

25th February 2016

Healthcare

**GlaxoSmithKline**

Price 1,361p

**ViiV advances with new compounds**

**Fair Value 1670p (+23%)**

**BUY**

|                            |               |
|----------------------------|---------------|
| Bloomberg                  | GSK LN        |
| Reuters                    | GSK.L         |
| 12-month High / Low (p)    | 1,642 / 1,238 |
| Market Cap (GBP)           | 66,258        |
| Avg. 6m daily volume (000) | 8,376         |

|                | 1 M   | 3 M    | 6 M   | 31/12/15 |
|----------------|-------|--------|-------|----------|
| Absolute perf. | -2.2% | 1.3%   | 6.1%  | -0.9%    |
| Healthcare     | -7.4% | -12.7% | -6.9% | -12.8%   |
| DJ Stoxx 600   | -5.4% | -14.8% | -6.4% | -12.5%   |

|               | 2014  | 2015e | 2016e | 2017e |
|---------------|-------|-------|-------|-------|
| P/E           | 14.3x | 18.0x | 15.7x | 14.6x |
| Div yield (%) | 5.9%  | 7.4%  | 5.9%  | 5.9%  |

#### ANALYSIS

- Since the beginning of the week, ViiV Healthcare has announced a series of positive news items that are helping to reinforce its pipeline and increase visibility on a continuous growth trend for this fast-growing entity majority-owned by GSK.
- Yesterday, ViiV Healthcare disclosed first phase II data for investigational long-acting injectable cabotegravir (ÉCLAIR study) for HIV prevention. Three cycles of IM injections over three weeks were preferred by 74% of patients over daily oral cabotegravir and did not result in any major side effects. However drug concentration at the end of the period was lower than expected and as a consequence, an alternative higher concentration of 600mg every eight weeks will be tested. ViiV still anticipates cabotegravir IM to move into phase III later this year.
- Earlier this week, ViiV announced that it had finalised the acquisition of BMS's HIV assets for an upfront payment of USD317m (+ development and commercial milestones of up to USD518m and royalties on sales), mainly composed of attachment inhibitors, the most advanced of which (fostemsavir) is already in phase III, has received BTM and is expected to be filed in 2018.
- Last but not least, ViiV also announced full results from the LATTE-2 phase IIb trial that was comparing two drug regimens of long-acting injectable drugs (cabotegravir 600mg + rilpivirine 900mg) every 4 to 8 weeks to oral cabotegravir + 2 NRTIs daily after a 20-week induction period. Viral load suppression rates were similar. Side effects look manageable (serious AE occurred in 6% of patients in the iv arms vs 5% with oral drugs).

#### VALUATION

- ViiV Healthcare has the highest operating profitability of all GSK's businesses with more than 70% and GSK said recently that despite the prospect of further strong growth in dolutegravir-based products (Triumeq could still double in size), margin should not grow further. Incremental profits will be reinvested into BD and R&D to keep momentum going. The news reported this week was a good illustration of this.
- We have kept ViiV operating margin roughly flat over coming years while we have not yet factored any new drug (cabotegravir, fostemsavir) into our sales model. We see clear upside here.

#### NEXT CATALYSTS

- 27th April 2016: Q1 2016 results

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Eric Le Berrigaud, [eleberrigaud@bryangarnier.com](mailto:eleberrigaud@bryangarnier.com)

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|         |   |
|---------|---|
| BUY     | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.      |
| NEUTRAL | Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.                     |
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## Distribution of stock ratings

BUY ratings 63%

NEUTRAL ratings 28.1%

SELL ratings 8.9%

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| 15 St. Botolph Street           | 75008 Paris                               | New York, NY 10022       | CP 2113            | Janpath              |
| London EC3A 7BB                 | Tel: +33 (0) 1 56 68 75 00                | Tel: +1 (0) 212 337 7000 | Genève 1, CH 1211  | New Delhi 110 001    |
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