

## Foundation Alert

### GLAXO: Analyst Briefing Takeaways

#### Event

- GlaxoSmithKline Pakistan Limited (GLAXO PA) held its Analyst briefing today to discuss financial/operational performance of the company along with its future prospects. Following are the key takeaways.

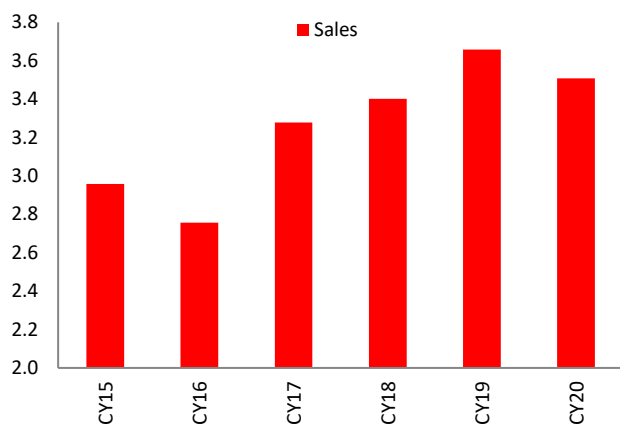
#### Impact

- To recall company reported profitability of Rs1.2bn (EPS 3.75) for 3QCY21, compared to 3QCY20 profit of Rs1.1bn (EPS 3.54), up by 6%. This accumulates 9MCY21 profitability to Rs2.9bn (EPS 9.11, up by 22% YoY).
- Company's net sales remain same as of previous year that is 26.6 Billion in 9MCY21. Gross margin increased by 4.2ppt to 26.9% in 9MCY21. Management attributes stagnant sales volume to pandemic spread and increase in medicine prices.
- Company's current ratio improved marginally from 1.97 to 2.03 YoY in Sep'21 owing to the increase in inventory days by 12 days. Company's operating cycle improved as decline in day's payables is less than increase in inventory and receivable days resulting in better cash conversion cycle.
- Management has disclosed detailed product sales mix of which 45% are antibiotics, 19% dermatology, 7% respiratory and 29% others. Company has 2/4 brands in value/volume terms respectively, among the top ten 10 in the industry.
- Moreover, management has disclosed that GLAXO currently have one of the largest distribution channel in pharmaceutical sector of Pakistan. Company's distribution network includes two national level distributors, 31 regional trade distributors, and 160 retail outlets in Pakistan.
- Company has transformed digitally by creating WhatsApp-1 platform for effective communication with health care professionals (HCPs). Primary use will be (1) consent collection, (2) engage HCPs through 24hr active chat bot, (3) broadcast marketing and medical campaigns.
- Management have concerns regarding exchange rate depreciation which can increase cost of sales further and consequently squeeze margins.
- Company is actively following ESG practices and won two local awards Karachi F268 (Carbon) and Karachi West Wharf (Water).
- Regional political instability and closed border impacts medical tourism which can have direct impact on sales in north-west region of the country.
- Company hopes to sustain the growth trajectory in line with pharma market growth by investing in core brands effectively.

#### Outlook

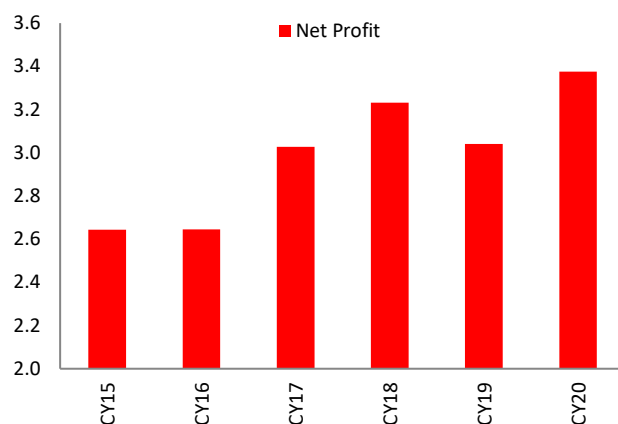
- The company is not in our formal coverage. We expect company to remain beneficial of (1) increased business from OPD sales as impact of COVID outbreak dilutes and (2) Gov't incentives for general public under Sehat Insaf Card scheme.

**Fig 1: Sales growth show marginal decline (Rs bn)**



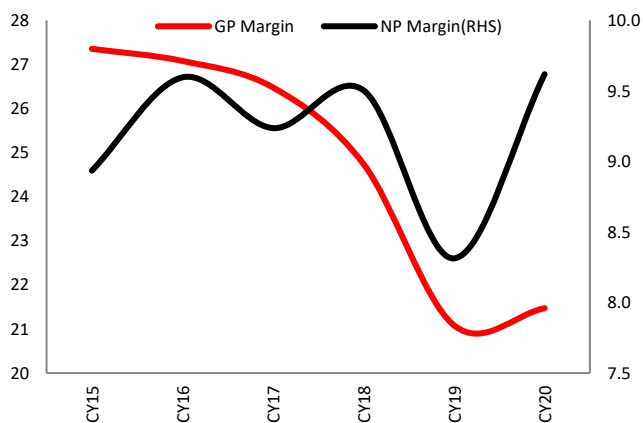
Source: PSX, Foundation Research, Dec'21

**Fig 2: ...Profitability recovery (Rs bn)**



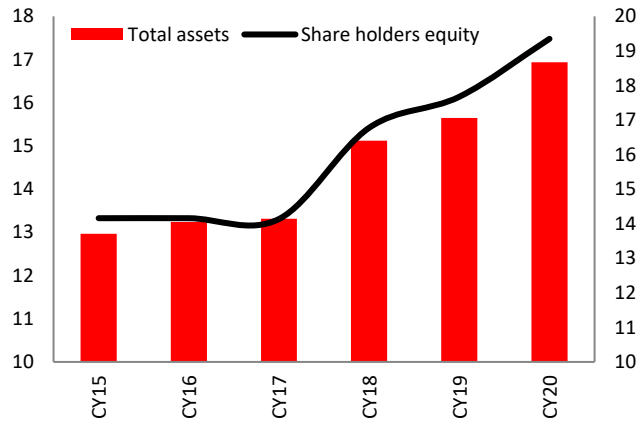
Source: PSX, Foundation Research, Dec'21

**Fig 3: Recovery in margins...**



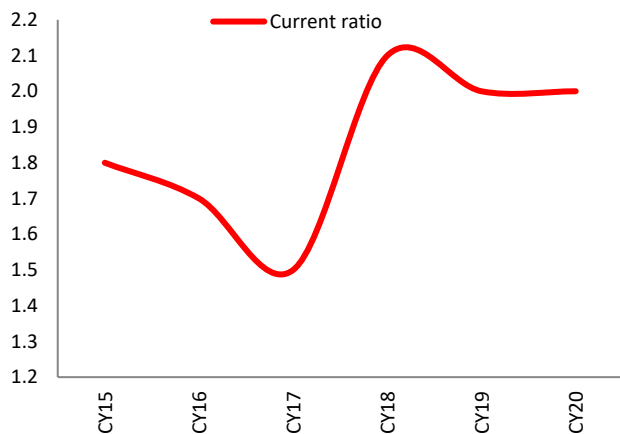
Source: PSX, Foundation Research, Dec'21

**Fig 4: Shareholder equity increase with assets (Rs bn)**



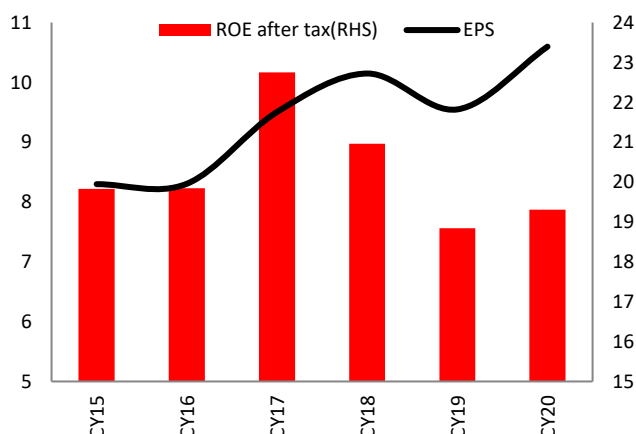
Source: PSX, Foundation Research, Dec'21

**Fig 5: Current ratio moving on higher side**



Source: PSX, Foundation Research, Dec'21

**Fig 6: Higher ROE to follow profitability**



Source: PSX, Foundation Research, Dec'21

Table 1: GLAXO 5Y financial performance

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		29,583	27,564	32,774	34,007	36,582	35,090
GP		8,092	7,464	8,678	8,414	7,712	7,534
PBT		3,846	4,353	4,925	4,692	4,600	4,903
Net Profit		2,643	2,645	3,027	3,232	3,041	3,375
Share capital		3,185	3,185	3,185	3,185	3,185	3,185
Shareholders' equity		13,327	13,327	13,308	15,420	16,138	17,479
Fixed assets - net		7,196	8,318	8,865	8,921	9,480	9,936
Total assets		13,711	14,049	14,139	16,406	17,055	18,671
Dividend		0.40	0.60	0.70	0.70	0.60	0.65
<b>RATIOS:</b>							
<b>PROFITABILITY</b>							
GP Margin	%	27.4	27.1	26.5	24.7	21.1	21.5
PBT Margin	%	13.0	15.8	15.0	13.8	12.6	14.0
NP Margin(RHS)	%	8.9	9.6	9.2	9.5	8.3	9.6
<b>RETURN TO SHAREHOLDERS</b>							
ROE before tax	%	28.9	32.7	37.0	30.4	28.5	28.1
ROE after tax(RHS)	%	19.8	19.8	22.7	21.0	18.8	19.3
EPS	Rs	8.3	8.3	9.5	10.1	9.5	10.6
Sales to fixed assets		4.1	3.3	3.7	3.8	3.9	3.5
Sales to total assets		2.2	2.0	2.3	2.1	2.1	1.9
<b>LIQUIDITY/LEVERAGE</b>							
Current ratio		1.8	1.7	1.5	2.1	2.0	2.0
Debt-to-Equity ratio		0.0	0.1	0.1	0.1	0.1	0.1
Breakup value per share		0.24	0.24	0.24	0.21	0.20	0.18

Source: Company accounts, Foundation Research, December 2021

Table 2: GLAXO 3QCY21 earnings preview

	3QCY21	3QCY20	YoY	2QFY21	QoQ	9MCY21	9MCY20	YoY
Net Sales	9,825	10,813	-9%	9,058	8%	26,577	26,585	0%
COGS	(7,093)	(8,240)	-14%	(6,687)	6%	(19,593)	(20,551)	-5%
<b>Gross Profit</b>	<b>2,733</b>	<b>2,573</b>	<b>6%</b>	<b>2,371</b>	<b>15%</b>	<b>6,984</b>	<b>6,034</b>	<b>16%</b>
Admin exp	(331)	(307)	8%	(294)	13%	(1,005)	(1,072)	-6%
Selling and Marketing exp	(778)	(688)	13%	(687)	13%	(2,163)	(2,096)	3%
Other Income	358	473	-24%	196	83%	983	1,281	-23%
other expense	(154)	(162)	-5%	(127)	22%	(379)	(328)	16%
<b>EBIT</b>	<b>1,828</b>	<b>1,889</b>	<b>-3%</b>	<b>1,460</b>	<b>25%</b>	<b>4,420</b>	<b>3,818</b>	<b>16%</b>
Finance Cost	(60)	(29)	103%	(4)	1391%	(66)	(49)	36%
<b>PBT</b>	<b>1,768</b>	<b>1,860</b>	<b>-5%</b>	<b>1,456</b>	<b>21%</b>	<b>4,354</b>	<b>3,770</b>	<b>16%</b>
Tax	(573)	(734)	-22%	(478)	20%	(1,453)	(1,400)	4%
<b>Net Profit</b>	<b>1,195</b>	<b>1,126</b>	<b>6%</b>	<b>977</b>	<b>22%</b>	<b>2,901</b>	<b>2,369</b>	<b>22%</b>
EPS	3.75	3.54		3.07		9.11	7.44	
Gross Margins	27.8%	23.8%		26.2%		26.9%	22.7%	
Net Margins	12.16%	10.41%		10.79%		10.92%	8.9%	
ETR	32.4%	39.4%		32.9%		33.4%	37.1%	

Source: Company Accounts, Foundation Research, December 2021

### About the company

GSK is a long-established investor in Pakistan. Our legacy company Glaxo Laboratories Pakistan Ltd. was the first pharmaceutical company to be listed on the Karachi Stock Exchange in 1951. GSK Pakistan caters to many therapy areas which include Anti-infectives, Respiratory, Dermatology, Analgesics, Urology, Allergy, Central Nervous System, Vitamins and Vaccines. The company aim to consistently produce and improve access to quality medicines to help improve the quality of patients' lives. Our key pharmaceutical brands include Augmentin, Ventolin, Amoxil, Velosef, Dermovate, Betnovate, Clobevate and Calpol.

Auditor: Yousuf Adil, Chartered Accountants

**Table 3: Pattern shareholders**

Pattern of Shareholders	Holding	Shares (mn)
S.R.ONE INTERNATIONAL	82.60%	263.03
Others	17.40%	55.41
Free Float	16.32%	51.98

Source; Company Accounts, Foundation research, Dec 2021

**Table 4: GLAXO key personnel**

Key Personnel	Name	Designation
Board of Directors	Mr. Dmytro Oliinyk	Chairman
	Ms. Erum Shakir Rahim	Chief Executive Officer
	Mr. Abdul Samad	Chief Financial Officer
	Ms. Maheen Rahman	Independent Director
	Mr. Muneer Kamal	Independent Director
	Mr. Mehmood Mandviwalla	Non-Executive Director
	Mr. Mark Dawson	Non-Executive Director
Management	Ms. Erum Shakir Rahim	Chief Executive Officer
	Mr. Abdul Samad	Chief Financial Officer
	Syed Azeem Abbas Naqvi	Company Secretary

Source; Company Accounts, Foundation research, Dec 2021

**Important disclosures:**

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.