

GlaxoSmithKline Consumer Nigeria Plc: Interim Results – Q2 June, 2010



August 02, 2010

HOLD

Fair Value: N26.96

Current Price: N29.09

Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of **GlaxoSmith**, we maintained our earlier top line forecast but reviewed the bottom-line upward to take account of the improvement in the profit margin over 2009. We estimated **TO**, Earning Before Interest Tax Depreciation and Amortization (**EBITDA**) and **PAT** for the period ended December, 2010. We project a **TO** of **N16.87bn**, based on a growth rate of **12.81%** over the previous year. We project **EBITDA** of **N3.41bn** based on **EBITDA** margin of **20.20%** and a **PAT** of **N2.29bn** based on a **PAT** Margin of **13.58%**. We used **956.70mn** Ordinary Shares, which we expect to be in issue as at December 2010. The Earnings Per Share (**EPS**) generates **N2.39**. We estimated Dividend Per Share (**DPS**) of **N1.06** based on a dividend payout of **44.38%**. Applying Enterprise Value **EV/EBITDA** multiple of **7.60x**, a **P/E** multiple of **12x**, we arrived at **N25.51** per share using **EV/EBITDA** multiple and **N28.74** per share price using earnings multiple. Applying a weight of **55%** on **N25.51** and **45%** on **N28.74**, we arrived at **N26.96** per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **8.88%** and **3.94%** respectively. **We therefore place a HOLD on the shares of GlaxoSmith at the current market price.**

Business Description

The company is engaged in the manufacture, marketing and distribution of a wide range of healthcare brands.

Ticker	GlaxoSmith
Sector	Healthcare
Date of Incorporation	June 23 , 1971
Date of Listing	July 1979
Year End	December
No of Ordinary Shares	956,701,190
Capitalisation (N)	27,830,437,617
% of Market Capitalisation	0.45
52-Week High(N)	31.50
52-Week Low(N)	16.68
YTD Return (%)	29.87
52-Week Avg. Trade	301,524
Beta Value	0.55
Trailing EPS(N)	1.71
Trailing PE(x)	17.02

Touching Lives-Winning Together

The unaudited Q2 2010 result of GlaxoSmithKline Consumer Nigeria Plc (**GlaxoSmith**) for the period ended 30 June, 2010 showed that its Turnover (TO) grew marginally by **8.82%** to **N8.43bn**, compared with **N7.75bn** in the corresponding period of 2009. Profit Before Tax (PBT) decreased marginally by **5.41%** between 2009 and 2010 to **N1.68bn** from **N1.75bn** in the corresponding period of 2009. The tax provision moved in a similar direction, decreasing by **5.41%** between 2009 and 2010 to **N520.34mn** from **N550.51mn**, bringing the Profit After Tax (PAT) to **N1.16bn** as against **N1.22bn** in 2009 and representing a decline of **5.41%**. We reported in 2009 that the company, through its parent company, GlaxoSmithKline(UK), stepped up its expansion into Africa and emerging markets, by striking an alliance to sell more than 100 drugs of Dr. Reddy's, the Indian generic pharmaceuticals maker. We maintain that the alliance would contribute positively to the revenue growth of GlaxoSmith Nigeria.

A cursory look at the company's profit margins reveals that the cost management strategies of the company are improving in relation to full year, 2009 account. The PBT Margin in Q2 2010 decreased over the Q2 2009 and over the FY 2009 figure. The PBT margin decreased to **19.91%** in Q2 2010 from **22.90%** as at Q2 2009, but up from **16.52%** as at the end of the financial year in December, 2009. This shows that the company's total cost as a percentage of TO stands at **80.09%**, up from **7.10%** recorded in the corresponding period of 2009. PAT margin currently stands at **13.73%**, down from **15.80%** in the corresponding period of 2009 but up from **11.38%** as at FY 2009. The result also indicated that the percentage of the TO, PBT, and PAT in the Q2 2009 result to the Full Year Audited TO, PBT and PAT for the period ended December, 2009 are: **56.37%**, **67.95%** and **68.03%**, respectively. This suggests that GlaxoSmith should surpass its previous year's performance at the current run rate.

A cursory look at the balance sheet position as at Q2 2010 compared with the position as at December, 2009 shows that the company's fixed assets recorded a growth. Fixed assets increased by **6.85%** to **N5.12bn** from **N4.79bn** in FY 2009, while the net assets increased by **6.68%** to **N7.02bn** from **N6.58bn** as at FY 2009. Cash and bank balance decreased from **N2.15bn** in FY 2009 to **N1.08bn** in Q2 2010. Stocks increased by **17.09%** to **N4.09bn** from **N3.49bn** during the review period. GlaxoSmith's working capital increased marginally from **N2.66bn** in FY 2009 to **N2.68bn** in Q2 2010. The management however needs to put in place strategies to reduce the mounting trade debtors which increased significantly by **82.58%** to **N1.49bn** from **N817.20mn** in order to improve its cash position. Trade creditors decreased by **46.69%** to **N505.30bn** in Q2 2010 from **N947.94mn** as at FY 2009.

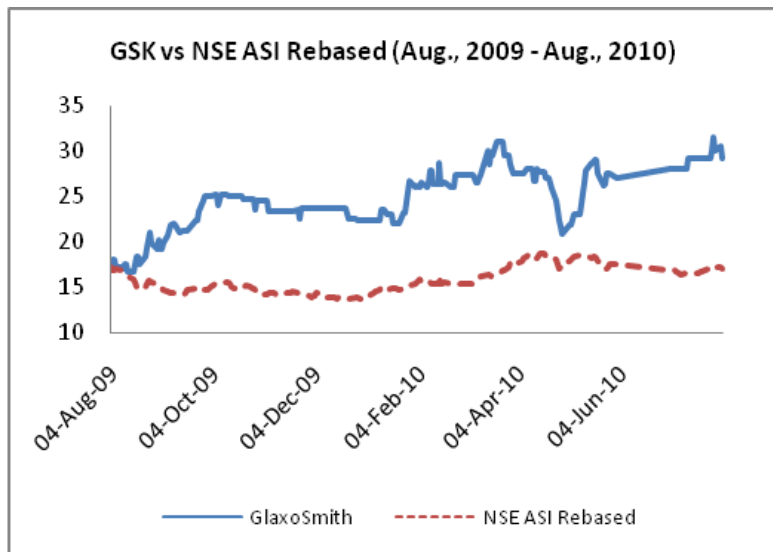
Our analysis of the healthcare sector in Nigeria, just like other manufacturing and distributing firms, shows that it continues to struggle with provision of basic infrastructure. The environment in which the consumer healthcare business operates is becoming more challenging. Consumers are now demanding better quality, better value and improved performance from healthcare companies. Additionally, retailers are consolidating their operations which have strengthened their negotiation power even as consumers are effectively resisting price increases. However, there are growth opportunities in the industry. One of the opportunities is the passage of the National Health Insurance Scheme (NHIS) bill. Also, the establishment of the National Agency for Food and Drug Administration (NAFDAC) has brought about sanity in the healthcare industry in Nigeria, which had been bedeviled with fake and adulterated products. Government appears to be more responsive to the industry with the suspension of the imposition of excise duties which came on stream in 2008 and which would have created a higher price tariff for consumers of pharmaceutical products in Nigeria. Furthermore, the action of government, in response to pleas made to it in removing Ampiclox from the import prohibition list, should have a positive impact on the company's business. In order to be more competitive GlaxoSmith's plant now operates on two gas based generators to meet its energy needs. GlaxoSmith has also invested in chillers plant, air compressor machine, a new tetra line, a new tablet line and improved existing facilities to meet consumer demand for nutritional and OTC products. The company is also receiving significant support from its parent company through investments in modernizing its manufacturing process, new business development and manpower training.

The capital employed by GlaxoSmithKline as at December 31, 2009 was such that equity, deferred taxation and retirement benefits & related obligations accounted for **88.34%**, **5.46%** and **6.20%** of the capital structure respectively. Its total Assets stood at **N12.08bn**, while total liabilities stood at **N5.50bn**. The short term liabilities stood at **N4.63bn**, accounting for **84.18%** of the total liabilities while the long-term liabilities stood at **N869.15mn** accounting for **15.82%** of the total liabilities. It had no long term debt as at December 31, 2009. An analysis of the TO of GlaxoSmith in 2009 shows that its revenue of **N14.95bn** was derived from the sales of Consumer Healthcare products representing **70.04%** (**N10.47bn**) and Pharmaceuticals, representing **29.96%** (**N4.48bn**). A further analysis of the contribution of the business segments to PBT showed that Consumer Healthcare products contributed **39.93%** (**N986.23mn**), while Pharmaceuticals contributed **60.07%** (**N1.48bn**). On the other hand, profit margin by business segments shows that Consumer Healthcare products recorded **9.42%**, while Pharmaceuticals recorded **33.12%**. GlaxoSmith's product lines include **Pharmaceuticals** (prescription pharmaceuticals and vaccines: **Ampiclox, Amoxil, Zentel and Halfan**); **Consumer Healthcare** (oral care, OTC medicines and nutritional healthcare: **Panadol, Andrews Liver Salt, Macleans, Phensic, Lucozade, Lucomalt and Ribena**). As at December 2009, the company's shares were held by GlaxoSmithKline Plc, UK **46.42%** through its subsidiaries **Setfirst Limited** (**27.31%**) and by **Smithkline Beecham Plc** (**19.11%**) while the balance of **53.58%** were held by Nigerian shareholders. The company has appointed Mr. Chidi Okoro as the first indigenous Managing Director since inception. Prior to his appointment, he was the head of Sales of GlaxoSmith. Mr. Okoro's appointment follows the elevation of the former MD Mr. Sameer Goel, to the role of General Manager, Consumer Healthcare International Middle East and West Africa Region. GlaxoSmith has a wholly owned subsidiary, **Winstar Pharmaceutical Limited**, that is engaged in the marketing and distribution of Over The Counter (OTC) pharmaceutical products.

Industry Analysis (NmN)							
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
GlaxoSmithKline(Dec. 2009)	14,952	2,470	1,702	16.65	25.85	1.71	17.02
Fidson (June,2009)	5,020	623	429	8.55	8.42	0.29	10.38
Neimeth (March,2009)	1,867	(406)	(455)	-	-	-	-
May & Baker (Dec. 2008)	5,440	708	418	7.68	15.18	0.35	15.89

Source: Company Annual Reports, NSE FACTBOOK. * Current

Financial Performance (NmN)							
	Q2 2010	Q2 2009	%Δ	FY 2009	FY 2008	% Δ	FY 2010F
Turnover	8,429	7,746	8.82	14,952	12,545	19.20	16,868
PBT	1,678	1,774	(5.41)	2,470	1,851	33.40	3,195
PAT	1,158	1,224	(5.41)	1,702	1,277	33.20	2,173
PBT Margin (%)	19.91	22.90	(2.99)	16.65	14.76	1.89	18.94
PAT Margin (%)	13.73	15.80	(2.07)	11.38	10.18	1.20	12.88



Directors		
Name	Position	Holding
Chief O. Oshunkeye	Chairman	11,992,030
Mr. Chidi Okoro	Mgr. Director	Nil
Mr. Sameer Goel	Director	Nil
Mr. E. C. Onuzo	Director	28,504
Mrs. O.E. Jaiyeola	Director	22,716
Mr. Bharat L. Shah	Director	Nil
Mr. R. Seshadri	Director	Nil
Engr. M. Ahmed	Director	Nil
Mr. Madike Seye	Director	Nil
Mr. Lekan Asunni*	Director	Nil
Mr. C. Okererke*	Director	Nil

***Alternate**

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