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Fidson Healthcare Plc

Nigeria Corporate Analysis **June 2016**

Rating class	Rating scale	Rating	Rating Outlook	Expiry date
Long term	National	BBB(NG)		
Short term	National	A3 (NG)	Stable	May 2017
N2bn Secured Fixed Rate Bond	National	BBB (NG)		

Financial data:

(USDm comparative)

	31/12/14	31/12/15
N/USD (avg.)	165.1	197.9
N/USD (close)	182.6	198.9
Total assets	86.2	83.8
Total debt	26.5	23.4
Total capital	31.4	31.7
Cash & equiv.	1.1	0.6
Turnover	58.9	41.5
EBITDA	10.3	9.0
NPAT	3.8	3.8
Op. cash flow	10.7	7.6
Market share#	6%	
Market cap *	USD15.3m	

** As at 19/05/2016, @ N200.5/USD.*
#Management's estimate of overall domestic market share

Rating history:

Initial rating (January 2014)
Issuer Long term: BBB(NG)
Issuer Short term: A3(NG)
Rating outlook: Stable

Last rating (September 2015)
Issuer Long term: BBB(NG)
Issuer Short term: A3(NG)
Rating outlook: Watch

Related methodologies/research:

Criteria for rating Corporate entities, (updated February 2016)

Fidson Healthcare Plc ("Fidson" or the Company") rating reports (2014-2015)

Glossary of terms/ratios, February 2015

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Summary rating rationale

- Fidson ranks among the top three players in the Nigerian pharmaceutical sector, with its range of products enjoying widespread acceptance in the market. The Company's operations are underpinned by a good marketing and distribution network, as well as strong relationships with international suppliers and government agencies.
- The challenging operating environment and the devaluation of the Naira increased cost of production and supplies. This, combined with low demand in the first half of 2015 (due to the elections), saw Fidson's revenue fall by 15.5% in F15 to N8.2bn. Although cognisance is taken of slow economic activity in the first quarter of the year in Nigeria, the results for 1Q F16 suggest that the Company will fall short of its full year forecasts.
- Input cost pressure saw the gross margin fall to 53% in F15 (F14: 56%). Although a significant reduction in selling and distribution expenses saw the EBITDA and operating margins rise to 21.6% and 18.5% respectively in F15, this could decrease in the current year as marketing spending is again ramped up.
- Fidson reduced its gross debt to N4.6bn at FYE15, and N4.4bn at 1Q F16. This, combined with improved equity, saw gross gearing lower to 73.6% at FYE15 from a review high of 84.3% at FYE14. Similarly, gross and net debt to EBITDA reduced to 261.7% and 254.8% at FYE15 from 285% and 273% at FYE14 respectively.
- Of concern is the net interest coverage ratio which declined to 2.2x in F15 (F14: 2.6x), as interest charges rose to N678m in F15 (F14: N550m) and operating income reduced. Interest coverage will likely decline further should the poor 1Q F16 earnings persist for the full year.
- Management expects earnings margins to improve on the back of higher scale economies as new capacity is ramped up, but F16 performance may be subdued given the weak operating conditions.
- Cognisance is taken of the progress made with regard to the security perfection process for the N2bn fixed rate bond, however, Global Credit Rating Company Limited ("GCR") can only reconsider the additional rating uplift provided by the security package once the security is perfected in full. GCR's calculations suggest that, based on the most recent asset valuation (January 2016), recovery prospects can be expected to be 'Excellent'.

Factors that could trigger a rating action may include

Positive change: An upward rating movement is presently limited by the tough operating environment which has resulted in a moderated performance across the board. However, a positive rating consideration would be premised on the attainment of targets over the medium term, and in particular, a significant reduction in debt profile.

Negative change: A negative rating action could emanate from sustained decline in earnings profile, which could lead to lower than anticipated interest coverage and deterioration in all other credit protection metrics.

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Background and recent developments

Fidson began as a distributor of pharmaceutical products in 1995, but later ventured into production of its own brand of finished medicines in 1996. Its medicines now cover the treatment of chronic diseases, infections and malaria, as well as over the counter ("OTC") drugs and life style products (including nutraceuticals). The Company ranks among the top three players within the Nigerian pharmaceutical industry. Fidson imports a large portion of its branded products, albeit some are being manufactured at the plant in Otta, Ogun State. The plant has five product lines for tablets, capsules, creams and gels, oral liquid and dry powders. The Company has been listed on The Nigerian Stock Exchange ("NSE") since 2008.

In addition to the various pioneered products in the past, Fidson also completed the construction of its new manufacturing plant (Biotech factory), with intravenous fluids, i.e. large and small volume parenterals (both of which are in high demand in Nigeria), currently being manufactured at the plant. Furthermore, the Company had moved its five existing production lines to the new factory to enhance operational efficiency and better logistics management.

Shareholding and corporate governance

Fidson's corporate governance framework is in line with relevant requirements of the Companies and Allied Matters Act ("CAMA"), Securities and Exchange Commission ("SEC") and NSE regulations. The Company's board of directors meets quarterly, and its functions include oversight of financial, operational and compliance issues, while the day to day responsibilities are delegated to the managing director and the management team. The non-executive directors comprise people from diverse backgrounds, having significant experience in pharmaceutical, sales management and commercial law. These directors also hold several other directorships in other listed companies. The board has a charter that governs its powers, functions and responsibilities, and monitors compliance with applicable legislation regulations, standards and codes by means of management reports.

Table 1: Corporate governance summary	
Board composition	
Number of Directors	8
Non-executive directors	5
Executive directors	3
Separation of Chairman	Yes
Number of board committees	Four; Nomination, Remuneration, Finance and General Purpose and Credit Control
Internal control and compliance	Yes
External auditor	Ernst & Young

Fidson continued to subject its operations to periodic examinations in conformity with Good Manufacturing Practice ("GMP") of the National Agency for Food and Drugs Administration and Control ("NAFDAC"). Apart from the Managing Director/Chief Executive Officer, Dr. Fidelis Ayebae, who held a significant stake of 29.8% in the Company as at December 2015, no other director holds more than 5% of the Company's issued share capital.

Table 2: Shareholding structure	Holding (%)
Dr Fidelis Ayebae	29.8
Stanbic IBTC Nominee	7.9
Glorious Haven Ltd. (on behalf of Fidelis Ayabae)	5.7
CSP Nominee	5.1
Other <5%	51.5
Total	**100.0**

Operating environment and competitive position

The Nigerian pharmaceutical industry serves as the central business hub for the West African region, accounting for around 60% of total volume of drugs consumed within the region annually. Despite this position, the industry has remained largely underdeveloped due to several constraints including counterfeit medicines, lack of effective intellectual property protection and unstable demand. Other challenges include poor and inconsistent policies, inadequate funding of the healthcare system with high reliance on foreign aid, and sole dependence on importation of active pharmaceutical ingredients (API). In recent times, the prevalent foreign exchange shortage has also affected the industry, raising the already high production cost and reducing margins. Accordingly, locally produced drugs lack capacity to compete favourably with those imported. According to an industry source, domestic production capacity utilisation of the industry is estimated around 30%, while imports account for over 50% of the nation's drug demand.

In collaboration with other ECOWAS governments to promote economic cooperation and integration within the region, the FGN introduced a tariff structure known as Common External Tariff ("CET") in 2015, in respect of which the first phase of implementation would be from 2015 to 2019. The CET entails that ECOWAS governments adopt similar tariffs among member countries, implying that the same tariff would be applied to the third parties. However, rather than protecting local producers, this policy places no tariff on finished imported medicines, while essential raw and packaging materials required by the industry for local production attract tariffs of between 5-20%. Accordingly, the counterproductive policy had reversed the gains made towards national self-sufficiency in essential medicines and has led to greater incentives to imported finished medicines. This notwithstanding, FGN is implementing initiatives to encourage the local production of anti-retroviral drugs, including the introduction of subsidy to make the products affordable.

The implementation of the new drug distribution system has commenced, with clear delineation of channels of distribution, roles and responsibilities. The system is expected to eliminate the circulation of fake and substandard products and the activities of illegal operators. However, the efficacy of this is yet to be fully tested. Presently, the industry is essentially regulated by NAFDAC and the Pharmaceutical Council of Nigeria ("PCN"). These agencies are, in turn, supervised by the Federal Ministry of Health. Due to the professionalism involve in the production of medicines, and the quest to monitor and ensure compliance with international standards, the World Health Organisation ("WHO") also plays an active role within the industry.

There are nine (including Fidson) pharmaceutical and biotech companies listed on NSE. According to management, Fidson has an estimated 6% market share, with significant growth potential underpinned by the expanding scope of locally manufactured products. This is supported by relationships and synergies with various local and international suppliers that should guarantee a steady source of raw materials and consumables.

Earnings diversification

Fidson's products enjoy wide market acceptance, underpinned by focussed marketing strategies, sales promotion and an extensive customer base, which include registered distributors, hospitals, pharmacies, medical laboratories and government institutions. The Company's top twenty customers are principally registered distributors, accounting for 46% of total revenue in F15. Major brands include the *Astymin* range of products (which according to management, enjoys an estimated market share of 30%), *Ciprotab, Arthocare Forte, Arthocare, Tribotan cream and Tuxil range of cough syrup*. In order to enhance its market share, while also building revenue generation, Fidson extended its AVSTAT range and introduced additional brands to its portfolio in F15, including ARTHEMED injection, Gascol tablets, Mipenem injection and Ranicef. There is an on-going plan to roll out additional products in the coming year, mainly targeted at the low-middle income earners.

Table 3: Revenue diversification	**2014**		**2015**	
	N'm	**%**	**N'm**	**%**
OTC drugs	6,050.8	62.3	5,283.4	64.3
Ethical drugs	3,668.4	37.7	2,774.7	33.8
Consumer unit	-	-	152.7	1.9
Total	**9,719.2**	**100.0**	**8,210.8**	**100.0**

Historically, OTC products constituted the major source of revenue for Fidson, accounting for over 60% of the Company's revenue annually. Revenue from ethical products has fluctuated over the years, largely due to market instability. Fidson also has a consumer segment (which produces household items) to benefit from increased household consumption in Nigeria, while it continues to offer toll manufacturing services to other pharmaceutical companies, with agreements in place to guide this service. Rental income of N6m accrues from toll manufacturing annually, and this has been reclassified from 'revenue' to 'other operating income' in F15.

Although updated industry statistics are unavailable, Fidson reported a considerable share of the market in each segment of its products, as shown in Table 4.

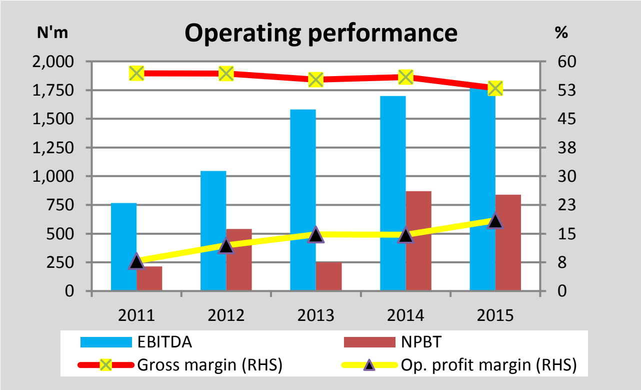
Table 4: Market share per segment	**Key products**	**(%)**
Multivitamins	Astymin range	**30**
Antibiotics	Ciprotal, Sparflox, Peflotab, Clavamox	14
Anti-Ulcer	Gascol, Meprasil	11
Blood tonics	Astyfer range, Ferobin	9
Cough Expectorant	Tuxil range	9
Osteoarthritis	Arthocare, Arthocare Forte	7
Anti-Malarial	Arthemed, Emal	3
HIV	Virex range	1
Diarrhoea	Motitec	0.5
Analgesics	Paracetamol	0.5

Financial performance

A five year financial synopsis, together with a three-month management accounts ending 31 March 2016, is reflected at the end of this report, and commentary follows hereafter. The Company's financial statements were prepared in line with CAMA, International Financial Reporting Standards and Financial Reporting Council of Nigeria. Its external auditors, Ernst & Young, issued an unqualified opinion on the 2015 financial statements.

Table 5: Income statement (N'm)	**F14**	**F15**		**(%) Achvd**	**Growth (%)**
		Actual	**Forecast**		
Revenue	*9,719.2*	*8,210.8*	*10,500.0*	*78.2*	*(15.5)*
Gross Profit	5,433.6	4,351.9	5,250.0	*82.9*	*(19.9)*
EBITDA	**1,698.5**	**1,775.2**	**1,541.2**	*115.2*	*4.5*
Depreciation	(266.8)	(258.9)	(302.3)	*85.6*	*(2.9)*
Op. Profit	**1,431.7**	**1,516.3**	**1,238.8**	*122.4*	*5.9*
Net interest	(549.7)	(678.3)	(443.8)	*152.8*	*23.4*
Other	(11.2)	0.0	0.0	*n.a*	*n.a*
NPBT	**870.8**	**838.0**	**795.0**	*105.4*	*(3.8)*
Key ratios (%)					
Gross margin	55.9	53.0	50.0	-	-
EBITDA margin	17.5	21.6	14.7	-	-
Op. margin	14.7	18.5	11.8	-	-
Net int. cover (x)	2.6	2.2	2.8	-	-

Fidson generated consistent growth in revenue between F12 and F14, on the back of rising production and volumes. However, the position reversed in F15, with a 15.5% decline (representing 78% of F15 budget). This was due to several factors including, the uncertainty in the first half of the year caused by elections pressure. During this period, several distributors withdrew from the market, while others reduced volumes. Sales picked up after the elections, but at a slower pace. The significant variance from the budget was also attributed to the delays in the completion of the Biotech plant, as earnings from the new product line (infusions), which had been factored into the budget, did not materialise.



Perhaps the most challenging aspect of the environment was the devaluation of the Naira. This resulted in higher importation costs for raw materials and supplies and as a result, the gross margin narrowed to 53% in F15 (F14: 56%). While administrative expenses remained relatively flat, Fidson recorded a significant 49.7% reduction in selling and distribution expenses. This was largely due to management's decision to suspend all adverts over the election period due to the much higher cost. During this period, focus was shifted to a one-on-one marketing approach. There was also significant reduction in the incentives given to distributors unlike prior years. Thus, the EBITDA margin rose from 17.5% to 21.6%. The margin was also underpinned by enhanced credit controls, as a result of which no new bad debts was reported during the year. After accounting for a depreciation of N258.9m, Fidson posted an operating income of N1.5bn to see the operating margin higher at 18.5% (F15 forecast: 11.8%).

Fidson has reported consistently high finance costs over the review period, as expansion has largely been funded by debt. As a full year's interest was incurred on the bond, the gross interest charge rose to a high of N717m (F15: N554). With modest interest income of N38.7m, net interest charges registered at N678m. The higher net interest charge offsets the growth in operating income, reducing the net interest coverage ratio to 2.2x in F15 from 2.6x in F14. Also as a result of the higher interest, NPBT reduced to N838m in F15 (F14: N871m), albeit above the F15 forecast. Fidson benefited from a deferred tax credit of N127m in F15 against a N125 charge posted in F14 to register a lower taxation charge of N93.7m. Overall, net income increased by 17.8% to register at a higher of N744.4m in F15.

Cash flows

Cash generated by operations has consistently reflected EBITDA trends, and grown in line with the Company's expansion over the years. After peaking at N1.9bn in F14, it declined to N1.8bn in F15 due to the weaker earnings. Except for F13 (where an absorption of N365m was reported as a result of higher year-end balance of finished goods and trade receivables), Fidson reported working capital releases in all the years under review. However, the working capital releases reported in F14 and F15 were largely driven by factors unrelated to normal trading activities (which include accrued expenses and payables due to other shareholders of its liquidated associate - Fidson Product Limited ("FPL").

Table 6: Movement in working capital	**F13 N'm**	**F14 N'm**	**F15 N'm**
Inventory	(407.3)	279.7	435.8
Trade receivables	(385.3)	(1,816.3)	(614.0)
Trade payables	711.2	110.4	171.3
Operating working capital	**(81.4)**	**(1,426.2)**	**(6.8)**
Other receivables	27.2	704.8	54.3
Accrued exp. and other payables	(214.7)	1,322.0	261.3
Prepayment	-	-	105.2
Government grants	-	39.6	-
Deferred revenue	(43.3)	-	7.0
Gratuity and lease	(52.6)	(191.0)	(14.1)
Non-operating working capital	**(283.4)**	**1,875.3**	**413.6**
Movement in WC	**(364.8)**	**449.1**	**406.8**

Focussing exclusively on the operating cash flows, Fidson has reported consecutive cash flow absorptions, driven primarily by sharp increases in debtors. Previously, Fidson allowed 30-days payment terms to distributors, but this was not adhered to by debtors amidst the more challenging operating conditions resulting in the particularly large increase in debtors in F14 and the still large absorption in F15. In addition, special consideration was given to government agencies, health institutions and hospitals, which generally enjoy 120-days payment period. Fidson has now relaxed repayment terms to 90-days, whilst simultaneously tightening debtors' management and improving collections. This strategy has evidenced initial successes, with debtors reducing to N2.9bn in 1Q F16.

Fidson's working capital absorption was substantially moderated in F15 due to a decrease (and thus cash release) in inventories. This, however, was largely due to the difficult operating environment and the foreign currency shortage, which made it more difficult to import raw materials. Thus, the Company was required to utilise part of its strategic inventory buffer (of three months), which will need to be replenished at some point. The decrease in inventory purchases was also responsible for the reduction in trade creditors, with little change in creditor terms (90 to 120 days term on international imports; 30-days term on most local purchases).

Overall Fidson reported cash flow from operations of N1.5m, slightly down from the N1.8bn in F14), but well above historical levels. The strong cash flow from operations was sufficient to meet the reduced capex costs in both years. In this regard, Fidson has expended in excess of N8bn on its capacity expansion programs in the last six years, but as the construction of Biotech factory neared completion in F15, capex declined to a 5-year low of N774m. A further N628m was invested in the bond repayment reserve account and product licences, which was partly offset by a N402m inflow from the liquidation of some investments and proceeds from sale of some property and financial assets. Although cash generated was sufficient to reduce actual debt in F14 and F15, the actual debt balance increased significantly in F14 as a result of the additional debt assumed upon the liquidation of FPL.

Funding Profile

Table 7: Funding profile (N'm)	FYE14	FYE15		1Q 16	F16
		Actual	Forecast	Actual	Forecast
Total Debt	**4,843.9**	**4,645.3**	**5,078.3**	**4,374.2**	**4,438.2**
Cash	(204.2)	(122.4)	(247.4)	(47.9)	(92.1)
Net Debt	**4,639.8**	**4,522.9**	**4,830.9**	**4,326.3**	**4,346.2**
Equity	5,742.8	6,312.8	6,111.3	6,348.2	6,657.2
Key ratios (%):					
Total debt: equity	84.3	73.6	83.1	68.9	66.7
Net debt: equity	80.8	71.6	79.0	68.2	65.3
Total debt: EBITDA*	285.2	261.7	329.5	462.4	226.4
Net debt: EBITDA*	273.2	254.8	313.5	457.3	221.7
Cash: ST debt (x)	0.1	0.1	0.1	0.03	0.04

**1Q F16 EBITDA is annualized.*

Continuous infrastructure development over the years saw Fidson's asset base rise to N16.7bn at FYE15 from N9.4bn at FYE11. Thus, fixed assets accounted for 69% of assets at FYE15 (compared to 37% at FYE11), reflecting Fidson's shift from the sale and marketing of medicines to the manufacture of drugs and other medical supplies. Other assets (comprised largely of inventories and receivables) registered at a lower combined 27% at FYE15, albeit having risen in real terms. As Fidson utilised excess cash for capex requirements, cash reduced further to N122.4m at FYE15 and N47.9m at 1Q F16, representing just 0.3% of asset base. Investments valued at N477m and N528m at FYE15 and 1Q F16 respectively, related mainly to the reserve fund account, which are held in liquid assets and available to service interest and principal repayment obligations on the bond (as per the trust deed).

Table 8: Bank/Credit source	Loan type	Interest rate (%)	FYE15 (N'm)	Maturity
Access Bank	CBN intv. fund	7%	212.7	2021
Bank of Industry	Term loan	10%	1,021.2	2018
Bond	Bond	15.5	1,944.1	2019
Fidelity	Term loan	7%	134.3	2024
Various banks	Overdraft	18-21%	442.2	2016
ST loans	Various	20%	445.7	2016
Non-bank lenders	CP	17%	65.0	2016
Finance lease	Lease	22%	380.1	
Total			**4,645.3**	

Debt registered at a lower N4.4bn at 1Q F16.

To fund the expansion programme, Fidson's gross debt has doubled to N4.6bn at FYE15 from N2.2bn at FYE11. The higher debt burden arose from the issuance of the N2bn bond to fund the construction of the Biotech plant and rising working capital requirements, as well as the N166.9m in debt taken-up after the liquidation of FPL. Nevertheless, the debt profile is considered to be adequately matched with assets being funded, with the long term tenor accounting for 60% of gross debt at FYE15. The credit facilities are provided by a number of commercial banks (see Table 8), as well as by the Bank of Industry ("BOI"). In addition to the term loans, Fidson has also utilised trade finance and short term credits like overdrafts and commercial paper to finance working capital requirements. Although the debt profile is well spaced, Fidson evidences a high maturity in 2019 upon the redemption of the bond. Nevertheless, there remains ample time to consider refinancing option or redemption options beforehand.

Shareholders' equity hovered around N5.2bn between FYE10 and FYE13, before rising by 10% to N5.7bn at FYE14, and later to N6.3bn at FYE15 and 1Q F16. The increase was largely supported by growing retained earnings. The higher equity combined with slightly lower debt underpinned a reduction in gross gearing to 74% at FYE15, from 84% at FYE14 (budget: 83%), while net gearing fell to 72% from 81% at FYE14. Similarly, the gross and net debt to EBITDA reduced to 261.7% and 254.8% at FYE15 from 285% and 273% at FYE14 respectively. However, as reflected in annualised metrics for 1Q F16 results, gross and net debt to EBITDA deteriorated to 462% and 457% respectively, currently well above full year forecast of 226% and 222%.

Update on the N2bn Secured Fixed Rate Bond

Fidson raised N2bn from the capital market in November 2014, through the issuance of bonds, with a 5 year tenor (maturity in November 2019). The bond was issued at an interest rate of 15.5% per annum, payable semi-annually in arrears (in May and November each year), while the principal will be redeemed by eight equal semi-annual instalments, following the expiration of a 12-month moratorium period. Proceeds from bond have been deployed for debt refinancing and working capital. The bond is secured by an all asset debenture managed by ALM Consulting (the Bond Trustees), covering the mortgages on Fidson's five properties (four in Ogun State, one in Lagos State) as well as other fixed assets.

GCR has reviewed the Trustees report dated June 1, 2016, regarding the bond performance and noted that the first part-principal repayment of N250m was made on 6 May 2016 (following the expiration of the 12-months moratorium). The second part-principal repayment will be due on 7 November 2016. Funds in the transaction accounts have been invested in short term money market instruments per the Trust Deed. According to the Trustees' investment report, the minimum reserve account, perfection reserve and payment accounts had balances of N41,700,161.05, N18,282.30, and N30,313.82 respectively as at 31 May 2016. In addition, the transaction accounts had running investments totalling N216.5m. The applicable bank statements and investment account statements as at 31 May 2016 were provided to GCR. Trustees also reported that there had been no breach of covenants or negative pledges.

The Trust Deed required the stamping of the security documents and all applicable registrations to be completed within 6 months from the Closing Date. However, while Fidson was able to successfully file the deed of variation with the Corporate Affairs Commission noting the interest of the bondholders in the security package for Lagos State and Ogun State, the registration of the Supplemental Mortgage Trust Deed for Ogun State property (which comprises the bulk of assets) with Ogun State Lands Bureau is yet to be completed. The inability to complete the process has been attributed to bureaucratic delays at the Lands Registry and other government agencies. Until this process is completed, the N2bn secured fixed rate bond will be accorded an unsecured credit rating in line with the corporate credit rating of Fidson. However, calculations based on the most recent asset valuations indicate that recovery prospects can be expected to be 'Excellent'. This could result in a rating uplift once the security package is perfected in full.

Table 9	
Recovery rate calculations*	**NAIRA**
Principal amount outstanding on the Bonds upon default	1,750,000,000
Other secured indebtedness as at May 2016[1]	2,185,694,368
Assumed missed interest to give time to realise recoveries[2]	271,250,000
Aggregate exposure Senior Lenders	**4,206,944,368**
Assumed recoveries on sale of properties[3]	(8,224,619,232)
Funds in transaction accounts including investments made with funds as at May 2016	(258,273,144)
Assumed sales and legal costs[4]	411,230,962
Unsecured claim on Issuer	**0**
Overall estimated recovery rate	100%

[1]Total outstanding balance on secured debt as at 31 May 2016 was N3.9bn (including outstanding balance on the N2bn bond).
[2]GCR assumes that interest payments cease during the assumed recovery period (12 months). This equates to 2 semi-annual interest payments in total. The bond interest rate of 15.5% has been utilised for calculations.
[3]Stressed value of the assets
[4]GCR applied 5% costs to the stressed value of the assets.

Outlook and forecasts

Table 10: Interim performance (N'm)	**1Q F16**	**F16 Forecast**	**% Achvd.**	**Ann. Growth (%)**
Revenue	*1,217.4*	*9,442.4*	*12.9*	(40.7)
Gross profit	647.0	*4,910.0*	*13.2*	(40.5)
EBITDA	**236.5**	*2,034.1*	*11.6*	(46.7)
Depreciation	(52.0)	*(609.3)*	*8.5*	(19.7)
Op. Profit	**184.5**	**1,424.8**	*13.0*	(51.3)
Net interest	(142.7)	*(699.8)*	*20.4*	(15.9)
Other	-	-	-	n.a
NPBT	**41.9**	**725.0**	*5.8*	(80.0)
Key Ratios (%):				
Gross margin	53.1	52.0	-	-
EBITDA margin	19.4	21.5	-	-
Op. Margin	15.2	15.1	-	-
Net int. cover (x)	1.3	2.0	-	-

The weak operating environment and foreign currency shortages have resulted in lower demand in 1Q F16. Thus, revenue declined by an annualised 41% to N1.2bn in 1Q F16, representing a lowly 12.9% of the budget. Despite the rising cost of sales, Fidson maintained its gross margin flat at 53% as the Company continued to implement its cost containment measures during the period, keeping all expenditure modest. Only selling and distribution expenses rose as management decided to again up spending on advertising and promotion to create awareness for the newly introduced products and expand brand visibility. As such, the EBITDA margin dropped by 220 basis points to register at 19.4%, while operating margin fell to 15.2% (FY15: 18.5%). As Fidson settled part of its debts, net finance costs fell to N142.7m. However, due to the relatively low operating income, gross and net interest coverage reduced to 1.2x and 1.3x respectively. Consequently, NPBT fell by an annualised 80% to N41.9m in 1Q F16.

Management has forecast annual revenue growth of 15% for F16. The direct cost of raw materials and other supplies is anticipated to rise by 17%, but other cost savings should see EBITDA rise by 15%. Despite a higher net finance cost of N699m, budgets indicate an improvement in net interest coverage to 2x. However, the difficult operating environment may constrain the attainment of earnings prospects by FYE16.

Gross debt is anticipated to reduce to N4.4bn at FYE16, and gradually to N2bn by FYE19. Having moved the existing plants to the new Biotech factory, Fidson plans to sell off the old factory buildings, and thereafter use the proceeds to reduce its debt burden. Fidson is also negotiating with the BOI to secure new facilities, which will replace the expensive working capital funding from some of its bankers. Capex is expected at N679m at FYE16, which will be spent mainly on plant and machinery to shore up production at the new factory. For subsequent years, capex will be based on replacement requirements as they arise.

Conclusion

Fidson's vision is to become the preferred healthcare provider in the Nigerian Pharmaceutical Industry. This has been largely supported by various expansion programmes to enhance its competitive positioning, and its wide range of products, covering several therapeutic segments. With the successful completion of the infusion plant, local production is expected to increase to about 70-75% content in the long term from its current 35-40%. Since the shift from sales and marketing of drugs to manufacturing, Fidson has evidenced growth in revenue and profitability, and benefitted from rising scale economies, which has seen it become the third largest pharmaceutical supplier in Nigeria.

For the current year, Fidson's strategy is targeted at brand building and enhancing market visibility, whilst the Company continues to research and explore new products to further diversify its earnings base. In this regard, Fidson entered into a partnership with the University of Sunderland in September 2015 to explore the possibility of working together on academic and research activities in fields such as pharmacy, medicine and health.

The increasingly challenging operating environment is expected to affect business across the board. Particularly for the pharmaceutical sector, financial performances will be impacted by the foreign currency shortage, amidst other factors, due to the import-dependent nature of the sector. This was notably reflected in Fidson's performance as at 1Q F16, which suggest full year targets will be constrained. However, the Company has benefitted from its strong relationship with all its suppliers and this has guaranteed a steady source of raw materials and consumables amidst the challenges. While gearing metrics have reduced somewhat, of concern is the net interest coverage ratio which has declined further in F15. Should this persist to full year, this might trigger a negative rating action. Considering the present industry position, an improved performance will be influenced largely by factors such as Fidson's ability to further diversify its product offering, while streamlining cost to boost profitability.

Fidson Healthcare Plc

(Naira in Millions except as Noted)

Year end – 31 December						
Statement of Comprehensive Income	**2011***	**2012**	**2013**	**2014**	**2015**	**1Q 2016**
Revenue	7,127.9	7,168.9	9,235.1	9,719.2	8,210.8	1,217.4
EBITDA	**765.3**	**1,044.7**	**1,581.1**	**1,698.5**	**1,775.2**	**236.5**
Depreciation	(204.4)	(190.3)	(213.1)	(266.8)	(258.9)	(52.0)
Operating income	**560.9**	**854.5**	**1,368.0**	**1,431.7**	**1,516.3**	**184.5**
Net finance charges	(346.7)	(314.4)	(402.7)	(549.7)	(678.3)	(142.7)
Share of loss of associate	0.0	0.0	(715.7)	(11.2)	0.0	0.0
NPBT	**214.3**	**540.1**	**249.6**	**870.8**	**838.0**	**41.9**
Taxation charge	(158.7)	(333.2)	(94.6)	(239.0)	(93.7)	(13.4)
Profit from continuing operations	**55.6**	**206.9**	**155.0**	**631.8**	**744.4**	**28.5**
Other comprehensive income	(34.6)	(18.8)	41.9	38.1	39.2	0.0
Total comprehensive income	**21.0**	**188.1**	**196.9**	**669.9**	**783.5**	**28.5**
Statement of cash flows						
Cash generated by operations	**758.9**	**1,044.7**	**1,823.1**	**1,949.4**	**1,814.0**	**246.4**
Utilised to increase working capital	210.8	555.3	(364.8)	449.1	406.8	508.9
Net finance charges/Net interest paid	(346.7)	(314.4)	(412.7)	(559.3)	(717.0)	(142.7)
Taxation paid	(269.8)	(263.1)	(154.6)	(70.0)	0.0	(60.0)
Cash flow from operations	**353.2**	**1,022.5**	**891.0**	**1,769.3**	**1,503.9**	**552.7**
Maintenance capex‡	(204.4)	(190.3)	(213.1)	(266.8)	(258.9)	(52.0)
Discretionary cash flow from operations	**148.9**	**832.3**	**677.9**	**1,502.5**	**1,244.9**	**500.7**
Dividends paid	(150.0)	(150.0)	(180.0)	(150.0)	(177.8)	15.7
Retained cash flow	**(1.1)**	**682.3**	**497.9**	**1,352.5**	**1,067.2**	**516.4**
Net expansionary capex	(2,223.8)	(1,705.4)	(1,142.6)	(985.7)	(515.0)	(114.7)
Investments and other	729.7	460.0	(42.9)	(198.9)	(639.3)	(58.1)
Proceeds on sale of assets/investments	28.1	9.0	243.6	133.3	401.8	100.0
Shares issued	0.0	0.0	0.0	0.0	0.0	0.0
Cash movement: (increase)/decrease	211.6	(222.2)	106.4	(67.1)	81.8	74.5
Borrowings: increase/(decrease)	1,255.5	776.3	337.6	(234.0)	(396.4)	(518.1)
Net increase/(decrease) in debt	**1,467.1**	**554.1**	**444.0**	**(301.1)**	**(314.7)**	**(443.6)**
Statement of financial position						
Ordinary shareholders interest**	5,185.0	5,226.2	5,242.1	5,742.8	6,312.8	6,348.2
Outside shareholders interest	0.0	0.0	0.0	0.0	0.0	0.0
Pref shares and conv debentures	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholders' interest	**5,185.0**	**5,226.2**	**5,242.1**	**5,742.8**	**6,312.8**	**6,348.2**
Current debt	714.6	1,375.1	2,201.8	1,851.7	1,883.4	1,612.3
Non-current debt	1,522.8	1,638.6	1,779.1	2,992.2	2,761.9	2,761.9
Total interest-bearing debt	**2,237.3**	**3,013.7**	**3,980.9**	**4,843.9**	**4,645.3**	**4,374.2**
Interest-free liabilities	1,987.3	2,538.8	3,016.9	5,163.3	5,701.2	5,624.9
Total liabilities	**9,409.6**	**10,778.7**	**12,239.8**	**15,750.1**	**16,659.3**	**16,347.2**
Property, Plant and Equipment	3,447.6	4,679.4	7,043.5	10,790.8	11,501.3	11,508.8
Investments and other non-current assets	2,125.1	1,328.9	426.7	304.9	546.2	832.5
Cash and cash equivalent	21.2	243.4	137.0	204.2	122.4	47.9
Other current assets	3,815.7	4,527.1	4,632.7	4,450.3	4,489.4	3,958.0
Total assets	**9,409.6**	**10,778.7**	**12,239.8**	**15,750.1**	**16,659.3**	**16,347.2**
Ratios						
Cash flow:						
Operating cash flow : total debt (%)	10.5	33.9	22.4	36.5	32.4	50.5
Discretionary cash flow : net debt (%)	4.5	30.0	17.6	32.4	27.5	46.3
Profitability:						
Revenue growth (%)	(6.8)	50.9	28.8	5.2	(15.5)	(40.7)
Gross margin (%)	56.9	56.8	55.2	55.9	53.0	53.1
EBITDA : revenues (%)	10.7	14.6	17.1	17.5	21.6	19.4
Operating profit margin (%)	7.9	11.9	14.8	14.7	18.5	15.2
EBITDA : average total assets (%)	6.0	10.5	14.0	12.3	11.1	5.8
Return on equity (%)	0.7	4.0	3.0	1.9	2.1	0.3
Coverage:						
Operating income : gross interest (x)	1.6	2.7	3.4	2.6	2.1	1.2
Operating income : net interest (x)	1.6	2.7	3.4	2.6	2.2	1.3
Activity and liquidity:						
Trading assets turnover (x)	2.5	3.3	6.4	3.2	3.2	0.5
Days receivable outstanding (days)	103.7	47.5	47.7	81.7	145.4	60.5
Current ratio (:1)	2.1	1.7	1.2	0.8	0.7	0.6
Capitalisation:						
Net debt : equity (%)	42.7	53.0	73.3	80.8	71.6	68.2
Total debt : equity (%)	43.2	57.7	75.9	84.3	73.6	68.9
Total debt : EBITDA (%)	438.5	288.5	251.8	285.2	261.7	462.4
Net debt : EBITDA (%)	289.6	265.2	243.1	273.2	254.8	457.3

‡ Depreciation used as a proxy for maintenance capex.
* 18-month period from June 2010 to December 2011.
**Net of intangible assets.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the ratings expire in May 2017.

Fidson Healthcare Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

The credit rating above was disclosed to Fidson Healthcare Plc., with no contestation of/changes to the rating.

The information received from Fidson and other reliable third parties to accord the credit rating included:
- 2015 audited annual financial statements, and four years of comparative audited annual financial statements;
- Unaudited management accounts to March 2016;
- Projections (operating and capital) for the years 2016 to 2020;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry.

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