



Farsight

## MORNING FARSIGHT

Tuesday, June 26, 2018

**GLAXOSMITHKLINE  
CONSUMER HEALTHCARE**

**CMP:RS 6062**

**TRGT:RS 7000**

**TIME HORIZON: 1 YEAR**

Glaxosmithkline Consumer Healthcare, having an excellent portfolio of consumer products including Boost, Horlicks, ENO, Maltova, Crocin, Iodex, Ostoacalcium, Otrivin, Seonsodyne, etc., is looking a good buy with, dominant position in the MFD (malted food drinks) category, led by the company's strong pricing power, competitive advantage, distribution expansion initiatives, expanded product portfolio, cash rich balance-sheet and more than 30% valuation discount to peers like Nestle, Britannia etc. For Q4FY18, GSK Consumer reported PBT of Rs 319 cr against Rs 253 cr QoQ and Rs 270 cr YoY, a growth of 26% QoQ and 15% YoY. The key positive was a healthy recovery in domestic volume growth to 5%. Various initiatives (high innovation intensity, distribution rural enhancement, higher brand spends, enhanced doctor advocacy) have led to a growth in revival and market share gains for GSK over the past two quarters. As on 31st March 2018, Volume market share for Horlicks/Boost was 51.3%/14.2% (+70bps/40bps YoY). Company ended FY18 with an EPS of Rs 166. On the balance-sheet front, it has zero debt and Cash Eqv of Rs 3,585 cr or Rs 850 per share, with stock now have a PE of 36x and Net of Cash PE of 31x, on historic basis, against 56x for Nestle and 72x for Britannia, on historic basis. Further, GSK Consumers, having annual PAT of over Rs 700 crores is available at an EV/Sales of 4.9x, against an EV/Sales of 9x for Nestle (annual PAT Rs 1,225 cr) and 7x for Britannia (annual PAT Rs 1,005 cr). Going ahead, GSK is taking various measures to drive growth (new campaigns, rural expansion, etc.) and we expect volume growth to trend up gradually over FY19. Recent GST rate cut for MFD bodes well for improving the penetration/consumption growth for the category. In March 2018, company's parent GlaxoSmithkline Plc initiated a strategic review of Horlicks and other consumer nutrition products, which will include an assessment of the group's shareholding in the Indian subsidiary GSK Consumer Healthcare (GSK owns 72.5% stake). According to GSK, the decision is expected by end 2018. GSK noted that India remains a priority market for them and they will continue to invest in Consumer Healthcare business opportunities for OTC and Oral health brands. Share having cored sharply from levels of over Rs 6,500 is now trading at the lower end of trading range of 5,900 - 6,500 and given recent rally in peers like Nestle and Britannia coupled with fresh institutional interest in FMCG stocks, GSK Consumer is set to come on radar of DIIs in coming weeks. Share ruling at Rs 6,062 can move to Rs 7000 in the next 1 year. Buy

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

**Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.**