

GlaxoSmithkline Pharma

Relative to sector: **Neutral**

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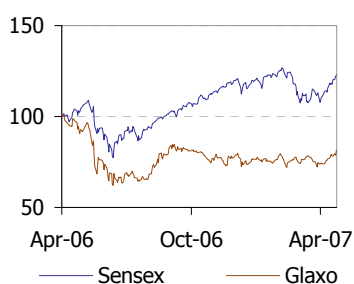
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 84.7mn
Market cap	: Rs 99bn
52 week high/low	: Rs 1,489/ Rs 891
Avg. daily vol. (6mth)	: 94,100 shares
Bloomberg code	: GLXO IN
Reuters code	: GLAX.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 50.7	0.0
FII's	: 14.9	0.4
MFs / UTI	: 1.5	(0.7)
Banks / FIs	: 13.7	0.8
Others	: 19.3	(0.5)

A LUKEWARM PERFORMANCE

GlaxoSmithkline Pharma's (GSK) Q1CY07 results were marginally below our expectations. Net sales fell 1.2% YoY to Rs 4.2bn due to loss in turnover from the Animal Health business that was sold to Virbac (effective July 31, 2006) for Rs 2.1bn. However, even on a continuing basis, sales were up only 5.1% YoY, i.e. well below the double-digit growth reported by the domestic market. Some of the decline is attributed to a shift in strategy – from purchasing traded goods to manufacturing on a loan and license basis – necessitated by changes in excise regulations.

Significant revenue growth will probably begin only when GSK is able to launch products qualifying for full patent protection in the country – presumably beginning with Tykerb (lapatinib) in 2008/09. The company expects to launch at least three patented products by 2010.

Other Highlights

- EBIDTA margin rose 130bps YoY to 34.5%, indicating that the management's efforts to squeeze a higher margin from its businesses continues. The higher EBITDA and other income – resulting from its growing cash pile – saw PAT rising 10% YoY to Rs 1.1bn.
- GSK recently submitted data at the American Association for Cancer Research. The data states that Cervarix demonstrated 100% efficacy in preventing precancerous lesions due to cervical cancer. While Sanofi-Merck's Gardasil has a clear field in this area at the moment, GSK should be able to launch the product in due time. The management is also hopeful of large volumes from new vaccines in markets such as India – particularly for Rotarix – given that India accounts for ~20% of global childbirths a year.

At CMP (Rs 1,167), GSK trades at 24x CY07E EPS of Rs 48.7 and 22.5x CY08E EPS of Rs 51.9. These valuations presume high growth in sales and margins once patent-protected products hit the market in earnest (i.e. late CY08). We reiterate our sector **Neutral** rating.

Financial summary (Consolidated)

Y/E Dec	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	15,036	3,117	-	36.8	15	30.4	33.2	51.2	19.7	28.0
2006	15,384	3,617	-	42.7	16	27.3	33.6	48.3	18.1	31.0
2007E	15,448	4,125	48.1	48.7	14	24.0	31.6	44.9	17.7	20.0
2008E	16,671	4,399	53.5	51.9	7	22.5	29.1	41.9	16.2	25.0

Source: Company, ENAM estimates; *Consensus broker estimates

Results update

(Rs mn)	Quarter ended (Standalone)					Y/E (Consolidated)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Dec-07E	Dec-06	% Chg
Net Sales	4,203	4,254	(1.2)	3,119	34.8	15,448	15,384	0.4
EBIDTA	1,450	1,411	2.8	814	78.2	4,779	4,760	0.4
Other income	272	222	22.4	299	(9.2)	1,288	616	109.1
PBIDT	1,722	1,633	5.4	1,113	54.7	6,067	5,375	12.9
Depreciation	37	38	(3.2)	41	(11.2)	185	159	16.5
Interest	0	0	-	0	-	(274)	(343)	-
PBT	1,686	1,596	5.7	1,072	57.2	6,156	5,560	10.7
Tax	573	561	2.0	391	46.6	4,125	5,455	(24.4)
Adjusted PAT	1,113	1,034	7.6	682	63.3	4,125	3,617	14.0
Extra ordinary income/ (exp.)	0	(22)	-	(4)	-	0	1,838	-
Reported PAT	1,113	1,012	10.0	678	64.2	4,125	5,455	(24.4)
No. of shares (mn)	85	85	-	85	-	85	85	-
EBIDTA margins (%)	34.5	33.2	-	26.1	-	30.9	30.9	-
PBIDT margins (%)	41.0	38.4	-	35.7	-	39.3	34.9	-
EPS - annualized (Rs.)	52.6	48.8	7.6	32.2	63.3	48.7	42.7	14.0

Source: Company, ENAM Research

Other highlights

- The US FDA recently approved Tykerb (lapatinib), in combination with Xeloda (capecitabine), for the treatment of patients with advanced or metastatic breast cancer whose tumors overexpress HER2 and who have received prior therapy including an anthracycline, a taxane, and trastuzumab. Tykerb is the first targeted, oral treatment option for this patient population. GSK expects to launch Tykerb – as well as allergic rhinitis drug Allermist and its post-operative ileus drug Alvimopan – in India by late CY08/ early CY09.

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