Abbott Laboratories (ABT)

Updated April 10th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	7.0%	**Quality Percentile:**	N/A
Fair Value Price:	$54	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	N/A
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Total Return Percentile:**	N/A
Dividend Yield:	1.9%	**5 Year Price Target**	$74	**Valuation Percentile:**	

Overview & Current Events

Abbott Laboratories is one of the biggest medical appliances & equipment manufacturers in the world, only Medtronic and Johnson & Johnson (which also has other businesses such as pharmaceuticals) are bigger. Abbott Laboratories was founded in 1888 and has grown into a company valued at $105 billion.

Abbott Laboratories' most recent results were announced at the end of January. The company earned $0.74 per share, an increase of 14% over the prior year's quarter. This earnings growth was driven by a big revenue gain over more than 40% year-over-year. This strong growth was primarily driven by the acquisition of St. Jude Medical during 2017, but comparable revenue growth was still solid at 8% year-over-year.

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 (and $2.20 in 2016).

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 big gap in the 2012-2013 numbers, both for EPS as well as for dividends per share. Before that and after that both EPS and dividends have been growing relatively consistently. This big gap can be explained by the fact that Abbott Laboratories has 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 there as well. 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 its 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	***20.4***	***19.0***
Avg. Yld.	2.6%	3.3%	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	***1.9%***	***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 therefore 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 continue to trade at a low 20s or high teens PE ratio going forward. The company's dividend yield of roughly 2% is slightly higher than that of the broad market, but not overly attractive alone.

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 lot of debt was given away with the AbbVie spin-off. Debt levels have risen again, though, among other factors in order to finance the acquisition of St. Jude Medical (which was paid for in cash partially).

The interest coverage varies widely, due to the fact that Abbott Laboratories' earnings vary so much due to one-time effects of the spin-off and the acquisitions the company has made. 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 will earn this year. The dividend payout ratio around 40% means that the dividend payments are quite safe, especially since Abbott is not a cyclical business at all. 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 looks like a low-risk investment right here.

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 should see mid to high single digits total returns going forward.

Total Return Breakdown by Year