



## Core Defensive



### GlaxoSmithKline - Buy

11th December 2012

Price	1368p
12 Month Price Target	1450p
Risk Rating	Medium
Forward P/E Ratio	11.8x
Forward Dividend Yield	5.5%

#### Company Profile:

GlaxoSmithKline (“Glaxo”) is one of the world’s leading pharmaceutical research companies. It is regarded as being a defensive company as an increasingly ageing population will need its products, enabling Glaxo to generate cash almost no matter what the economic conditions.

#### History

Glaxo’s roots go back to the early eighteenth century, evolving out of the British, New Zealand and U.S. companies; Beecham, SmithKline, Glaxo and Wellcome. The company in its present form was formed through the merger of Glaxo Wellcome and SmithKline Beecham in 2000.

#### Operations

Headquartered in the UK and with operations based in the US (which produces 45% of revenues), Glaxo is the largest pharmaceutical company in Europe and a global player with an estimated 7% of the world’s pharmaceutical market. Glaxo employs approximately 99,000 people in over 100 countries.

#### Company Profile (cont):

##### Research

Over 15,000 people are employed in research to discover new medicines. Of all the global pharmaceuticals Glaxo, with its broad pipeline of drugs under development, is one of the best positioned to handle the current environment of expiring patents on existing drugs.

The company has developed a “*drug discovery*” organisation, where the pharmaceutical giant attempts to replicate the research and development ethos in much smaller biotech companies in order to find new drugs. It has deliberately shunned large-scale mergers and acquisitions.

Professional partnerships with others in industry, academia and government are another source of research. For example, Glaxo has developed more than 800 early discovery research collaborations with colleges and universities around the globe and they fund research for hundreds of masters-level, doctoral and fellowship students each year.

#### Analysts View:

Most investment banks (Exane BNP Paribas, J.P.Morgan Cazenove, Panmure Gordon & Jefferies) have a price target of 1450p, suggesting 6% upside from current levels. Societe Generale is the most bullish with a 12 month price target of 1820p.



## Core Defensive (cont)

### Products:

Glaxo produces medicines that treat six major disease areas – asthma, virus control, infections, mental health, diabetes and digestive conditions. Glaxo is also one of the world's key players in vaccines with their sales generating close to 20% of the global market. Finally, the consumer healthcare business brings an added dynamic dimension to the company, producing such well known products as Beechams, Horlicks, Sensodyne, Ribena, Panadol, Lucozade, Nicorette & Macleans.

### Catalysts to the share price:

#### 1) Cost savings

The company is countering the pressure on “white pill” markets in developed countries by restructuring its manufacturing operations, which is forecast to generate £500m of savings by 2015. This comes on top of the £2.5bn of annual savings the company has already found over the last four years.

#### 2) Growing ‘Consumer Healthcare Business’

So far, this division is continuing to grow, helping to make up falls in pharmaceutical sales. Last month the company expanded its footprint in emerging markets through a £591m deal to increase its stake in its Indian division. Glaxo sells 3.5bn cups of Horlicks a year in India, incredibly outselling both Pepsi and Coca-Cola. Although they have lower margins, consumer products provide steady, low-risk revenue growth without patent expiration and require lower development costs than pharmaceutical products.

#### 3) Diversified global business

Glaxo is reducing risk by broadening and balancing their portfolio, diversifying into new product areas that show potential, whilst fully capturing opportunities for its products across all geographic boundaries. The group is also investing heavily in emerging markets, a major source of growth for the company.

#### 4) Deliver more products of value

Glaxo is striving to build one of the strongest pipelines in the industry, enabling the company to sustain a flow of new products for years to come. Glaxo is concentrating on developing a higher volume of mid-size products for more clearly defined patient populations. This will help develop a lower risk portfolio, which is not dependent on the performance of one or two large products.

### Technicals:

Technically, the stock looks attractive. The 20 day and 50 day moving averages have completed a “golden cross” and the momentum is positive with the RSI having recently crossed above 50. We target a short term price target of 1464p, its recent high.

### Summary:






Despite the valuation premium, Glaxo is now the choice over Astra because of its focus on consumer healthcare and a more sustainable drug pipeline. The resulting more stable earnings mean the company is in a better position to maintain its dividend, currently yielding 5.5%. Added to that the growth potential arising from the company's large exposure to emerging markets we rate the shares a buy.



GIBRALTAR ASSET MANAGEMENT  
STOCKBROKERS & INVESTMENT MANAGERS

## Cyclical (cont)

### Chart Legend:

	20 day moving average	(signifies the short-term direction of the security, prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	400 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

### Technical Analysis Guide:

**RSI** (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

**ADX** (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets Bollinger Bands work best (sell at upper band, buy at lower band).

### Research Disclaimer

Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities ( i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website:www.gam.gi

