

GLAXOSMITH

GlaxoSmithKline Announces Decision to Cease Nigerian Operations

On August 3rd, 2023, GlaxoSmithKline Consumer Nigeria Plc (**GLAXOSMITH**) released a circular disclosing its decision to cease operations in Nigeria. The document outlined GSK UK Group's plan to discontinue sales of prescription medicines and vaccines in Nigeria through the GSK local operating companies. In its stead, it intends to introduce a direct distribution model involving a local third-party, distributing GSK pharmaceutical product in the Nigerian market. It's worth noting that GSK Group holds 46.42% of GlaxoSmithKline Consumer Nigeria Plc through Setfirst Limited (27.31%) and Smithkline Beecham Limited (19.11%), while the remaining 53.58% is owned by the investing public.

Recall that in June 2021, GSK UK announced plans to spin off its consumer healthcare division into a separately listed company. The division comprised major brands which target oral health, pain relief, cold, flu and allergy, digestive health and vitamins, minerals, and supplements. The spin-off birthed The Haleon group in 2022, which also had a distribution agreement with GlaxoSmithKline Consumer Nigeria Plc (**GLAXOSMITH**). In the circular released yesterday, it was also disclosed that The Haleon Group informed the Board of its decision to terminate the existing distribution agreement with **GLAXOSMITH**. In its place, The Haleon Group plans to appoint a third-party distributor to handle the supply of their consumer healthcare products within the Nigerian market.

While the new developments stand as the primary reason stated for **GLAXOSMITH** Nigeria's decision, it is noteworthy that the company had previously raised concerns regarding challenges in accessing foreign exchange (FX) and its resultant impact on product availability.

We note that some fundamental issues stemming from **GLAXOSMITH**'s need to align its strategic focus with that of the GSK UK have been impacting the firm's performance over the years. This is in contrast with the other listed healthcare players in Nigeria (like **FIDSON** and **MAYBAKER**). For instance, GSK Nigeria divested from its drinks and bottling business in 2016 (resulting in a revenue decline of 11.43%YoY in the consumer care segment which hitherto contributed c.37% to total revenue). Additionally, in 2019, **GLAXOSMITH** announced **FIDSON** Healthcare Plc. as its local manufacturing partner for five of its welfare and respiratory products, although the manufacturing contract became effective in 2021. The firm also operates a premium pricing model when compared to its peers in the Nigerian pharmaceuticals market which also impairs its competitiveness.

Despite undertaking strategies directed at streamlining their focus to select segments, the firm's performance has remained underwhelming. In H1:2023, its revenue declined by 91.09% to NGN7.75bn (from NGN14.85bn in H1:2022). Profit after tax also declined by 2.75% in the period.

We opine that this development presents an opportunity for other industry players to enhance their market share and increases chances of collaboration between healthcare players. Additionally, although the final terms remain

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uncertain, the company has revealed the potential for shareholders to receive a cash distribution and return of capital if the proposal is approved. Save for its trade payables (which are mostly owed to related parties), the firm has no significant liabilities to settle. Thus, we expect that its huge cash balance (NGN23.21bn as of June 2023, c.77% of total assets) should make the transition less cumbersome. We expect that the trade payables totalling NGN20.84bn would be settled via cash. However, given that it is mostly owed to related parties, we opine that the terms of repayment would be favourable placing minimal strain on the firm's cash balance. At the current price of NGN8.90 (as of intra-day trading on 4th August 2023) and total shares outstanding of 1.20bn, the firm would require NGN10.64bn to settle all shareholders.

At the current price, we have a downside potential of 2.53% to our target price of NGN8.68. Thus, we maintain advise current investors to HOLD and take advantage of the proposed returns. Prospective investors might however not have significant upside on the ticker given the current price thus, we DO NOT advise a BUY.

Financial Highlights as of June 2023

Item	Amount (NGN'bn)
Total asset	30.26
Non-current assets	1.29
Current assets	28.98
Current Liabilities	21.05
Cash Balance	23.21
Current Price	8.90
Trade Payables	20.85

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