Abbott Laboratories (ABT)

Updated July 9th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	5.6%	**Volatility Percentile:**	57.6%
Fair Value Price:	$54	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	77.8%
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Valuation Percentile:**	37.8%
Dividend Yield:	1.8%	**5 Year Price Target**	$74	**Total Return Percentile:**	31.3%

Overview & Current Events

Abbott Laboratories is one of the largest medical appliances & equipment manufacturers in the world. Only Medtronic and Johnson & Johnson (which also has other businesses such as pharmaceuticals) have higher market capitalizations. Abbott Laboratories was founded in 1888 and has grown into a company valued at $109 billion.

Abbott Laboratories' most recent earnings announcement was on April 18th. The company reported earnings-per-share of $0.59, a 23% increase versus the prior year's quarter. The St. Jude Medical acquisition had a major impact, but Abbott Laboratories' organic revenue growth rate of 6.9% was solid as well. The organic sales increase and the takeover lead to a combined revenue increase of 17% during the most recent quarter.

Abbott Laboratories' guidance for 2018 sees earnings per share coming in around $2.85, which would be another attractive increase from $2.50 in 2017. There was no change to the forecast during the Q1 earnings release.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.03	$3.72	$4.17	$4.66	$4.99	$2.01	$2.28	$2.15	$2.20	$2.50	***$2.85***	***$3.90***
DPS	$1.44	$1.60	$1.76	$1.88	$2.01	$0.56	$0.88	$0.96	$1.04	$1.06	***$1.12***	***$1.48***

In the above table we see a significant gap in the 2012-2013 numbers, both for EPS as well as for dividends per share. Before and after that jump, both EPS and dividends have been growing relatively consistently. This gap can be explained by the fact that Abbott Laboratories had spun off its biotech business (which is now AbbVie) during 2013.

AbbVie has been a very successful standalone company, and whilst it was still owned by Abbott Laboratories it was a major growth driver. Since the spin-off Abbott Laboratories' EPS growth rate has slowed down somewhat (to 7.2% on average), but during 2017 EPS growth was in the double digit area again (and will remain there during 2018).

The integration of St. Jude Medical and cost synergies will be a major earnings driver in the coming years. With its strong position in growth markets such as diagnostics (Abbott is the market leader in point-of-care diagnostics) and cardiovascular medical devices Abbott Laboratories should be able to generate attractive long term growth rates for both earnings and dividends.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.3	13.0	12.2	11.0	12.6	17.8	18.0	21.5	18.4	19.4	***21.8***	***19.0***
Avg. Yld.	2.6%	3.3%	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	***1.8%***	***2.1%***

In the above table we also see the impact of the spin-off of AbbVie: Biotech companies are riskier than diversified health care corporations. After the spin-off of AbbVie, the valuations for both companies changed rapidly. AbbVie is now trading at a lower valuation than Abbott, which, in turn, has seen its valuation rise. Since Abbott Laboratories don't have to deal with the negative impact of losses of exclusivity for its drugs, the higher valuation makes sense. It is likely that Abbott Laboratories will trade at a high teens PE ratio going forward.

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.9%	33.6%	33.8%	18.9%	15.2%	24.4%	26.7%	28.3%	22.4%	19.8%	***21.0%***	***23.0%***
Debt/A	58.7%	56.5%	62.5%	59.4%	60.3%	41.4%	47.8%	48.5%	60.9%	59.5%	***60.0%***	***60.0%***
Int. Cov.	19.5	20.2	14.0	5.4	0.4	28.0	36.5	57.7	5.6	4.0	***6.7***	***7.0***
Payout	47.5%	43.0%	42.2%	40.3%	40.2%	27.9%	38.6%	44.7%	47.3%	42.4%	***39.3%***	***37.9%***
Std. Dev.	30.3%	26.0%	14.7%	18.1%	14.3%	19.4%	15.5%	22.1%	23.8%	13.9%	***17.0%***	***18.0%***

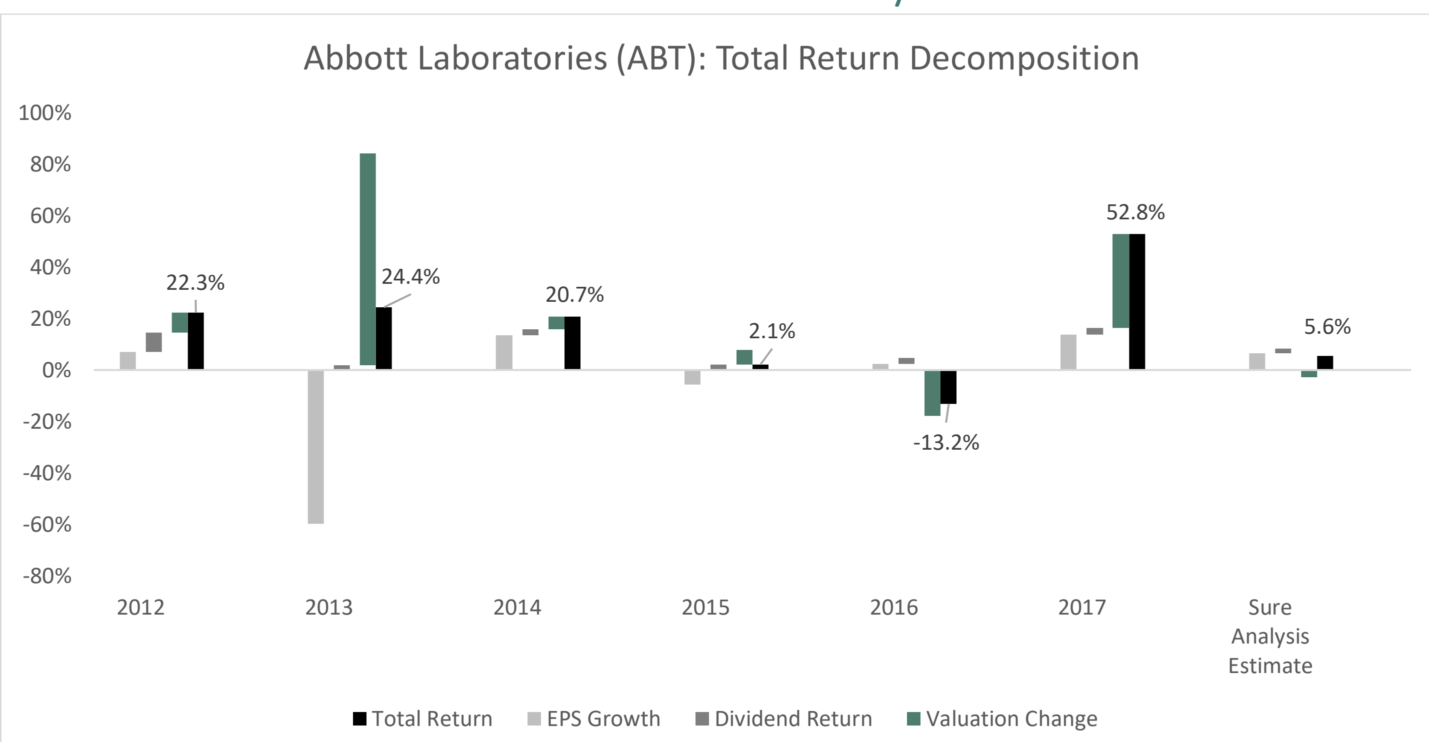
In the above table we once again see the impact of the spin-off of AbbVie, as well as the takeovers Abbott Laboratories has made during the last decade. The debt to assets ratio, for example, went down significantly during 2013 as a significant amount of debt was shed with the AbbVie spin-off. Debt levels have risen again as more was issued to finance the acquisition of St. Jude Medical.

Interest coverage varies wildly as Abbott is consistently issuing and paying down debt to finance acquisitions. On a forward basis interest coverage looks sufficient, though: Abbott's $800 million of annual interest expenses is easily covered by the roughly $5.2 billion the company should earn this year. The dividend payout ratio around 40% means that the dividend payments are quite safe, especially since Abbott is a very stable business. Even during the last financial crisis the company has been able to increase its profits at an attractive pace. As a major healthcare company with a market-leading position in important areas Abbott Laboratories appears to be a low-risk investment today.

Final Thoughts & Recommendation

The dividend yield Abbott Laboratories offers isn't too attractive alone, but the company offers solid earnings growth potential going forward, which should lead to decent total returns. Abbott Laboratories is a low-risk investment, as it operates in a non-cyclical industry and is relatively immune to recessions – people that need treatment do so irrespective of how the economy is doing. Investors will most likely see mid-single digits total returns going forward, as valuation compression will be a headwind over the coming years.

Total Return Breakdown by Year



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