil boom era of the 1970s, to the harrowing experience of the 80's and 90's and into the potentially bright era of the 2000s. This path traversed by the industry is not peculiar to Nigeria but is the same as in other developing countries. The development of the Nigerian pharmaceutical industry has evolved over time in five phases. Each phase depicts the stages of growth that took place in the industry

Between 1987 and date, 5 Indigenous manufacturers control 58 Percent of manufacturing, Asian owned companies control 18 percent; Anglo American owned companies has 14 percent, the government companies' control 5 percent and others control 5 percent. From the above structure, it is clear that indigenous ownership in the industry is on the increase. This is a welcome development for the industry and indeed the nation because the presence of indigenous companies in the industry creates jobs and encourages the development of products that are relevant to the healthcare needs of the nation. It also encourages and supports full implementation of the Essential Drug List as it ensures availability, accessibility, affordability, and rational use of drugs that are very crucial to the success of the health policy of the nation.

***Despite the apparent growth in the number of indigenous players in the industry, there still remains the fact that no company has set up a basic active raw material manufacturing plant in Nigeria, not even for Paracetamol or Aspirin.*** The pharmaceutical industry is greatly challenged in this regard. The amendment of the Essential Drug List (EDL) decree restricting the application only to public health institutions was the first tonic to the industry. With the amendment to this decree, companies were able to expand their product base, resuscitate abandoned product lines, and increase their volume, turnover and profit margins.

***Furthermore, the abolition of the import license system also brought succour to the industry.*** Foreign exchange, which hitherto was an object of political patronage, became available to the real industrial sector. Industries were able to source their raw materials and equipment, free from encumbrances. This was of great benefit.

The abolition of Value Added Tax (VAT) on pharmaceutical raw materials, coupled with the reduction of tariff on raw materials and equipment by the Nigerian government have greatly encouraged the pharmaceutical industry. NAFDAC's differential tariff and its war against fake drugs are now creating a boom for the pharmaceutical industry. Presently, there are eighty-six local pharmaceutical manufacturing companies producing less about 30% of Nigeria's drug need.

NAFDAC activities have also contributed to the rise in healthcare stocks prices, stating that capacity utilization of practitioners in the sector had greatly improved through the agency's sustained fight against faking and counterfeiting of regulated products. The Exchange's monthly stock market review showed capacity in the industry at 64%, which had risen far above the 54% manufacturing sector average in recent times. This in turn is believed to have encouraged the standardization of the products, leading to recovery of

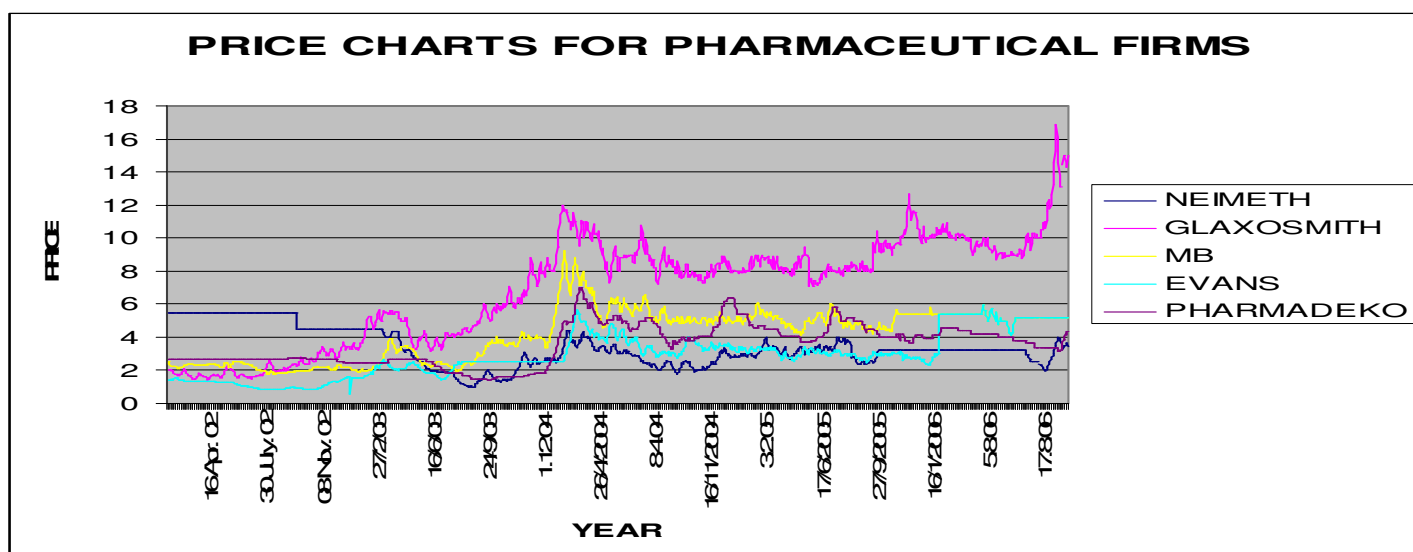
lost market share. It has also brought the need to rehabilitate, expand, and modernize the companies' plants, the possibility of opening new product lines and diversification to capture new markets. It has been noted that the success of the agency in controlling the importation of regulated products, beefing up surveillance at the ports, clamping down on major sources of fake products both locally and internationally impacted positively on the healthcare sector.

Many companies have returned to profitability and have become key players in the sector%. NAFDAC activities, therefore, reinforced the confidence of investors in the pharmaceutical industry, as evidenced in the continuous upward movement in the share prices of the pharmaceutical companies quoted in The Nigerian Stock Exchange. The Agency's reforms have led to other West African countries' renewed confidence and increased patronage of pharmaceutical products produced in Nigeria as evidenced by the lifting of the ban on "Made in Nigeria" drugs by the Ghanaian authorities.

In addition, many Multinational Drug Companies are coming back to Nigeria due to the present regulatory environment. For example, Glaxo Smith Kline built a new OTC Factory valued at One billion Naira. The company now locally manufactures Septrin Tablets. Their toothpaste brand, Macleans withdrawn from the Market is now locally produced. Pharmacia left earlier but is now back as a full fledged scientific office. Ciba – Gaeigy and Sandoz left and are now back jointly as Norvatis. Reckett Benckiser Ltd, formerly importing Dettol Antiseptic disinfectant and soap, now manufacture it locally. Tura range of products imported from Tura International England is now being manufactured locally by Tura International.

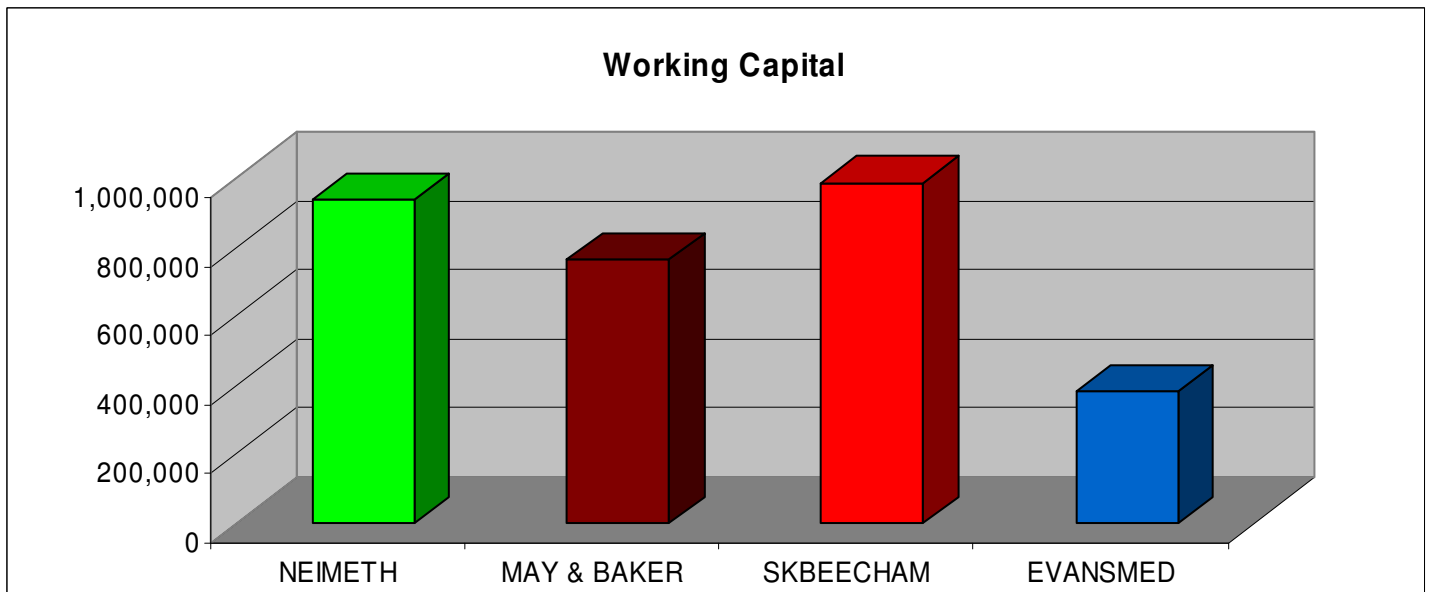
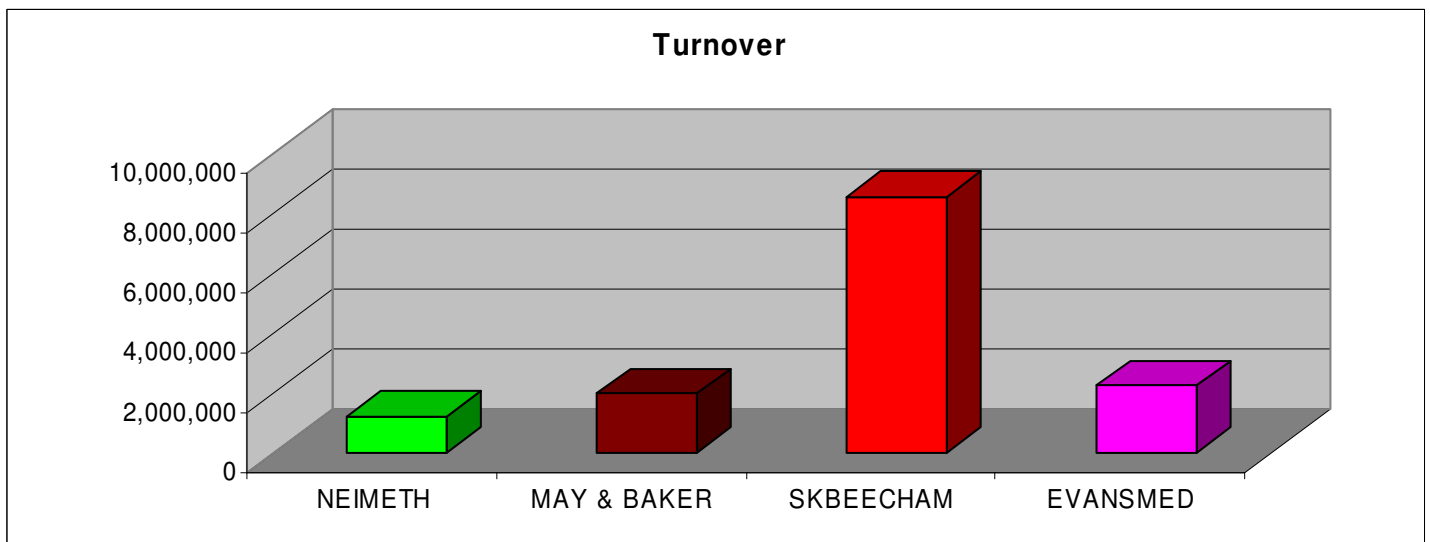
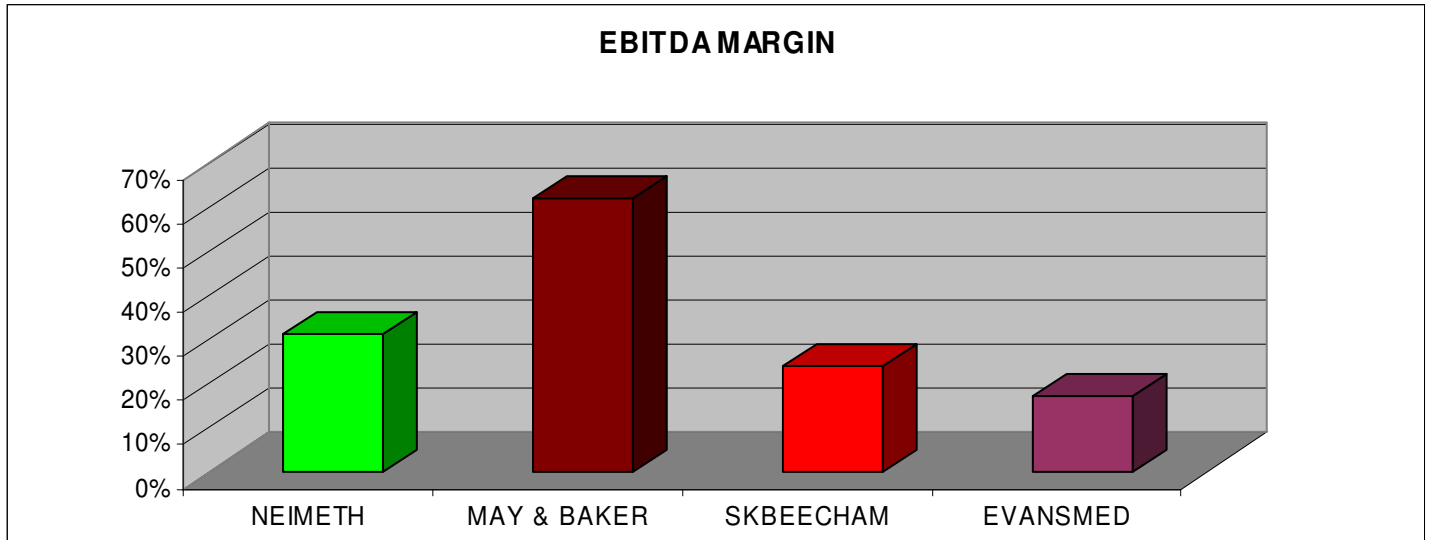
In conducting analysis of the operating environment of the Nigerian Pharmaceutical Industry, focus have been made on the flashpoints of the sub-sector such as; good product and stock turnover, profitable operations, Dividend Policy within the industry, Returns to Shareholders etc.

Eleven firms are listed in the sub-sector in the Nigerian Stock Exchange (NSE) Daily Official List. With the exception of a couple of these companies, the sub-sector enjoys profitable operations and good turnover activities on the floors of the Exchange. For instance, according to records shown in the Official List of the Exchange, seven of the companies have their stocks traded on as recently as March 2006, while all except Maureen Laboratories have enjoyed some level of activity this year. This assures investors of some considerable level of stock activity in the event of their desire to liquidate their stock holdings.



### PEER REVIEW RATIOS

Description	NEIMETH	MAY & BAKER	GSK (SBEECHAM)	EVANSMED
	N'000	N'000	N'000	N'000
<b>TURNOVER</b>	1,241,949	1,996,974	8,589,814	2,259,500
<b>EBITDA :</b>				
Income before ExtraOrd Items	153,602	796,875	1,403,038	94,721
Interest Expense	161,998	94,987	32,791	143,520
Capitalized Interest Expense	0	0	0	
Income Tax Expense	55,175	52,862	433,422	15,547
Reserve Charges	0	0	0	
Depreciation and Amortization	14,133	298,402	200,950	127,447
<b>EBITDA</b>	<b>384,908</b>	<b>1,243,126</b>	<b>2,070,201</b>	<b>381,235</b>
<b>EBITDA Margin</b>	<b>31%</b>	<b>62%</b>	<b>24%</b>	<b>17%</b>
<b>Free Cash Flow:</b>	0			
Operating Cash Flow	43,397	-99,201	403,433	-184,194
Investment Cash Flows	29,486	-288,317	-761,106	-31,058
Preferred Dividends Paid (fixed)	0	0	0	
Redemption of Fixed Obligations	0	0	0	-5,085
Other Critical Outlays	0	0	0	
<b>Free Cash Flow</b>	<b>72,883</b>	<b>-387,518</b>	<b>-357,673</b>	<b>-220,337</b>
<b>Working Capital:</b>				
Current Assets	1,555,100	1,302,006	5,601,493	1,995,705
Current Liabilities	617,098	541,291	4,616,252	1,613,342
<b>Working Capital</b>	<b>938,002</b>	<b>760,715</b>	<b>985,241</b>	<b>382,363</b>
<b>Liquid Capital:</b>				
Cash and Cash Equivalents	92,936	486,258	-376,983	274,953
Marketable Securities	89,538	0	0	0
Accounts Receivable	507,597	283,545	3,255,330	528,635
Notes Receivable	0	0	0	0
Total Current Liabilities	-617,098	-541,291	-4,616,252	-1,613,342
Long Term Debt	-384,093	-144,118	-569,354	158,620
Preferred Equity	0	0	0	0
<b>Liquid Capital</b>	<b>-311,120</b>	<b>84,394</b>	<b>-2,307,259</b>	<b>-651,134</b>



## PROFIT AND LOSS ACCOUNT

Description	millions of Naira				
	Annual Period 2002	Annual Period 2003	Annual Period 2004	Annual Period 2005	Annual Period 2006
Net Sales	897,811	950,804	1,002,024	1,241,949	1,203,530
Other Operating Revenues	4,028	1,779	6,883	673	1,142
<b>Total Revenues</b>	<b>901,839</b>	<b>952,583</b>	<b>1,008,907</b>	<b>1,242,622</b>	<b>1,204,672</b>
Cost of Goods Sold	-412,782	-370,323	-364,490	-478,331	-482,231
Other Operating Expenses	0	0	0	0	0
<b>Total Direct Expenses</b>	<b>-412,782</b>	<b>-370,323</b>	<b>-364,490</b>	<b>-478,331</b>	<b>-482,231</b>
Selling, General & Administrative	-281,240	-322,609	-384,269	-448,655	-439,558
<b>Operating Income</b>	<b>207,817</b>	<b>259,651</b>	<b>260,148</b>	<b>315,636</b>	<b>282,883</b>
Interest Expenses	-188,840	-187,265	-170,993	-161,998	-158,291
Foreign Exchange (Loss) Gain	0	0	0	0	0
Associated Company (Loss) Gain	0	0	0	0	0
Other Non Operating (Loss) Gain	0	0	0	0	0
Income Tax Expense	446	-20,302	-29,980	-55,175	-42,362
Reserve Charges	0	0	0	0	0
<b>Income Before Extra Ord. Items</b>	<b>19,423</b>	<b>52,084</b>	<b>59,175</b>	<b>98,463</b>	<b>82,230</b>
Extra Ordinary Items (Loss) Gain	16,238	0	0	0	0
Tax Effects of Extraordinary Items	0	0	0	0	0
Minority Interests	0	0	0	303	0
<b>Net Income</b>	<b>35,661</b>	<b>52,084</b>	<b>59,175</b>	<b>98,766</b>	<b>82,230</b>
Primary EPS	0.31	0.46	0.36	0.53	0.13
Earnings Before Int & Taxes	224,055	259,651	260,148	315,939	282,883
Depreciation & Amortization	-27,580	-22,466	-15,143	-14,133	-13,272
Research & Devel Expenses	0	0	0	0	0
Capitalized Interest Expense	0	0	0	0	0
Interest Income	1,706	210	6,158	0	0
Total Non Operating Expenses	-188,394	-207,567	-200,973	-217,173	-200,653
Total Extra Ordinary Items	16,238	0	0	303	0
Tax Rate	0.00%	28.05%	33.63%	35.91%	34.00%

## COMMON SIZED PROFIT & LOSS ACCOUNT

Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	45.77%	38.88%	36.13%	38.49%	40.03%
Gross Profit	54.02%	61.05%	63.62%	61.49%	59.93%
Operating Expenses	31.19%	33.87%	38.09%	36.11%	36.49%
Non Operating Expenses	20.89%	21.79%	19.92%	17.48%	16.66%
Income Before Extra Ord Items	2.15%	5.47%	5.87%	7.92%	6.83%
Net Income	3.95%	5.47%	5.87%	7.95%	6.83%

## BALANCE SHEET

Millions of Naira

Description	Annual	Annual	Annual	Annual	Annual
	Period	Period	Period	Period	Period
	2002	2003	2004	2005	2006
Cash and Cash Equivalents	122,258	20,380	79,248	92,936	300,000
Short Term Marketable Securities	0	0	0	0	0
Accounts Receivable	502,786	486,442	449,907	507,597	1,236,644
Inventory	367,215	511,337	780,681	865,029	914,723
Other Current Assets	175,837	175,577	151,549	89,538	109,550
<b>Total Current Assets</b>	<b>1,168,096</b>	<b>1,193,736</b>	<b>1,461,385</b>	<b>1,555,100</b>	<b>2,560,917</b>
Fixed Assets	242,036	242,888	246,865	272,299	283,817
Accumulated Depreciation	-166,026	-183,536	-192,065	-200,078	-209,043
Net Fixed Assets	76,010	59,352	54,800	72,221	74,774
Longterm Investments	0	0	0	0	0
Investments in Other Companies	0	0	0	0	0
Intangibles and Other Assets	0	0	0	0	0
<b>Total Non Current Assets</b>	<b>0</b>	<b>59,352</b>	<b>54,800</b>	<b>72,221</b>	<b>74,774</b>
<b>Total Assets</b>	<b>1,244,106</b>	<b>1,253,088</b>	<b>1,516,185</b>	<b>1,627,321</b>	<b>2,635,691</b>
Accounts Payable	230,974	211,546	278,889	324,782	330,940
Short Term Borrowings	662,569	619,879	177,007	138,713	160,598
Short Term Portion of LT Debt	1,913	0	13,111	0	0
Other Current Liabilities	41,340	67,408	95,725	153,603	201,229
<b>Total Current Liabilities</b>	<b>936,796</b>	<b>898,833</b>	<b>564,732</b>	<b>617,098</b>	<b>692,767</b>
Longterm Debt / Borrowings	0	0	480,093	384,093	289,093
Other Longterm Liabilities	46,219	45,794	52,366	85,211	143,245
<b>Total Non Current Liabilities</b>	<b>46,219</b>	<b>45,794</b>	<b>532,459</b>	<b>469,304</b>	<b>432,338</b>
<b>Total Liabilities</b>	<b>983,015</b>	<b>944,627</b>	<b>1,097,191</b>	<b>1,086,402</b>	<b>1,125,105</b>
Preferred Equity	0	0	0	0	0
Common Equity	56,867	69,538	82,103	92,524	327,070
Additional Paid in Capital	130,725	141,402	204,826	236,408	973,220
Retained Earnings	73,499	97,521	132,065	211,987	210,296
Adj for Foreign Currency Transl	0	0	0	0	0
Treasury Stock	0	0	0	0	0
<b>Total Shareholder Equity</b>	<b>261,091</b>	<b>308,461</b>	<b>418,994</b>	<b>540,919</b>	<b>1,510,586</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,244,106</b>	<b>1,253,088</b>	<b>1,516,185</b>	<b>1,627,321</b>	<b>2,635,691</b>

## COMMONSIZED BALANCE SHEET

expressed in percentages

<i>Account Title</i>	<i>Annual Period 2002</i>	<i>Annual Period 2003</i>	<i>Annual Period 2004</i>	<i>Annual Period 2005</i>	<i>Annual Period 2006</i>
Cash and Cash Equivalents	9.83%	1.63%	5.23%	5.71%	11.38%
Short Term Marketable Securities	0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Receivable	40.41%	38.82%	29.67%	31.19%	46.92%
Inventory	29.52%	40.81%	51.49%	53.16%	34.71%
Other Current Assets	14.13%	14.01%	10.00%	5.50%	4.16%
<b>Current Assets</b>	<b>93.89%</b>	<b>95.26%</b>	<b>96.39%</b>	<b>95.56%</b>	<b>97.16%</b>
Net Fixed Assets	6.11%	4.74%	3.61%	4.44%	2.84%
Longterm Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Investments in Other Companies	0.00%	0.00%	0.00%	0.00%	0.00%
Intangibles and Other Assets	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Non Current Assets</b>	<b>6.11%</b>	<b>4.74%</b>	<b>3.61%</b>	<b>4.44%</b>	<b>2.84%</b>
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Accounts Payable	18.57%	16.88%	18.39%	19.96%	12.56%
Short Term Borrowings	53.26%	49.47%	11.67%	8.52%	6.09%
Short Term Portion of LT Debt	0.15%	0.00%	0.86%	0.00%	0.00%
Other Current Liabilities	3.32%	5.38%	6.31%	9.44%	7.63%
<b>Total Current Liabilities</b>	<b>75.30%</b>	<b>71.73%</b>	<b>37.25%</b>	<b>37.92%</b>	<b>26.28%</b>
Longterm Debt / Borrowings	0.00%	0.00%	31.66%	23.60%	10.97%
Other Longterm Liabilities	3.72%	3.65%	3.45%	5.24%	5.43%
<b>Total NonCurrent Liabilities</b>	<b>3.72%</b>	<b>3.65%</b>	<b>35.12%</b>	<b>28.84%</b>	<b>16.40%</b>
<b>Total Liabilities</b>	<b>79.01%</b>	<b>75.38%</b>	<b>72.37%</b>	<b>66.76%</b>	<b>42.69%</b>
Preferred Equity	0.00%	0.00%	0.00%	0.00%	0.00%
Common Equity	4.57%	5.55%	5.42%	5.69%	12.41%
Additional Paid in Capital	10.51%	11.28%	13.51%	14.53%	36.92%
Retained Earnings	5.91%	7.78%	8.71%	13.03%	7.98%
Adj for Foreign Currency Translations	0.00%	0.00%	0.00%	0.00%	0.00%
Treasury Stock	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Equity</b>	<b>20.99%</b>	<b>24.62%</b>	<b>27.63%</b>	<b>33.24%</b>	<b>57.31%</b>
<b>Total Liabilities &amp; Equity</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

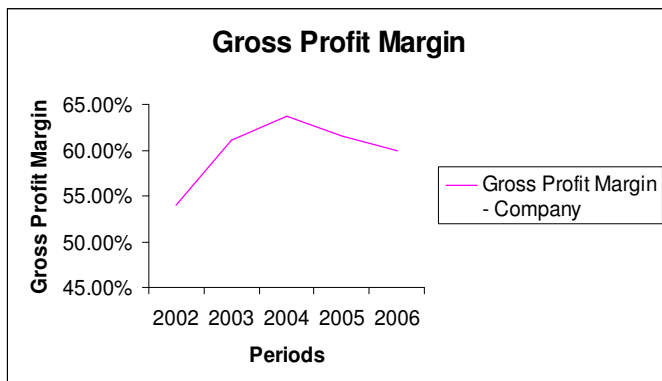
## NEIMETH KEY RATIOS

<i>Title of Ratio</i>	<i>Annual Period 2002</i>	<i>Annual Period 2003</i>	<i>Annual Period 2004</i>	<i>Annual Period 2005</i>	<i>Annual Period 2006</i>
<b>Acid Test Ratio</b>	<b>0.67</b>	<b>0.56</b>	<b>0.94</b>	<b>0.97</b>	<b>2.22</b>
<b>Current Ratio</b>	<b>1.25</b>	<b>1.33</b>	<b>2.59</b>	<b>2.52</b>	<b>3.7</b>
<b>Operating Cash Flow to Net Income</b>	<b>2.19</b>	<b>-1.57</b>	<b>0.18</b>	<b>0.05</b>	<b>-8.44</b>
<b>Z Score:</b>					
1.2 x (working capital / total assets)	0.22	0.28	0.71	0.69	0.85
1.4 x (retained earn / total assets)	0.08	0.11	0.12	0.18	0.11
3.3 x (EBIT / total assets)	0.59	0.68	0.57	0.64	0.35
.6 x (market value equity / b.v. debt)	0	0	0.66	0.82	4.39
.999 x (sales / total assets)	0.72	0.76	0.66	0.76	0.46
<b>Z Score</b>	<b>1.62</b>	<b>1.83</b>	<b>2.71</b>	<b>3.1</b>	<b>6.16</b>
<b>Receivable Turnover:</b>					
Credit Sales	897,811	950,804	1,002,024	1,241,949	1,203,530
Average Receivable Balance	532,596	494,614	468,175	478,752	872,121
<b>Receivable Turnover</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>2.6</b>	<b>1.4</b>
<b>Days Required to Collect A/R</b>	<b>217</b>	<b>190</b>	<b>171</b>	<b>141</b>	<b>264</b>
<b>Inventory Turnover:</b>					
Average Inventory Balance	380,002	439,276	646,009	822,855	889,876
<b>Inventory Turnover</b>	<b>1.1</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
<b>Days in Inventory</b>	<b>336</b>	<b>433</b>	<b>647</b>	<b>628</b>	<b>674</b>
<b>Total Asset Turnover</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.5</b>
<b>Operating Assets Ratio</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Gross Profit Margin</b>	<b>54%</b>	<b>61%</b>	<b>64%</b>	<b>61%</b>	<b>60%</b>
<b>Operating Margin</b>	<b>23%</b>	<b>27%</b>	<b>26%</b>	<b>25%</b>	<b>24%</b>
<b>Net Profit Margin</b>	<b>4%</b>	<b>5%</b>	<b>6%</b>	<b>8%</b>	<b>7%</b>
<b>Direct Cost to Operating Revenues</b>	<b>46%</b>	<b>39%</b>	<b>36%</b>	<b>38%</b>	<b>40%</b>
<b>Capitalization Rate / Asset Return:</b>					
Net Operating Income	207,817	186,827	172,668	202,284	186,701
Total Investments / Operating Assets	1,244,106	1,253,088	1,516,185	1,627,321	2,635,691
<b>Capitalization Rate / Return</b>	<b>16.70%</b>	<b>14.91%</b>	<b>11.39%</b>	<b>12.43%</b>	<b>7.08%</b>
<b>Return on Shareholder Equity</b>	<b>7%</b>	<b>17%</b>	<b>14%</b>	<b>18%</b>	<b>5%</b>
<b>Debt to Total Assets</b>	<b>0.79</b>	<b>0.75</b>	<b>0.72</b>	<b>0.67</b>	<b>0.43</b>
<b>Debt to Common Equity</b>	<b>3.77</b>	<b>3.06</b>	<b>2.62</b>	<b>2.01</b>	<b>0.74</b>
<b>Times Interest Earned</b>	<b>1.19</b>	<b>1.39</b>	<b>1.52</b>	<b>1.95</b>	<b>1.79</b>
<b>Price to Earnings (P/E)</b>	<b>14.2</b>	<b>7</b>	<b>8.9</b>	<b>5.3</b>	<b>25.7</b>
<b>Price to Book Value</b>	<b>1.9</b>	<b>1.2</b>	<b>1.3</b>	<b>1</b>	<b>1.4</b>
<b>Stock Yield</b>	<b>2.25%</b>	<b>4.57%</b>	<b>4.69%</b>	<b>7.02%</b>	<b>3.10%</b>

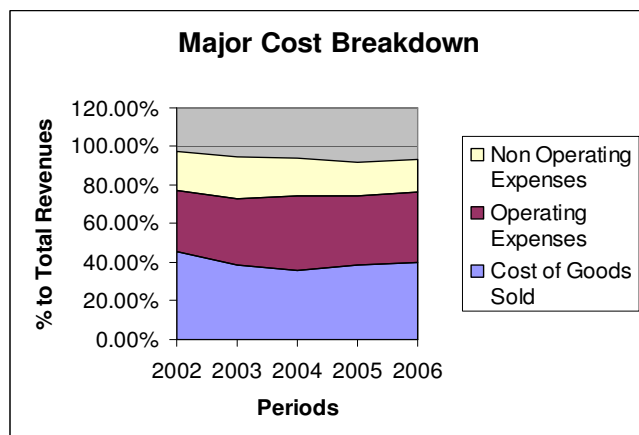
### Turnover

The Company's sales grew at an average of 5.5% from year 2002 to 2004 with a surprise increase of 24.5% in 2005 resulting from favourable govt. policies. The growth however became unsustainable in 2006 thereby creating a growth decline by 3.19%.

In terms of gross profit margin, Neimeth has the highest percentage of gross margin ratio in the industry starting with 54.02% in 2002 to 61.48% in 2005 with an annual average of 57.25%. However, while a turnover decline of 3.19% was witnessed in year 2006, the gross margin only declined by 1.55%. In a common parlance, what this indicates is that the company was able to make an average of 60.02 kobo as a gross profit out of every =N=1 Naira sale, thereby giving enough room for overhead



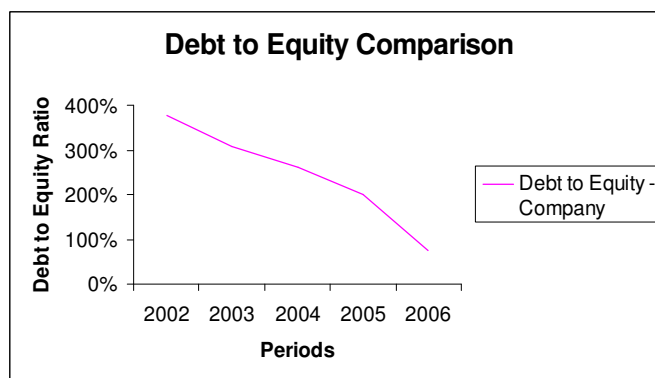
EBITDA increased from N235,397 in 2002 to N329,769 in 2005 with a decline of 10% in 2006. We present below major cost breakdown in respect of neimeth:



### Financial Leverage.

The company's financial leverage measured using different indicators reveals that exposure to debt declined over the last five years. Using the Debt to Total Asset measurement, the gearing declined from 0.79 in 2002 to 0.43 in 2006, while employing the basic leverage of Debt to Common Equity approach, the debt contribution to financing sources employed by the company declined from 3.77 times in 2002 to 0.74 in 2006. This quantum reduction could be attributed to increased shareholders commitment to the company which equally reduces the company's debt exposure thereby distancing it from potential bankruptcy.

Measured by potential capability for debt repayment, this was increased from 1.19 cover of 2002 to 1.79 of 2006. It is expected that while the debt component reduces further, the company strives to increase its bottom-line.



### Liquidity/Efficiency

Neimeth's ability to meet immediate obligations is not in doubt as the current ratios increase from 1.25 in 2002 to 3.7 in 2006 while its ability to defray current liability using available cash or cash equivalents improved from its 0.67 in 2002 to 2.22 in 2006.

In the same vein, while the company's receivable turnover increased from 1.7 in 2002 to 2.6 in 2005 with a decline to 1.4 in 2006, its Inventory turnover reduced from 1.1 in 2002 to 0.5 in 2006. On average, the Overall Asset Turnover decline from 0.7 in 2002 to 0.5 in 2006. While decline in receivable is commendable, the company needs to work on its growing inventory which reduces its Return on Asset (ROA) from 16.7% in 2002 to 12.43% in 2005 with a further decline to 7.08% in 2006.

The drastic reduction of ROA in 2006 is a resultant effect of the increased total Asset emanating from the proceeds of its Seasoned Offers in the later part of the financial year (February 06). The Company has not utilized the proceeds as at the date of its last financial year and from its Audited Account for the FY 2006, over N400 million of the Offer proceeds was received after the end of the company's FY 2006.

### Quarterly Results.

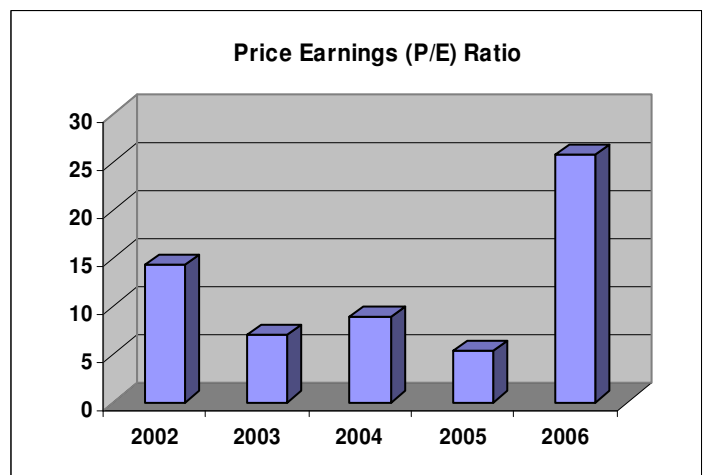
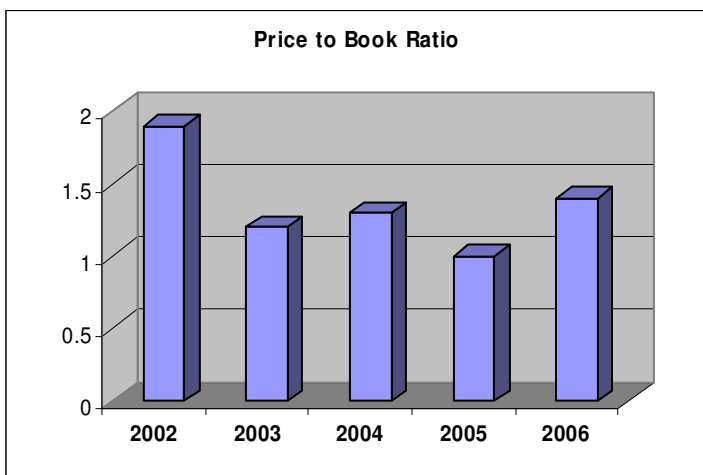
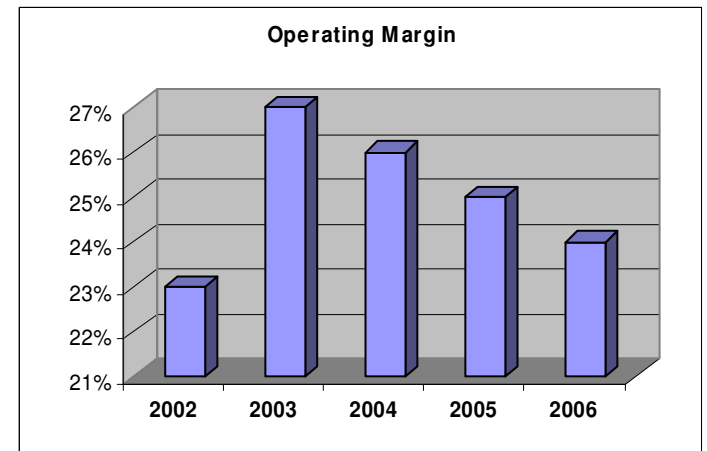
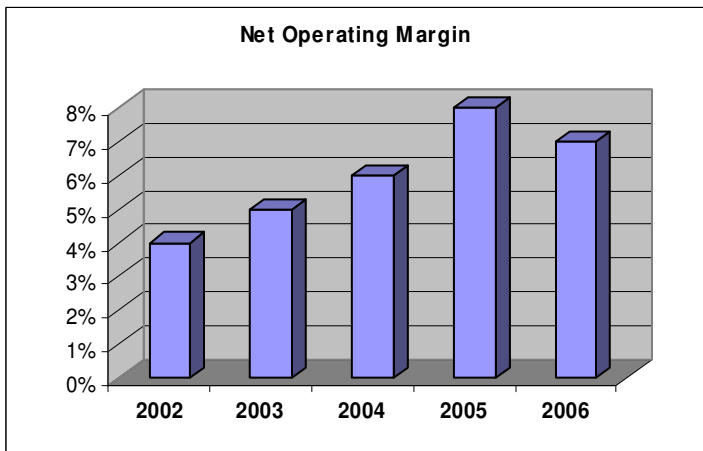
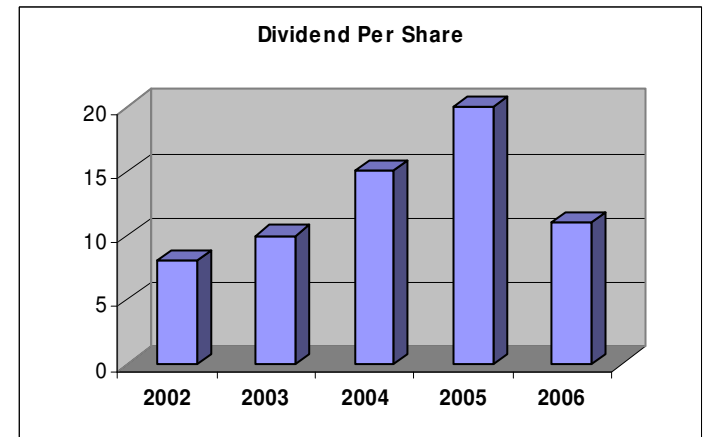
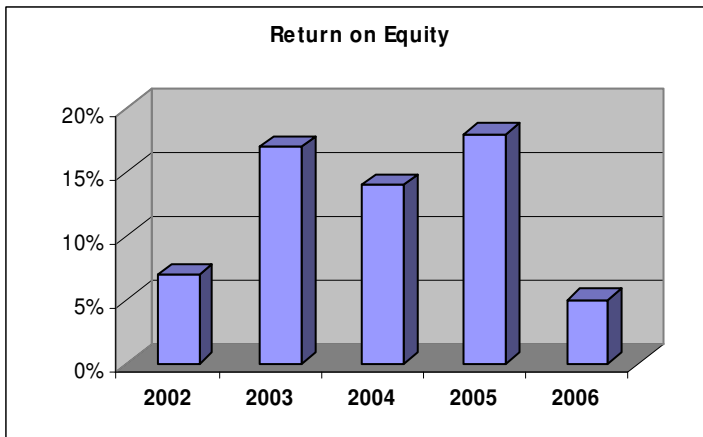
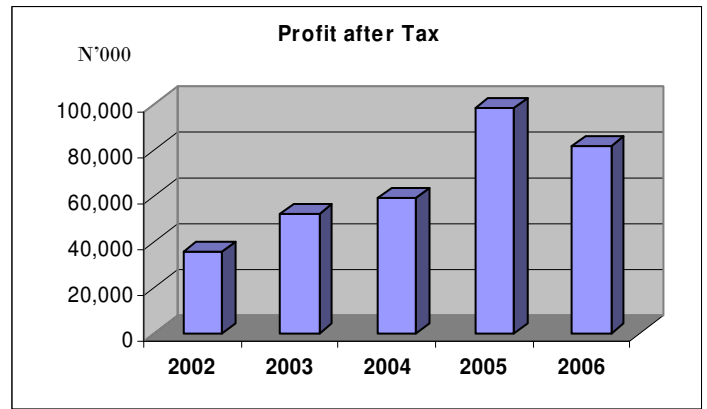
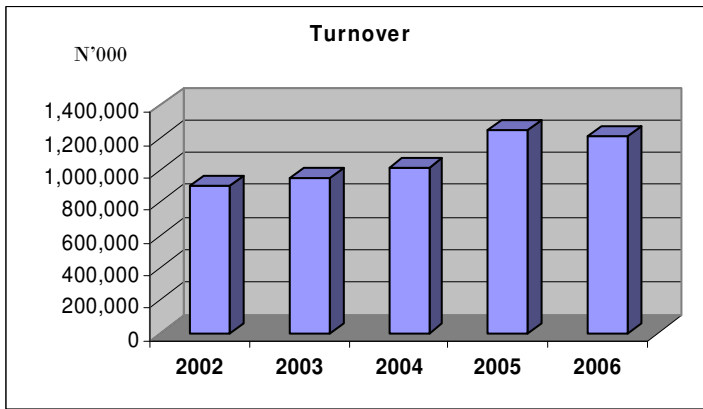
It is imperative to mention that the benefit of the proceeds became more manifest in the company's Q1 and Q2 respectively. Turnover increased by 20.37% over the last FY Q2 from N606.1 to N729.6 while PAT increased by 71.37% from N40.32 to N69.2. This increase corroborates earlier assertions that with the injection of new funds and given the prospects, the company would certainly give earnings surprise to analysts and shareholders

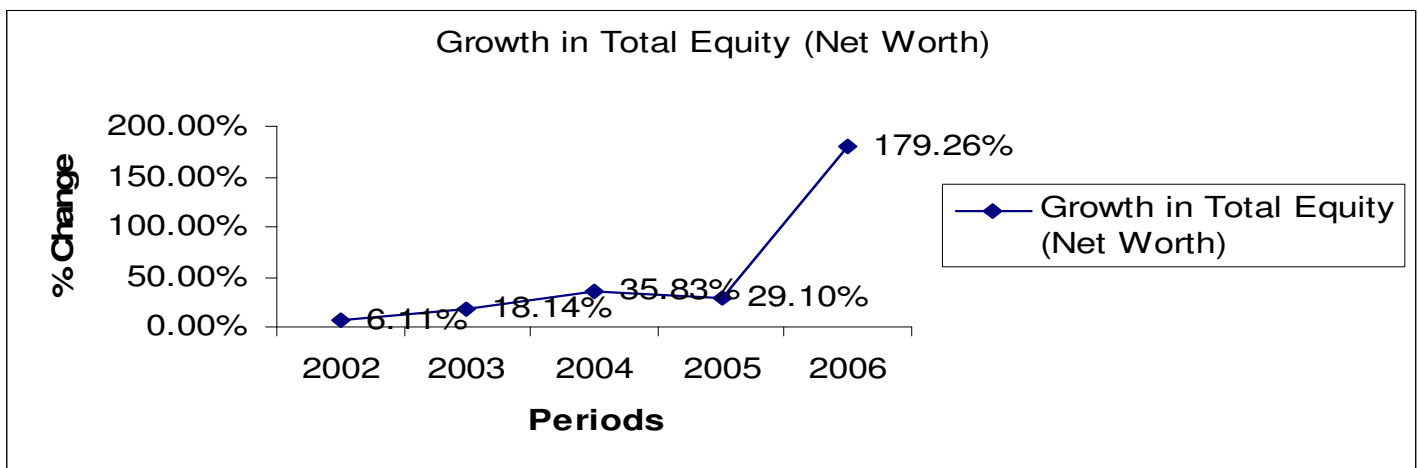
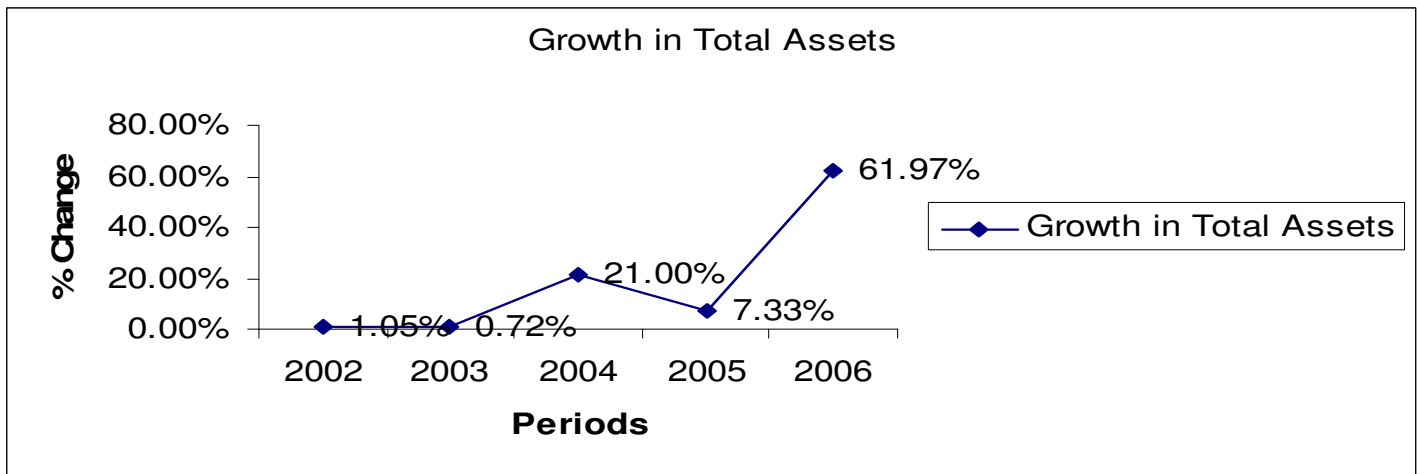
### Solvency/Financial Health

From our analysis, the company's financial soundness has improved dramatically.

Measured by a Z-score which is an overall indicator of a company's risk of failing due to financial weakness, a Z-score of 1.8 below is regarded as high risk, while between 1.8 to 2.99 is a no decision zone and a region of 3 and above is considered very low. From our assessment of Neimeth, the Z-score moved from 1.62 in 2002 to 1.83, 2.71, 3.10 and 6.10 in 2003, 2004, 2005 and 2006 respectively. This shows that the company grew from financial danger zone to a very sound financial footing.

While the company growth in total asset and equity has been so tremendous as evidenced by the following graphs





### Prospects

- Neimeth has a lot of hidden potential benefits/opportunities that can bring fortunes to its shareholders in not too distant future. Among these benefits are:
- The NEEDS requirement for the 70% local content manufacture of drugs is an opportunity for the firm to generate enough revenue. Given the recently installed capacity to manufacture a wide range of pharmaceutical and veterinary products such as: Tablets, Capsules, Ointments/Creams, oral and Consumer Liquids, Powder etc in diverse packaging presentations, it is expected that the company which has the highest gross margin in the industry would return more to its shareholders.
- The available of excess capacity to service other operating areas such as: Tableting, Encapsulation, Ointments, Labelling, Packaging, Blistering, Power filling, Counting and many other contract manufacturing on behalf of other companies reduces the possibility of idle cost in the company.
- The consistent growth in demand and the availability of Technical back up from Pfizer Corporation, USA (still manufacturing Pfizer's lines under Licence) remain a strong force for the company.
- The presence of favourable government policies such as a ban on some drugs that could be produced locally and the activities of NAFDAC.
- Introduction of the National Health Insurance Scheme (NHIS) has the potential for spawning more demand in the industry for which the company has direct benefit.

### Risk

The company, as well as the industry, is faced with some risks amongst which are change in government policies on health and competition. Though the current regime is favourably tough on issues like fake drugs and other health matters, a regime change may signal policy reversals and this would highly counter productive and inhibiting.

Competition is another key potential risk as many foreign companies which had already left the country are either coming back to form their independent companies or forming strategic alliance with other existing home pharmaceutical firms thereby strengthen their operating base. Hence, there is a virtual competition from both within and outside the country most.

Management risks is another potential risk worth mentioning. The possibility of Neimeth resting solely on the current Managing Director may not be unfounded. Notwithstanding the fact that the company is currently ably managed by experienced hands and also that it is hardly possible for a company to exist sometimes without noticing the weilding influence of such a position holder in any company, its existence potends a possible risk.

The company also faces the risk of high stock and revenue turnover, it is expected that the hinges more of the management approach and hence management expertise in this aspect is expected to improve.

## Valuation

In determining the intrinsic value of Neimeth, we have employed various valuation metrics and considered several factors amongst which are the following:

- **Net assets per Share ratio:** From our analysis, the Net Asset Value per share at book value was N2.92 by the end of FY 2005 and N2.31 in FY 2006. However, given the leasehold properties revaluation conducted by Abas Koiki & Co in October 2002, the Net Asset increased by =N=823,495,000 thereby creating an implicit revaluation reserve of same figure. Based on this, our opinion is that as at the date of last revaluation (Oct. 2002), Neimeth's Market Value per share was =N=7.36k creating an additional =N=4.45 per share as at the date. This means that using a Break up or Liquidation value as at October 2002, every shareholder would be entitled to at least N7.36k per share held.
- The value of the leasehold properties have however skyrocketed and the present value is estimated at about N919 million as at October, 2005.
- The **dividend yield** which is company's annual dividend payments divided by its price or the dividend per share divided by the price per share is 8% for Neimeth which is higher than the industry average and current savings account interest rate of 3%. Neimeth Pharmaceuticals Limited is one company that has paid dividend consistently for the past five years. Despite unfavourable operating environment, the company has always given priority to its numerous shareholders by paying an average of 35.5% of its earnings. By March 2006 and with a dividend of 10k, the company payout ratio increased to 79.5%. Though this is short of the projected dividend of 21.25k per share by 53%, the shortfall is due to the enlarged shareholding base resulting from the Offer.
- **Earnings yield:** The company's has maintained has maintained an improved earnings yield from its 7.05% in 2002 to 18.73% in 2005. During the company's last Offer, the earnings yield was 20.4% given the Offer price. The increasing earning yield (E/Y) over the years has kept the company's historical P/E ratio- an inverse of (E/Y) at a not too high average level of 16% until the last financial year when the E/Y declined to 3.89% as a result of decline in earnings and increased no of share resulting from the Offer for Subscription- the proceeds of which was not available for utilization within the financial year. This indicates that a drastic drop in E/Y and a jump in P/E to 24.85x as at the end of the year was also caused by the enlarged shareholding base resulting from the Offer.

Our DCF computation indicates N4.11 for Neimeth, while the NAV measured by the book value and market value gave N2.31 and N3.74 respectively. Our valuation based on the price to sales metrics indicates N2.25 for Neimeth. Given appropriate weights to each valuation method, we believe Neimeth should be selling for N4.15.

## Summary and Recommendations

- The pharmaceutical industry is witnessing a major turnaround as a result of the activities of NAFDAC ban on importation of some drugs.
- The new policy initiative of the Federal Government in respect of the industry is highly favourable and would manifest in tremendously industrial growth in the nearest future.
- Increased industry product demand and international opportunities for expansion especially in the Ecowas sub region.
- Good brand image and strong cooperation United State drug maker 'Pfizer'
- Stable and experienced management
- From our analysis, details about the company's financial are impressive and commendable.
- Because the Company has consistently paid dividend the last five years it now qualifies for a pension fund investment.
- The company Bonus history is average and has more potential to do more given its rich reserves.
- The company debt profile is declining with drag effect on the company's associated interest expenses. The injection of equity capital would allow the company to liquidate some of these debts in a beneficial way.
- Companies like Nigerian Breweries Plc and WAPCO Plc that are in similar debt situation have experienced significant price increase in recent times because of increases profitability from reduced finance charges.

*Based on the foregoing, the stock is strongly recommended for **BUY** both for both speculation and investment.*