



Nigeria's Pharmaceutical & Health Care Sector (A Critical Analysis)

Prepared by



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Macro-Economic Overview

Over the last few years, the Nigerian economy has experienced a series of reforms and restructuring of its key sectors. Such reforms include the financial, petroleum, power sector, among others. The financial sector reform has been the most noticeable as the banks and insurance companies have been required to recapitalise in line with government regulatory requirements. The telecommunications industry also experienced a major transformation when the general system for mobile telecommunications (GSM) was introduced in 2001. The deregulation of the downstream petroleum sector and privatization of many previously government-owned parastatals also represent some of the many structural changes that have been made in recent years.

The size of the Nigerian economy as measured by the country's GDP has increased by a compound annual growth rate (CAGR) of 20.68% (in nominal terms) between 2001 and 2006. A noticeable trend in the economy's growth pattern is the increasing contribution of the non-oil sector, particularly the agricultural and manufacturing sectors to the nation's GDP. It is expected that in the years ahead, other key sectors such as construction, consumer goods and tourism may begin to play more important roles in overall economic growth and development. As the on-going economic reforms continue to trickle down into other segments, and barring any unforeseen circumstances, we expect a much more balanced and self-sustaining economy in years to come.

Furthermore, consumer prices (year on year) declined sharply in 2005 due to the application of strict monetary and fiscal policy measures. With single digit inflation already being experienced, the economy is gradually moving towards a more stable and investor friendly position. This decline in inflation figures is further aided by the boost in agricultural production which has led to the general rise in the food supply resulting in reduced price level. Government's favorable monetary and fiscal policies have also contributed to the favourable consumer price index position.

The capital market has experienced a phenomenal growth over the past couple of years. The deluge of public offerings and rights issues have increased the overall level of activity in the market with volumes and values attaining unprecedented levels. The CBN enforced recapitalization drive (for banks) in 2005 is largely responsible for the bullish trend that has been experienced in recent times. With the Pension reforms having had its desired effect through the injection of fresh capital into the market by the PFAs and increase in private equity investments, the level of capital market activities have increase tremendously.

The country has experienced 8 years democratic rule for the first time in its recent history and for the first time in the post-independence period, political power has been successfully transferred from one civilian government to another. Furthermore, the country has retained its BB- credit rating by S&P and Fitch and has continued to receive rave reviews both as a result of its ongoing reforms and agendas. Sustainability of these initiatives will however remain a major challenge for the new administration in the years to come.

Health Care in Nigeria

Nigeria's dominant position in Africa as the most populous and with one of the largest and fastest growing economies in Africa, coupled with its high incidence of diseases makes the country a vibrant pharmaceutical market. The Federal Bureau of Statistics puts Nigeria's official population at 140 million with an average annual growth rate of 3% p.a. emphasising the country's high demand for adequate and efficient health care at all levels.

Official statistics suggests that Nigeria has one of the highest incidents of Malaria, poliomyelitis, tuberculosis and other similar diseases especially among children between the 0 – 10 year old bracket. Voluntarily organisations such as UNICEF and Rotary International have continuously set aside billions of dollars with an aim to help prevent the scourge of these diseases. With the spread of the HIV/AIDS epidemic having attained unprecedented levels, the demand for preventive and curative measures such as condoms and anti retroviral drugs would be on the increase. Demand for anti-malaria drugs as well as preventive vaccines aimed at reducing the growth of widely spread diseases is also increasing.

Despite the country's position among world developing economies, and the Nigerian government's post military rule efforts at growing the economy both in real and monetary terms, the health care sector still remains largely untapped and continues to suffer neglect. Other sectors such as education, defense and security have received a much larger share of budgetary allocation than that of the health care

However, with respect to the pharmaceutical industry in Nigeria, adequate health care delivery still remains a major challenge. For a population of over 140 million, drug consumption is still relatively low – a factor that contributes to the pharmaceutical market being described as one of the smallest among the Middle and East African (MEA) region (13th out of 14 countries and ahead of only Zimbabwe). With the exception of a few globally recognized brands, many of the pharmaceutical companies and health care providers in Nigeria cannot adequately compete internationally. Some of the major reasons for the current state of the sector include:

1. Lack of sufficient government funding and low drug expenditure.
2. Poor infrastructural development with insufficient facilities to meet the increasing demand for health care.
3. Absence of an adequate regulatory regime.
4. Insufficient foreign investment due to low confidence on growth prospects.
5. Lack of professional and technical ability to meet growing demand for complex drugs.
6. High inequality within the system with the low income earners being the highest users of medical and pharmaceutical care.
7. High level competition from low-cost generic drug producers in the emerging Asia markets.
8. The prevalence of fake and counterfeit drugs especially in the rural areas

Some of the aforementioned problems date back many years and still remains a major challenge for successive governments.

Emerging Opportunities

The pharmaceutical industry in Nigeria is not as gloomy as it might appear. 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 the critical sector. 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. The National Drug Law Enforcement Agency (NDLEA) has also assisted immensely in curbing the hitherto deteriorating trend. All hands must however be on deck to ensure the sustainability of the ongoing initiatives leading to a thorough elimination of corrupt and illegal practices within the system.

On the 12th of February 2008, the 2008 budget was passed into law by the

Nigerian National Assembly. The senate added N458 billion (exclusively for overall infrastructural development) to initial figure proposed by the president Umaru Yar'Adua led government. The extra funds were among others, committed to the provision of power and enhancement of health care delivery. A breakdown of the budget reveals that N60.2 billion was earmarked for the health care sector ranking it as the 4th largest sectoral allocation behind other key sectors such as Transportation and Energy. The president's 7 point agenda includes the provision of 'power and energy' which remains one of the main impediments to the development on health care delivery in Nigeria.

The government has indicated its intention to revamp the health care sector by initiating several reforms. Some of the said initiatives include the following:

1. Liberalisation of laws on Private Sector participation in health care delivery.
2. Introduction of various incentives for expansion of existing pharmaceutical companies.
3. Revising regulatory structure to protect consumers and ensure minimum quality standards.
4. Improved financing and extra expenditure on the health sector.
5. Empowerment of various regulatory agencies such as NAFDAC and NDLEA.

All these initiatives if successfully implemented will help reduce the mortality rate in the country, prevent capital flight, and increase the level of foreign investment in the health care sector of the capital market.

Critical Success Factors

Public Enlightenment

Despite the seeming huge growth potentials within the pharmaceutical and health care industry, some element of risk and uncertainty still exists. The overall attitude and orientation towards health care delivery in Nigeria still casts a lot of doubt on the ability of the Nigerian populace, especially the high income earners to embrace government's reform programmes. Nigerians largely embrace foreign manufacturers of drugs while the upper class elite prefer to travel abroad when seeking urgent medical attention. The poorer population has the tendency to lean towards traditional medicines. The ability of government to enlighten and educate the general public of its efforts at improving the quality of health care in Nigeria remains a key success factor for the achievement of sustainable growth.

Other Factors

Some of the other factors that are crucial in Nigeria's drive for development in health care include:

1. Improving the stewardship role of government.
2. Ensuring the full implementation of the National Health Insurance Scheme.
3. Encourage the development of other HMOs to compliment the services of NHIS.
4. Improved access to quality health care through rapid infrastructural development.
5. Adequate training on methods of producing high quality drugs locally

Key Players

The pharmaceutical and health care industry in Nigeria being one of the fastest growing in the economy (estimated 7-9% growth rate), is characterized by several companies. However, there's a clear dominance of the multinational brands due to their relative earnings capacity, market capitalisation, track record and strategic international alliances. While the global picture paints a scenario where the sector growth rate is higher than that of the economy at 6.1% (2007 GDP YOY growth rate), the unfortunate reality is that growth opportunities are restricted to a few of the industry's major players.

In terms of NSE listing, about 13 of the sector's constituents are publicly quoted. The total number of listed companies are as follows:

- Aboseldehyde Labs Plc
- Afrik Pharmaceuticals Plc
- BCN Plc
- Christlieb Plc
- Ekocorp Plc
- Evans Medical Plc
- Juli Pharmacy Plc
- Glaxo Smithkline Plc (GSK)
- Maureen Laboratories Plc
- May & Baker Nigeria Plc
- Morison Industries Plc
- Neimeth International Plc
- Pharmadeko Plc

Among the above list and adopting various criteria such as capitalisation liquidity and stability, four companies have been selected as being the industry's key players. The companies include **GlaxoSmithKline Plc (GSK), May & Baker Nigeria Plc, Neimeth International Plc and Evans Medical Plc.**

GlaxoSmithKline Plc

Current Price (N) ¹	27.9
Shares Outstanding (million)	956.7
Market Capitalisation (N'bn)	26.69
Trailing PAT (N'm)	1,082
Trailing P/E ratio (x)	26.62
Trailing EPS (N)	1.05
Expected PAT (N'bn)	1.2
Forecast P/E ratio (x)	24.51
Forecast Earnings Yield (%)	4.1
Forecast Dividend Yield (%)	2.0
6 Month Target Price (N)	35
12 Month Target Price (N)	45
Recommendation	
Short Term	HOLD
Long Term	BUY

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Company Profile

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 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. With a market capitalisation of over N25 billion, GSK remains the largest quoted pharmaceutical company by market cap. 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.

Investment Strategy

GSK is currently trading at multiples of 26.62x its earnings and our year-end expected PE valuation is 24.51x. Its implied price based on its expected earnings is N48. However, technical analysis reveals that the stock is relatively illiquid (low volumes traded) and is currently trading at its 52 week high price. Based on Fundamental and Technical analysis, we place the shares of GSK on a **HOLD** for the short term and **BUY** for the long term.

¹ All prices are as at 27th February 2008

Neimeth International Plc

Current Price (N)	12.64
Shares Outstanding (million)	1.54
Market Capitalisation (N'bn)	8.26
Trailing PAT (N'm)	116.4
Trailing P/E ratio (x)	59.75
Trailing EPS (N)	0.18
Expected PAT (N'm)	200
Forecast P/E ratio (x)	97
Forecast Earnings Yield (%)	1.03
Forecast Dividend Yield (%)	0.62
6 Month Target Price (N)	20
12 Month Target Price (N)	30

Recommendation

Short Term

Long Term

SELL
HOLD

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Company Profile

Neimeth International Pharmaceuticals Plc ('NIP' or 'the company') was established in 1957 as Pfizer Incorporated. In 1997, the Sam Oluambuwa 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, ointment/cream injectables and oral liquid form.

The company is currently structured 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).

In line with the company's aggressive expansion and market penetration strategy, NIP recently floated two new subsidiaries and launched 3 new products to add to its already robust product portfolio. Based on its increased capital outlay (successfully completed an equity offering in 2006) and the positive industry outlook, there are prospects for steady growth in the years ahead.

Investment Strategy

NIP's recently released half year results reveals a growth in bottom line of 31.46% over the previous period to N90.84 billion. We therefore forecast a FYE 2007 PAT of N200 million leading to an expected PE valuation of 97x – above its peer average of 83x. Based on its current price, we recommend the stock as a **SELL/HOLD** for the short and long term oriented investors.

May & Baker Plc

Current Price (N)	18.05
Shares Outstanding (million)	700
Market Capitalisation (N'bn)	12.6
Trailing PAT (N'm)	211.4
Trailing P/E ratio (x)	59.75
Trailing EPS (N)	0.30
Expected PAT (N'm)	240
Forecast P/E ratio (x)	52.65
Forecast Earnings Yield (%)	1.9
Forecast Dividend Yield (%)	1.1
6 Month Target Price (N)	30
12 Month Target Price (N)	40

Recommendation

Short Term

Long Term

SELL
HOLD

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Company Profile

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.

May & Baker which currently has a staff strength of 322, is structured around four affiliate companies and one subsidiary. The company has a well diversified shareholding structure with 100% of its total shares 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 such which include Nivaquine and Chloroquine. The company has over the past seven years diversified its operations into consumer goods and food processing.

Investment Strategy

May & Baker is currently trading at multiples 59.75x while its FYE PE stands at 52.65. This leads to an implied Price of N12 suggesting that the company is currently quoted at a premium of N4.49 (25.88%) and is therefore highly overvalued. Without any foreseeable growth in bottom line over the next 6 – 12 months, we do not expect a sustainable capital appreciation during the period. The stock is therefore recommended as a **SELL** for short term investors while long term investors are advised to **HOLD** until they are able to considerably improve their earnings capacity.

Evans Medical Plc

Current Price (N)	13.39
Shares Outstanding (million)	442
Market Capitalisation (N'bn)	5.9
Trailing PAT (N'm)	132.2
Trailing P/E ratio (x)	44.79
Trailing EPS (x)	0.32
Expected PAT (N'm)	(18)
Forecast P/E ratio (N)	N/A
Forecast Earnings Yield (%)	N/A
Forecast Dividend Yield (%)	N/A
6 Month Target Price (N)	8
12 Month Target Price (N)	12

Recommendation

Short Term	SELL
Long Term	SELL

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Company Profile

Evans Medical Plc ('Evans Medical' or 'the company') was incorporated in 1954 and officially listed on the floor of the NSE in 1979. The company is well known for its manufacture and sale of various brands of pharmaceutical and health care products including Paracetamol, Allenbury's Glucose D, Multivite and Piriton.

The company currently has about 23 products in its portfolio and plans a continuous improvement and increase in the years to come. Some of the major products in the Evans Medical portfolio include anti-malarial, vitamins, cough and cold prescriptions as well as anti-fungal and anti-retroviral drugs.

Evans Medical recently formed an alliance with Cipla of India which is charged with the responsibility of sales and marketing of prescription only medicines. The company can leverage on its many years of experience as well as emerging industry prospects in order to produce a major turnaround in its operating performance.

Investment Strategy

Despite an impressive performance for the year ended December 31st 2006 in which the company declared a growth in profit from N79.2million to N139.2 million, the company recorded a loss position of N13.5 million during the third quarter ended September 2007. The company therefore has a negative EPS and P/E valuation and except it records a turnaround in the last quarter of the year, we expect a full year loss of about N18b billion. We therefore recommend the stock as a **SELL/SELL** for short and long term investors respectively.

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