Company Report

Tuesday, March 25, 2025

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Coverage Initiation

COMPANY UPDATE

GlaxoSmithKline Pakistan Limited (GLAXO)

Pharmaceuticals

Recommendation	**BUY**
Target Price: Dec-25	589
Last Closing: 24-Mar-25	412
Upside (%):	43%
Valuation Methodology:	DCF
Market Data	
Bloomberg Tkr.	GLAXO PA
Shares (mn)	318.5
Free Float Shares (mn)	63.7
Free Float Shares (%)	20.0%
Market Cap (PKRbn)	131.2
Market Cap (USDmn)	466.9
Exchange	KSE-100

Price info.	**01M**	**03M**	**09M**	**12M**
Abs. Return	2%	7%	2.9x	4.8x
Low	387	361	126	81.1
High	420	427	444	444

Key Company Financials

Period End: Dec

PKRbn	**CY24A**	**CY25E**	**CY26E**	**CY27E**
Total Revenue	61,188	83,428	94,946	108,100
Net Income	6,536	10,581	12,798	14,804
EPS (PKR)	20.52	33.23	40.19	46.49
DPS (PKR)	10.0	17.0	20.0	23.0
Total Assets*	45,055	50,876	58,842	68,252
Total Equity*	28,277	33,443	39,871	47,350
Key Financial Ratios				
ROE (%)	26%	34%	35%	34%
P/E (x)	20.07x	12.4x	10.25x	8.86x
P/B (x)	4.64x	3.92x	3.29x	2.77x
DY (%)	2%	4%	5%	6%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

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Pharmaceuticals

GLAXO: Growth at a Bargain

- We initiate coverage on GLAXO with a buy rating and target price of PKR 589/share offering 43% upside from last close. GLAXO holds the position of the largest multinational pharmaceutical company in Pakistan, based on volume, value, and the number of prescriptions generated. GSK Pakistan caters to many therapy areas including anti-infective, Dermatology, Analgesics, and Vaccines. The company has a long history of developing well-known brands with a strong legacy, including Augmentin, Velosef, Amoxil, Dermovate, and Calpol.
- We estimate GLAXO's earnings for next 5 years to post 21% CAGR reaching PKR 17.5bn compared to the last reported earnings of PKR 0.5bn.
- Using DCF, we have a 'BUY' rating on GLAXO with a Dec-25 target price of PKR 589/share offering ≈ 43% upside from the last closing price of PKR 412/share. The Company trades at CY25/26 P/E of 12.4/10.3x with 4% dividend yield.

Initiating Coverage on GlaxoSmithKline Pakistan Limited (GLAXO) with "BUY" Rating

We initiate coverage on GLAXO with a buy rating and target price of PKR 589/share offering 43% upside from last close. GLAXO holds the position of the largest multinational pharmaceutical company in Pakistan, based on volume, value, and the number of prescriptions generated. GSK Pakistan caters to many therapy areas including anti-infectives, Dermatology, Analgesics, and Vaccines. The company has a long history of developing well-known brands with a strong legacy, including Augmetin, Velosef, Amoxil, Vates, and Calpol.

We base our investment thesis on a) Deregulation of non-essential drug prices by DRAP, b) Inflationary price adjustments and special price increase approvals, c) Improving gross margins owing to stable exchange rates and price increases, d) Debt-free balance sheet and Promotional Allowance, and Strong future earnings growth.

Recommendation: We have a 'BUY' rating on GLAXO with a Dec-25 target price of PKR 589/share offering a ~43% upside from the last closing price of PKR 412/share (24-Mar-25). The Company is currently trading at CY25/26 P/E of 12.4/10.3x and offers a dividend yield of 4%.

Key Catalyst: Key catalyst include a) Potential expansion to export markets, b) Further reduction in API prices, and c) Potential deregulation of essential drugs.

Key Risk: Key risk include a) more than expected PKR depreciation, b) Geopolitical tensions, c) Less than expected promotional allowance.

Investment Thesis

1. Regulatory Tailwinds

Deregulation of non-essential drugs prices:

In February 2024, DRAP deregulated the prices of non-essential drugs. Previously, pharmaceutical companies were allowed to raise prices annually, capped at the lower of 10% of the CPI or 10%. With the removal of this policy, companies involved in non-essential drugs now have a greater pricing flexibility, providing them with a competitive advantage. As of June 2024, around 30% of Glaxo's salex mix consisted of non-essential drugs. This indicates that approximately 30% of their total sales would be free from any regulation, and the company would have autonomy to fix the prices of those drugs, the improvement in GLAXO's financials due to the deregulation is also evident from the full year performance of the company. During CY24 basis, Glaxo has reported earnings of PKR 20.52/share compared to PKR 1.68/share during CY23.

Inflationary price adjustments and special price increase approvals on essential drugs by DRAP:

Around 70% of Glaxo's total sales come from essential medicines. The primary contributors to this essential category include Augmentin, Velosef, Amoxil, and Calpol, which together account for roughly 50% of these essential sales. In the year 2024, these four products saw price hikes of over 7%. These adjustments, referred to as inflationary price increases, were implemented to help the pharmaceutical industry pass on the rising costs to consumers and boost profit margins. Additionally, the price changes aimed to address the growing black market for essential medicines, which had been exacerbated by shortages. Specifically, Augmentin, Amoxil, and Velosef experienced price increases of 24%, 23%, and 17%, respectively.

Exhibit: Glaxo Sales Mix

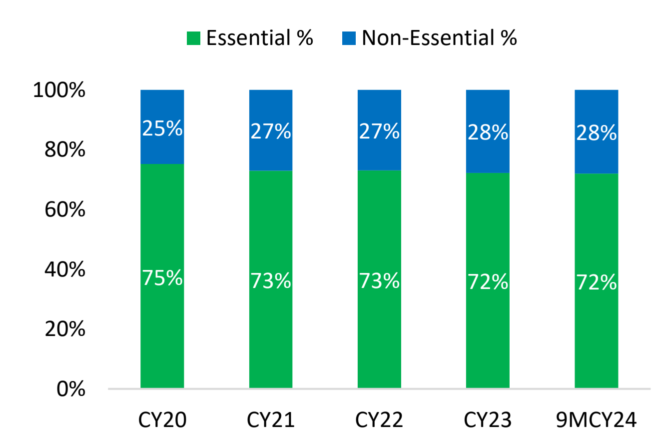


Exhibit: Top 10 Revenue Contributors

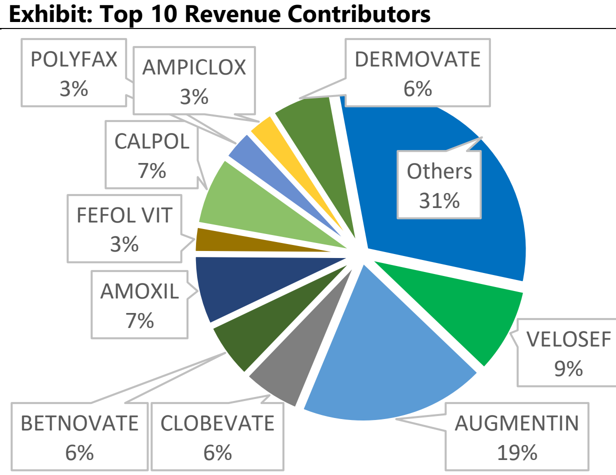


Exhibit: Segment-wise Revenue Mix

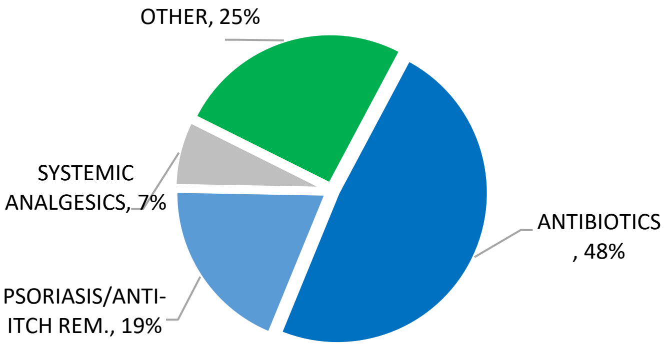
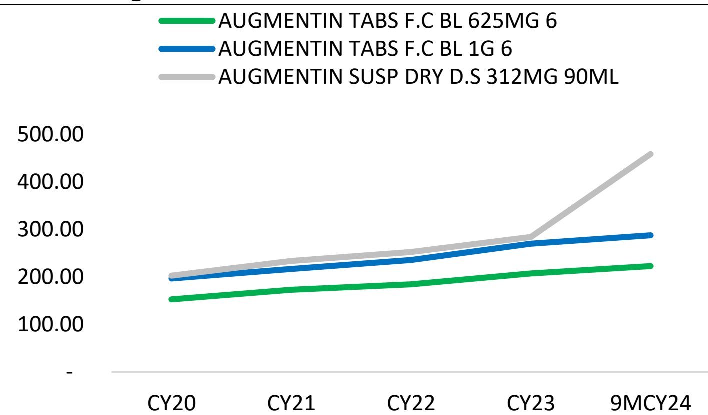


Exhibit: Augmentin Prices



Source: IQVIA, Company Accounts, IGI Research

2. Improving gross margins owing to stable exchange rates and price increases

The country's improving economic conditions and rising foreign exchange reserves have kept the rupee stable throughout the year. This stability is vital for the pharmaceutical sector, which relies heavily on imports, reducing exchange rate losses. Glaxo sources around 60% of its raw materials from abroad, particularly Active Pharmaceutical Ingredients (APIs). With the rupee remaining steady, Glaxo is well-positioned to benefit from both stable exchange rates and price increases, boosting its gross margins. In addition to this, GLAXO generates approximately 55% of its topline from the sale of antibiotics, and the company has some top brands of antibiotics under its product portfolio and these brands are the consumers top choice, giving GLAXO an advantage over its peers.

Exhibit: Glaxo Gross Margins

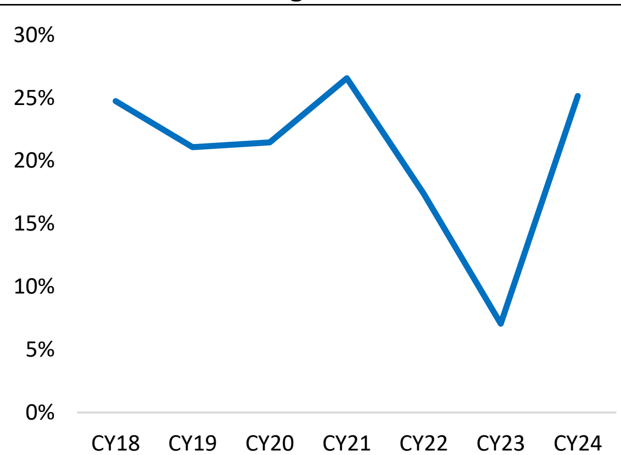
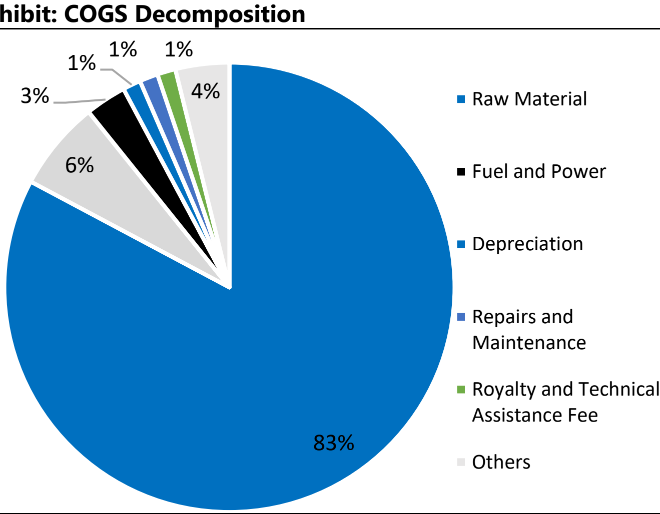


Exhibit: COGS Decomposition



Source: Company Accounts, IGI Research

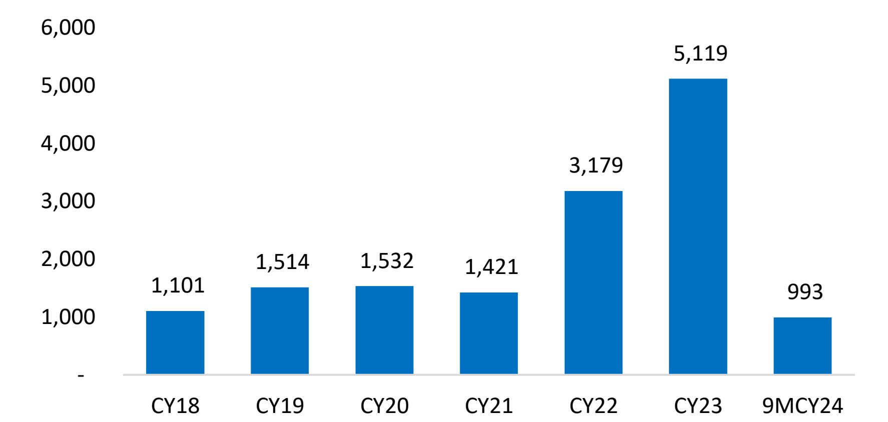
3. Debt-free Balance sheet

Glaxo Pakistan maintains a debt-free balance sheet, with no long-term or short-term loans, making it an even more attractive investment. Without the burden of significant finance costs, the company enjoys greater financial flexibility and can focus on core operations and strategic growth. Additionally, Glaxo benefits from allowances provided by the GSK group for various promotional activities aimed at brand building and ensuring sustainable returns on investments. This further strengthens its position, as the company can reinvest earnings without the pressure of servicing debt, and it remains less vulnerable to interest rate fluctuations, enhancing its overall financial stability and appeal to investors.

Promotional Allowance

Glaxo booked PKR 5.1bn (PKR 16/share before tax) in promotional allowance as part of other income during CY23. In our view, in order to support the bottom-line and ensure sustainable ROI for the company owing to substantial decline in profitability during CY23, the GSK group announced an extra ordinarily high promotional allowance during CY22 and CY23, compared to average allowance of PKR 1.4bn during CY18-CY21. As the company's profitability has improved notably compared to CY23 and expected to continue its positive momemtum going forward, we expect this allowance to normalize at historical levels from CY24 onwards.

Exhibit: Historical promotional allowance received



Source: Company Accounts, IGI Research

4. Strong Future Earnings Growth

Glaxo has posted negative earnings growth at 5yr CAGR (CY19-23) of -29% owing to the pricing related regulations and exchange losses. Going forward, we estimate the Company's earnings to register 21% CAGR (CY24-28) reaching PKR 17.1bn by CY28 compared to PKR 0.5bn in CY23.

Valuation

Using DCF, we have a 'BUY' rating on GLAXO with a Dec-25 target price of PKR 589/share offering a ~43% upside from the last closing price of PKR 412/share (28-Mar-25). GLAXO offers CY25E FCF yield of ~11%.

We have determined our target price using Discounted Cash Flow (DCF) valuations with a Cost of Equity of 18% and a terminal growth rate assumed at 5% based on cash flows projected until CY30. Our calculation includes a risk-free rate of 12%, a beta of 1.0, and an equity risk premium of 6%.

Trading at significant discount

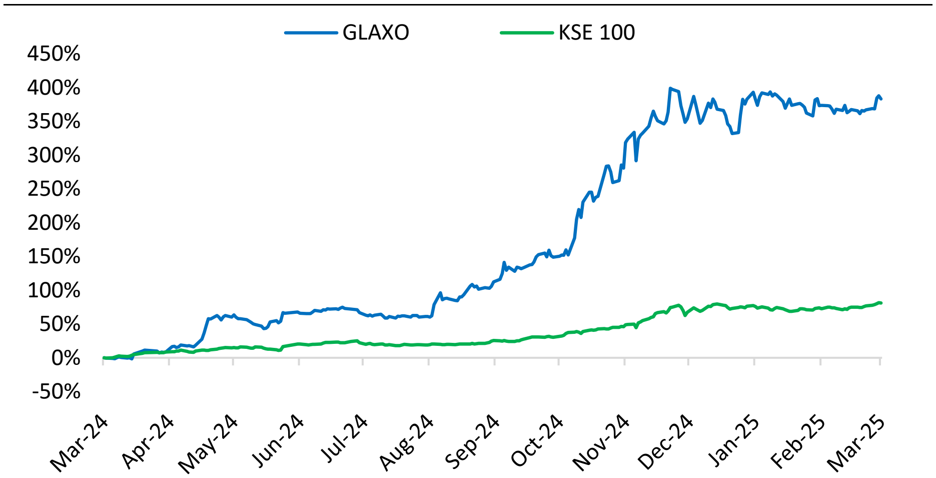
The company is currently trading at 2025F P/E of 12.40x significantly discounted to historic average of 17.5x. Moreover, GLAXO is currently trading at a discount of 40% to sector average P/E of 20.9x.

Exhibit: Peer Comparison and Relative Valuations

	Price*	Dec-24 Qtr EPS	Annualized CY25	P/E
ABOT	1,058.2	13.12	52.48	20.16
FEROZ	312.46	2.57	10.28	30.39
HALEON	802.44	11.75	47.00	17.07
AGP	191.81	2.88	11.52	16.65
CPHL	89.39	1.12	4.48	19.95
IBLHL	37.00	0.47	1.88	19.68
Sector Average				**20.85**
GLAXO	411.62	9.28	33.23**	12.40

*Source: PSX, Company Accounts, IGI Research, * Closing Price as at 24-Mar-2025*
*** IGI Estimate for Full year*

Exhibit: Relative Price Performance



Source: CapitalStake, IGI Research

Key Catalyst

1. **Potential Expansion to export markets:** Until CY22, Glaxo exported its drugs to various markets, but exports were suspended in CY23 likely due to cost pressures. Recently, the company announced plans to resume exports and explore new destinations. Expanding internationally will generate revenue in foreign currencies, offering a natural hedge against currency devaluation, especially since pharmaceutical raw material costs are influenced by exchange rate fluctuations.
2. **More than expected decrease in API prices:** API prices witnessed a declining trend during CY24, which helped pharma companies source cheaper raw material and helped them score better gross margins. If this declining trend in the API prices persists, GLAXO can post even better top line growth.
3. **Potential deregulation of essential drugs:** Rumors suggest the government is considering partially deregulating essential drug prices. Under the Prime Minister's guidance, the Ministry of National Health Services is evaluating removing DRAP's role in setting drug prices, with plans to establish a new federal body to oversee regulation.

Risk to Rating

1. **More than expected PKR depreciation:** Glaxo's profitability is closely tied to exchange rates due to its reliance on imported raw materials. The rupee's volatility in 2021-22 impacted earnings, but its stability in 2024 has supported growth. However, the risk of future fluctuations remains due to Pakistan's political instability and dependence on foreign reserves, mainly from the IMF. Political turmoil could deplete reserves and pressure the rupee, threatening import-dependent industries like pharmaceuticals.
2. **Geopolitical tensions:** Glaxo Pakistan's reliance on imported raw materials makes it vulnerable to geopolitical tensions that can disrupt supply chains and delay imports of crucial APIs, mainly from the USA, India, and China. Trade restrictions with India add complexity, requiring alternative import routes. These disruptions can cause delays in raw material deliveries, affecting operations and customer satisfaction.
3. **Less than expected other income:** The other income of the company includes a promotional allowance, which is charged to the parent company. This promotional allowance is supposed to ensure sustainable return on investment for the company and is also for the brand building activities. Based on our forecast, we have incorporated a promotional allowance for CY24 of PKR 1.3bn. If the promotional allowance is less than our expectation, the company might report lower earnings than our forecasted earnings.

Financial Summary

GlaxoSmithKline Pakistan Limited (GLAXO)

Current Price (PKR): 412 **Target Price (PKR): 589** **Upside: 43%** **Recommendation: BUY**

PKRbn	CY21A	CY22A	CY23A	CY24A	CY25E	CY26E	CY27E
Income Statement							
Net Sales	36,661	41,842	49,661	61,188	83,428	94,946	108,100
Gross Profit	9,737	7,282	3,503	15,388	23,919	28,940	33,834
Operating Profit	7,589	5,822	2,240	10,788	17,610	21,245	24,535
EBITDA	8,349	6,628	3,157	11,766	18,645	22,337	25,684
Finance Costs	164	716	63	313	265	266	266
Profit Before Tax	7,424	5,106	2,177	10,476	17,345	20,979	24,269
Taxation	2,070	2,643	1,643	3,940	6,765	8,182	9,465
Profit After Tax	5,354	2,463	534	6,536	10,581	12,797	14,804
Balance Sheet							
Inventory	6,505	9,545	11,569	11,190	13,043	14,467	16,277
Receivables	1,316	1,585	1,028	555	2,286	2,601	2,962
Current Assets	18,969	23,503	25,341	30,698	37,250	44,852	53,981
PP&E	10,408	10,997	11,701	13,262	12,510	12,851	13,110
Total Assets	30,455	35,542	38,131	45,055	50,876	58,842	68,252
Payables	7,036	9,911	14,188	13,179	13,858	15,371	17,295
Total Liabilities	9,469	14,489	16,455	16,779	17,433	18,971	20,902
Paid Up Capital	3,185	3,185	3,185	3,185	3,185	3,185	3,185
Total Equity	20,987	21,053	21,676	28,277	33,443	39,871	47,350

PKRbn	CY21A	CY22A	CY23A	CY24A	CY25E	CY26E	CY27E
Per Share							
EPS	16.81	7.73	1.68	20.52	33.22	40.18	46.49
DPS	7.00	0.00	0.00	10.00	17.00	20.00	23.00
BVPS	65.90	66.11	68.06	88.79	105.01	125.20	148.68
Growth rates & Margins							
Sales Gr. %	4%	14%	19%	23%	36%	14%	14%
EPS Gr. %	59%	-54%	-78%	12x	62%	21%	16%
Gross Margin	27%	17%	7%	25%	29%	30%	31%
EBIT Margin	21%	14%	5%	18%	21%	22%	23%
Net Margin	6%	9%	1%	3%	9%	10%	10%
Valuation							
P/E	24.50x	53.27x	245.73x	20.07x	12.40x	10.25x	8.86x
DY	2%	0%	0%	2%	4%	5%	6%
P/B	6.25x	6.23x	6.05x	4.64x	3.92x	3.29x	2.77x
Op. Cf Yld	3%	1%	0%	4%	6%	10%	12%
ROE (%)	28%	12%	2%	26%	34%	35%	34%
ROA (%)	19%	7%	1%	16%	22%	23%	23%
P/EBITDA	15.71x	19.80x	41.56x	11.15x	7.04x	5.87x	5.11x
EV/EBITDA	14.87x	19.08x	40.42x	10.60x	6.72x	5.36x	4.40x

Source: PSX, Capital Stake, Company Accounts, Bloomberg, IGI Research

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Recommendation Rating System
Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)
Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)
Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

Valuation Methodology: To arrive at Target Prices, IGI Finex Securities uses different valuation methodologies including

- Discounted Cash Flow (DCF)
- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

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