

## GlaxoSmithKline

Price 1,431p

## FY 2015 numbers validate our investment case

Fair Value 1670p vs. 1635p (+17%)

BUY

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,642 / 1,238
Market Cap (GBPm)	69,691
Ev (BG Estimates) (GBPm)	94,862
Avg. 6m daily volume (000)	8 253
3y EPS CAGR	-0.8%

Yesterday GSK reported FY 2015 figures roughly in line with expectations. Hopefully, this should be the end of a tough period for the company, which is entering a new growth phase due to be led by a handful of new products and by the restructuring of the businesses acquired from Novartis last year. GSK has confirmed its targets for EPS growth of 10% this year and high single-digit growth by 2020, while bringing its target for GBP6bn in sales for its new products forward by two years to 2018, thereby making this guidance even more comfortable than before. We reiterate our BUY recommendation.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	4.0%	2.2%	4.2%
Healthcare	-9.7%	-10.2%	-16.9%	-9.7%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

YEnd Dec. (GBPm)	2014	2015e	2016e	2017e
Sales	23,006	23,923	25,060	25,712
% change		4.0%	4.8%	2.6%
EBITDA	8,294	7,429	8,435	9,114
EBIT	6,594	5,729	6,735	7,414
% change		-13.1%	17.6%	10.1%
Net income	4,584	3,658	4,181	4,656
% change		-20.2%	14.3%	11.4%

	2014	2015e	2016e	2017e
Operating margin	28.7	23.9	26.9	28.8
Net margin	19.9	15.3	16.7	18.1
ROE	81.4	78.0	86.9	94.4
ROCE	25.0	14.7	16.6	17.8
Gearing	264.9	118.9	131.8	107.7

(p)	2014	2015e	2016e	2017e
EPS	95.33	75.71	86.42	93.04
% change	-	-20.6%	14.1%	7.7%
P/E	15.0x	18.9x	16.6x	15.4x
FCF yield (%)	3.9%	2.8%	5.3%	6.3%
Dividends (p)	80.00	100.00	80.00	80.00
Div yield (%)	5.6%	7.0%	5.6%	5.6%
EV/Sales	3.6x	4.0x	3.8x	3.7x
EV/EBITDA	10.0x	12.8x	11.4x	10.5x
EV/EBIT	12.6x	16.6x	14.3x	12.9x

## ANALYSIS

- Whether in relative terms (this is the first out of four publications from European Pharma companies that is considered positive) or in absolute terms, GSK's FY release looks good to us and backs our theory that the company is back on the right track to perform well in 2016 and beyond, although we are less bullish than management about the value of the R&D pipeline.
- For Q4 numbers, we would highlight the following: (i) sales were slightly ahead of our expectations despite ups and downs, although the Respiratory franchise was up in the US (by 3%) for the first time since Q4 2013, in line with management's estimates and reflecting the balance between the further decline in Advair sales but not largely offset by the contribution of new products Incruse, Anoro and more particularly Breo (GBP99m in Q4 vs GBP64m in Q3). Adding in Nucala, launched at the very end of 2015 and for which GSK does not anticipate any pricing issues, and despite a further drop of around 20% in 2016e for Advair in both the US and Europe, the entire Respiratory franchise (not only the US) that should show grow in 2016; (ii) the situation was tougher in Vaccines and in CHC, with actual numbers both slightly below estimates, admittedly with a limited margin but reflecting a mixed picture in both divisions. In Vaccines, GSK did reasonably well with Synflorix, while the flu vaccine was also in line, but suffered with pediatric vaccines and we were disappointed by the former Novartis products as well. In CHC, the growth rate fell from 7% over the first nine months to 5% in Q4 although this may have been due to tougher comparison with the same quarter last year when supply restrictions for denture care were removed; (iii) ViiV Healthcare was again very strong and Triumeq in particular exceeded our projections by far with GBP289m in the quarter.
- Net income was roughly in line too although COGS were higher as a percent of sales. In reported terms, it fell 21% in 2015 and the base for the recovery phase ahead is therefore GBP75.7.
- Looking ahead, obviously the two key elements from the release and the call are (i) reiterated guidance i.e. double-digit EPS growth in 2016 (meaning 10%, not more), with confirmation of our assumption that currencies could add about 5% at current levels; (ii) the target to generate GBP6bn in sales with new products has been advanced by two years from 2020 to 2018, leaving the way open to beat mid-term guidance.

## VALUATION

- GSK's valuation has become a difficult matter due to the complex agreements in place with minority shareholders in ViiV and CHC. There are a lot of moving parts here, some of which are cash influential but others not, P&L influential but not always and for which sometimes it is worth changing the accounting methodology. What's new for instance, is that GSK will start recognising the liability for the put option Pfizer and Shionogi have on ViiV in its balance sheet in Q1 2016.
- Although working capital, the tax rate and minority interests have moved in the opposite direction, we have increased our FV slightly as the profitability mix is favouring wholly-owned assets, WACC is reduced by higher debt and Triumeq and Breo are revised upwards. Although the upside to our FV is not the greatest, we think GSK is a safe play for 2016 in the European Pharma space.

## NEXT CATALYSTS

- 5th February 2016: Sell-side meeting with management [Click here to download](#)



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