

13th January 2016

Healthcare

GlaxoSmithKline

Price 1,364p

Advair's generic threat more material now

Fair Value 1540p (+13%)

NEUTRAL

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,642 / 1,238
Market Cap (GBPm)	66,400
Avg. 6m daily volume (000)	8 047

	1 M	3 M	6 M	31/12/14
Absolute perf.	5.1%	4.4%	-0.5%	-0.9%
Healthcare	-1.9%	-0.6%	-9.4%	8.1%
DJ Stoxx 600	-3.5%	-5.1%	-11.7%	0.2%

	2014	2015e	2016e	2017e
P/E	14.3x	18.3x	16.2x	14.7x
Div yield (%)	5.9%	5.9%	5.9%	5.9%

ANALYSIS

- Although Sandoz (Novartis group), which has long appeared as the main threat to GSK's Advair as the one which could get a generic version of the drug approved the fastest, has always been quiet about timings and progress, Mylan yesterday confirmed that it has filed an ANDA to get its own generic version of Advair approved by the FDA.
- Advair's generic risk is a very long story and a bit like with biosimilars, GSK has nothing but gained time to this meaningful outcome for its pharmaceutical business. That said, it has not prevented the drug from decreasing sharply in sales over the last couple of years. In the US, Advair went down by 25% in 2014 and should have another negative year in 2015 of close to 20%. In two years, GSK desensitised a lot from its biggest product whose sales went from GBP5,274m to GBP3,65m (e), with half of it in the US. This was a reflection of competition in the class, the internal resource shift in favour of Breo and price pressures in general. The result is that its weight went down from 20% of GSK's total sales to 15% from 2013 to 2015.
- Because it has always been difficult to say when competition would come, GSK included some form of generic competition starting in 2017 to form its medium-term guidance of high single-digit EPS growth by 2018. As a reminder, most will come from the benefits of the integration of Novartis's former vaccines and CHC businesses and to a lesser extent from the rejuvenation of the portfolio (Breo, Anoro, ViiV, Nucala) and some cost-cutting measures.

VALUATION

- There can still be a long way from filing to approval for a complex drug like Advair but it is reasonable now to assume that generic competition might start sometime in 2017 from Mylan and maybe from Sandoz too.
- Currently, we plan erosion in Advair sales by 25%, 30% and 50% from 2017 to 2019. Although it might be slightly worse, we stick to this scenario for the time being. Obviously, sentiment will be hurt more than numbers as we do not expect major cuts.
- We still believe that GSK is close to a turnaround point. The upside to our FV is too limited however to have a BUY recommendation.

NEXT CATALYSTS

- 3 February 2016 : FY 2015 results

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