

## GlaxoSmithKline

Price 1,400p

A balanced story with most risks now behind us (report released today)

Fair Value 1635p vs. 1540p (+17%)

BUY vs. NEUTRAL

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,642 / 1,238
Market Cap (GBPm)	68,177
Ev (BG Estimates) (GBPm)	74,944
Avg. 6m daily volume (000)	8 277
3y EPS CAGR	-1.4%

**GSK has been our least-preferred large cap pharma stock for a while but the company is very close to a turning point in our view and we now see it as a safe play and also as a self-help story with more than decent growth over the [2015-2020] timeframe, with core EPS CAGR of 9.2%. Supported also by a dividend yield of 5.7% at the current price, we rate GSK a new BUY with a FV of GBP1,635.**

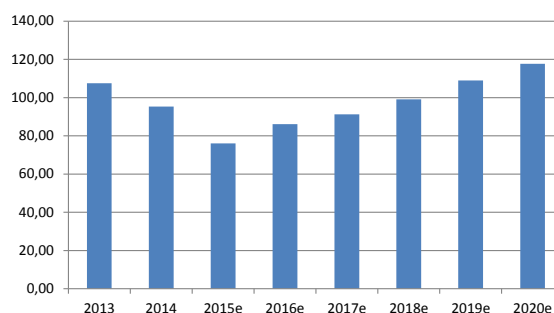
## ANALYSIS

- 2014 and 2015 were a nightmare for GSK shareholders, characterised by a severe drop in respiratory sales, poor commercial success on new drug launches, a scandal in China and a positive-but-dilutive agreement with Novartis. As a consequence, core EPS have fallen by almost 30% in two years and the stock price by 5%, i.e. underperformance of more than 30% compared to the Stoxx Europe Healthcare index.
- This period should now be behind us and we believe that the risks are under control while opportunities to grow are multiplying. In 2016, GSK has already committed itself to double-digit core EPS growth, based on a top-line turnaround, cost savings and synergies from the Novartis transaction. A return to revenue growth is obviously good news and in this note we emphasize the key role of three products: Nucala (with a new PS of USD1.7bn in 2022), Triumeq (which together with Tivicay will exceed USD4bn in our opinion) and Shingrix (that we move from USD900m to USD1.4bn). Together with Breo which is now waking up, they should be the key growth drivers for GSK through to 2020 (we are essentially ignoring sirukumab at this stage).
- Moving from top-line to earnings growth, we have noted the significant royalties and minority interest paid to partners Innoviva (on Breo and Anoro), Shionogi (on Tivicay and Triumeq) and Novartis (on the combined CHC business). Although these payments reduce the margin impact on the turnaround, Nucala and ViiV will support margin expansion together with cost savings and synergies in vaccines and CHC.

## VALUATION

- All in all, while having almost cancelled any upside from the pipeline (no contribution beyond Shingrix and sirukumab), we are left with core EPS CAGR of 9.2% between 2015 and 2020 (see the sequence below). This is amongst the best in the industry and the beauty is that it is starting now, not in one or two years' time. Lastly, the stock is supported by a comfortable dividend yield. Although the upside to our FV is not enormous, we think GSK is worth a BUY now.

## Sequence of core EPS growth



## NEXT CATALYSTS

- 3 February 2016 : FY 2015 results

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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