

GLAXOSMITH Delivers Impressive Outing

Double-digit Growth Across all Segments

Following two (2) years of sluggish revenue performance, GlaxoSmithKline Consumer Plc (**GLAXOSMITH**) ended 2022FY with double digit topline expansion, anchored on the recovery of its pharmaceutical segment. Revenue from the pharmaceutical segment (c.66% of revenue) surged 10.50% YoY to NGN16.75bn (vs NGN15.16bn in 2021FY), anchored on higher prices of prescription medicine as well as higher sales volume in the segment. The consumer healthcare segment also advanced by 18.40% YoY on the back of increased prices of oral healthcare and over-the-counter products (like Sensodyne and Panadol). **We also posit that the firm’s strategies directed at streamlining its focus to select segments also acted as a significant boost to revenue in the period. Cumulatively, the firm’s revenue expanded by 13.06% YoY to NGN25.38bn from NGN22.45bn in 2021FY. While intense competition exists in the pharmaceuticals market, we expect the essential nature of the firm’s product to sustain its demand. However, the firm’s premium pricing model poses a downside risk to this optimistic projection. Based on the aforementioned factors, we project a revenue growth of 8.69% YoY to NGN27.59bn for 2023FY.**

Profitability Metrics Withstand Rising Cost Pressures

In tandem with the growth in topline, production costs also shot up in the period mainly due to higher raw materials cost (+13.41% YoY). Both segments contributed to this uptick in costs: consumer healthcare segment (+44.49%YoY), pharmaceutical segment (+2.85% YoY). Cost to sales however settled relatively flat at 72.70% (from 72.47% in 2021FY). Operating expenses in the period also increased (+10.42% YoY), as **GLAXOSMITH** recorded a 39.40% YoY increase in intercompany rechargeable expenses and recorded impairment charges of NGN289.75mn on some of its assets held for sale. **We posit that the impairment charges reflects the difficulty witnessed by the firm in disposing its assets following the commencement of its manufacturing contract with FIDSON.** Operating margin, thus, declined marginally to 3.65% (from 3.82% in 2021FY).

Despite the increase in costs and higher effective tax rate (37.87% vs 30.34% in 2021FY), the improvement in revenue propped **GLAXOSMITH’s** profitability. Profit after tax advanced by 17.05% YoY – *its highest growth rate since 2019* – to NGN771.15mn (vs NGN658.81mn in 2021FY). On this note, the firm’s profitability ratios improved compared to 2021FY: Net margin (3.04% vs 2.93%), Returns on equity (8.19% vs 7.08%) Returns on asset (2.77% vs 2.51%). **We anticipate an increase in both production and operating expenses driven largely by raw materials and logistics costs as well as the firm’s intercompany expenses. Hence, we expect a marginal 4.80% increase in net profit to NGN802.62mn in 2023FY.**

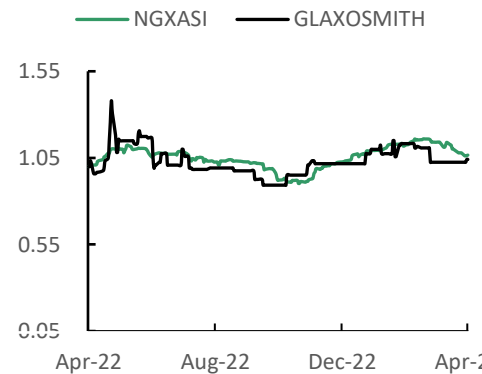
Working Capital Management Improves Earnings Quality Position

We observed an improvement in the firm’s earnings quality due to lower inventories (-38.14%YoY) and trade receivables (-25.59% YoY). This led to a higher operating cashflow (NGN7.11bn vs NGN324.12mn in 2021FY), resulting to an earnings quality ratio of 9.22x (from 0.49x in 2021FY) and a negative net operating accrual of NGN6.34bn (vs a positive net operating accrual of NGN334.69mn in 2021FY).

Recommendation

We project a 2023FY expected EPS of NGN0.67 and a target PE of 10.07x. This yields a target price of NGN6.75 and an implied +7.09% upside potential based on the closing price on April 20th, 2023. Hence, we rate the ticker a **HOLD**.

Company	GLAXOSMITH
Valuation	
EPS	NGN0.64
BVPS	NGN7.97
P/E	9.77x
P/BV	0.79x
Target PE	10.07x
Dec-2022 Exp. EPS	NGN0.67
Dec 2022 Target price	NGN6.75
Current Price	NGN6.30
Up/Downside Potential	7.09%
Ratings	HOLD
Trailing Key metrics	
ROE	8.19%
ROA	2.77%
Net margin	3.04%
Asset Turnover	0.91x
Leverage	2.95x
Yr Hi	6.95
Yr Lo	6.15
YTD return	2.44%
Beta	0.65
Adjusted Beta	0.77
Proposed Dividend	0.55
Shares outstanding	1.20bn
Market cap [NGN]	7.53bn
Financial year end	December
Most Recent Period	2022 FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	5.93
EPS						Max	7.63
Target PE		0.62	0.64	0.67	0.70	0.72	
	9.6x	5.93	6.17	6.41	6.66	6.91	
	9.8x	6.09	6.33	6.58	6.83	7.09	
	10.1x	6.24	6.49	6.75	7.00	7.27	
	10.3x	6.40	6.65	6.91	7.18	7.45	
	10.6x	6.55	6.81	7.08	7.35	7.63	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	22.45	25.38	27.59	29.69	32.35	35.48	38.61
Cost of sales	16.27	18.45	19.95	21.21	22.98	25.28	27.44
Gross profit	6.18	6.93	7.64	8.47	9.37	10.20	11.17
Operating expense	5.43	5.99	6.56	7.22	7.41	8.46	9.22
Operating profit	0.95	1.25	1.21	1.36	2.10	1.89	1.32
Finance cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PBT	0.95	1.24	1.18	1.31	2.04	1.81	1.22
PAT	0.66	0.77	0.80	0.89	1.39	1.23	0.83
Balance Sheet	2021 FY	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	0.54	0.44	27.69%	28.54%	28.96%	28.75%	28.92%
Total Assets	26.25	29.39	4.39%	4.57%	6.49%	5.32%	3.41%
Total Equity	9.29	9.53	2.91%	3.01%	4.29%	3.46%	2.14%
Total Current Liabilities	16.93	19.95	8.29%	9.06%	13.27%	11.32%	7.67%
Non-Current Liabilities	0.03	0.00	2.61%	2.74%	3.91%	3.06%	1.89%
Total Liabilities	16.95	19.85	0.90	0.91	0.91	0.88	0.88
Financial Ratios	2021FY	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Gross Margin	27.53%	27.30%	28.8%	28.1%	28.4%	28.3%	28.4%
Operating Margin	4.23%	4.91%	5.4%	4.3%	4.6%	4.4%	4.6%
Net Margin	2.93%	3.04%	4.0%	3.1%	3.4%	3.2%	3.4%
Return on Asset	2.51%	2.62%	3.7%	3.1%	3.5%	3.3%	3.4%
Return on Equity	7.08%	8.09%	10.2%	8.0%	8.8%	8.6%	9.1%
Asset Turnover	0.86	0.86	0.92	0.99	1.02	1.02	1.01
Financial Leverage	2.82	3.08	2.71	2.48	2.61	2.60	2.70
Current Ratio	1.47	1.41	1.55	1.63	1.56	1.58	1.56
Quick Ratio	1.11	1.22	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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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
20-Apr-23	6.30	8.10	6.75	BUY	HOLD

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Company	Disclosure
GlaxoSmithKline Consumer Nigeria plc	

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