

MARKET INSIGHT

Expert's Quote

In the bear market of 1973 and 1974 people thought the world was coming to an end. It didn't come to an end. The stocks (value stocks) that were been beaten down came back, and they came back a lot more than some of the growth stocks William Sharpe

NSE at a glance (For week ended February 27th, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%



Undervalued Stocks on the Nigerian Stock Exchange (Part 4)

The Healthcare Sector

The pharmaceutical industry in Nigeria is not as gloomy as it might appear. The federal government has shown its commitment towards making the sector self-sufficient as well as improving the overall standard and quality of its products and service delivery thereby making the constituent companies able to compete internationally.

The government's commitment was demonstrated through the reenergizing of the National Agency for Food and Drug Administration (NAFDAC). NAFDAC has made concerted efforts at stemming the prevalence of counterfeit and substandard drugs, recording huge successes in the process. This strategy has also helped reduce the level of corruption within the system and improved the overall quality of its product delivery. NAFDAC has been regarded as one of the most effective and influential government agencies since Nigeria returned to civilian rule as the official figures indicate a gross reduction in contraband, fake, counterfeit and expired drugs. Though the fight against fake drugs was spearheaded by the erstwhile director general, now minister of information and communication, Professor Dora Akunyili, it is hoped that her successor would continue in the framework already laid down for fighting the scourge.

The three healthcare companies analysed below are among the most active of the six companies listed in that sector on the NSE.

May & Baker Plc

May & Baker Plc ('the company') was established in 1944 and got listed on the floor of the Nigeria Stock Exchange on November 10 1994. The company is involved in the manufacture, sales and distribution of human pharmaceuticals, vaccines and sera, medical diagnostics, foods and consumer health care products. The company has a well diversified shareholding structure with 100% of its total shares

wrong with the company, such stock is selling at a discount to its fair value.

As indicated above, the stock market meltdown has seen the company's P/E ratio reducing drastically from 64 before the crash to 14.6 at its current price. The dividend yield of 9.1% indicates an improvement in expected return for investors compared to what it was (1.56%) before the crash.

Neimeth Plc

Neimeth International Pharmaceuticals Plc was established in 1957 as Pfizer Incorporated. In 1997, the Sam Ohuabuwa led team executed a management buy-out of 60% of the holdings of Pfizer, leading to its change of name. The company is involved in the manufacturing, marketing and distribution of pharmaceutical and veterinary products in tablets, powder, and ointment/cream. The company is currently structured

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Neimeth Plc Report for the year ended March 2008		
	2008	2007
Net Assets:	N885.16m	N782.6m
Turnover:	N1.96 bn	N1.5 bn
Profit after tax:	N98.26 m	N116.4 m
Earnings per share:	15k	18k
Dividend per share:	12k	15K
Stock Price as at Feb 26, 2009: N2.31		
Market Price before the crash: N14.35		

Fundamental Analysis	
P/B ratio at current price	2.2
P/B Ratio before the crash	11.9
Current P/E Ratio	15.4
P/E Ratio before the crash	79.7
Dividend yield %	27.7
DY before the crash %	1.05

The company remains the largest quoted pharmaceutical company by market capitalization of N13 billion. The company can therefore leverage on its comparative size as well as the goodwill it enjoys from its parent company to remain one of the stable brands within the pharmaceutical industry.

As indicated above, the stock market meltdown has seen the company's P/E ratio reducing considerably from 28.7 before the crash to 15.6 at its current price while the dividend yield rose from 1.38% before to 3.3% both of which are more beneficial to investors.

Conclusion

The ever increasing demand for drugs and medical care will continue to remain an advantage to domestic producers as well as an opportunity for growth and development of this critical sector. With the positive industry outlook, there are prospects for steady growth in these companies in the years ahead.

The NSE is already showing some signs of stabilizing as the constant downward trend has given way to an up and down trend typical of the stock market. As a result, the current position of these stocks offers long term investors a unique opportunity to take position for the growth potentials inherent in these companies.

into four operational units including Pfizer Product Group (marketing and sales of Pfizer branded products), Neimeth Product Group (Marketing and Sales of Neimeth branded products), Veterinary Product Group (veterinary drug sales) and Ecowas Business Group (representation in Anglophone West African Countries).

GlaxoSmithKline Plc

GlaxoSmithKline Consumer Nigeria Plc ('GSK' or 'the company'), a United Kingdom based pharmaceutical company has a rich history which dates back to the nineteenth century. The company is currently one of the

May & Baker Plc Report for the year ended December 2007		
	2007	2006
Net Assets:	N2.87 bn	N2.97 bn
Turnover:	N3.86 bn	N2.25 bn
Profit after tax:	N208.3 m	N211.5 m
Earnings per share:	30k	30k
Dividend per share:	40k	30K
Stock Price as at Feb 26, 2009: N4.40		
Market Price before the crash: N19.21		

outstanding being owned by Nigerian citizens and Associations. The company has four branches spread across the various geo-political zones of the country. May & Baker is well known for its 'quine' range of anti-malarial drugs which include Nivaquine and Chloroquine. The company has over the past years diversified its operations into consumer goods and food processing.

The shares of May & Baker at the current price are considered undervalued at a P/B ratio 1.64 as against 6.6 before the market meltdown. P/B ratios of less than or equal to 3.0 typically catch the attention of value investors because it is considered that unless there's something fundamentally

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GlaxoSmithKline Plc Report for the year ended December 2007		
	2007	2006
Net Assets:	N4.6 bn	N4.19 bn
Turnover:	N9.9 bn	N10.4 bn
Profit after tax:	N836.9 m	N1.08 bn
Earnings per share:	87k	113k
Dividend per share:	45k	45K
Stock Price as at Feb 26, 2009: N13.6		
Market Price before the crash: N32.40		

leading providers of pharmaceutical products worldwide with an estimated 7% of the world's pharmaceutical market. The company produces vaccines and medicines in six major disease areas which are virus control, infections, asthma, diabetes, mental health and digestive conditions. Over the years, GSK has continued to enjoy the patronage of brand loyal customers with household names such as Macleans, Lucozade, Ribena and Horlicks.

In Nigeria, the company was incorporated in 1971 and listed on the floor of the NSE in 1979.

Fundamental Analysis	
P/B ratio at current price	2.8
P/B Ratio before the crash	7.4
Current P/E Ratio	15.6
P/E Ratio before the crash	28.7
Dividend yield %	3.3
DY before the crash %	1.38