Glaxo vs. Astrazeneca

Both pharmaceutical stocks are at 2017 lows. Which is the better buy?

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This report refers to CFDs.

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AstraZeneca & GSK at 2017 lows

2017 has been challenging for many UK pharmaceutical companies; with competition to pump out the most effective, cheapest and easiest to produce drugs at an all-time high, some UK Pharmas are feeling the pressure.

However, after tough times often comes great opportunity. This report covers the two largest UK pharmaceutical companies, AstraZeneca and GlaxoSmithKline, analysing why two of the top 10 largest global drugmakers are trading at 2017 lows, and whether there is further to fall or if now the best time to buy both stocks?

A tough pill to swallow

Over the past two months, global pharmaceutical companies have had to face the music. Donald Trump's failure to remove Obamacare from the US healthcare system has limited their potential profits. The programme limits the companies' ability to charge higher prices for their products as they battle to aggressively price drugs for national use. However, with the President seemingly fixated on repealing Obamacare, can Congress deliver?

In a highly globalised and competitive world, smaller pharmaceutical players from across the world have eaten into the share of their larger counterparts. The expiry of critical drug patents and drug trial failures of products that are pivotal to future pipelines have hurt both Astra and GSK. But can both turn setbacks to future success?

Highs on the horizon?

There are some convincing arguments to make against the ditching of Astra and Glaxo shares. Pharmaceutical companies have historically fared well in falling markets, benefitting from "defensive" demand. Thanks to the consistent demand from those needing medical care for the companies' products, removing the risk of cyclical or seasonal demand patterns. But another, potentially more profitable reason to hold the shares may soon arise.

As the UK Pharmaceutical sector falls to its lowest level of 2017, talks of foreign takeover bids are rife. AstraZeneca is no stranger to fending off takeovers, most notably in its 2014 defence from US colossus Pfizer. Labelled ‘the Great Escape’, Astra defended itself from a £69.4bn offer from the States that would have created the world’s largest drugmaker. Now, however, with the share price below its 2-year average and 20% below its 2017 highs, following some major pipeline setbacks and reports that he may be taking another top job elsewhere, will CEO Pascal Soriot succumb to the allure of money from a global pharmaceutical company?

With AZN and GSK shares within 10% of their 2017 lows, do you see the sector weakness continuing into the final third of 2017? Or perhaps you think that this as the perfect opportunity to buy both stocks?

Turn the page for further analysis of each of the UK pharmaceutical giants, including which stock may be preferable for you and how to optimise your potential returns on either stock. Are you a buyer or a seller?
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Whether you are a buyer or a seller, with Contracts for Difference – or CFDs – you can optimise returns from major share price moves by trading using leverage, requiring you to only pay a fraction of the cost to open a position than traditional shares. FTSE 100 positions can be opened for as little as 5% of the position’s full value.

For example, if you had £10,000 to invest and you believe that AZN shares were to rally 10% from 4400p to 4840p, you could open a long position. Using traditional shares, that 10% rally would warrant £1000 of profit but would require the full £10,000 to be invested. What if you wanted to use some of that money for other purposes?

Using a CFD, to gain the same exposure to the stock you would have to pay just £500. If indeed the shares were to rally 10%, you would still receive £1000. Note, however, that you would also be exposed to losses of the same degree should the share price fall by the same amount.

But it’s not just the buyers that can benefit from using CFDs. Using Accendo Markets’ platform, you can also open short positions on a company. For example, again if you had £10,000 to invest but this time you believed that GSK shares were to fall 10% from 1500p to 1350p, you could open a short position.

Traditional shorting would require the full £10,000 to be invested. Using a CFD platform, that would cost you £500, however you would still receive the £1000 as if you had invested the full amount if the share price fell by 10%. Be aware that you would be subject to losses of the same size should the share price increase by 10%.

A comparison: Which stock is right for you?

While both AstraZeneca and GlaxoSmithKline are giants of the UK Pharmaceutical sector, both companies have individual nuances that may make them more attractive to some investors than others. Some of the factors may be technical, some may be fundamental; some traders may look to invest over the short-term whilst others will look to hold on to the shares over a much longer time frame. Below, we break down both companies in order to help you to decide which stock may be best for you.

AstraZeneca was on the receiving end of some torrid news, seeing its pivotal lung cancer trial ‘Mystic’ failed at its test phase. Furthermore, having gone ex-dividend during a negative European trading session, its short-term prospects have not looked particularly attractive. With that said, however, with shares having traded as much as 7.5% off their lows after a string of other US drug approvals.

GlaxoSmithKline has also seen its drugs business come under pressure. Advair, the company’s primary generic inhaled lung drug, has so far fended off challenges from the US. However, that looks set to end by the middle of 2018 as US pharmaceutical companies race to receive approval for copies that would eat into market share.

Yet GSK’s new Chief Executive Emma Walmsley has endeavoured to begin a significant turnaround programme, endeavouring to bring about £1bn of savings by 2020 through a significant cost-cutting programme.

When looking at investing in either of the companies over a longer time frame, you could analyse the total dividend. GlaxoSmithKline has a projected dividend yield of 5.3%, slightly higher than AstraZeneca’s 4.8%.

On the following two pages, we look at what city analysts say about both AstraZeneca and GlaxoSmithKline, including 12-month target prices, whilst also providing Accendo Markets’ own technical analysis on each stock.
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Will shares rally to pre-Mystic highs of 5000p (+13%) or fall to December lows of 4400p (-10%)?

- After shares fell 15% on a single day following the Mystic setback, can the shares rally back to pre-trial highs?
- Relative Strength Index indicator remains stubbornly stuck below 50, regularly seen as a bearish sign
- Directional indicators diverging bearishly
- The majority of brokers are positive-leaning, while over 80% expect the price to rise from current level

Broker Consensus: 51% Buy, 44% Hold, 5% Sell

Bullish: Societe Generale, Buy, Target 7600p, +71% (1 Aug)
Average Target: 5125p, +16% (18 Aug)
Bearish: HSBC, Reduce, Target 4100p, -7.3% (8 Aug)

Pricing and consensus data sourced from Bloomberg on 18 Aug. Please contact us for a full, up to date rundown.
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Will shares return to 2017 highs above 1700p (+14%) or fall to 2-year lows of 1230p (-17%)?

- Having failed to overcome 4-year resistance in June, shares have fallen to key support at 1475p?
- Stochastics have recovered from oversold; while RSI continues to hover around the same level
- Momentum remains negative; Directional Indicators are diverging bearishly
- Most brokers suggest holding or buying GSK, with an astonishing 92% seeing upside from the current price

Broker Consensus: 38% Buy, 56% Hold, 6% Sell

Bullish: Oddo BHF, Buy, Target 2100p, +41% (27 July)
Average Target: 1727.62p, +16% (18 Aug)
Bearish: Societe Generale, Sell, Target 1300p, -13% (26 Jun)

Pricing and consensus data sourced from Bloomberg on 18 Aug. Please contact us for a full, up to date rundown.
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Want to take advantage of the above opportunities right now?

Whether you see UK stocks going up or down for the remainder of the year, tradable opportunities will present themselves regularly. We’re here to help you weed them out and capitalise on them. Accendo Markets can help you increase your profit potential with the use of leveraged instruments such as CFDs, a flexible alternative to traditional shares that is currently exempt from UK stamp duty.

CFDs: Like shares, but more flexible

The example above shows how buying 1,450 shares in British Land @ £6.90 requires an outlay of around £10,000 plus commission (see left-hand box), while the same exposure via a CFD requires about £500 plus commission (see right-hand box). If a trader invests in British Land, one would assume they believe the share price is likely to move in their favour. After considering the ‘worst case scenario’ and assigning funds to cover it, the trader may conclude there’s little point in exposing the full £10,000 to the BLND shares - some of that capital could be put to good use elsewhere in the markets. (Source: IG, Prices indicative)

CFDs are leveraged instruments, but you don’t have to use the leverage

If you had, say, £10,000 to invest in the stock market, you could deposit that amount into a share dealing account and purchase shares in a company. You would pay commission to open the position, 0.5% in stamp duty and the full £10,000 will be tied up in your chosen shares with any profit or loss based on that exposure. The same £10,000 worth of exposure can be secured with a CFD for a fraction of the initial outlay thanks to leverage, with the risk and reward the same as if £10,000 worth of traditional shares were held. But should you not be interested in leverage, you can always treat CFDs like shares. Simply deposit £10,000 into a CFD trading account and take the equivalent CFD position which will tie up just £500 (note that overnight financing costs will still apply). The remaining £9,500 is not tied up, so you can use some of that to take advantage of another short-term opportunity elsewhere, or simply leave it on the account to support any losses. Best of all, using a CFD means you pay no stamp duty!

What’s your view?

Think shares will rise? Take a long position by buying CFDs (buy low, aiming to sell high). Think they’ll fall? Take a short position by selling CFDs (sell high, aiming to buy low). For a more detailed rundown of CFDs, their mechanics, associated costs and some trading scenarios download our ‘Comprehensive Guide to CFDs’ here.
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Does your current broker’s morning report tell you all you need to know about yesterday’s news? If so, how is it offering you anything more than the plethora of information already available on the internet?

We’re proud that our morning editorial has become a hot commodity in the City, its content quoted daily by the journalists that are writing the news everyone else will be reading later in the day, if not the next. Our morning report tells you what’s driving the market at that moment and what to look out for in the day ahead.

If a company has reported earnings before the market opens, we’ll tell you why the shares are called to open up or down in relation to that announcement.

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- **Macro Calendar**: Live market-moving data, breaking news as it happens
- **Week in Advance**: A summary of next week’s key events. Is there a trading opportunity there for you?

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Our aim is to provide you with the manpower and expertise you need to help you clarify, interpret and capitalise on the ever-growing volume of market information.

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