



May & Baker Nig Plc H1 2020 27 August 2020



MPR: 12.50%
July '20 Inflation Rate: 12.82%
Q2 '20 GDP: -6.10%

TICKER: MAYBAKER
Sector: Healthcare
Price as at 27 August 2020: NGN2.73
Target Price: NGN4.34

Upside Potential: 59.01%
Performance Rating: A (Long-term Rating is BB)
Recommendation: BUY
Suggested Entry Price: NGN2.73

Financial Summary (N'Bn)	H1 2020	H1 2019	Y-o-Y%Δ
Turnover	4.07	4.06	0.41%
Gross Profit	1.59	1.32	20.45%
Operating Expense	0.88	0.88	1.00%
EBIT (Operating Profit)	0.69	0.50	36.26%
PAT	0.44	0.29	50.91%
Total Assets	11.40	11.78	-3.26%
Total Liabilities	5.52	5.17	6.65%
Shareholders' Funds	5.88	6.61	-11.02%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2020	H1 2019	Industry Average
Gross Profit Margin	39.09%	32.59%	32.98%
Operating Profit Margin	16.89%	12.45%	-15.41%
Return on Equity	7.03%	5.64%	1.35%
Return on Total Assets	5.93%	5.33%	2.11%
Interest Coverage Ratio	16.64	4.59	-13.33
CCC (in days)	255.69	273.86	463.72
Quick Ratio	1.08	0.93	0.91
Debt to Capital	19.21%	20.70%	26.63%
Equity Multiplier	1.94	1.78	2.33
Debt to Cash	0.91x	1.84x	3.00x
Debt to EBITDA	1.44x	2.38x	2.50x

Source: Company Financials, Cowry Research

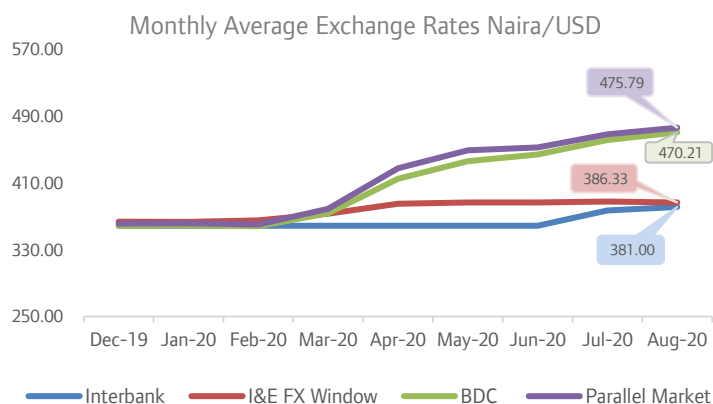
Investment Ratios	FY 2019	Industry Average
EPS TTM	0.43	0.06
F' EPS	0.51	0.02
NAV	3.41	4.79
EV/EBITDA	4.70x	11.72x
PER TTM	6.42x	10.82x
Weighted PER	1.49x	10.21x
P/B	0.80x	1.04x
Dividend yield at suggested entry price	9.16	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months; CCC – Cash Conversion Cycle

Good Increase in PAT Signals Better Value for Shareholders...

May & Baker Nigeria Plc (M&B) printed strong operating performance in H1 2020 as its Profit After Tax (PAT) swelled by 50.91% to N0.44 billion chiefly on lower cost of sales. Also, revenue rose marginally by 0.41% to N4.07 billion in H1 2020, thereby increasing the profit margin to 10.81% from 7.14% recorded in H1 2019. The company's segment revenue from pharmaceuticals (constituting 99.16% of the total revenue) increased by 0.58% to N4.04 billion; however, segment revenue from beverage (constituting 0.84%) moderated by 15.89% to N34.21 million in H1 2020. Notably, M&B Nig. Plc partnership with FG to produce vaccines via Biovaccines Nigeria Limited is expected to further contribute to the company's growing revenue – the company entered into a 10-year agreement, ready for signature, with the FG to supply 15% of the national requirement of five vaccines: BCG, Hipatites, Measles, TB and Yellow Fever. Increase in revenue is also expected from M&B's manufacturing facility – which is World Health Organisation (WHO)-certified – currently used by a French pharmaceutical giant, Sanofi Nigeria Limited to manufacture about five of its products. The pharmaceutical company also reactivated its hand sanitizer production line in the course of the year to locally mass-produce "Smartans" – its brand of hand sanitizer. Given the positive developments and the attendant impact on revenue, as well as the reduction in M&B Plc's costs, we expect the company's margin to increase in FY 2020. Hence, the possibility of M&B Plc increasing its dividend payout in FY 2020, from the N0.25k paid in FY 2019. MAYBAKER's performance amongst other players was well above industry average (of equally listed companies) based on financial ratio analysis, hence our 'A' rating.



Source: FMDQ, Abokifx.com, Cowry Research

...Any Threat of Foreign Currency Risk?

May & Baker Nigeria Plc's exposure to foreign currency risk is limited to purchase of raw materials and some specialized items; however, the company minimised this risk by restricting imports to circumstance where no local alternative exists. More so, its total borrowings were denominated in local currency. MAYBAKER's foreign exchange loss stood at N26.38 million as at H1 2020 when the major devaluation of the local currency against the greenback happened – Naira was devalued year to date by 6.27% to N381/USD at the official window. Going forward, we expect Naira/USD to stabilise given the numerous intervention by CBN in recent times, especially the resumption of fx sales to the BDC segment.

May & Baker Plc's Long-term Average Financial Ratios

Financial Ratios	Nine-Year Averages	
	May & Baker Nigeria Plc	Industry
CCC	105.25 days	140.68 days
Quick Ratio	1.41	1.05
Gross Profit Margin	34.4%	43.0%
Operating Profit Margin	10.79%	4.0%
Debt to Capital	42.93%	30.0%
Return on Equity	6.77%	-28.0%

Source: Company Financial Reports, Cowry Research

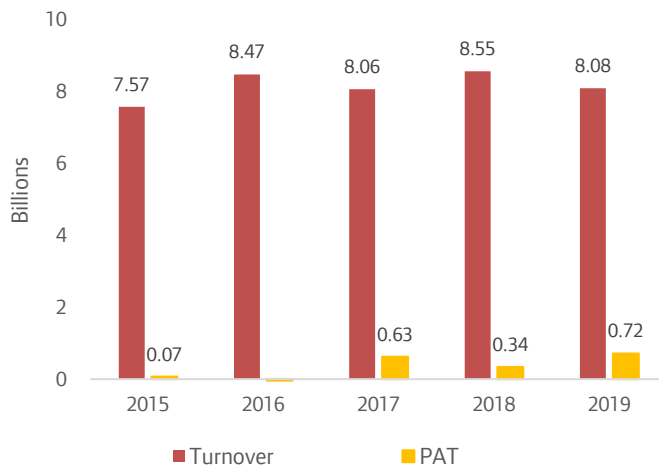
...Balance Sheet Appears Strong as Debt to Cash Settles Below 1x

M&B Plc cash position improved to N1.54 billion in H1 2020 from N0.44 billion in H1 2019, given the additional N1 billion loan which it got at relatively low rate of 7% – most of the borrowings were from CBN intervention fund. In addition to the lower cost of sales, we expect finance costs to remain low in FY 2020 even as Debt to EBITDA eased to 1.44x in H1 2020 from 2.38x in H1 2019. Finance costs moderated y-o-y by 62.39% to N41.34 million in H1 2020 from N109.93 million in H1 2019 – reflective of the significant reduction in bank overdraft (it dropped to N552 thousand from N399 million) which was obtained at a rate of 18% to 21%. In the same period under review, borrowings fell to N1.39 billion from N1.73 billion; albeit, we saw borrowings spike year to date amid additional N1 billion inflow. Hence, for a real sector company trading below its equity per share of N3.41, and with expectation of increased profitability at FY 2020, resulting from an increase in revenue as well as lower cost of sales and finance costs, we recommend a "BUY" position.

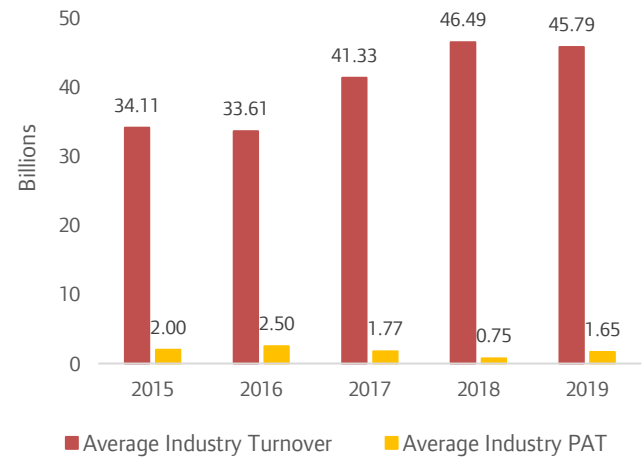
...CBN Intervention Fund, Suspended Import Duties to Boost Liquidity, Increase Revenue & Ease Costs Pressure

Amid COVID-19 pandemic challenge, CBN floated N100 billion intervention fund in the healthsector for the players to expand capacity in order to cushion the negative effects of the virus on the local economy. Also, Federal Government suspended import duties on medical equipment, medicines and personal protective gears required for treatment and management of COVID-19 for, at first, three months, effective from March 1, 2020. This was further extended by the Minister of Finance to September 30, 2020. We expect the above mentioned policy pronouncements to further strengthen MAYBAKER's liquidity level, boost revenue and ease pressure on costs.

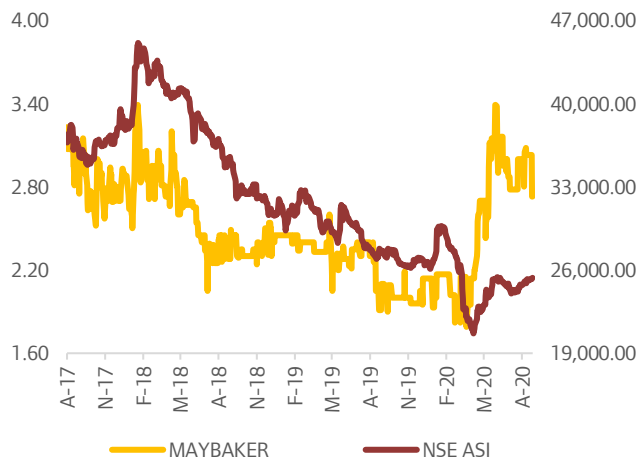
MAYBAKER Turnover vs PAT



FY Industry Averages

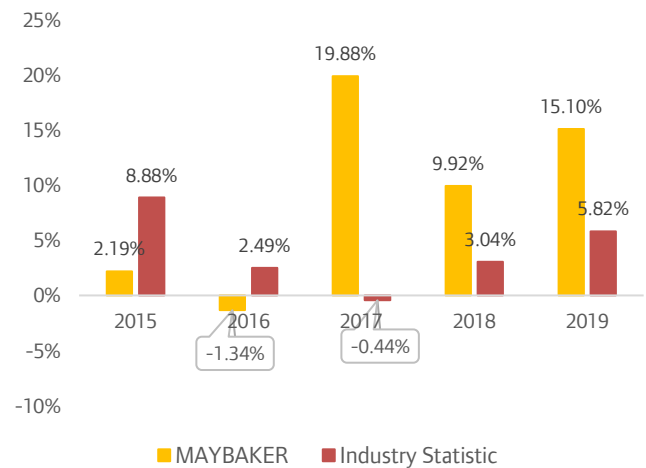


MAYBAKER vs NSE ASI



Source: Company Financial Reports, Cowry Research

Industry Historical Returns on Equity





IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
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A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; scores below industry average

Analyst Recommendation (AR)	Meaning
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BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X < 500\text{bps}$ above 364-day T-Bill Rate
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued