



GLAXO SMITHKLINE CONSUMER NIG PLC

Equity | Nigeria | Healthcare

EVENT

Glaxo SmithKline Consumer Nigeria Plc ("GSK" or "the Company") recently released its Q1'10 results on the Nigerian Stock Exchange for the period ended 31st March 2010. The Company showed Turnover and After Tax Earnings at ₦4.17 billion (+7.54% YoY) and ₦676 million (+13.80% YoY) respectively. The Company's performance was only slightly off our Top and Bottom line forecast of ₦4.08 billion and ₦704 million respectively. The company also surpassed its own forecast (Turnover - ₦3.94 billion; PAT - ₦525 million) which had earlier been released to the Nigerian Stock Exchange. Its Trailing EPS now stands at ₦1.86, up 4.83% from ₦1.78 as at FY'09.

Results (N'Millions)	Q1'10	Q1'09	% Change	FY Forecast	Q1% of FY Forecast
Turnover	4,166	3,874	7.54%	15,054	28%
PBT	980	865	13.29%	2,986	33%
Tax	(304)	(271)	12.18%	(761)	40%
PAT	676	594	13.80%	1,958	35%

Source: Vetiva Research, NSE

- Marginal Growth in YoY sales.** The Company's turnover increased by a marginal 7.54% year-on-year growth, this is an improvement as the company had estimated a much slower YoY growth of 1.70%. However, GSK recorded faster paced growth in its profit lines (relative to sales growth) of 13.29% and 13.80% (YoY), in both Profit Before and After Taxation respectively.
- Profitability Margins continue to increase.** GSK's profitability margins continues to improve (on a year-on-year basis) to 23.52% (PBT - up by 5.33%) and 16.23% (PAT - up by 5.87%), up from 22.33% and 15.33% respectively as at Q1 March 2009. We note that in recent times the company has been faced with increased demurrage cost (the company imports chemicals and concentrates for both its Pharmaceutical and Consumer Goods business segment) as a result of unusually long delays at the ports which have impacted profitability margins. Despite this constraint the company was able to improve its earnings and profitability profile, as it has done over the years. Consequently, GSK's Earnings per Share increased by 4.83% to ₦1.86 from ₦1.78 that was recorded in Full Year 2009.
- Forging ahead in spite of sector specific challenges.** GSK remains the market leader both in terms of volume and capacity amongst the quoted companies in the Healthcare sector. The healthcare sector has been faced with challenges of substandard drugs, counterfeits (although reduced somewhat over the years, the problem still persists to some degree), high costs of production, lack of skilled personnel and stiff competition in its market space. In particular, the company was faced with increased demurrage cost in Q1'10.
- Growing Significance of Consumer Goods.** We note the increased contribution of the Consumer Goods business segment to the group's turnover. Thus the company has been making increased investment towards further innovation and expansion of its market share within the consumer goods market space.

Vetiva Research

10 May 2010

Fair Value Range
 ₦29.89 – ₦35.54

Stock Data

Current Price (₦): 22.98
 Trailing EPS (₦): 1.86
 Trailing P/E (x)*: 12.32

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

ROAA (%): 13.69
 ROAE (%): 28.50

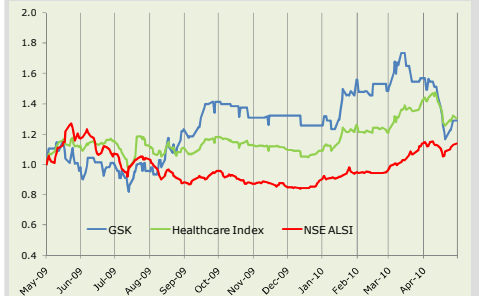
Shares Outstanding (mn): 956.7
 Year High (₦): 30.97
 Year Low (₦): 22.40

Share Price Performance

30 Days (%): (25.80)
 90 Days (%): 2.41
 52 weeks (%): 28.67

GSK VS HEALTHCARE SECTOR VS NSE ALSI (YTD)

Rebased 11/05/09 = 1



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 Q1'10

Equity|Nigeria|Food and Beverages

- We are quite optimistic about the sustainability of GSK's earnings both in the near and long term. GSK has consistently (for almost 7 years) delivered on earnings and also steadily increased its Dividend Payout. The share price of GSK has declined from its Year High of ₦30.97 to ₦22.98 compared to our fair value midpoint of ₦32.68. We therefore see increased upside for the stock of 42.77%.
- **Our FY'10 YoY growth** projections for sales and PAT figures stands at 8.00% (FY'10E - ₦16.15 billion) and 21.07% (FY'10E - ₦2.06 billion).
- We have therefore revised our previous "Accumulate" recommendation to an "**Overweight**" at current price, and based on our valuation range of **₦29.82 - ₦35.54**.

Estimates	2008A	2009A	2010E	2011E	2012E
Naira					
EPS	1.33	1.76	2.15	2.45	2.62
EPS Change (YOY)	52.60%	31.85%	22.36%	13.74%	6.94%
Dividend Payment (DPS)	0.60	0.75	0.97	1.13	1.23
Valuation					
P/E	16.78	12.93	10.67	9.38	8.77
P/Book	3.93	3.39	2.82	2.45	2.05
Dividend Yield	2.68%	2.78%	4.22%	4.90%	5.36%

Source: Vetiva Research, NSE

FORECAST

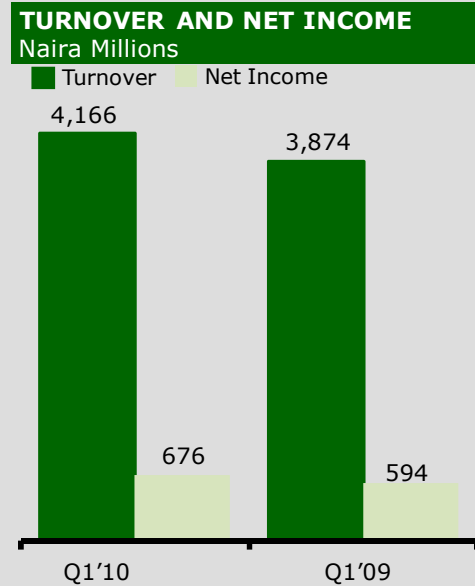
Our Q2'10 forecast for Turnover and PAT stands at **₦8.37 billion and ₦1.28 billion** respectively. Our FY'10 Earnings Per Share (EPS) and Dividend Per Share (DPS) forecast stands at ₦2.15 and ₦0.93 respectively.

Metrics	Neimeth	M&B	GSK	NGC	Fidson
Current Price	3.08	7.59	22.98	14.29	3.00
Trailing EPS	n/a	0.57	1.86	0.12	0.29
PE	n/a	13.32	12.35	119.08	10.34
DPS	n/a	0.40	0.75	n/a	0.22
DY (%)	n/a	5.27%	3.26%	n/a	7.33%
Payout Ratio	n/a	66.98%	40.32%	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	16,149	19,055	22,485
PBT	1,851	2,470	2,986	3,255	3,580
Tax	(574)	(768)	(926)	(911)	(1,074)
PAT	1,277	1,702	2,060	2,343	2,506
Absolute Dividend	574	718	886	1,078	1,178
Earnings per share (₦)	1.33	1.78	2.15	2.45	2.62
Dividend per share (₦)	0.60	0.75	0.93	1.13	1.23
Net Assets per share (₦)	5.70	6.78	8.14	9.36	11.23
P/E (x)	16.78	12.93	10.67	9.38	8.77

Source: Vetiva Research, NSE



Source: NSE; Vetiva Research



GLAXO SMITHKLINE CONSUMER NIG PLC Q1'10

Equity|Nigeria|Food and Beverages

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 **₦29.82 – ₦35.54.**



GLAXO SMITHKLINE CONSUMER NIG PLC Q1'10

Equity|Nigeria|Food and Beverages

INCOME STATEMENT (N'Mn) 2007A 2008A 2009A 2010F 2011F 2012F

Income

Turnover	9,915	15,054	14,952	16,149	19,055	22,485
Cost of Sales	(6,042)	(7,177)	-	(8,901)	(10,236)	(11,772)
Gross Profit	3,874	5,368	-	7,248	8,819	10,714
Distribution & Administrative Expenses	(2,739)	(2,628)	-	(3,803)	(4,526)	(5,386)
Management Fees/ Integration cost		(953)				
Core operating profit	1,134	1,786	-	3,444	4,293	5,328
Other income	40	66	-	37	38	39
EBIT	1,174	1,852	-	3,481	3,933	4,405
Depreciation & Amortisation						
Interest Expense & Similar charges	(8)	(1)	-	(46)	(24)	(28)
Profit from operations	1,166	1,851	-	3,435	3,909	4,377
Profit before taxation	1,166	1,851	2,470	2,986	3,255	3,580
Taxation	(330)	(574)	(768)	(926)	(911)	(1,074)
Profit After Taxation	837	1,277	1,702	2,060	2,343	2,506
Dividends	431	574	718	886	1,078	1,178
NOPAT	845	1,278	-	2,555	3,022	2,558

BALANCE SHEET (N'Mn) 2007 2008 2009A 2010F 2011F 2012F

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 2007 2008 2009A 2010F 2011F 2012F

GROWTH RATES 2007 2008 2009A 2010F 2011F 2012F

Turnover growth	-5%	27%	19%	8%	18%	18%
Growth in Core Operating profit	-39%	57%	53%	26%	25%	24%
Growth in PBT	-23%	59%	33%	21%	9%	10%
Growth in PAT	-23%	53%	33%	21%	14%	7%

PROFITABILITY 2007 2008 2009A 2010F 2011F 2012F

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%	41%	39%	35%
Return on Invested Capital	7%	9%	0%	14%	15%	11%
Growth rate (g)	26%	34%	0%	16%	15%	12%

PER SHARE DATA 2007 2008 2009A 2010F 2011F 2012F

EPS	0.87	1.33	1.78	2.15	2.45	2.62
DPS	0.45	0.60	0.75	0.93	1.13	1.23
NAPS	4.81	5.70	6.78	8.14	9.36	11.23
Sales/Share	10.36	13.11	15.63	16.88	19.92	23.50
Shares Outstanding (millions)	957	957	957	957	957	956.70



GLAXO SMITHKLINE CONSUMER NIG PLC Q1'10

Equity|Nigeria|Food and Beverages

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.



GLAXO SMITHKLINE CONSUMER NIG PLC Q1'10

Equity|Nigeria|Food and Beverages

Disclosures Section

Analyst Certification

All of the views expressed in this report articulate the research analyst(s) opinions/views regarding the companies, securities, industries or markets discussed in this report. The analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Other Disclosures

A reference to a particular investment or security in this report should not be deemed an investment proposition nor should it be interpreted as a recommendation to buy, sell or hold such an instrument. It is noteworthy to mention that Vetiva Capital Management Limited does and seeks to do business with companies covered in its research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report.

Disclaimer

Whilst reasonable care has been taken in preparing this document to ensure the accuracy of facts stated herein and that the ratings, forecasts, estimates and opinions also contained herein are objective, reasonable and fair, no responsibility or liability is accepted either by Vetiva Capital Management Limited or any of its employees for any error of fact or opinion expressed herein. No reliance should be placed on the accuracy, fairness or completeness of the information contained in this report as it has not been verified by the research analyst(s) involved or the companies whose securities have been referred to except as otherwise disclosed. Any ratings, forecasts, estimates and opinions set forth in this document constitute the analyst(s) position as at the date of the report and may not necessarily be so after the report date as they are subject to change without notice. It is also instructive to note that a Company's past performance is not necessarily indicative of its future performance as estimates are based on assumptions that may or may not be realized. The value, price or income from investments mentioned in this report may fall as well as rise due to economic conditions, industry cycles, market indices, operational or financial conditions of companies or other factors. Thus, Vetiva Capital Management Limited and its employees shall not accept liability for any loss arising from the use of this document or its contents in making investment decisions or recommendations. All investors are solely responsible for their investment decisions. Any investments discussed may not be suitable for all investors and the reader(s) should independently determine their suitability and evaluate the investment risks associated with such investments.

Vetiva Capital Management Limited is a Dealing Member of the Nigerian Stock Exchange and is registered with the Securities & Exchange Commission to conduct Financial Advisory, Fund/Portfolio Management, Brokerage & Dealing and Trusteeship business in Nigeria.

This document is for information purposes only and for private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of Vetiva Capital Management Limited. Vetiva Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

© 2010 Vetiva Capital Management Limited. All rights reserved.