



Credit Rating Announcement

GCR affirms Fidson Healthcare Plc's national scale ratings of BBB^{+(NG)} / A2^(NG) and revises the Outlook to Positive due to expected robust earnings growth.

Rating Action

Lagos, 11 June 2021 - GCR Ratings ("GCR") has affirmed the national scale long and short-term Issuer ratings of BBB^{+(NG)} and A2^(NG) respectively, assigned to Fidson Healthcare Plc, with the Outlook revised to Positive.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Fidson Healthcare Plc	Long Term Issuer	National	BBB ^{+(NG)}	Positive
	Short Term Issuer	National	A2 ^(NG)	

Rating Rationale

Supporting the ratings, Fidson Healthcare Plc ("Fidson" or "the Company") maintains a strong competitive position in the Nigerian pharmaceutical industry supported by a well-diversified products portfolio with significant market shares in several key product categories, wide distribution footprints, and relationships with reputable vendors. These have supported sound earnings trajectory through the cycle and underpinned sustained moderation in the leverage metrics. However, the ratings are constrained by weak liquidity coverage and further expected increases in debt.

Earnings constitute a key ratings strength, with strong revenue growth over the review period (FY20: 30%). Having reported a further annualised 38% increase in 1Q FY21, GCR expects robust growth to be achieved for the full year, given the anticipated commencement of various scheduled manufacturing contracts and the generally higher weighting of sales to the second half of the year. Combined with planned capacity expansion and the pipeline of additional products, GCR believes that the sound progression will be sustained over the medium term.

The EBITDA margin has remained sound between 19% and 22% over the review period, in line with industry average. While there was a deeper cut in 2018 due to imported inflation on Active Pharmaceutical Ingredients and high logistics costs, earnings have subsequently been ramped up through better cost oversight. Looking ahead, we expect that earning margins will remain within the historical range, as cost pressures will be partly passed on to the end consumers.

Continued working capital pressure remains a constraint to the ratings. The need to increase inventory to support expanding business volumes while mitigating against stock-out due to supply chain disruptions, has resulted in operating cash outflows, which have been funded by rising short term debt. GCR believes that cash absorptions will persist in line with the anticipated top line growth, but some respite may derive from anticipated lower interest payments and more robust cash generation. Accordingly, we expect interest coverage to strengthen to the 4x to 5.5x range, albeit still deemed weak; while operating cash flow coverage of debt should improve marginally to a low range of around 20% to 30% (relative to the single digit or negative level reported in recent years). However, should further earnings pressure manifest beyond expectation, this could negatively impact the current ratings.

This notwithstanding, the leverage profile is balanced by moderate levels of net debt to EBITDA, averaging 200% over the review period (190% in FY20). Despite the expectation for the continued increase in gross debt (from N11.1bn at FY20 to N14.2bn at FY21), we believe that the metric could reduce even further to around 100% to 130% if earnings targets are met. Given the relatively moderate debt level, we expect that even if earnings target misses by 10%-15%, gearing will still likely remain at conservative levels. GCR takes cognisance of the financial flexibility indicated by

Fidson's access to diverse funding sources including concessional debt (52% of total), local commercial banks and the capital market. Foreign currency exposure is also minimal with less than 30% of debt denominated in USD. Furthermore, the Company plans to issue new bonds to refinance existing obligations.

Fidson's liquidity is its weakest ratings factor. This is attributable to the high short term debt and capex required within the next 12 months, with available cash resources and committed facilities from commercial banks barely covering liquidity uses. The Company is also highly exposed to the more volatile commercial paper market. However, GCR takes cognisance of the fact that, historically, Fidson has successfully issued (and fully redeemed) bonds and now plans to utilise part of the proposed bond proceeds to refinance the maturing obligations. Furthermore, should the bond issuance fail, we believe that Fidson could leverage its strong banking relationships to meet liquidity needs. The short-term facilities are secured by an all-asset debenture on the fixed assets of the Company.

Outlook Statement

The Positive Outlook reflects GCR's expectation of a likelihood for strong earnings growth over the medium term. Revenue appears well placed to post solid growth over the medium term, while there are some opportunities for margin enhancement through economies of scale and cost containment. Such earnings growth should support improved debt service coverage, even if gross debt increases.

Rating Triggers

Positive rating action could emanate if Fidson attains or exceeds earnings targets. This would support firmer cash flows and reduce its reliance on short term debt funding, as well as support stronger debt service coverage. A meaningful extension of the debt maturity profile would also help ease liquidity concerns.

The ratings could be downgraded if 1) debt spike substantially even if due to expansion 2) the Company is unable to refinance its short-term debt or the portion of short term debt rises further 3) there are material cost overruns that impact the attainment of earnings targets and increase the recourse to working capital funding.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Corporate Entities, May 2019
 GCR Ratings Scales, Symbols & Definitions, May 2019
 GCR Nigeria Country Risk Scores, February 2021
 GCR Nigeria Corporate Sector Risk Scores, February 2021
 Fidson Healthcare Plc's Rating Reports, 2014-20

Ratings History

Fidson Healthcare Plc					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB _(NG)	Stable	January 2014
Short Term Issuer	Initial	National	A3 _(NG)		
Long Term Issuer	Last	National	BBB+ _(NG)	Stable	December 2020
Short Term Issuer	Last	National	A2 _(NG)		

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	7.00
Country risk score	3.75
Sector risk score	3.25
Business profile	1.00
Competitive position	1.00
Management and governance	0.00
Financial profile	(0.75)
Earnings performance	1.00
Leverage and Cash flow	(0.50)
Liquidity	(1.25)
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	7.25

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with because of holding the security or asset. For a company, its exposure may relate to a product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	Regarding corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

Salient Points of Accorded Ratings

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

The credit rating has been disclosed to Fidson Healthcare Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Fidson Healthcare Plc participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Fidson Healthcare Plc and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- Unaudited management accounts for the period to 31 March 2021;
- Internal and/or external management reports;
- Industry comparative data and a breakdown of facilities available and related counterparties; and
- Information specific to the rated entity and/or industry was also received.

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