

Glaxo SmithKline Pharmaceuticals

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Shareholding (%)

Foreign Promoters	50.7
FII's	14.4
FI's/Banks/MF	15.0
Others	19.9

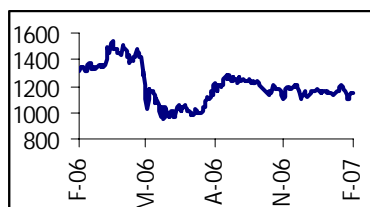
Share price performance

52-week high/low (Rs) 1554/880

	-1m	-3m	-12m
Abs (%)	0.1	3.5	-12.5
Rel* (%)	-0.3	-3.0	-49.1

*to Nifty

Stock chart



Prospects reinforce a 'Buy'

GlaxoSmithKline Pharmaceutical's (GSK's) Q4CY06 results were below our expectations. During the quarter, the company's net sales declined 1% YoY mainly due to shifting from the purchase of traded goods to acquiring the same on a loan-and-license basis; the divestment of the animal health business (in Q2CY06) also subdued the overall growth in net sales. Nevertheless, GSK's EBITDA margins expanded by 493bps to 25.4%, mainly due to a change in the product mix and improving efficiencies. Net profits increased by 33% YoY to Rs682mn, supported by a 42.8% increase in the other income.

At the CMP of Rs1,148, GSK trades at 24.5x CY07E EPS of Rs46.9. The management has guided an 8-10% growth in the topline and hopes to maintain EBITDA margins at current levels in CY07E. GSK also intends to launch three patented products from the parent's pipeline by 2010; the company has indicated that patented products (except vaccines) would be launched from the listed entity. We believe that the company's strong cash position (Rs12.5bn as on CY06) would facilitate it to surpass its guidance levels and achieve its projected targets. Therefore, we maintain a 'Buy' rating on the stock.

- ▲ GSK has enhanced its focus on the chronic care segment as against acute therapies in the past. The company has also indicated that some supply-related issues, that impacted the company's performance in Q3CY06, have been sorted out and no further revenue loss is expected in the near future.
- ▲ GSK plans to launch *Coreg*, an anti-hypertensive drug (carvedilol) in India soon; the drug was recently licensed from Roche. It also expects to launch *Tykerb* (lapatinib-dual kinase inhibitor), *Allermist* (for allergic rhinitis) and *Alvimopan* (for postoperative ileus) in CY08E/09E.
- ▲ The management has indicated that a delay in obtaining regulatory clearances has impacted GSK's launch of new vaccines such as *Rotarix* and *Cervarix* in India. However, the management is hopeful of securing large volumes, particularly for *Rotarix*, given that India accounts for 20% of global childbirths a year.

Buy

Rs1148

February 21, 2007

Market cap

Rs bn 97

US\$ mn 2,205

Avg 3m daily volume

110,889

Avg 3m daily value

US\$ mn 3

Shares outstanding (mn)

85

Reuters

GLAX.BO/GLAXO.NS

Bloomberg

GLXO IN

Sensex

14,253

Nifty

4,107

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- ▲ GSK has a gross cash position of Rs12.5bn and expects to invest Rs5.5bn in various options i.e. in-licensing deals, outright brand acquisitions, and share buy-backs. The company has recommended a dividend of Rs17 per share and a special additional one-time dividend of Rs14 per equity share.
- ▲ GSK is preparing for an audit of its facilities by the UK MHRA; after the audit, the company is likely to commence toll-manufacture of betamethasone for its parent in CY08E. This would add Rs300mn to GSK's annual revenues, although margins would be lower. Trial quantities for registration have already been dispatched to some non-regulated markets.
- ▲ **Valuations:** At the CMP (Rs.1,148), GSK trades at 24.5x CY07E. The management has guided a 8-10% growth in the topline and hopes to maintain current levels of EBIDTA margin in CY07E. GSK expects to launch at least three patented products from the parent's pipeline by CY10E. We believe that these plans can be easily materialised, given the company's strong cash position. Therefore, we maintain a 'Buy' rating on the stock.

Table 1. Quarterly result table

Rs mn	Q4CY06	Q3CY06	QoQ (%)	Q4CY05	YoY (%)
Net Sales	3202.7	3991.5	-19.8	3234.2	-1.0
Expenditure	-2388.7	-2708.8	-11.8	-2571.6	-7.1
EBITDA	814	1282.7	-36.5	662.6	22.8
Depreciation	-41.1	-40.7	1.0	-44.1	-6.8
Other Income	299.4	253.6	18.1	209.7	42.8
PBT	1072.3	1495.6	-28.3	828.2	29.5
Tax	-390.7	-504.9	-22.6	-315.8	23.7
PAT	681.6	990.7	-31.2	512.4	33.0
Extraordinary Items	-3.7	1863.6	-100.2	-88.6	-95.8
Net Profit	677.9	2854.3	-76.2	423.8	60.0
Equity Capital	847	847		847	
EPS	8	-		5	
Ratios (%)					
EBITDA Margin	25.4	32.1		20.5	
Tax/PBT	36.4	33.8		38.1	
PAT Margin	21.3	24.8		15.8	

Source: IISL research, company

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Financials

Profit & Loss

In Rs million	CY04	CY05	CY06	CY07E
Net sales	13,758.9	14,853.0	15,529.2	16,924.5
YoY (%)		8.0	4.6	9.0
Total expenses	9,928.5	10,566.2	10,769.6	11,736.4
Inc/dec in stock	(31.8)	(80.5)	(132.5)	(66.9)
Raw material cost	5,940.4	6,345.1	6,370.7	6,906.5
Staff cost	1,439.6	1,554.7	1,655.8	1,796.5
Power and fuel cost	164.7	166.0	176.7	192.6
Other manufacturing expe	587.0	441.3	471.1	512.6
Selling Expenses	769.1	793.4	771.7	841.0
Other expenses	1,059.5	1,346.2	1,456.1	1,554.1
EBIDTA	3,830.4	4,286.9	4,759.6	5,188.0
YoY (%)		11.9	11.0	9.0
EBIDTA (%)	27.8	28.9	30.6	30.7
Other income	533.4	656.4	958.4	998.8
PBIDT	4,363.8	4,943.2	5,718.0	6,186.8
Interest	6.7	6.9	0.0	0.0
Gross profit	4,357.1	4,936.3	5,718.0	6,186.8
Depreciation	174.7	157.3	158.5	165.0
PBT and extra ordinary	4,182.4	4,779.0	5,559.5	6,021.8
Extra ordinary items	670.4	1,958.0	1,837.9	0.0
PBT	4,852.8	6,737.0	7,397.4	6,021.8
(-) Tax	1,521.9	1,716.2	1,942.3	2,047.4
Tax/ PBT	31.4	25.5	26.3	34.0
PAT	3,330.9	5,020.7	5,455.2	3,974.4
Adjusted net profit	2,660.5	3,062.8	3,617.3	3,974.4
YoY (%)		15.1	18.1	9.9

Key Ratios

	CY04	CY05	CY06	CY07E
EPS (Rs)	30.5	36.2	42.7	46.9
CEPS (Rs)	41.6	63.1	66.9	49.6
Book value (Rs)	105.8	112.0	144.5	159.5
Dividend per share (Rs)	27.1	31.9	31.9	31.9
Debt-equity (x)	0.0	0.0	0.0	0.0
ROCE	39.4	43.3	37.5	37.1
ROE*	28.8	32.3	29.6	29.4
Valuations				
PE (x)	37.7	31.7	26.9	24.5
Cash PE (x)	27.6	18.2	17.2	23.2
Price/book value (x)	10.8	10.3	7.9	7.2
Dividend yield	2.4	2.8	2.8	2.8
Market cap/sales	7.3	6.5	6.3	5.7
EV/sales (x)	7.2	6.5	6.2	5.7
EV/EBDITA (x)	26.0	22.6	20.3	18.6

* Excluding extraordinary items

Balance Sheet

In Rs million	CY04	CY05	CY06	CY07E
Equity capital	873.2	847.0	847.0	847.0
Preference capital	0.0	0.0	0.0	0.0
Reserves	8,369.4	8,639.0	11,389.9	12,659.9
Net worth	9,242.6	9,486.1	12,236.9	13,507.0
Total borrowings	38.4	48.5	48.5	48.6
Deferred tax	(448.6)	(297.6)	(244.3)	(184.1)
Total liabilities	8,832.4	9,237.0	12,041.1	13,371.4
Gross block	2,526.4	2,531.1	2,731.1	2,931.1
Less: Acc. depreciation	1,656.6	1,715.4	1,873.9	2,038.8
Net block	869.8	815.7	857.2	892.2
CWIP	45.1	153.7	100.0	100.0
Investments	7,768.3	9,130.6	11,709.2	12,845.7
Current assets	4,846.3	4,618.0	4,855.7	5,014.6
Inventories	2,265.0	2,181.3	2,300.9	2,395.4
Debtors	760.6	673.9	717.2	781.6
Cash	633.8	475.3	550.0	550.0
Loans and advances	1,186.8	1,287.6	1,287.6	1,287.6
Current liabilities	2,194.7	2,575.5	2,575.5	2,575.5
Provisions	2,502.2	2,905.5	2,905.5	2,905.5
Net current assets	149.3	(863.0)	(625.3)	(466.5)
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	8,832.4	9,237.0	12,041.1	13,371.4

Cash Flow

In Rs million	CY04	CY05	CY06	CY07E
Net profit	3,330.9	5,020.7	5,455.2	3,974.4
Depn and w/o	174.7	157.3	158.5	165.0
Deferred tax	125.5	163.5	53.3	60.2
Change in working cap	1,208.7	853.8	(163.0)	(158.9)
Other income	(533.4)	(656.4)	(958.4)	(998.8)
Operating cash flow	4,306.4	5,539.0	4,545.6	3,042.0
Other income	533.4	656.4	958.4	998.8
Capex	(95.7)	(211.9)	(146.3)	(200.0)
Investments	(3,677.1)	(1,362.3)	(2,578.7)	(1,136.4)
Investing cash flow	(3,239.5)	(917.9)	(1,766.5)	(337.7)
Dividend	(2,369.6)	(2,704.3)	(2,704.3)	(2,704.3)
Fresh equity	1,478.0	(2,046.8)	0.0	0.0
Debt	9.8	10.1	(0.0)	0.0
Financing cash flow	(881.8)	(4,741.0)	(2,704.3)	(2,704.3)
Others	(145.4)	(38.7)	0.0	0.0
Net change in cash	39.7	(158.6)	74.7	(0.0)
Opening cash	594.1	633.8	475.3	550.0
Closing cash	633.8	475.3	550.0	550.0

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