

GLAXOSMITH Returns to Profitability

Pharmaceutical Division Drags Performance

In Q2:2021, GLAXOSMITH witnessed a turnaround in revenue (+17.82%YoY) buoyed by a 55.37% increase in revenue from its consumer healthcare unit and a 4.69% increase from the pharmaceutical business unit. However, the top-line contraction witnessed in the first quarter took the spotlight, suppressing H1:2021 revenue by 5.46% YoY to NGN9.86bn from NGN10.43bn in H1:2020. Revenue from the pharmaceutical division, which accounts for c.61% of total revenue declined by 20.09% to NGN6.00bn (vs. NGN7.51bn in H1:2020)- reflective of the intense competition within the industry. In contrast, the consumer healthcare unit expanded by 32.17%YoY in H1:2020.

Given that the firm typically records higher revenues in the second half of the year (c.6.48%), we anticipate an improved topline in 2021FY relative to the corresponding period last year. On this premise, we project a topline growth of 4.12%YoY to NGN22.17bn for 2021FY.

Operating Expenses Pressure Bottomline

Trailing the decline in topline, the firm's production cost moderated by 7.51% to NGN7.09bn (vs. NGN7.66bn in H1:2020) driven specifically by the 19.19% decline in the Pharmaceutical unit's production cost. Cost to sales ratio thus moderated to 71.86% (from 73.46% in H1:2020). Although operating expenses only inched upwards slightly by 7.43%, operating profit contracted significantly by 83.33%, implying an operating margin of 0.68% (vs. 3.85% in H1:2020).

On the back of our expectation for topline expansion, we anticipate an increase in production costs during the year. However, the firm's production contract with FIDSON presents potential cost-efficiency benefits for the firm. Hence, we expect cost-to-sales ratio to settle at 70.20% for 2021FY.

The loss of NGN238.07mn recorded in Q1:2021 weighed significantly on the profit of NGN297.97 derived in Q2:2021 standalone. On this note, Profit after tax declined markedly by 80.33% to NGN59.91mn (vs. NGN304.54mn in H1:2020). This led to the contraction in Net margin (0.61%), Return on Asset (1.60%) and Return on equity (4.24%). from 2.92%, 9.07% and 3.58%, respectively in H1:2020. While we view the significant loss in Q1:2021 as a deterrent to a strong profit position in 2021FY, we expect bottomline performance in the second half to act as a buffer, translating to full year earnings of NGN656.47mn premised on our optimistic expectation for topline.

Trade Payables Management Impact Liquidity Position

Due to the firm's challenges with sourcing FX, its obligations to trading partners (mostly related parties) increased leading to an upsurge in trade payables (+7.64%) to NGN14.62bn (vs. 13.58bn in 2020FY). This led to the decline in the firm's current, quick and cash ratio to 1.43x, 1.13x and 0.72x (from 1.45x, 1.23x and 0.88x), respectively.

Earnings quality also waned as the firm recorded a negative cashflow from operations (NGN1.65bn) due to the increase in inventories (+34.63%) and trade receivables (+21.25%), falling behind net income (NGN59.91mn). This resulted in a positive net operating accrual of NGN1.71bn (from a negative net operating accrual of NGN3.49bn in H1:2020).

Recommendation

We project a 2021FY Target price of NGN6.05 based on our EPS forecast of NGN0.55 and target P/E ratio of 11.00x. This represents a 1.63% downside based on the closing price on the 9th of September 2021. Hence we rate the ticket "HOLD".

Company	GLAXOSMITH
Valuation (Trailing)	
Trailing EPS	0.32
BVPS	7.28
P/E	19.48x
P/BV	0.85x
Target PE	11.00x
Dec-2021 Exp. EPS	0.55
Dec 2021 Target price	6.05
Current Price	6.15
Up/Downside Potential	-1.63%
Ratings	HOLD
Key metrics	
ROE	4.24%
ROA	1.60%
Net margin	1.82%
Asset Turnover	0.88
Leverage	2.65
Share Price Data	
Yr Hi	7.25
Yr Lo	6.00
YTD return	-10.87%
Beta	1.05
Adjusted Beta	1.04
Shares outstanding	1.20bn
Market cap [NGN]	7.35bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

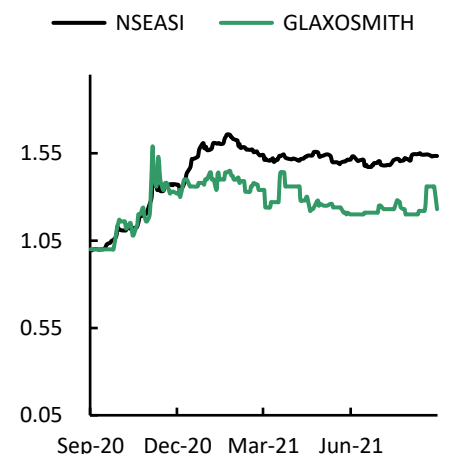


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	5.34	
						Max	6.81	
		EPS						
		0.51	0.53	0.55	0.57	0.59		
Target PE	10.5x	5.34	5.56	5.78	5.99	6.22		
	10.8x	5.47	5.69	5.91	6.14	6.37		
	11.0x	5.60	5.82	6.05	6.28	6.52		
	11.3x	5.73	5.95	6.19	6.42	6.67		
	11.5x	5.85	6.08	6.33	6.57	6.81		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	10.43	9.86	22.17	23.20	24.28	25.83	27.05
Cost of sales	7.66	7.09	15.56	16.45	17.29	18.47	19.27
Gross profit	2.77	2.77	6.61	6.75	7.00	7.36	7.77
Other gains and losses	0.06	-0.10	0.17	0.18	0.19	0.20	0.21
Operating expense	2.43	2.61	5.42	5.80	5.41	5.81	6.42
Operating profit	0.40	0.07	0.89	0.61	1.10	1.01	0.76
Investment Income	0.05	0.03	0.11	0.13	0.15	0.17	0.19
PBT	0.45	0.09	0.97	0.68	1.18	1.09	0.83
PAT	0.30	0.06	0.66	0.46	0.80	0.74	0.56
Balance Sheet	2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	1.83	1.71	1.58	1.48	1.28	1.16	1.09
Total Assets	18.69	23.74	23.66	24.74	25.67	27.14	28.65
Total Equity	9.12	8.70	9.30	9.28	9.55	9.69	9.60
Total Current Liabilities	14.59	14.78	14.33	15.43	16.09	17.42	19.02
Non-Current Liabilities	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Total Liabilities	14.82	14.81	14.36	15.46	16.12	17.45	19.05
Financial Ratios	2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	26.54%	28.14%	29.80%	29.10%	28.81%	28.49%	28.74%
Operating Margin	3.85%	0.68%	4.02%	2.61%	4.55%	3.91%	2.82%
Net Margin	2.92%	0.61%	2.96%	2.00%	3.31%	2.86%	2.08%
Return on Asset	3.58%	1.60%	2.77%	1.92%	3.19%	2.80%	2.02%
Return on Equity	9.07%	4.24%	7.06%	4.99%	8.54%	7.69%	5.85%
Return on Invested Capital	7.22%	4.93%	6.52%	4.43%	7.86%	7.10%	5.41%
Asset Turnover	0.96	0.88	0.94	0.96	0.96	0.98	0.97
Financial Leverage	2.35	2.65	2.54	2.61	2.68	2.74	2.89
Current Ratio	1.45	1.43	1.46	1.58	1.54	1.57	1.54
Quick Ratio	1.23	1.13	1.15	1.14	1.15	1.13	1.10

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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Movements in Price Target

Company Name: GlaxoSmithKline Consumer Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
10-Sep-2021	6.15	7.12	6.05	HOLD	HOLD

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Company	Disclosure
GlaxoSmithKline Consumer Nigeria Plc	

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