INVESTMENT PITCH

May & Baker Nigeria Plc

Operational Turnaround, Valuation Risk & Investment Recommendation

REDUCE

NGX: MAYBAKER • NGN43.00

NGN24.00

WEIGHTED TARGET PRICE

(44.2%)

DOWNSIDE TO TARGET

23.8%

WACC

PRESENTED BY TEAM MAYBAKER • EQUITY RESEARCH COVERAGE

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Executive Summary

NGN43.00	NGN52.50	NGN14.85	NGN24.00	(44.2%)	REDUCE
LAST CLOSE	ALL-TIME HIGH	52-WK LOW	WEIGHTED TARGET	DOWNSIDE TO TARGET	RECOMMENDATION

1. THE COMPANY

May & Baker Nigeria Plc is one of Nigeria's leading indigenous pharmaceutical manufacturers, with over 80 years of operating history, a WHO-GMP-certified manufacturing facility, and a growing presence in prescription medicines, consumer healthcare, and vaccine production through its majority stake in Biovaccines Nigeria Limited (BVNL).

The company has delivered one of the strongest operational turnarounds in Nigeria's pharmaceutical sector. FY2025 revenue grew 32.4%, profit after tax increased 175%, leverage declined significantly, and the business continues to benefit from structural tailwinds including multinational exits, import substitution, and rising demand for locally manufactured medicines.

The problem is not the business—it is the valuation.

Following a 173% rally from its January low, the market appears to be pricing today's earnings recovery as though it will persist indefinitely. Our analysis suggests investors are extrapolating peak margins, unusually strong cash generation, and exceptional operating conditions without adequately reflecting margin normalisation, working-capital rebuilding, and the company's continued exposure to foreign exchange movements, given that approximately 80% of raw material costs remain imported.

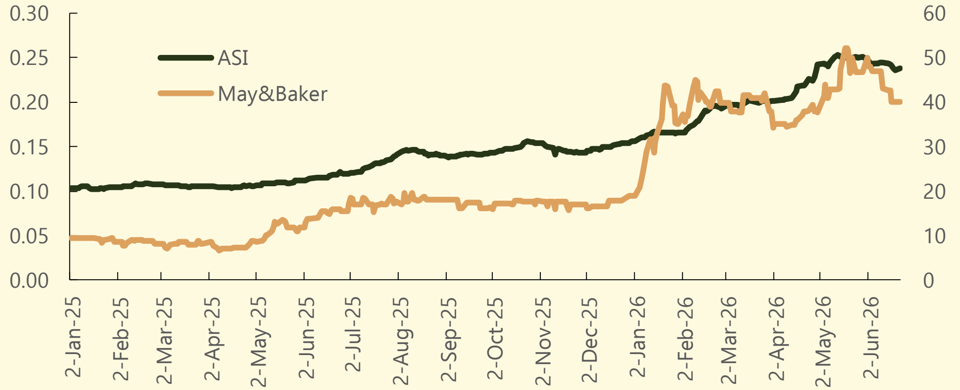
Three independent valuation approaches—including two-stage DCF (Gordon Growth and Exit Multiple) and peer trading multiples—converge on a probability-weighted intrinsic value of **NGN24.00 per share**, implying **44.2% downside** from the current market price. Even under our most optimistic assumptions, fair value remains materially below the current trading price.

Our thesis is therefore not that the turnaround is unsustainable, but that investors have already priced in more than the fundamentals justify. At NGN43.00, the stock offers limited margin of safety despite execution and macroeconomic risks that remain embedded in the business.

The primary factors that could invalidate our thesis are sustained margin expansion above our forecasts, faster-than-expected market share gains, successful commercialisation of BVNL, or a prolonged period of macroeconomic and foreign exchange stability that supports earnings beyond our base case.

We therefore recommend investors reduce positions, preserve gains from the recent rally, and consider re-entering the stock at more attractive valuation levels closer to our intrinsic value estimate of NGN24.00 per share.

2. SHARE PRICE PERFORMANCE



Source : investing.com

3. INVESTMENT CASE & KEY RISKS

- Genuine turnaround: margin recovery, deleveraging, supply-gap capture
- Valuation has decoupled from fundamentals — no margin of safety at NGN43
- × Risk: FX swings on ~80% imported COGS could reverse margin gains
- × Risk: 2026F working-capital rebuild (DIO, DPO) absorbs cash generated in FY25
- × Risk: ROIC (~24.3%) still trails WACC (23.8%) even at peak FY25 returns

Company Overview

An 80-year evolution from a UK trading outpost into Nigeria's leading indigenous pharmaceutical manufacturer.

Business Model

- Two segments: Pharmaceuticals (98.7% of revenue) and Beverages (Lily Table Water) as a stabiliser
- Spans anti-malarials, anti-infectives, analgesics & a fast-growing chronic-care line
- Ota 'Pharma Centre': WHO-GMP certified; 6.5bn tablets and 56.5m bottles annual capacity
- Distributor-led model — no single customer exceeds 10% of revenue

Milestones & Ownership

- 1944 — Founded as UK trading outpost; 1994 — Listed on NGX Main Board
- 2023-25 — BVNL JV (51% M&B / 49% FG) begins domestic vaccine fill-and-finish
- Ownership: 41.8% T.Y. Holdings, 15.5% Onyishi M. Samuel, 35.3% free float
- Led by MD/CEO Patrick Ajah; Chairman Senator Daisy Danjuma

Competitive Position

- WHO-GMP scale advantage vs. fragmented 130+ local manufacturers
- Concessionary BOI/CBN debt (5-9%) vs. peers' commercial-rate borrowing
- ✕ Moat is structural, not pricing-based — ~80% of COGS still imported in USD
- ✕ No proprietary IP or patent protection; brand loyalty is the main defensible asset

BEYOND THE CORE: THE BVNL JOINT VENTURE

Biovaccines Nigeria Limited is not a footnote to the May & Baker investment case. It is potentially the most consequential asset on the balance sheet — and paradoxically, it is also one of the strongest arguments for the REDUCE recommendation, because the market appears to be pricing it neither correctly nor consistently.

BVNL is a 51/49 joint venture between May & Baker Nigeria (majority) and the Federal Government of Nigeria, established to manufacture, fill, and distribute human vaccines domestically. It sits at the intersection of three of the most powerful structural forces in African healthcare: the post-COVID political urgency around vaccine sovereignty, the African Union's 2040 target to manufacture 60% of the continent's vaccine requirements locally (up from less than 1% today), and Nigeria's specific vulnerability as a country of 220 million people that imports virtually every vaccine it administers.

The business has already completed its first commercial milestone, successfully supplying its inaugural vaccine order to the National Primary Healthcare Development Agency (NPHCDA), which oversees the National Programme on Immunization. It has also received a USD1.6 million grant from the mRNA Technology Transfer Programme, positioning it to build and equip a laboratory capable of producing mRNA-based biologics — the same platform technology that produced the Pfizer-BioNTech and Moderna COVID-19 vaccines.
This is not a speculative venture. It has a government mandate, a federal equity partner, a completed first delivery, and international funding.

Business Environment & Thesis

A fragmented, import-dependent market with real structural tailwinds — but the share price has run well ahead of what those tailwinds justify.

USD1.84bn	8.1%	~70%	95%+	12
NIGERIA PHARMA MARKET (2025)	USD MARKET CAGR TO 2032	FINISHED MEDICINES IMPORTED	APIS SOURCED FROM INDIA & CHINA	MULTINATIONALS EXITED 2020-24

KEY MACRO FACTORS

GDP Growth	Positive	Supports defensive healthcare demand
Inflation	Net Negative	Pressures volumes despite pricing power
FX Volatility	Negative	Raises landing costs for imported APIs
Monetary Policy	Negative	CBN tightening lifts borrowing costs

KEY INSIGHTS:

- **Market extrapolates FY2025's 34.4% gross margin forward; history shows it swung 27%-40% in 5 years on FX alone**
- **2025's ~969m net-cash position partly reflects a one-off NGN3.5bn inventory release, not a repeatable cash driver**
- **Technical setup confirms it: a 173% rally into overbought RSI territory with bearish divergence at the highs**

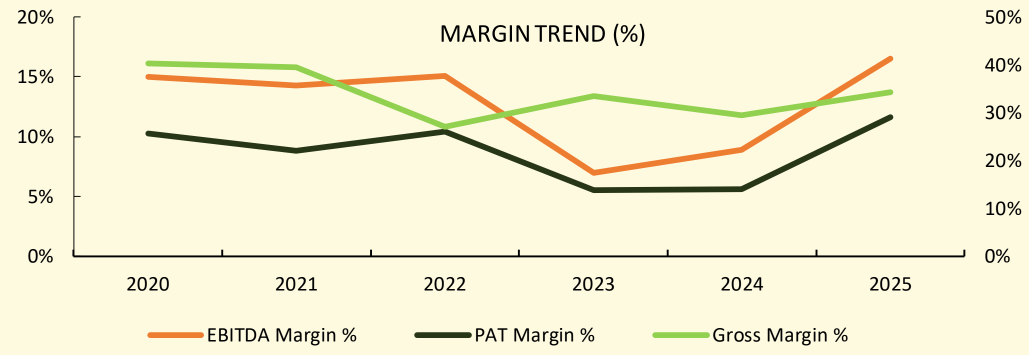
THE CASE FOR A REDUCE POSITION

May & Baker is a good business at a stretched valuation. The turnaround is real. Margins recovered, debt was almost eliminated, and the company captured genuine market share from multinationals that exited Nigeria. We have no argument with the business. The argument is entirely with NGN43.00. At that price, the market is not rewarding the turnaround. It is pricing in permanence, applying a 16.7x earnings multiple to a business where ROIC of 24.3% still trails WACC of 23.81% even in its best year, and treating a 173% rally in five months as confirmation that the stock remains cheap. Three independent valuation methods produce a weighted intrinsic value of NGN24.00. Our most optimistic scenario produces NGN28.00 to NGN30.00. The stock trades above both. There is no credible scenario that justifies NGN43.00. Investors who entered in January at NGN15.00 to NGN19.00 have made two to three times their money. The REDUCE recommendation is about protecting those returns. Reduce now, revisit at NGN34.00, and accumulate below NGN24.00. The company will still be here. The opportunity to own it at the right price will come again.

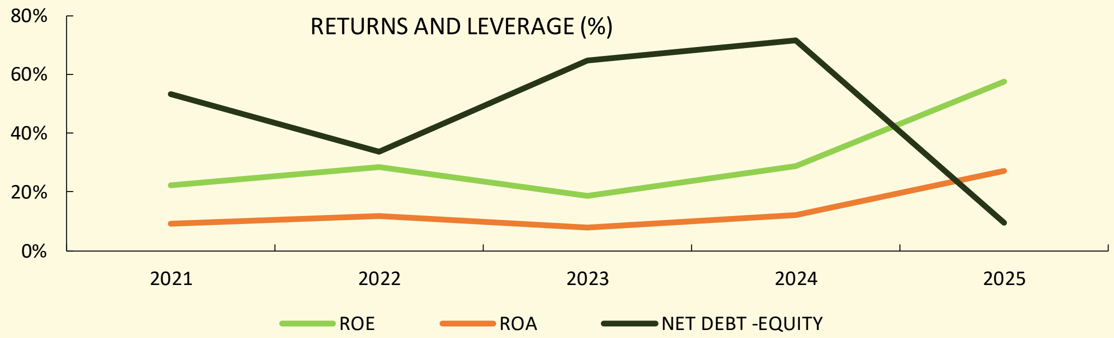
Financial Performance — Five-Year Trend

FY2025 marks a structural break after three years of margin compression and rising leverage

NGN38.26bn	34.4%	NGN4.44bn	32.5%	10%
FY25 REVENUE (+32.4% YoY)	GROSS MARGIN (+9.1pp YoY)	PAT (+175.3% YoY)	ROE (vs. 16.4% FY24)	NET DEBT/EQUITY (vs. 71% FY24)



Source : Company's annual report



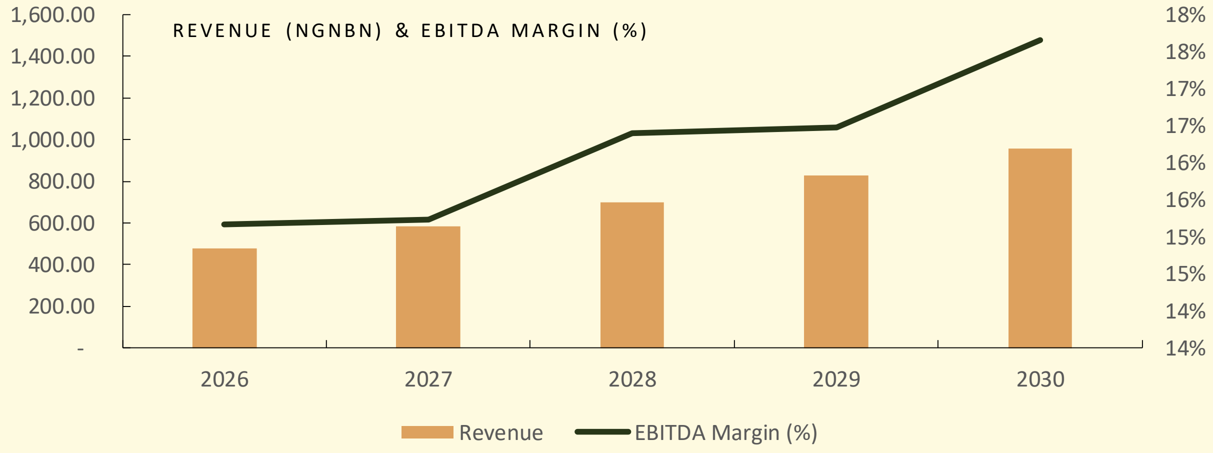
Source : Company's annual report

FY2025 PEER BENCHMARKING — NGX-LISTED PHARMA

Metric	May & Baker	Fidson	MeCure	Neimeth
Revenue (NGNm)	**38,263**	119,061	77,693	7,369
Gross Margin %	**34.4%**	41.3%	34.1%	41.7%
PAT Margin %	**17.1%**	11.7%	10.1%	17.8%
ROE %	**57.6%**	51.0%	46.4%	61.4%
Net Debt/Equity	**9.6%**	146.1%	280.8%	374.1%

Financial Outlook — Forecast & Key Drivers

2026F-2030F: growth and margins normalize from FY2025's exceptional



ROIC VS. WACC & PER-SHARE METRICS

PAT (NGNm)	4,437 | 4,823 | 5,871 | 7,605 | 8,962 | 11,234
EPS (Kobo)	257 | 280 | 340 | 441 | 519 | 651
DPS (Kobo)	40 | 50 | 60 | 75 | 90 | 100

FY2025 ROIC: ~24.3% **WACC:** 23.8%

Even at FY2025's exceptional return level, ROIC sits above WACC

What's Driving Revenue

20-25% naira-denominated growth (2026F-2030F), tapering from 32% in FY2025. Real volume growth ~8-12%; the remainder is pricing pass-through and continued multinational-exit share capture.

Why EBITDA Margin Normalises

FY2025's 16.5% margin is unlikely to repeat. We model 15.2% in 2026F-27F as opex scales and the one-off CBN deferred-gain benefit shrinks as concessionary loans amortise.

Operating Cash Flow & Working Capital

FY2025's NGN3.5bn inventory release was one-off (DIO fell to 69 days from a 5-yr average of ~171). We model DIO rebuilding to 100-110 days and DPO to 60-70 days — a 2026F cash drag.

Valuation

Three independent methods converge on a fair value well below NGN43.00 — DCF (two approaches), trading comparables, and the 52-week range.

IMPLIED SHARE PRICE BY METHOD (NGN)

SECTION 5: ENTERPRISE VALUE → EQUITY VALUE → SHARE	Gordon Growth	Exit Multiple
Sum of PV of FCFFs (₦m)	6,307.0	6,307.0
PV of Terminal Value (₦m)	15,235.8	34,895.8
Enterprise Value (₦m)	**21,542.9**	**41,202.8**
Less: Total Financial Debt (₦m)	4,166.0	4,166.0
Add: Cash & Equivalents (₦m)	6,569.6	6,569.6
Equity Value (₦m)	**32,278.4**	**51,938.4**
Shares Outstanding (millions)	1,725.234	1,725.234
Intrinsic Value per Share (₦)	**18.71**	**30.11**
Current Market Price (₦ per share)	43.00	43.00
Upside / (Downside) to Current Price	(56.49%)	(29.99%)
Average Intrinsic Value (₦)	**24.41**	
Average Upside / (Downside)	**(43.24%)**	

WEIGHTED TARGET PRICE

DCF — Gordon Growth	NGN18.71	26.0%
DCF — Exit Multiple	NGN30.11	41.83%
Comps — Peer Avg.	NGN23.11	32.17%

NGN24.00 target → (44%) downside

COST OF CAPITAL BUILD-UP

Risk-Free Rate (Rf)	16.2%
Equity Risk Premium	12.6%
Country Risk Premium	12.6%
Beta (re-levered)	0.68x
Cost of Equity (Ke)	**24.8%**
After-Tax Cost of Debt	6.3%
WACC	**23.8%**

KEY MODELLING ASSUMPTIONS

10%	6.0x	20-25%	32-34%	100-110d
TERMINAL GROWTH (G)	EXIT EV/EBITDA MULTIPLE	NEAR-TERM REVENUE GROWTH	GROSS MARGIN ASSUMPTION	NORMALISED DIO

Sensitivity, Scenario Analysis & Technicals

Even under bullish growth and margin assumptions, the valuation gap to NGN43.00 persists — and price action confirms an overbought, mean-reverting setup.

WACC \ g →	6%	8%	10%	12%	14%
24.0%	₦16.34	₦17.29	₦18.51	₦20.13	₦22.41
26.0%	₦15.05	₦15.76	₦16.65	₦17.79	₦19.31
28.0%	₦14.00	₦14.55	₦15.21	₦16.05	₦17.12
28.5%	₦13.79	₦14.30	₦14.93	₦15.71	₦16.71
30.0%	₦13.14	₦13.57	₦14.08	₦14.71	₦15.50
32.0%	₦12.43	₦12.77	₦13.17	₦13.66	₦14.25
34.0%	₦11.83	₦12.10	₦12.42	₦12.80	₦13.26

Gold = base case (WACC 23.81%)

SCENARIO ANALYSIS

BULL CASE

Continued naira stability + supply-gap capture lifts gross margin toward 40% (2020 level); EPS compounds past Kobo 650 by 2030.

BASE CASE

Revenue compounds 20-25%; gross margin stabilises 32-34%; net cash position strengthens as concessionary debt amortises.

BEAR CASE

A 2023-24-style naira devaluation episode compresses gross margin to 27-29%; working-capital rebuild and rising import-finance costs strain cash.

TECHNICAL LEVELS

All-Time High (May 18)	NGN52.50
Resistance / False-Breakout	NGN45.25
Current Price	NGN43.00
50% Fib. Retracement	NGN35.00
Near-Term Support	NGN34.20
52-Wk Low Range	14.85-18.45

Weekly RSI shows bearish divergence above 70; a correction toward the NGN35.00 Fibonacci level reinforces the overvaluation thesis.

READING THE CHART

- Four months of accumulation led to a breakout in May, but the move appears to be a false breakout as the price failed to hold above NGN45.25.
- A pullback toward the NGN35.00 Fibonacci support level is likely in the near term, supporting the view that the stock is overvalued.
- The price action reflects a typical accumulation → false breakout (manipulation) → distribution pattern.
- The weekly RSI shows bearish divergence after moving above 70, while the monthly RSI remains in overbought territory (above 70), indicating weakening upward momentum.

Source: Tradingview

Risks, Mitigants & Final Recommendation

Operational & FX Risk

~80% of COGS is imported, USD-priced raw material. Naira depreciation hits costs before pricing can catch up — the single biggest swing factor on margins.

Mitigant: distributor-led pricing pass-through and diversified API sourcing across Indian, Chinese, and European suppliers.

Market & Macro Risk

CBN tightening (MPR 27.5%) raises financing costs sector-wide; inflation pressures volumes despite the company's pricing power.

Mitigant: concessionary BOI/CBN debt (5-9%) materially below commercial rates insulates the cost of debt.

Regulatory & Working Capital Risk

NAFDAC registration delays and pricing regulation can defer launches; FY2025's working-capital release (inventory, payables) was a one-off.

Mitigant: Enterprise Risk Management system; but 2026F cash flow should normalise lower as DIO/DPO rebuild.

REDUCE

"May & Baker Nigeria Plc delivered one of the strongest operating years in its history in FY2025. Revenue grew 32.4% to NGN38.26bn. Gross margin expanded nearly 9 percentage points to 34.4%. Profit after tax surged 175% to NGN4.44bn. Management executed well, the balance sheet is clean, and the structural tailwinds behind the business — multinational exits, import-substitution demand, and the BVNL vaccine joint venture — remain intact.

The issue is not the company. The issue is the price.

The stock rallied 173% between January and May — from NGN15.75 to an all-time high of NGN52.50, before retracing to NGN43.00. That move was faster and larger than the underlying earnings improvement justified. Across six independent valuation approaches, our analysis yields a weighted intrinsic value of NGN24.00 per share — 44.2% below the last close. Even our most optimistic scenario, assuming gross margins sustain near 40% and revenue compounds at 25% annually through 2030, produces a value of approximately NGN28–30. The current price sits above every scenario we can credibly construct.

We are not calling a broken business. We are calling a stretched price. Investors who have held since early 2026 have made exceptional returns — this recommendation is about protecting those returns, not abandoning the company. REDUCE. Trim into any further strength. Revisit at NGN34.00. Accumulate below NGN24.00.

The company is worth owning. Just not at NGN43.00."

Appendix — Financial Statements & Modelling Detail

WACC ASSUMPTIONS

A. Cost of Equity — CAPM: Ke = Rf + b (mkt premium)	
Yield on FGN 10-yr Bond (1 year Average)	16.20%
Market return premium (Damodaran)	12.64%
Equity beta (FT)	0.68
Cost of Equity (Ke)	24.8%

B. Cost of Debt & Capital Structure	
Pre-tax Cost of Debt (Kd) — weighted avg BOI / CBN / IFF loans	9.00%
Corporate Tax Rate (t)	30.00%
After-tax Cost of Debt [Kd × (1−t)]	6.30%
Market Value of Equity (E)	74,390.0
Total Debt — book value approximation (D)	4,166.0
Total Capital (V = E + D)	78,556.0
Weight of Equity (E/V)	94.70%
Weight of Debt (D/V)	5.30%
WACC = Ke×(E/V) + Kd_at×(D/V)	**23.81%**

Source: Company's annual report, Damodaran, Financial Times, Investing.com

CASH FLOW (NGNMn)

	2024A	2025A	2027F	2030F
Operating CF	3,500	4,063	4,864	11,093
Capex	(1,271)	(1,161)	(2,334)	(3,355)
Free Cash Flow	2,229	2,902	2,530	7,738
Financing CF	(2,631)	(246)	(802)	(1,177)
Net Change in Cash	8	3,385	2,715	7,995
DPS (Kobo)	30	40	60	100

BALANCE SHEET (NGNMn)

	2024A	2025A	2027F	2030F
Total Assets	22,456	25,615	39,548	71,422
Total Equity	9,893	13,651	22,448	45,677
Total Debt	4,748	5,601	6,600	8,586
Cash	3,223	6,570	8,489	22,046
Net Debt/(Cash)	1,525	(969)	(1,890)	(13,461)
Inventory	8,244	4,734	11,247	18,775

Appendix — Financial Statements & Modelling Detail

(₦ millions)	2020A	2021A	2022A	2023A	2024A	2025A	2026	2027	2028	2029	2030
Income Statement											
Revenue	9,390	11,902	14,328	19,695	28,905	38,263	**47,829**	**58,351**	**70,022**	**82,626**	**95,846**
Cost of goods sold	(5,608)	(7,203)	(10,453)	(13,114)	(20,392)	(25,116)	**(32,045)**	**(39,095)**	**(46,214)**	**(54,533)**	**(62,300)**
Gross profit	**3,782**	**4,699**	**3,875**	**6,581**	**8,513**	**13,147**	**15,784**	**19,256**	**23,807**	**28,093**	**33,546**
Gross Profit margin %	40.3%	39.5%	27.0%	33.4%	29.5%	34.4%	33.0%	33.0%	34.0%	34.0%	35.0%
Revenue growth %	-	26.7%	20.4%	37.5%	46.8%	32.4%	25.0%	22.0%	20.0%	18.0%	16.0%
Other operating income	46	43	1,674	62	146	125	**130**	**135**	**140**	**145**	**150**
Distribution, sales and marketing expenses	(1,452)	(1,812)	(2,149)	(2,567)	(3,250)	(3,948)	**(4,926)**	**(6,010)**	**(7,142)**	**(8,428)**	**(9,680)**
Administrative expenses	(968)	(1,228)	(1,235)	(2,707)	(2,847)	(3,003)	**(3,731)**	**(4,493)**	**(5,322)**	**(6,197)**	**(7,093)**
EBITDA	**1,408**	**1,702**	**2,165**	**1,370**	**2,563**	**6,322**	**7,257**	**8,888**	**11,484**	**13,613**	**16,923**
EBITDA margin %	15.0%	14.3%	15.1%	7.0%	8.9%	16.5%	15.2%	15.2%	16.4%	16.5%	17.7%
COGS as % of Revenue	59.7%	60.5%	73.0%	66.6%	70.5%	65.6%	67.0%	67.0%	66.0%	66.0%	65.0%
Impairment reversal/(loss) on trade receivables											
Depreciation & Amortisation	(556.8)	(573.8)	(567.1)	(603.5)	(731.8)	(807.0)	**(1,004.4)**	**(1,225.4)**	**(1,400.4)**	**(1,652.5)**	**(1,821.1)**
EBIT	851.1	1,128.4	1,597.8	766.6	1,831.7	5,515.1	**6,252.1**	**7,662.3**	**10,083.1**	**11,960.5**	**15,101.9**
EBIT margin %	9.1%	9.5%	11.2%	3.9%	6.3%	14.4%	13.1%	13.1%	14.4%	14.5%	15.8%
Interest on loans and overdraft	229	425	455	442	515	680					
Interest on deferred income realised	(71)	(158)	(169)	(152)	(145)	(207)	0	0	0	0	0
Interest income	(23)	(59)	(231)	(384)	(407)	(712)	**(860.9)**	**(992.0)**	**(1,120.3)**	**(1,239.4)**	**(1,437.7)**
Net finance costs	**135**	**207**	**55**	**-93**	**-37**	**-239**	**(860.9)**	**(992.0)**	**(1,120.3)**	**(1,239.4)**	**(1,437.7)**
Share of loss in joint ventures	(24)	(34)	(26)	57	(27)	(21)	-20	-20	-20	-20	-20
Profit before income tax	**1,249**	**1,461**	**2,085**	**1,520**	**2,574**	**6,541**	**7,093.0**	**8,634.3**	**11,183.4**	**13,179.8**	**16,519.6**
PBT margin	13.3%	12.3%	14.5%	7.7%	8.9%	17.1%	14.8%	14.8%	16.0%	16.0%	17.2%
Income tax expense	(284)	(411)	(594)	(437)	(952)	(2,103)	**(2,269.8)**	**(2,763.0)**	**(3,578.7)**	**(4,217.5)**	**(5,286.3)**
Profit after tax	**965**	**1,050**	**1,491**	**1,084**	**1,622**	**4,437**	**4,823.4**	**5,871.5**	**7,604.9**	**8,962.4**	**11,233.5**
PAT margin	10.3%	8.8%	10.4%	5.5%	5.6%	11.6%	10.1%	10.1%	10.9%	10.8%	11.7%
Items that may be reclassified subsequently to profit or loss:											
Unrealised gain from foreign balance translation	-	-	-	-	-	12					
Other comprehensive income	**0**	**0**	**0**	**0**	**0**	**12**					