



Thursday 24th July 2008

**DAILY COMPANY NOTE — GlaxoSmithKline** See page 2 for full details

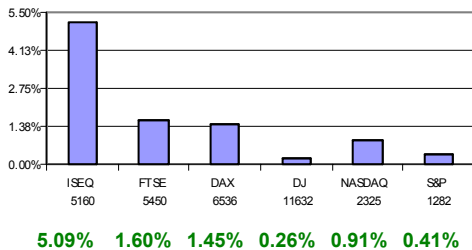
**Daily Market Comment**

**Yesterday's Summary :** With oil trading down to below the \$126 a barrel mark and a decent day of earnings results, the ISEQ, recovering the previous day's losses, finished 5.08% higher at 5,159.73. With the US financials posting significant gains the night before, Irish banks had a strong performance. Anglo Irish Bank was among the best performers, gaining almost 15% to €6.73. Bank of Ireland climbed 8.6% to €6.16, while AIB jumped 8% to €8.66. With fuel costs continuing to fall, Ryanair and Aer Lingus maintained their positive momentum, ending the session 7.62% and 4.7% higher, at €3.39 and €1.57 respectively.

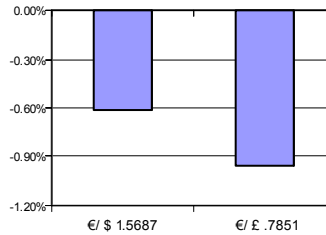
**Overnight News:** Japan's Nikkei 225 Stock Average finished up 2.2% at the day's high of 13,603.31, with exporters leading the way on a weaker yen. China's benchmark Shanghai Composite Index closed up 2.55% at 2,910.29 as lower oil prices dampened inflation fears. The Australian S&P/ASX 200 index closed 38.8 points up at 5,144.1.

**Breaking News :** EasyJet has reported a 32% increase in total revenue, driven by strong ancillary growth and the strengthening Euro. It did warn however that higher oil prices would drive down full year margins and that it would follow other airlines and cut back on capacity expansion this winter. Elan has posted a basic loss per share of 15 cents in the three months to the end of June, which is down from a loss 30 cents in the same period of 2007. Second quarter revenue rose 30% to \$245.6m, driven by strong Tysabri sales and management reiterated its confidence that full year revenues would approach \$1bn. Credit Suisse have reported that net profit for the three months ended June 30 fell to 1.22bn Swiss francs, from 3.19bn Swiss francs a year earlier. The bank said the market would remain difficult, but that it feels well positioned, and it will manage business conservatively.

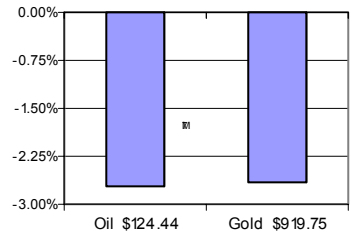
**Equity Indices change on day**



**Currency daily % change**



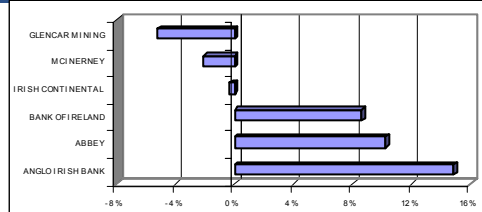
**Oil/Gold daily % change**



**News**

- "Vodafone set to buy back £1bn of its own shares"-(The Irish Times)
- "Oil prices in decline as demand weakens"-(The Irish Times)
- "Mcdonalds supersedes its profit to a nasty \$1.19bn"(Irish independent)
- "Pfizer profits double but second quarter is bitter pill for rivals"-(Irish Independent)
- "Shares in Fannie and Freddie rise on Treasury bailout deal"-(Irish Independent)

**ISEQ Performers/Losers 23/07/08**



**Market Themes and Movers**

**UK retail sales slide :** UK retail sales dropped in June by the most since 1986 as rising inflation and the slowdown in economic growth prompted consumers to cut spending. Sales dropped by 3.9% after rising 3.6% in May. Falling housing prices and a jump in credit costs have squeezed consumers, while increasing inflation prevents the Bank of England from lowering interest rates. Recall that the UK's largest retailer, Marks & Spencer said on July 2<sup>nd</sup> that sales fell the most since 2005 as the UK consumer continues to remain under pressure. The Bank of England predicted in May that economic growth will slow to a 1% annual pace in the first quarter of 2009, the weakest since 1992.

**German business confidence declines :** German business confidence fell to its lowest level in three years during July as record oil prices and higher interest rates puts question marks over the outlook for growth in Europe's largest economy. The Munich based Ifo institute said its business climate index, based on a survey of 7,000 executives, declined to 97.5 from 101.2 in June. Economists had expected a drop to 100.1. There are increased expectations now that German economic growth will slow further over the coming months resulting in a continuing decline in the Ifo reading.



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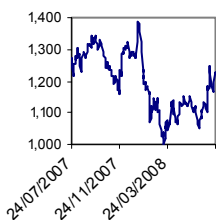
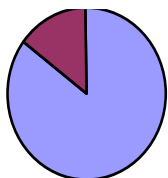
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# GlaxoSmithKline

**FTSE**
**Pharmaceuticals**
**Company Profile**

GlaxoSmithKline is a global healthcare group, which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products. The Company operates in two segments: Pharmaceutical (prescription pharmaceuticals and vaccines), and consumer Healthcare (over-the-counter medicines, oral care and nutritional healthcare).

**Statistics**
**Price Performance**

**Revenue by Division**


■ 85% Pharmaceuticals  
■ 15% Consumer Healthcare

**Fundamental view**

GlaxoSmithKline (GSK) announced its results for the 3 months ended 30/06/08 yesterday. EPS of 27.2p and sales of £5,874 were ahead of consensus forecasts of 25p and £5,703 respectively. Revenue was boosted by better than expected Vaccines sales as well as a greater than forecasted positive currency impact. Performance in the consumer healthcare business was weaker than expected, due to a weakness in sales for weight loss and smoking cessation products.

In a separate release, new CEO Andrew Witty outlined his strategic priorities for the company going forward. Firstly the company intends to increase diversity across product ranges and geographies. The company intends to invest in fast growing areas such as vaccines and consumer healthcare, as well as increasing exposure to emerging markets. In-line with this initiative, is the announcement of a new collaboration deal with Aspen. This deal will enable GSK to supply generic versions of its non-patented drugs into emerging markets.

Secondly GSK will also reorganize its approach to R&D investment. A new Global Drug Discovery Investment Board will be tasked with allocating investment capital to competing teams of researchers. GSK will also setup a Corporate Venture Fund which will invest in healthcare related start-up companies. GSK's current drug pipeline lacks depth, and while the new organisation may tackle this issue, results may be some years away. Finally GSK will seek to simplify its operating model through efficiency improvements and cost cutting operations.

GSK will pay a 13p dividend for this quarter which is an 8% increase over the same quarter last year. Mr Witty noted that GSK was committed to its progressive dividend policy. The company is extending the horizon for the remaining £6.5bn of its buyback programme past the original July 2009 end date. GSK will buyback £1 billion of its shares for the last 5 months of the year. This is disappointing as the buyback programme has provided a solid base of support for the share price in recent times.

**Next catalyst**

Peer AstraZeneca will release its quarterly results on the 31st of July. The next company specific catalysts for GSK will be informational updates on its pipeline drugs as well as progress on its new strategic initiatives. GSK has limited near term earnings growth and weakness in its developmental drug pipeline. Also, it will be sometime before the benefits of the new strategic initiatives are visible. Our revised price target of £13 is based on approximately 13x 2008 earnings. We are also downgrading our rating on GSK to Neutral as there is insufficient upside to maintain a buy rating.

**Chart view: GlaxoSmithKline**

Primary Support: 11.57  
Secondary Support: 10.85  
Primary Resistance: 12.56  
Secondary Resistance: 14.03

The recent bearish engulfing daily candlestick suggests further losses. This is confirmed by the presence of very high volume, indicating a sell off in the stock. Should the stock hold key support at 10.58, this may be an opportunity to buy on weakness.

Major Shareholders	%	Peer Group Multiples			
Legal & General	5.5	Company name	P/E 07	P/E 08	EPS Growth 07-08
Barclays	3.8	GlaxoSmithKline	12.8	12.4	3.36%
M&G Investment	2.9	Astrazeneca	12.3	10.3	16.08%
Smith Barney	2.1	Shire		16.4	N/a
Shares Outstanding	5.2bn				

Share Data	Financial Data	2006	2007	2008e
Current Price (£)	Revenue (£m)	23,225	22,716	23,098
Mkt Cap (£m)	PBT (£m)	7,799	7,452	7,151
Reuters	EPS (£)	0.96	0.95	0.98
Bloomberg	P/E(x)	12.7	12.8	12.4
Sector	DPS (£)	0.48	0.53	0.55
CEO	Yield	3.9%	4.3%	4.5%
CFO				
Website				





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