



GSK plc (GSK)

Updated November 14th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	16.6%	Market Cap:	\$69 B
Fair Value Price:	\$59	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/16/23
% Fair Value:	60%	5 Year Valuation Multiple Estimate:	10.8%	Dividend Payment Date:	01/11/24
Dividend Yield:	4.0%	5 Year Price Target	\$68	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

GSK develops, manufactures and markets healthcare products in the areas of pharmaceuticals, vaccines, and consumer products. GSK's pharmaceutical offerings address the following disease categories: central nervous system, cardiovascular, respiratory and immune-inflammation. The company generates about \$36 billion in annual sales. GSK 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 November 1st, 2023, reported third quarter results for the period ending September 30th, 2023. All figures are listed in U.S. dollars and at constant exchange rates. For the quarter, revenue grew 10.9% to \$9.9 billion while adjusted earnings-per-share of \$1.22 compared to \$1.07 in the prior year.

Excluding Covid-19 sales, revenue grew 16%. Specialty medicines fell 1% for the quarter, but this was a much lower decline than the preceding quarters. As with the first and second quarters, this was mostly due to a tough comparison due to Covid-19 related sales in the prior year. Excluding Covid-19, Specialty sales were up 17%. Respiratory grew 18% due to demand both in the U.S. and worldwide. *Benlysta* and *Nucala* both continue to perform well. Revenue for HIV products grew 15% due to higher market share. General Medicines declined 2%. Vaccines grew 33% due to ongoing strength in *Shingrix* and *Meningitis* sales.

GSK updated its prior outlook for 2023 as well, with the company now expecting adjusted earnings-per-share growth of 17% to 20%, up from 14% to 17% and 12% to 15% previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.52	\$1.88	\$5.27	\$0.51	\$1.76	\$1.95	\$3.17	\$2.99	\$3.12	\$3.81	\$4.50	\$5.22
DPS	\$2.37	\$2.66	\$2.48	\$2.18	\$2.02	\$2.17	\$2.04	\$2.05	\$2.20	\$1.83	\$1.40	\$1.62
Shares¹	2427.4	2405.5	2420	2433.7	2445.6	2450	2473	2490	2490	2490	2490	2473

While GSK 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 2028 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 dividend is much lower for 2023, however.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	26.9	8.2	81.1	35.0	20.5	18.1	14.5	14.1	9.2	7.8	13.0
Avg. Yld.	4.8%	5.3%	5.7%	5.3%	5.0%	5.5%	5.4%	5.0%	5.0%	5.2%	4.0%	2.4%

Shares of GSK have declined \$1, or 2.8%, since our July 30th, 2023 update. Based off estimates for 2023, the stock trades with a P/E of 7.8, which is below our 2028 P/E target of 13. If shares were to reach our target P/E by 2028, then valuation be a 10.8% tailwind to results over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

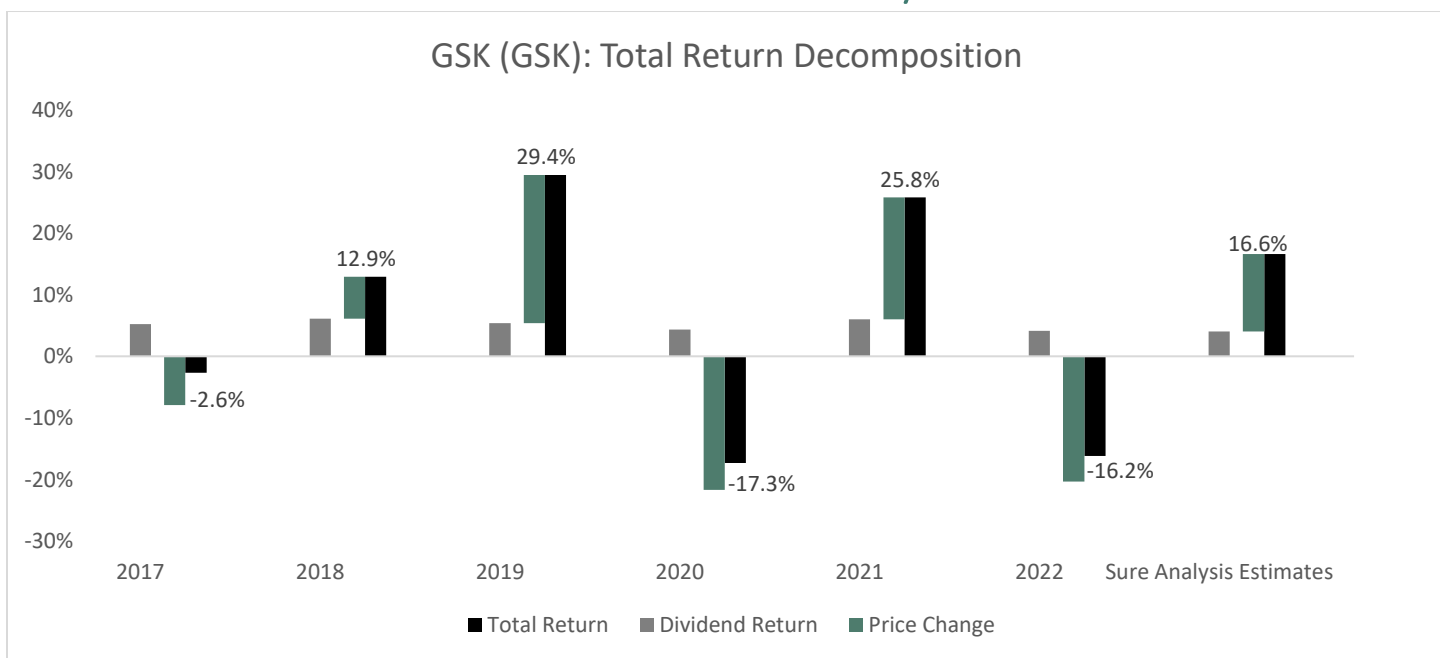
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	67%	142%	47%	428%	115%	111%	64%	69%	71%	48%	31%	31%

GSK has an uneven dividend payout ratio, but this is due to fluctuations in currency exchange rates. The company has several key competitive advantages. GSK spends heavily on research and development; nearly 13% of sales were used for R&D purposes last year. The company is also seeing very high growth rates in a number of categories, including specialty medicines, HIV, and respiratory. The company also has several vaccines demonstrating strong growth rates. These factors should allow for future growth in the coming years.

Final Thoughts & Recommendation

Following third quarter results, GSK is expected to offer a total annual return of 16.6% through 2028, up slightly from our prior estimate of 15.5%. Our projected return stems from a 3% earnings growth rate, a starting yield of 4.0%, and a low double-digit contribution from multiple expansion. Lower Covid-19-related sales impacted results, but the impact was less than prior quarters. Results were strong excluding this business. We have raised our five-year price target \$2 to \$68 to reflect updated earnings estimates for 2023 and continue to rate shares of GSK as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	41469	37923	36560	37787	38975	41123	43099	43765	46932	36313
Gross Profit	28037	25851	23030	25200	25622	27459	27952	28743	30969	24482
Gross Margin	67.6%	68.2%	63.0%	66.7%	65.7%	66.8%	64.9%	65.7%	66.0%	67.4%
SG&A Exp.	13268	13593	14109	12690	12488	13229	14559	14703	15099	10367
D&A Exp.	2212	2446	2491	2404	2482	2476	2980	3017	3472	2846
Operating Profit	9209	7098	4016	8165	7826	9420	8034	7988	8531	7966
Op. Margin	22.2%	18.7%	11.0%	21.6%	20.1%	22.9%	18.6%	18.3%	18.2%	21.9%
Net Profit	8505	4543	12871	1236	1978	4834	5931	7379	6033	18521
Net Margin	20.5%	12.0%	35.2%	3.3%	5.1%	11.8%	13.8%	16.9%	12.9%	51.0%
Free Cash Flow	8638	5646	1021	5616	6089	8839	7479	7960	6908	6371
Income Tax	1594	226	3292	1188	1751	1006	1217	744	476	876

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	69400	63272	79180	72582	76193	73680	104490	109614	106761	72789
Cash & Equivalents	9126	6752	8637	6016	5180	4916	5909	8302	5768	4506
Acc. Receivable	6540	5535	5665	5670	6299	6568	7194	7562	10608	8536
Inventories	6431	6585	6987	6268	7510	6948	7798	8172	7805	6228
Goodwill & Int.	22242	18746	32347	30395	31482	29173	54436	55087	54837	25855
Total Liabilities	56518	55589	66027	66485	71478	69021	80421	81256	77957	60571
Accounts Payable	4517	4343	4622	4418	4768	4625	5433	5938	23692	19681
Long-Term Debt	29954	29104	24537	23005	23005	32986	38362	35479	32625	25398
Total Equity	11538	6635	7576	1381	(92)	4798	14954	19880	20319	12826
LTD/E Ratio	2.60	4.39	3.24	16.66	(250.3)	6.88	2.57	1.78	1.61	1.98

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.5%	6.8%	18.1%	1.6%	2.7%	6.5%	6.7%	6.9%	5.6%	20.6%
Return on Equity	81.3%	50.0%	181.1%	27.6%	306.9%	205.4%	60.1%	42.4%	30.0%	111.8%
ROIC	20.5%	11.4%	34.6%	3.7%	7.0%	14.8%	11.9%	11.7%	9.6%	37.9%
Shares Out.	2427.4	2405.5	2420	2433.7	2445.6	2450	2473	2490	2490	2490
Revenue/Share	16.86	15.59	14.96	15.39	15.78	16.55	17.18	17.37	18.53	17.78
FCF/Share	3.51	2.32	0.42	2.29	2.46	3.56	2.98	3.16	2.73	3.12

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

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