

12th April 2016

Healthcare

GlaxoSmithKline

Price 1,466p

Second generic Advair accepted for filing in the US

Fair Value 1670p (+14%)

BUY

Bloomberg	GSK LN
Reuters	GSK.L
12-month High / Low (p)	1,634 / 1,238
Market Cap (GBPm)	71,381
Avg. 6m daily volume (000)	8 370

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	8.8%	11.9%	6.7%
Healthcare	0.2%	-3.8%	-5.3%	-10.4%
DJ Stoxx 600	-2.7%	-2.2%	-8.3%	-9.0%

	2015	2016e	2017e	2018e
P/E	19.4x	16.5x	15.4x	14.1x
Div yield (%)	6.8%	5.5%	5.5%	6.0%

ANALYSIS

- Hikma and Vectura, which have partnered on the drug for the US, announced that they have received acceptance from the FDA of the filing for their generic version of Advair, using Vectura's proprietary dry powder inhaler and formulation. This triggers a USD10m payment to Vectura. This is the second ANDA to be accepted by the FDA for Advair Diskus after Mylan's last February.
- As a reminder, Vectura originally partnered with Novartis globally on this development, but later on the Swiss company returned US rights to Vectura as it favoured another route when buying Oriel Therapeutics. Sandoz and Vectura have maintained their alliance for Europe where their generic version of Advair is approved and marketed in several countries.
- It remains to be seen if any of the two already-filed versions of Advair will be substitutable, which is key to make a generic a true success. It is unclear where Sandoz exactly is in this battle.

VALUATION

- Advair remains GSK's number 1 product although it has been declining sharply for a couple of years, including in the US under pricing pressure. Down 25% in 2014, it was again down 13% in 2015 and is expected to decline again double-digits in 2016 as GSK is increasing rebates to keep volumes and contracts while also favouring new-generation Breo. That said, in 2017, we nevertheless expect Advair to generate GBP1.3bn in sales i.e. about 5% of group's Pharma sales.
- Advair's generics are factored in company's mid-term guidance stating that core EPS would grow mid to high single digit. We have also assumed that Advair would drop below GBP100m in 2020.

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Distribution of stock ratings

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