



GLAXO SMITHKLINE CONSUMER NIG PLC

Equity|Nigeria|Healthcare

EVENT

Glaxo SmithKline Consumer Nigeria Plc ("GSK" or "the Company") recently published its FY'09 results for the year ended 31st December 2009. GSK's Turnover and After Tax Earnings figures came in at ₦14.95 billion (19.19% YoY) and ₦1.70 billion (33.22% YoY) respectively. The Company's performance was in line with our top line estimate of ₦15.02 billion but its bottom line fell short of our estimate of ₦1.95 billion by 13.08%. The Company also proposed a final Dividend of 75Kobo per Share, with an implied dividend yield of 2.78%.

Results (N'Millions)	FY'09	FY'08	% Change	FY Forecast	FY% of FY
Turnover	14,952	12,545	19.19%	15,054	99%
PBT	2,470	1,851	33.42%	2,791	88%
Tax	(768)	(574)	33.78%	(761)	101%
PAT	1,702	1,277	33.22%	1,958	87%

Source: Vetiva Research, NSE

- Strong growth in YoY sales, but low Q4 earnings contribution.** GSK's performance is notable, given the growth in sales figures of 19.19% and an even faster growth in Before and After Tax Earnings of 33.42% and 33.22% respectively. However, on a Quarter on Quarter basis, the company's Q4 contribution to Net Income significantly dampened the overall performance. The slowdown in earnings growth for Q4 which was as a result of increased cost of sales during the period, caused a significant decline in the Q4 contribution to total net earnings. Consequently, the company recorded a net income figure of ₦53 million for Q4, falling far short of both Vetiva's and GSK's estimates of ₦230 million and ₦208 million respectively. The Company's proposed dividend of ₦0.75 relative to expectations ₦0.90 per share, also reflects the lower performance.

- Improved Profitability Profile.** On a year-on-year basis, GSK's profit margins improved to 16.52% (PBT) and 11.38% (PAT). The Company's profitability margins had been on the increase all through Q1'09 to Q3'09. However, as a result of the reduced contribution of Q4'09 to the bottom line figures; GSK's profitability margins fell in Q4'09.

- Diversification.** In 2009 financial year, GSK expanded its product portfolio and went further to launch an advertising/marketing campaign to ensure the acceptance and penetration of its new products. GSK had earlier invested in efficient distribution strategies as we had iterated in our Q3'09 report.

- Industry Dynamics.** In the Healthcare sector, GSK led the pack in demonstrating its resilience and proving the soundness of its business model, via its stability and prowess at delivering earnings growth in the middle of the economic slowdown in the course of the year.

- Our FY'10 YoY growth** projections for sales and PAT figures stands at 5.00% (FY'10E - ₦15.70 billion) and 20.86% (FY'10E - ₦2.06 billion).

- We have **revised** our recommendation to an "Accumulate" at current price, based on our valuation range of **₦28.94 - ₦34.50**.

Vetiva Research

21 April 2010

Fair Value Range
₦28.94 - ₦34.50

Stock Data

Current Price (₦): 27.00
 Trailing EPS (₦): 1.78
 Trailing P/E (x)*: 15.18

Symbol: GSK
 Industry: Healthcare
 Share Vs Ind. Group: Accumulate
 Ind. Group Vs Market: Overweight

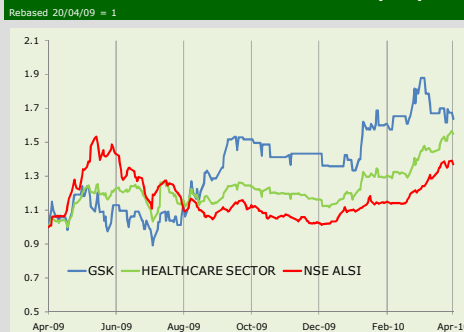
ROAA (%): 13.93
 ROAE (%): 25.41

Shares Outstanding (mn): 956.7
 Year High (₦): 30.97
 Year Low (₦): 22.01

Share Price Performance
 30 Days (%): (1.10)
 90 Days (%): 14.31
 52 weeks (%): 63.64

* Based on 2009 Q2 Earnings
 ** Based on 2008 FY Earnings

GSK VS HEALTHCARE SECTOR VS NSE ALSI (YTD)



Source: NSE; Vetiva Research

Vetiva Equity Research

Vetiva Capital Management Limited
 Plot 266B Kofo Abayomi Street
 Victoria Island
 Lagos, Nigeria

Tel: +234-1-4617521-3
 Fax: +234-1-4617524
 Email: research@vetiva.com



VETIVA
 CAPITAL MANAGEMENT LIMITED
 RC: 485600



GLAXO SMITHKLINE CONSUMER NIG PLC FY'09

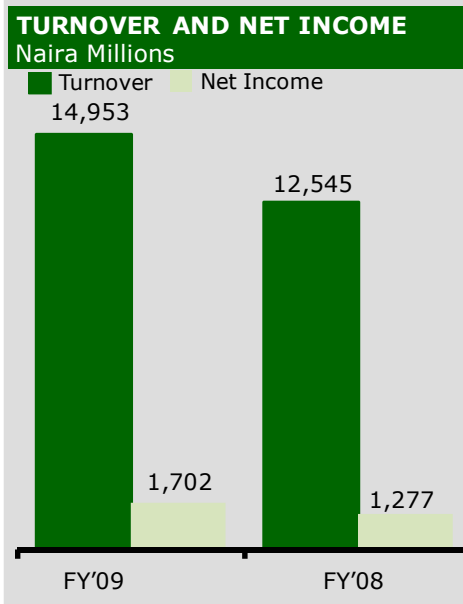
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Estimates	2008A	2009A	2010E	2011E	2012E
Naira					
EPS	1.33	1.78	2.15	2.45	2.62
EPS Change (YOY)	52.60%	33.26%	20.86%	13.74%	6.94%
Dividend Payment (DPS)	0.60	0.75	0.97	1.12	1.23
Valuation					
P/E	16.78	12.93	12.56	11.04	10.32
P/Book	3.93	3.39	3.32	2.88	2.40
Dividend Yield	2.68%	2.78%	3.58%	4.17%	4.55%

Source: Vetiva Research, NSE

2009 REVIEW

- The company's 2009 results showed a robust performance, as one of the few companies that achieved growth in earnings and sales in spite of the economic slowdown. Sales was boosted by an aggressive advertisement and marketing campaign embarked upon by the company in 2009. GSK has also consistently expanded its product range, and activity which further boosted sales in 2009. GSK has been able to overcome key challenges within the Healthcare sector which include: counterfeits and substandard drugs, lack of requisite skill and know-how, erratic power supply e.t.c., relative to its peers.
- On a Quarter on Quarter basis, GSK's performance was impressive, except for the slowdown experienced in profit levels in the last quarter of 2009. Profitability margins improved slightly from 22.33% in Q1'09 to 22.51% in Q2'09 but declined marginally to 21.01% in Q3'09 and more significantly to 16.52% in Q4'09. This was due to a significant decline in Profit before tax in Q4 relative to the other quarters. Although Turnover grew at the same run rate, profit before tax fell short (Q1 PBT - ₦865 million; Q2 PBT - ₦879 million; Q3 PBT - ₦645 million; Q4 PBT - ₦80.60 million). We note that the company recorded a significant increase in operational costs for quarter, that was attributed to an upsurge in landing costs for one of its key production inputs, and which impeded the trickling down of the strong growth in sales to the bottom line.
- GSK has over the past one year invested in the expansion of its product portfolio, further attesting to its innovativeness, especially in the consumer goods sub sector. The company introduced new variants of 'Lucozade' and 'Ribena' and has been steadily increasing market share, even as it remains the largest player amongst the quoted companies in the Healthcare sector.
- There was increased attention and preference given by investors, to companies in the Healthcare sector in 2009, especially GSK. This followed the downturn and huge losses recorded in the banking sector, as investors looked to companies in the Fast Moving Consumer Goods sector ("FMCG"), with stable earnings, as a store of value. Select companies within the FMCG sector were consistent in delivering earnings growth in the midst of poor results and performances from other companies, further proving the resilience of the sector to an economic downturn.



Source: NSE; Vetiva Research



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EARNINGS AND PROFITABILITY UPDATE

The Company showed a year on year improvement in **PBT** and **PAT** Margins of **16.52% and 11.38%**, up from 14.76% and 10.18% respectively as at FY December 2008. GSK is currently trading at a **PE multiple of 15.18x and a forward P/E multiple of 13.14x**, relative to a sector and market average of 11.16x and 18.93x.

FORECAST

Our Q1'10 forecast for Turnover and PAT stands at **₦4.08 billion and ₦704 million** respectively. Our FY'10 Earnings Per Share (EPS) and Dividend Per Share (DPS) forecast stands at **₦2.15 and ₦0.97** respectively.

RECOMMENDATION

We place an **"Accumulate"** rating on the company at its current market price.

OUTLOOK

We expect sales growth to slow in 2010, and anticipate increased focus by the company on reducing costs associated with sales and marketing to enable to the company improve its profitability and earnings profile. We remain optimistic about the company's prospects going forward especially after proving its ability to survive the prevailing challenges within the industry and wider economy; we are therefore overweight on the stock in the long term.

Metrics		M&B	GSK	NGC	Fidson
Current Price	2.82	8.26	27.00	14.29	3.44
Trailing EPS	n/a	0.58	1.78	0.12	0.29
PE	n/a	14.24	15.17	119.08	11.86
DPS	n/a	0.40	0.75	n/a	0.22
DY (%)	n/a	4.84%	2.78%	n/a	6.40%
Payout Ratio	n/a	66.98%	42.13%	n/a	75.86%
ROE	-31.97%	15.58%	25.41%	10.72%	5.92%
ROA	-10.46%	8.21%	13.93%	4.32%	3.91%
Outstanding Shares(mn)	822	700	957	154	1,500

Source: Vetiva Research, NSE

Forecast (N'mn)	2008A	2009A	2010E	2011E	2012E
Turnover	12,545	14,952	15,700	18,526	21,861
PBT	1,851	2,470	2,981	3,249	3,574
Tax	(574)	(768)	(924)	(910)	(1,072)
PAT	1,277	1,702	2,057	2,339	2,502
Absolute Dividend	574	718	926	1,076	1,176
Earnings per share (₦)	1.33	1.78	2.15	2.45	2.62
Dividend per share (₦)	0.60	0.75	0.97	1.12	1.23
Net Assets per share (₦)	5.70	6.78	8.14	9.36	11.23
P/E (x)	16.78	12.93	12.56	11.04	10.32

Source: Vetiva Research, NSE

VALUATION

In valuing GSK, we applied the Discounted Cash Flow Method; we have assumed a Cost of Equity of 15.39% which is composed of a risk free rate of 11%, a risk premium of 6%, Beta of 0.82 (GSK is 100% financed by equity) and a Terminal Growth Rate of 5.0%. Using Sensitivity Analysis to vary both the Discount Factor and Growth Rate, we derived a Fair Value range of **₦28.94 – ₦34.50**.



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INCOME STATEMENT (N'Mn)	2007A	2008A	2009A	2010F	2011F	2012F
Income						
Turnover	9,915	15,054	14,952	15,700	18,526	21,861
Cost of Sales	(6,042)	(7,177)	-	(8,901)	(10,236)	(11,772)
Gross Profit	3,874	5,368	-	6,799	8,290	10,089
Distribution & Administrative Exper	(2,739)	(2,628)	-	(3,803)	(4,526)	(5,386)
Management Fees/ Integration cost		(953)				
Core operating profit	1,134	1,786	-	2,996	3,764	4,703
Other income	40	66	-	37	38	39
EBIT	1,174	1,852	-	3,032	3,427	3,838
Depreciation & Amortisation						
Interest Expense & Similar charges	(8)	(1)	-	(50)	(24)	(28)
Profit from operations	1,166	1,851	-	2,982	3,403	3,810
Profit before taxation	1,166	1,851	2,470	2,981	3,249	3,574
Taxation	(330)	(574)	(768)	(924)	(910)	(1,072)
Profit After Taxation	837	1,277	1,702	2,057	2,339	2,502
Dividends	431	574	718	926	1,076	1,176
NOPAT	845	1,278	-	2,108	2,517	2,558
BALANCE SHEET (N'Mn)						
Assets Employed						
Fixed Assets	3,516	3,961	-	5,502	6,485	7,643
Current Assets						
Stocks	2,544	2,539	-	5,904	6,966	8,220
Debtors & Prepayments	2,147	1,918	-	4,409	5,202	6,139
Cash and bank balances	512	1,192	-	803	947	1,118
Total Current Asset	5,203	5,649	-	11,115	13,116	15,083
Total Assets	8,719	9,610	-	16,617	19,601	22,726
Creditors Due within one year	3,332	3,322	-	3,662	3,845	4,037
Due After One year:						
Deferred taxation	(258.4)	(310.6)	-	(715)	(800)	(799)
Provision for liabilities & charges	(527)	(527)				
Capital and Reserves						
Share capital	478	478	-	478	478	478
Share premium	51.4	51.4	-	51.4	51.4	51.4
Reserve for bonus shares						
Revaluation Reserves	24.7	24.7	-	25.0	25.0	25.0
General Reserve	4,047	4,897	-	7,233	8,401	12,079
Shareholders' Equity	4,602	5,451	-	7,788	8,956	13,694
RATIOS						
GROWTH RATES						
Turnover growth	-5%	27%	19%	5%	18%	18%
Growth in Core Operating profit	-39%	57%	53%	9%	26%	25%
Growth in PBT	-23%	59%	33%	21%	9%	10%
Growth in PAT	-23%	53%	33%	21%	14%	7%
PROFITABILITY						
Return on Equity	19%	25%	0%	29%	28%	22%
Return on Assets	10%	14%	0%	13%	13%	12%
Return on Net fixed assets	25%	34%	0%	40%	39%	35%
Return on Invested Capital	7%	9%	0%	39%	38%	36%
Growth rate (g)	26%	34%	0%	16%	15%	12%
PER SHARE DATA						
EPS	0.87	1.33	1.78	2.15	2.45	2.62
DPS	0.45	0.60	0.75	0.97	1.12	1.23
NAPS	4.81	5.70	6.78	8.14	9.36	11.23
Sales/Share	10.36	13.11	15.63	16.41	19.36	22.85
Shares Outstanding (millions)	957	957	957	957	957	956.70



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INVESTMENT RECOMMENDATIONS

Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

Buy/Overweight $\geq +20\%$ expected absolute price performance

Accumulate $+10\%$ to $+20\%$ expected absolute price performance

Neutral/Hold $\pm 10\%$ range expected absolute price performance

Reduce -10% to -20% expected absolute price performance

Sell/Underweight $\geq -20\%$ expected absolute price performance

Definition of Ratings

Buy/Overweight recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of or equal to **20%** is expected to be realized between the current price and analysts' target price.

Accumulate recommendation refers to stocks that are undervalued but with good fundamentals and where potential return of between **10%** and **20%** is expected to be realized between the current price and analysts' target price.

Neutral/Hold recommendation refers to stocks that are correctly valued with little upside or downside where potential return of between **$\pm 10\%$** is expected to be realized between current price and analysts' target price.

Reduce recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between **-10%** and **-20%** is expected to be realized between current price and analysts' target price.

Sell/Underweight recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of or equal to **-20%** is expected to be realized between current price and analysts' target price.,

Note¹

Please note that our recommendations are not solely based on the recommendations criteria stated above. It also takes into consideration qualitative factors, which may affect the company and its valuation as well as its relative pricing compared with its peers and the wider market.

¹ Please note that all the above ratings are subject to the "Note" section above.



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