

Company Overview

GlaxoSmithKline (GSK) Bangladesh Limited was established on 25 February 1974. The Company is a subsidiary of GlaxoSmithKline Plc, UK through its fully owned subsidiary SETFIRST Limited, UK. In December 2018, Setfirst Limited has signed a Share Purchase Agreement to sell and dispose their entire stake at BDT 16.40 billion for 9,875,144 shares or BDT 1,660.74 per share (approx. 82% of total shareholding) in the company to Unilever N.V. In March 23, 2020, the Company has further informed that the sale of shares held by Setfirst in the Company will be acquired by "Unilever Overseas Holdings B.V" which is expected to materialize in 2020.

In October 2018, the Company has divested the pharmaceuticals business of GSK in Bangladesh. After discontinuation of pharmaceuticals business, the principal activities of the Company are manufacturing and marketing of consumer healthcare products (health food drink, oral health care and glucose powder). **Health Food Drink and Glucose Powder are manufactured in Bangladesh through third party under contract exclusively working for the Company. Paste and Brush are imported through Burroughs Wellcome & Co. (Bangladesh) Ltd. which is a related party of the Company.** The corporate office is located at Gulshan, Dhaka whereas the factory is located at Fouzderhat, Chattogram.

GSK Bangladesh's product lines include nutrition and oral healthcare products, led by some flagship brands like Horlicks™, Glaxose™, Boost™, Sensodyne™ etc. In 2019, the Consumer Healthcare Business continues to retain its leadership position with 91.8% market share in the Health Food Drinks category.

The major raw materials for Horlicks, Boost and Glaxose are sugar, maize (corn), wheat flour, malt extract, malted barley, milk solids, minerals, salt, vitamins, protein isolate and vegetable oil etc. Around 60% of its raw materials consumption is imported.

Revenue Composition & Growth

Particulars (BDT mn)	Revenue	Contribution	Growth		
	2019	2019	2018	2019	4-yr CAGR
Powder	4,042	90.3%	5%	-11%	-2.1%
Oral	433	10.7%	-16%	59%	47.2%
Total	4,475	100%	3%	-7%	-0.1%

Quantity Sold

Particulars	2016	2017	2018	2019	4-yr CAGR
Powder (Ton)	7,700	8,214	8,244	7,395	-2.0%
Oral (Thousand)	2,052	3,001	2,761	4,170	43.6%

Shareholding Structure:

The Company was listed in the Dhaka Stock Exchange in 1976. Historical shareholding status of the Company is as follows:

As on	Sponsor	Govt.	Instt.	Foreign	Public
29-Feb-20	81.98%	0.00%	15.53%	0.37%	2.12%
31-Dec-19	81.98%	0.00%	15.77%	0.37%	1.88%
31-Dec-18	81.98%	0.00%	15.67%	0.70%	1.65%
31-Dec-17	81.98%	0.00%	15.98%	0.74%	1.30%

Company Fundamentals

Market Cap (BDT mn)	24,650.7
Market Weight Sector Weight	1.0% 5.4%
Free-float (Public + Inst. + Foreign)	18.0%
No. of Shares Outstanding (mn)	12.1
Paid-up Capital (BDT mn)	120.5
3 Months Average Turnover (BDT mn)	14.3
3-month Return (Dividend & Free-float Adjusted)	27.4%
Current Price (BDT)	2,046.3
52-Week Price Range (BDT)	1,387.0 – 2,244.0
Sector Forward P/E	15.1

	2017	2018	2019	2020 (3M Ann.)
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Financial Information (BDT mn):

Sales	4,657	4,817	4,475	4,617
Gross Profit	2,224	2,249	2,464	2,311
Operating Profit	1,033	1,183	1,145	786
Profit After Tax	669	(635)	986	722
Cash & Cash Equiv.	3,526	3,420	3,796	3,806
Assets	6,244	4,357	4,509	4,769
CAPEX	159	25	19	-
Long Term Debt	3	-	-	-
Short Term Debt	3	3	-	-
Equity	2,630	1,254	1,592	1,772
Retained Earnings	2,498	1,124	1,461	1,642

Margin:

Gross Profit	47.8%	46.7%	55.1%	50.0%
Operating Profit	22.2%	24.6%	25.6%	17.0%
Pretax Profit	23.5%	27.0%	28.0%	22.1%
Net Profit	14.4%	-13.2%	22.0%	15.6%

Growth:

Sales	-25.9%	3.4%	-7.1%	3.2%
Gross Profit	-9.2%	1.1%	9.6%	-6.2%
Operating Profit	31.3%	14.5%	-3.3%	-31.3%
Net Profit	3.8%	-194.9%	-255.1%	-26.8%

Profitability:

ROA	11.6%	-12.0%	22.2%	15.6%
ROE	25.7%	-32.7%	69.3%	42.9%

Operating Efficiency:

Inventory Turnover	5.5	10.2	269.2	437.4
Receivable Turnover	4.7	6.2	8.6	7.2
A/C Payable Turnover	0.8	0.8	0.7	0.8
Total Asset Turnover	0.8	0.9	1.0	1.0
Fixed Asset Turnover	6.7	11.9	41.7	46.9

Leverage:

Debt Ratio	0.1%	0.1%	0.0%	0.0%
Debt-Equity	0.1%	0.2%	0.0%	0.0%
Int. Coverage	-	-	4,976.2	-

Dividend History:

Dividend (C/B)%	550/-	530/-	530/-	/-
Dividend Yield	3.6%	3.7%	2.6%	--
Dividend Payout	99.0%	-100.5%	64.8%	--

Valuation:

Price/Earnings	36.8	(38.8)	25.0	34.2
Price/BV	9.4	19.7	15.5	13.9
EPS (BDT)	55.6	(52.8)	81.8	59.9
NAVPS (BDT)	218.4	104.1	132.1	147.1

The figures for 2017 have been restated for discontinued operation of pharmaceuticals unit.

Industry Overview

The FMCG (Fast Moving Consumer Goods) industry is one of the largest sectors in the economy and creates employment for millions of people. In 2019, **Fast Moving Consumer Goods (FMCG) market was valued at BDT 320 bn.** Non-food Categories contributed 49% to this value, while Food categories contributed 48%. Health Food Drinks (HFD) was valued at BDT 4.1 bn and Instant Powder Drinks (IPD) category was valued at BDT 2.9 billion (Source: Nielsen - The Nielsen Corporation is a global provider of market research and analysis of media and viewer interaction). With rising incomes and increasing health awareness, there is a sustained opportunity to increase penetration level of Health Food Drink (HFD) category in the future, by offering a range of relevant nutrition solutions at affordable price points.

Currently, more than **60 companies are operating in FMCG business.** The industry is an emerging sector with vast local demand for its segregated products line. In Bangladesh, the industry is mostly controlled by a small number of large Multinational Companies (MNCs). Low capital requirements and simple manufacturing process lead the growing of local entrepreneurs in the industry. Generally, local producers used to produce beauty soap, laundry soap, detergent powder, coconut oil and other cosmetics & toiletries products. Some of the renowned **FMCG companies in Bangladesh are:** Unilever Bangladesh, ACI, Square, City Group, Reckitt Benckiser, British American Tobacco, Kohinoor Chemical, Olympic Industries, GSK Bangladesh, Marico Bangladesh, Kazi farms, Golden Harvest, AMCL (PRAN), Nestle Bangladesh, Coca-Cola Bangladesh etc.

The FMCG industry can be classified into three categories: Household Care, Food & Beverage and Personal care. Household products include room sprays, liquid detergent, detergent powder and related products. Foods and Beverage industry includes biscuits and bakery products, milk & dairy products, soft drinks, frozen foods, ice cream, tobacco and others. On the other hand, Personal Care industry includes the products like perfume, cosmetics, toiletries products and other related products.

Several factors have impacted on the business of FMCG industry, such as, increase in the working age population, increasing disposable income, Government's continual spending on social sectors and shift toward value added products as well as mobility of funds and growth of overall financial sectors. The growth of FMCG sector is commonly correlated with population and purchasing power of the consumers. Bangladesh is a highly populated country, which is the eighth largest in the world. This large number of population of the country makes the FMCG segment more potent. Besides, Bangladesh's per capita income rose to USD 1,900 which was USD 920 in 2012 and gross domestic product (GDP) growth reached 8.13% in 2018-19 fiscal year.

The FMCG market can be divided into two segments – urban and rural. The urban segment is characterized by high penetration levels and high spending tendency of the urban resident. The rural segment is mainly agrarian, with relatively lower levels of penetration and a large unorganized sector. The FMCG industry caters to the needs of the consumers both in urban and rural segments with a well-developed and efficient supply chain model. During the last decades, growing of urban economy in the country helped to the growth of the sector. Increasing purchasing power of the rural people together with perception of branded FMCG products in this market have

provided the Industry players an opportunity for driving growth.

The **growth of urban population** of the country is remarkable and represents 37% of the total population of which the median age is 26 years. Like urban population, growth of middle income people is also contributing to the FMCG industry of the country. According to the Boston Consulting Group, 2 million Bangladeshis are joining the ranks of the middle class every year. By the year 2025, the number of people belonging to middle class is expected to nearly triple to 34 million from 12 million in 2017. As the process expands, the FMCG industry should be able to capitalize on the situation.

Investment Positives

- The Company **maintains a leading presence with 91.8% market share in the Health Food Drink (HFD) Category in 2019** which was 95.8% in 2018 and **maintained 2nd position in Instant Powder Drinks category with 19.2% market share in 2019** (Source: GSK Annual report 2019).
- **Horlicks continues to be one of the top Brands in Bangladesh across all categories. Horlicks penetration is on a sustained growth path and has increased to 12.4% in 2019 vs 11.7% in 2017** (Source: GSK Annual report 2019) led by double digit growth in small packs consumption. One of the key initiatives in this area was to **reduce the price of Horlicks sachet from BDT 12 to BDT 10** which has significantly improved the retail availability of Horlicks brand.
- **Glaxose D continued to grow and penetrate the market** of its BDT 10 sachet and **increased penetration to 5.5% in 2019** from 4.7% in last year. **Market share of Glaxose powder has slightly declined to 19.2% in 2019 which was 21.1% in 2018.** (Source: GSK Annual report 2019).
- **Sensodyne expanded its reach and penetration to exit the year with around 8% urban penetrations** fueled by educating consumers and creating relevance of a tooth sensitivity solution. Market share of oral health care (Sensodyne) has slightly increased to 2.0% in 2019 which was 1.5% in 2018.
- The gross profit margin (GPM) **has improved considerably in 2019 due to the cost savings initiatives, one-off adjustment while offsetting incremental duty impact.** The GPM has increased to 55.1% in 2019 which 46.7% in last year. **The national budget for the FY 2020-21 proposed to reduce the duty on maize starch, sugar which would have positive impact on the gross profit margin further.**
- **Unilever Overseas Holdings B.V., a worldwide renowned company, is going to acquire GlaxoSmithKline's health food and drinks business in Bangladesh at BDT 16.40 billion** for 9,875,144 shares or BDT 1,660.74 per share (approx. 82% of total shareholding) as part of the Anglo-Dutch company's push to cash in on Asia's fast-growing economies. Unilever would be getting its hands on popular malted drinks Horlicks and Boost, which had 92% of Bangladesh's health drink market in 2019. Horlicks has made a significant contribution to GSK and to the health of consumers across the country for many decades and Unilever is well placed to maximize its future potential.
- The Company has **focused on driving penetration and distribution of its products at affordable price** throughout the year. Retail availability of Horlicks and Glaxose continued to expand in 2019. The Company's continuous

effort in improving and introducing new products and expanding its products range along with several blockbusters confirmed the sustainability of the profit margins. In HFD, investment continued behind Horlicks Growth Plus and Boost was relaunched with a new mix.

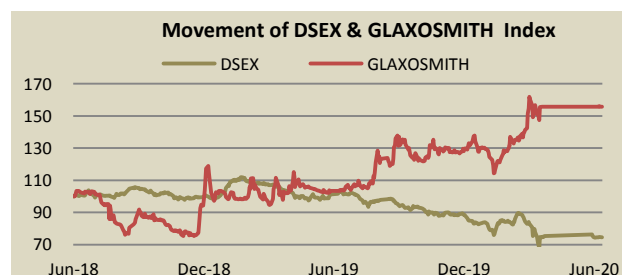
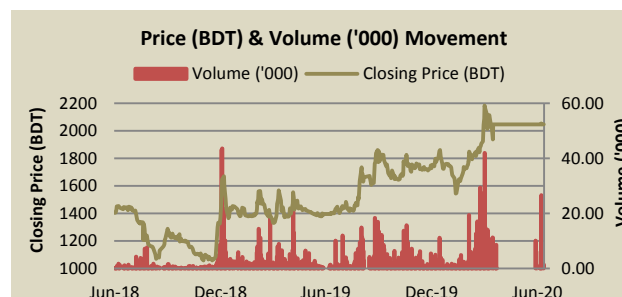
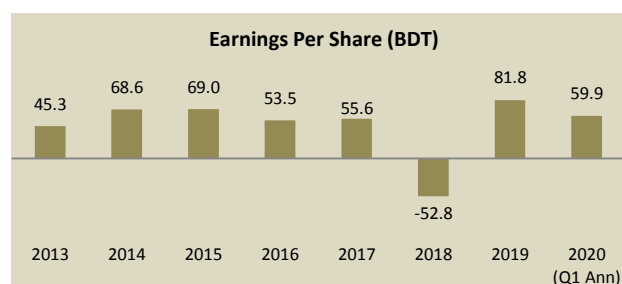
Investment Negatives

- As the Company is charging premium pricing for its products, average household consumptions of the products of the Company may decline during the current pandemic situation. The massive spread of COVID-19 significantly alters the buying behavior of most of the households.
- The company lost its market share in both Health Food Drink and Instant Powder Drinks category in 2019. The market share of Horlicks and Boost dropped to 91.8% which was 94.6% in 2018 and Glucose Powder dropped to 19.2% which was 21.1% in last year. However, reduced prices of sachets have significantly improved the retail availability of the Horlicks and Glucose brands.
- The topline growth was negative by 7% in 2019 due to the lower sales from Horlicks. Moreover, topline growth faces challenges due to the decline in average household consumption.
- In 2019, profit before tax from the continuing operation has declined by 3.6% due to the increased selling & distribution expenses and administrative expenses amid 7.1% negative topline growth. Operating expenses increased resulting from continued investments on brand promotions and expenditures, one-off people costs and provision for Workers Profit Participation Fund (WPPF). However, in 2019, the impact of discontinued business was minimal and the Company achieved desired level of EPS through several cost saving activities.
- The Company has to depend on imported raw and packing materials as around 60% of total raw and packing materials consumed are imported. As majority of the Company's foreign currency transactions are denominated in USD, hence unfavorable currency movement may affect the profitability of the Company.

Latest Quarter Update – March 2020 (Q1)

Particulars (BDT mn)	Jan-Mar 2020	Jan-Mar 2019	Growth
Turnover	1,154	1,230	-6.1%
Gross Profit	578	573	0.8%
<i>Margin</i>	<i>50.0%</i>	<i>46.6%</i>	
Operating Profit	197	218	-9.7%
<i>Margin</i>	<i>17.0%</i>	<i>17.7%</i>	
Profit from Continuing Operations	186	190	-2.0%
Profit/(Loss) from Discontinuing Operations	-6	-57	90.0%
Net Profit	180	133	35.4%
<i>Margin</i>	<i>15.6%</i>	<i>10.8%</i>	
EPS from Continuing Operations (BDT)	15.45	15.77	-2.0%
EPS including discontinuing Operations (BDT)	14.97	11.06	35.4%

- Turnover of the Company has slightly decreased during the reported period than that of last year **due to the decline in average household consumption.**
- Gross profit margin has improved significantly during the period over the same period of last year. This was backed by **simplification and cost efficiency initiatives in supply chain and continued investment in employee capability building.**
- Other expenses increased by BDT 1.78M as compared to that of 2019 due to one-off professional and consultancy fees.
- Finance income increased resulting from better interest rates on FDR.
- Net profit has increased by 35% during the period over the same period of last year because gradual decrease of loss from discontinued operations as most of the pharma discontinuation activities completed by 2019.



Concluding Remark

GSK is a British multinational consumer healthcare Company. Financial performance over the years reflected its strong fundamental base in operation. GSK Bangladesh Limited maintains a leading presence in the Health Food Drink Category market. The Company has taken several steps to uphold the consumer healthcare business after closure of the pharmaceuticals segment of the Company.

Source: Annual Report, Newspaper News and ILSL Research

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