



GlaxoSmithKline ADR (GSK)

Updated August 17th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	12.3%	Market Cap:	\$70 B
Fair Value Price:	\$47	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/18/22
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.8%	Dividend Payment Date:	10/06/22
Dividend Yield:	4.5%	5 Year Price Target	\$54	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

GlaxoSmithKline develops, manufactures and markets healthcare products in the areas of pharmaceuticals, vaccines, and consumer products. GlaxoSmithKline's pharmaceutical offerings address the following disease categories: central nervous system, cardiovascular, respiratory and immune-inflammation. The company generates about \$35 billion in annual sales. GlaxoSmithKline is incorporated in the United Kingdom, but U.S. investors have access to the company through an American Depositary Receipt, or ADR. ADRs trade and pay dividends in U.S. dollars.

On July 18th, 2022, GlaxoSmithKline announced that the company had completed the spinoff of its consumer healthcare business into Haleon PLC (HLN). Haleon is expected to generate 4% to 6% organic growth annually.

On July 27th, 2022, GlaxoSmithKline reported second quarter results for the period ending June 30th, 2022. All figures are listed in U.S. dollars and in constant exchange rates. For the quarter, revenue grew 19% while adjusted earnings-per-share were up 23%.

Excluding Covid-19 related products, the Pharmaceutical division grew 10% for the quarter, led by strength in new and specialty products, which improved 35%. Respiratory grew 4% as strength in *Trelegy* was offset by weakness in *Advair/Seretide*. Revenue for HIV products was higher by 7% due to strong demand in *Dovato* and *Juluca*. Established Pharmaceuticals grew 2%. Vaccines were higher by 3% due to strength in *Shingrix* sales.

GlaxoSmithKline raised its outlook for 2022 as well, with the company now expecting sales growth of 6% to 8%, up from 5% to 7% previously. Earnings-per-share are now expected to be \$3.10 per ADR share this year, down from \$3.24 previously.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.91	\$3.52	\$1.88	\$5.27	\$0.51	\$1.76	\$1.95	\$3.17	\$2.99	\$3.12	\$3.10	\$3.59
DPS	\$2.27	\$2.37	\$2.66	\$2.48	\$2.18	\$2.02	\$2.17	\$2.04	\$2.05	\$2.20	\$1.56	\$1.81
Shares¹	2583.2	2427.4	2405.5	2420	2433.7	2445.6	2450	2473	2490	2490	2490	2473

While GlaxoSmithKline was able to maintain its earnings during the last recession, there have been years where performance was volatile. For example, 2015's earnings-per-share was high due in large part to a \$13.7 billion pretax gain related to an asset swap with Novartis. We forecast 3% earnings growth through 2027 due to expected increases in the company's new and specialty products, as well as a return to growth in vaccines. The company's dividend has varied from year to year, so predictable growth is unlikely in the future. The company did increase its dividend 20%+ in local currency for the third consecutive year for the April 6th, 2022 payment. The first dividend payment of the year is traditionally the largest for the company.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.5	14.2	26.9	8.2	81.1	35.0	20.5	18.1	14.5	14.1	11.3	15.0
Avg. Yld.	5.0%	4.8%	5.3%	5.7%	5.3%	5.0%	5.5%	5.4%	5.0%	5.0%	4.5%	3.4%

Shares of GlaxoSmithKline have decreased \$10, or 22.2%, since our May 1st, 2022 update. Based off of estimates for 2022, the stock trades with a P/E of 11.3, which is below our 2027 P/E target of 15. If shares were to reach at our target P/E by 2027, then valuation be a 5.8% tailwind to results over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

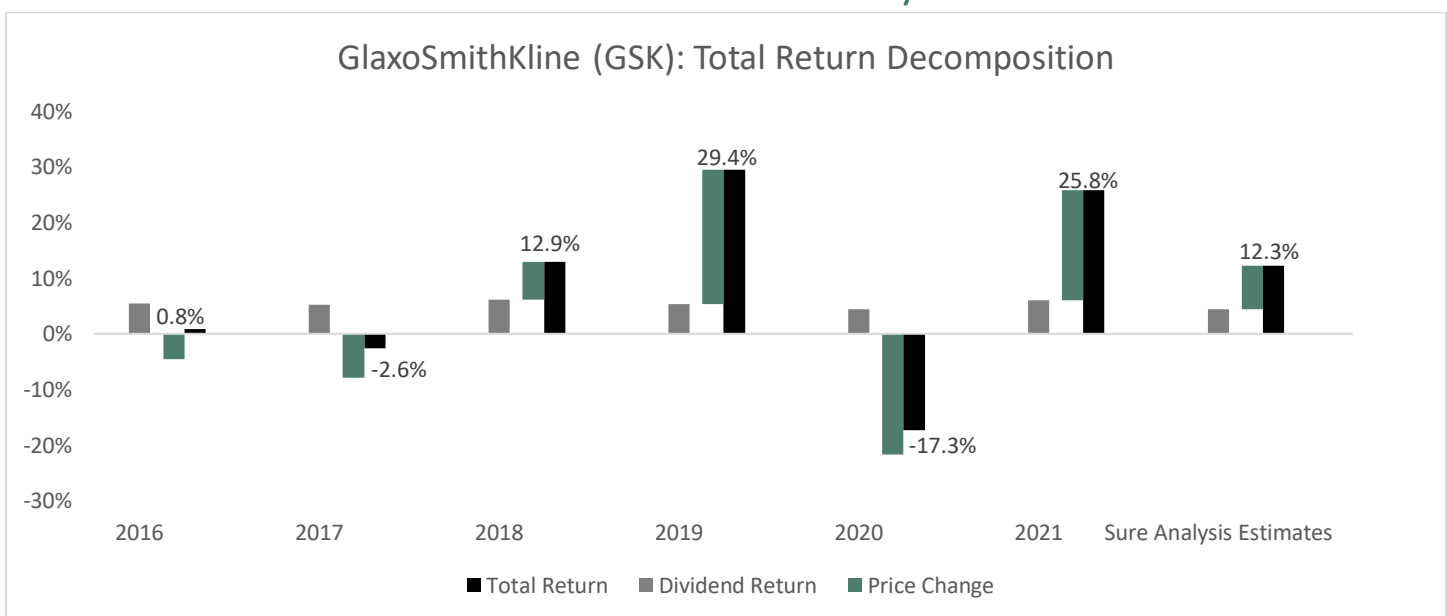
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	78%	67%	142%	47%	428%	115%	111%	64%	69%	71%	50%	50%

GlaxoSmithKline has an uneven dividend payout ratio, but this is due to fluctuations in currency exchange rates. The company has several key competitive advantages. First, GlaxoSmithKline spends heavily on research and development; nearly 13% of sales were used for R&D purposes last year. Second, while *Advair* has been a drag on recent results, the market is well aware of this and it is likely why the stock's current valuation is fairly low. Over time, however, the importance of *Advair* will lessen. At the same time, GlaxoSmithKline's other respiratory products are showing strong growth rates. The company also has several vaccines demonstrating strong growth rates, outside of Q4 2021. These factors should allow for future growth in the coming years.

Final Thoughts & Recommendation

Following second quarter results, GlaxoSmithKline is now expected to offer a total annual return of 12.3% through 2027, up from our prior estimate of 8.7%. Our projected return stems from a 3% earnings growth rate, a starting yield of 4.5%, and a mid-single-digit contribution from multiple expansion. The company posted another quarter of growth in most areas. We have lowered our five-year target price \$4 to \$54 to reflect earnings estimates for the year, but now view shares of GlaxoSmithKline as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	41883	41469	37923	36560	37787	38975	41123	43099	43765	46932
Gross Profit	29325	28037	25851	23030	25200	25622	27459	27952	28743	30969
Gross Margin	70.0%	67.6%	68.2%	63.0%	66.7%	65.7%	66.8%	64.9%	65.7%	66.0%
SG&A Exp.	13927	13268	13593	14109	12690	12488	13229	14559	14703	15099
D&A Exp.	2290	2212	2446	2491	2404	2482	2476	2980	3017	3472
Operating Profit	9625	9209	7098	4016	8165	7826	9420	8034	7988	8531
Op. Margin	23.0%	22.2%	18.7%	11.0%	21.6%	20.1%	22.9%	18.6%	18.3%	18.2%
Net Profit	7129	8505	4543	12871	1236	1978	4834	5931	7379	6033
Net Margin	17.0%	20.5%	12.0%	35.2%	3.3%	5.1%	11.8%	13.8%	16.9%	12.9%
Free Cash Flow	4524	8638	5646	1021	5616	6089	8839	7479	7960	6908
Income Tax	3046	1594	226	3292	1188	1751	1006	1217	744	476

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	67033	69400	63272	79180	72582	76193	73680	104490	109614	106761
Cash & Equivalents	6761	9126	6752	8637	6016	5180	4916	5909	8302	5768
Acc. Receivable	6650	6540	5535	5665	5670	6299	6568	7194	7562	10608
Inventories	6414	6431	6585	6987	6268	7510	6948	7798	8172	7805
Goodwill & Int.	23464	22242	18746	32347	30395	31482	29173	54436	55087	54837
Total Liabilities	56146	56518	55589	66027	66485	71478	69021	80421	81256	77957
Accounts Payable	4308	4517	4343	4622	4418	4768	4625	5433	5938	23692
Long-Term Debt	29453	29954	29104	24537	23005	23005	32986	38362	35479	32625
Total Equity	9373	11538	6635	7576	1381	(92)	4798	14954	19880	20319
LTD/E Ratio	3.14	2.60	4.39	3.24	16.66	(250.3)	6.88	2.57	1.78	1.61

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.9%	12.5%	6.8%	18.1%	1.6%	2.7%	6.5%	6.7%	6.9%	5.6%
Return on Equity	65.6%	81.3%	50.0%	181.1%	27.6%	306.9%	205.4%	60.1%	42.4%	30.0%
ROIC	18.6%	20.5%	11.4%	34.6%	3.7%	7.0%	14.8%	11.9%	11.7%	9.6%
Shares Out.	2583.2	2427.4	2405.5	2420	2433.7	2445.6	2450	2473	2490	2490
Revenue/Share	16.79	16.86	15.59	14.96	15.39	15.78	16.55	17.18	17.37	18.53
FCF/Share	1.81	3.51	2.32	0.42	2.29	2.46	3.56	2.98	3.16	2.73

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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