

# AbbVie Inc. (ABBV)

## Overview & Current Events

AbbVie is a pharmaceutical company. It focuses on three core therapeutic areas: Immunology, Oncology, and Virology. AbbVie was spun off by Abbott Laboratories in 2013. In that time, the company has generated strong growth. It generates annual sales in excess of \$30 billion each year. AbbVie trades with a current market capitalization of approximately \$136 billion.

AbbVie is a repeat recommendation because of its attractive dividend, combined with its strong growth. AbbVie generated revenue of \$8.2 billion in the third-quarter, up 18% year-over-year. Since AbbVie was spun off from former parent company Abbott Laboratories, it has generated excellent growth from its flagship product Humira, the world's best-selling drug. Humira revenue increased by 9% in the third-quarter. Other products exhibited strong growth as well, such as Imbruvica, which grew sales by 41%. AbbVie's adjusted earnings-per-share of \$2.14 increased 52% from the same quarter a year ago. AbbVie also lifted its guidance for 2018. The company expects 41% earnings growth for the full-year.

## Growth Prospects & Safety

The major risk to AbbVie's growth is patent loss for its major product Humira, which is facing competition in a number of countries. AbbVie has resorted to steep price cuts in Europe to fend off the competition. This poses a risk to AbbVie's future growth, similar to what Pfizer experienced after it lost patent protection on Lipitor. In response, AbbVie has invested heavily in its product pipeline to continue generating growth. To that end, AbbVie's R&D expenses increased 16% in 2017, to \$4.8 billion. These investments should pay off, as AbbVie expects non-Humira sales to grow from approximately \$9.6 billion in 2017, to more than \$16 billion in 2020, and over \$35 billion in 2025.

AbbVie has strong safety metrics. It has a manageable level of debt, with an interest coverage ratio above 9.0x expected for 2018. The company also has a dividend payout ratio below 50%, which indicates a safe dividend with room for continued increases even if earnings growth stalls temporarily.

## Valuation

We expect AbbVie to generate earnings-per-share of \$7.91 in 2018, which is equal to the midpoint of management guidance. Based on this forecast, the stock currently trades for a P/E ratio of 11.5. This is below our fair value estimate of 13.0, for a fair value share price of \$103. As a result, we view AbbVie stock as undervalued. An expanding valuation multiple could boost shareholder returns by about 2.5% per year if the company's valuation reverts to 13 times earnings in the next 5 years. We also expect annual earnings growth of 9.5%. The dividend yield of 4.7% will further add to shareholder returns.

Overall, we expect total returns of 16.2% per year, over the next five years. With strong growth potential, a high dividend yield, and a low stock valuation, AbbVie stock is highly attractive for value and income investors looking for high total returns.

## Key Statistics, Ratios & Metrics

**Dividend Yield:** 4.7%

**Most Recent Annual Dividend Increase:** 50.7%

**Dividend History:** Increasing since 2013

**Ex-Dividend Date:** 1/14/19 (est.)

**Fair Value:** \$103

**10-Year Dividend Growth Rate:** 17.8%<sup>6</sup>

**Sector:** Health Care

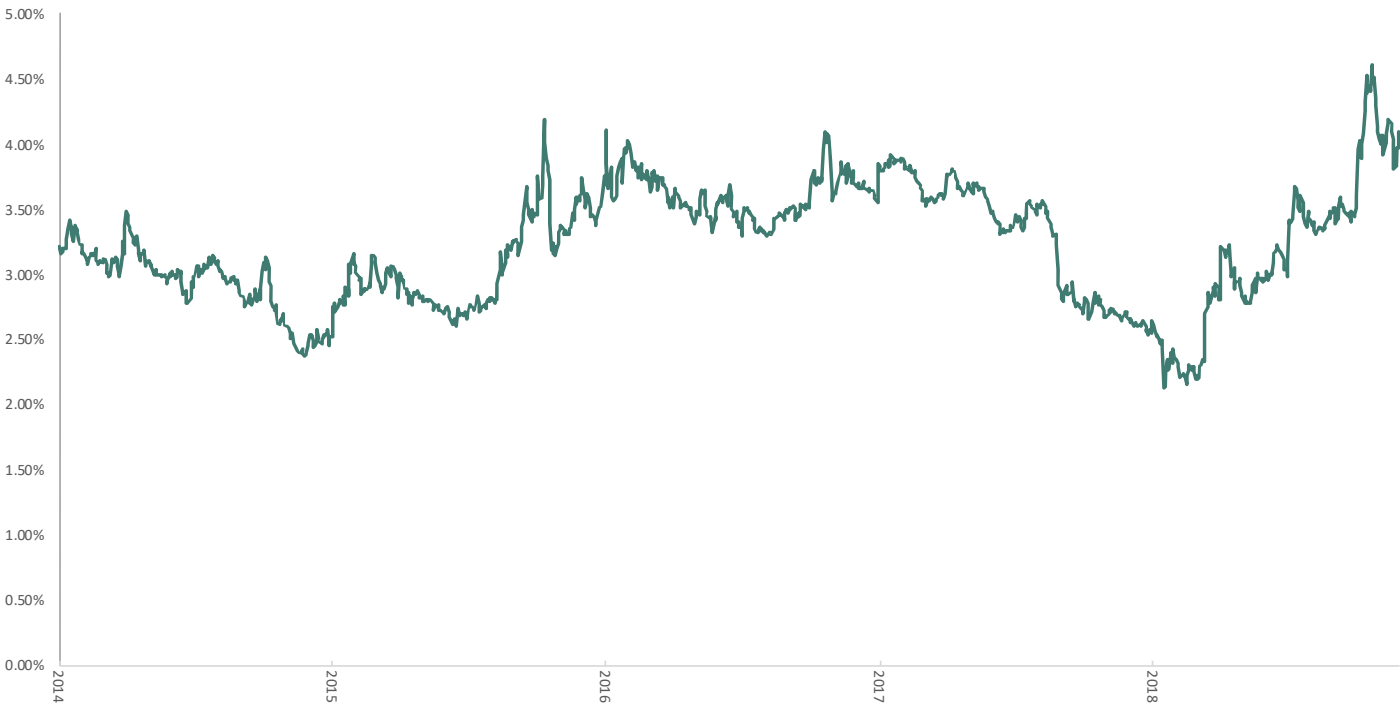
**Business Type:** Corporation

**Payment Date:** 2/15/19 (est.)

**Payout Ratio:** 45.5%

<sup>6</sup> Since 2013 spin-off from Abbott Laboratories.

**AbbVie Inc. (ABBV) Dividend Yield History**



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