

First Quarter Performance Fuels Optimism

Highest Quarterly Revenue in 24 Quarters

GLAXOSMITH ended its 2021FY financial period on a positive note as its topline surged moderately by 5.42%YoY to NGN22.45bn (from NGN21.30bn in 2020FY). The topline expansion was spearheaded by growth in the Consumer Healthcare segment (+16.63%YoY) while the Pharmaceuticals Segment grew by 0.77%YoY to NGN15.16bn (vs NGN15.05bn in 2020FY). Hence, revenue stood at NGN22.45bn in 2021FY compared to NGN21.30bn in the previous financial period. In the first quarter of 2022, the firm also recorded an impressive expansion in topline. **We note that the revenue performance in the quarter represents its highest quarterly revenue in 24 quarters (since Q1:2016).** The growth was anchored on a triple digit uptick in Pharmaceuticals Segment (+191.84%YoY). Revenue from the consumer healthcare segment also increased by 30.78% to NGN2.23bn (vs. NGN1.70bn in Q1:2021). We opine that the firm's strategies directed at streamlining their focus to select segments also acted as a significant boost to revenue in the period. Cumulatively, Q1:2022 revenue settled higher (+112.60% YoY) at NGN7.36bn (vs. NGN3.46bn in Q1:2021) for the period. **We anticipate an upward review of product prices as the rising inflationary pressures should impact cost of raw materials. The essential nature of the firm's product should however sustain demand despite dwindling consumer wallet. On the other hand, given the intense competition in the pharmaceuticals market, the firm's premium pricing model poses a downside risk to our optimistic projection. Based on the aforementioned factors, we project a revenue growth of 7.91% to NGN24.23bn for 2022FY.**

Rising Raw Materials Expense Drives Production Cost

In 2021FY, raw material cost increased (+5.78%), moving cost of sales to a six-year high of NGN16.27bn in 2021FY. Cost to sales however settled relatively flat at 72.47% (from 72.22% in 2020FY). Likewise, operating expenses increased to NGN5.34bn on the back of surge in electricity cost (+60.82), freight cost (+31.89), and promotion expenses (+13.42%). Similarly, in Q1:2022, cost of sales surged markedly by 122.84% YoY to NGN5.40bn, due to increment in cost of production material, propelling cost to sales to 73.39% from 70.02%. Owing to the increase in freight cost (+24.20%), promotion expenses (+27.26%), payroll costs (+31.86%) and intercompany rechargeable expenses (+30.32%), operating expenses ticked up by 30.95%YoY. Despite this increase, operating margin recovered from its negative position in Q1:2021 (6.99%) settling at 3.53%. **In 2022FY, we envisage an uptick in production and operating expenses driven largely by the rise in raw materials cost and the firm's intercompany expenses. Hence, we expect an increase in cost to sales to 71.25% (vs 72.47% in 2021FY)**

Profitability Margins Recover

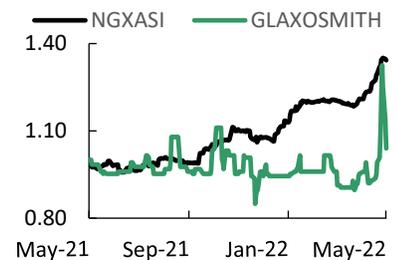
Following a decline in profitability in 2020FY, GLAXOSMITH's profit after tax recorded a 5.88% uptick to NGN658.81mn in 2021FY (from NGN622.20mn in 2020FY). Hence, Net margin and return on equity (ROE) expanded to 2.93% and 7.15% (from 2.92%, and 6.81% in 2020FY), respectively. This impressive bottom-line performance was sustained in Q1:2022 as the firm returned to a profit position (NGN194.37mn) from a loss position in Q1:2021 (NGN2384.065mn). Also, its annualized net margin, ROE, and ROA came in higher at 2.64%, 12.21% and 7.72% in Q1:2022 (compared to 6.88%, 1.55% and 1.05% respectively in Q1:2021).

The firm's working capital increased in Q1:2022 to NGN8.18bn (from NGN7.95bn in 2021FY), induced by higher inventories (+20.10%). This reflected in the firm's liquidity metrics as current ratio increased to 1.48x (1.47x 2021FY). Quick and cash ratio however declined to 1.05x, and 0.67x (vs. 1.11x, and 0.75x in 2021FY) as its cash balance settled lower (-11.43%)

Recommendation

We project a 2022FY expected EPS of NGN0.81 and a target PE of 10.00x. This yields a target price of NGN8.10 and an implied +16.55% upside potential based on the closing price on May 31st, 2022. Hence, we rate the ticker a **BUY**.

Company	GLAXOSMITH
Valuation	
Trailing EPS	NGN0.91
BVPS	NGN7.47
P/E	7.62x
P/BV	0.93x
Target PE	10.00x
Dec-2022 Exp. EPS	NGN0.81
Dec 2022 Target price	NGN8.10
Current Price	NGN6.95
Up/Downside Potential	16.55%
Ratings	BUY
Trailing Key metrics	
ROE	7.15%
ROA	4.12%
Net margin	2.64%
Asset Turnover	0.99x
Leverage	1.58x
Yr Hi	8.35
Yr Lo	5.65
YTD return	10.08%
Beta	1.50
Adjusted Beta	1.33
Proposed Dividend	0.40
Shares outstanding	1.20bn
Market cap [NGN]	8.31bn
Financial year end	December



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	7.03
						Max	9.19
						EPS	
	8.10	0.71	0.76	0.81	0.86	0.91	
Target PE	9.90x	7.03	7.52	8.02	8.51	9.01	
	9.95x	7.06	7.56	8.06	8.56	9.05	
	10.00x	7.10	7.60	8.10	8.60	9.10	
	10.05x	7.14	7.64	8.14	8.64	9.15	
	10.10x	7.17	7.68	8.18	8.69	9.19	

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	Q1:2021A	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Revenue	3.46	7.36	24.23	25.54	26.96	28.70	30.59
Cost of sales	2.42	5.4	17.26	18.35	19.29	20.58	21.91
Gross profit	1.04	1.96	6.96	7.19	7.67	8.12	8.68
Operating expense	1.28	1.7	5.73	6.14	6.51	6.94	7.35
Operating profit	-0.24	0.26	1.30	1.09	1.23	1.25	1.41
Finance cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PBT	-0.24	0.29	1.38	1.18	1.32	1.35	1.51
PAT	-0.24	0.19	0.97	0.79	0.91	0.93	1.03
Balance Sheet	2021 FY	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	0.54	0.52	0.60	0.85	1.32	1.42	1.77
Total Assets	26.25	26.49	26.28	25.24	27.60	28.94	31.57
Total Equity	9.3	9.49	9.70	10.19	10.57	11.12	11.68
Total Current Liabilities	16.93	16.97	16.20	14.59	16.44	16.95	18.68
Non-Current Liabilities	0.03	0.03	0.02	0.02	0.02	0.02	0.02
Total Liabilities	16.95	17	16.22	14.61	16.46	16.97	18.70
Financial Ratios	2021FY	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Gross Margin	27.53%	26.61%	28.8%	28.1%	28.4%	28.3%	28.4%
Operating Margin	3.82%	3.53%	5.4%	4.3%	4.6%	4.4%	4.6%
Net Margin	2.93%	2.64%	4.0%	3.1%	3.4%	3.2%	3.4%
Return on Asset	2.64%	4.12%	3.7%	3.1%	3.5%	3.3%	3.4%
Return on Equity	7.15%	11.49%	10.2%	8.0%	8.8%	8.6%	9.1%
Asset Turnover	0.90	0.99	0.92	0.99	1.02	1.02	1.01
Financial Leverage	2.82	2.79	2.71	2.48	2.61	2.60	2.70
Current Ratio	1.47	1.48	1.55	1.63	1.56	1.58	1.56
Quick Ratio	1.11	1.05	1.18	1.22	1.19	1.16	1.16

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

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- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
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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-21	6.15	7.11	6.05	HOLD	HOLD
22-Jan-22	5.98	6.05	4.41	HOLD	SELL
31-May-22	6.95	4.41	8.10	SELL	BUY

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Company	Disclosure
GlaxoSmithKline Consumer Nigeria plc	

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