



Rating  
**Hold**

Company  
**GlaxoSmithKline**

Date  
11 May 2015

Europe  
United Kingdom

Forecast Change

Pharmaceuticals  
Pharmaceuticals

Reuters GSK.L      Bloomberg GSK LN      Exchange LSE      Ticker GSK

Price at 7 May 2015 (GBP)	1,447.00
Price Target (GBP)	1,540.00
52-week range (GBP)	1,643.50 - 1,324.00

## Updating for margin reset/dilution - smooth execution now critical

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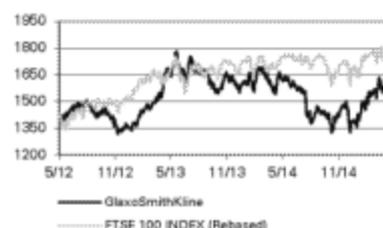
Investor event sets out credible plans, now all about execution

GSK's 1Q results were all but overshadowed by its decision to forgo the planned £4bn B share scheme in return for a longer term commitment to a maintained dividend. Although we view management's long-term targets as achievable/beatable and consistent with our own previous assumptions, a further reset to margin expectations leaves the company more reliant on its accelerated cost savings programme. With question marks remaining over execution and the u-turn over capital allocation/ViiV IPO plans bruising credibility with investors, we retain our Hold rating.

Key changes			
Target Price	1,600.00 to ↓	1,540.00	-3.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.1	-4.6	-11.2
FTSE 100 INDEX	-1.1	0.5	1.3

Source: Deutsche Bank

Reducing 2015-2019E EPS forecasts by 6-10%; CAGR little changed

We have revised our forecasts to reflect dilution from the cancelled B share scheme and a further reset in margins, partly offset by GSK's accelerated £3bn cost saving and synergies programme. This reduces our Core EPS forecasts by 11% in 2015 and 7-8% thereafter. Our "return to growth" assumptions are little changed with a 2015-19E EPS CAGR of 7.6% (from 7.1%) albeit from a significantly lower base.

Investor confidence in execution and R&D event key to share performance

The assumptions set out in our report "Is ViiV the key to a return to growth?" (April 2015) are little changed. These reassure us that a strong contribution from ViiV, along with improving margins within Vaccine and Consumer will drive GSK's return to solid growth even with pressures on its respiratory business. However, with our forecasts now reliant on accelerated materialisation of cost savings/synergies, we expect investors to look for solid evidence of an improvement in execution before rewarding the shares with additional value. We remain skeptical the upcoming R&D day (Nov 3, 2015) will result in a material re-rating based on improved R&D productivity.

Risks & Valuation: HOLD, TP 1,540p (down from 1,600p)

GSK's shares offer potential for mid-to-high single digit future EPS growth (sector median c.5% CAGR) and a near-term above sector average dividend yield (6.5% in 2015 including special dividend and c.5% thereafter vs sector median 3.7%). However, this seems fairly reflected at the shares 17x 2016 PE rating. Our revised 1,540p TP is based on a blend of PE (sector target 17x 2016E) and DCF (WACC 7.9%; TGR 2.5%). Risks include potential for positive impact from strategic change, greater realization of cost savings, improved pipeline prospects and better/worse-than-expected performance in respiratory.

Forecasts And Ratios

Year End Dec 31	2014A	2015E	2016E	2017E
Revenue (GBPm)	23,006	24,402	25,313	26,105
DB EPS (GBP)	94.23	77.37	86.79	94.23
OLD DB EPS (GBP)	94.23	85.92	92.58	101.10
% Change	0.0%	-10.0%	-6.3%	-6.8%
DB EPS growth (%)	-11.5	-17.9	12.2	8.6
P/E (DB EPS) (x)	16.2	18.7	16.7	15.4

Source: Deutsche Bank estimates, company data

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