Amgen Inc. (AMGN)

Updated June 3rd, 2018 by Nate Parsh

Key Metrics

Current Price:	$184	**5 Year CAGR Estimate:**	10.4%	**Quality Percentile:**	N/A
Fair Value Price:	$171	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	N/A
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Total Return Percentile:**	N/A
Dividend Yield:	2.9%	**5 Year Price Target**	$263	**Valuation Percentile:**	N/A

Overview & Current Events

Amgen is the largest independent biotech company in the world. Amgen discovers, develops, manufactures and sells medicines that treat serious illnesses. The company focuses on six therapeutic areas: cardiovascular disease, oncology, bone health, neuroscience, nephrology and inflammation. Amgen had more than $22.8 billion in revenue in 2017 and has a market cap of more than $121 billion. Founded in 1980, the company began with just three employees. Today Amgen has more than 19,000 employees.

Amgen reported 1st quarter earnings on April 24th. The company earned $3.47 per share, $0.22 above estimates. This was a 10.2% improvement from Q1 2017. Revenue grew 2.6% year over year to $5.6 billion. This topped expectations by $160 million. The company raised its midpoint for EPS guidance for 2018 to $13.25 from $13.15.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.90	$4.83	$5.12	$5.25	$6.46	$7.60	$8.70	$10.38	$11.65	$12.58	***$13.25***	***$20.39***
DPS	---	---	---	$0.56	$1.44	$1.88	$2.44	$3.16	$4.00	$4.60	***$5.28***	***$8.12***

Amgen's earnings not only held up during the last recession, but grew. Not many other companies can say that. Over the last ten years, the company has grown earnings at a rate of 12% per year. Amgen has been aggressively repurchasing its own shares. The company retired 31% of outstanding shares between 2008 and 2017. Adjusting for the massive buyback, Amgen still grew EPS by 8.3% since 2008. We target an EPS growth of 9% per year through 2023.

While the headline numbers were solid, Amgen saw decreased sales totals for some of its key products. Neulasta, which treats infections, declined 4.5% from the previous year. Enbrel, which is a treatment for rheumatoid arthritis, saw sales drop 6.4% due to a decline in net selling price. Net selling price is expected to decline this year as well. On the positive side, Sensipar grew revenue 18% driven by strong demand. Sensipar treats overactive parathyroid glands in people on long term dialysis for kidney disease. Sales of Prolia, which treats osteoporosis, climbed 16.2% mostly due to growth in new patients. Though small at just $123 million in sales, Repatha grew 151% in Q1 due to higher demand. Repatha, which helps control patient's cholesterol levels, is only available in the U.S. currently, though the company is waiting on test results to bring it to international markets. On top of that, Amgen has an agreement in place with AbbVie (ABBV) to begin producing a biosimilar for AbbVie's blockbuster drug Humira. Amgen will pay AbbVie a royalty, but will not be able to market its biosimilar in the U.S. until 2023. Amgen can begin marketing it to most EU countries in October of 2018.

Amgen is a relatively young dividend paying company, having only paid one since 2011. Dividend growth has been fast and furious for the company. Amgen has an average raise of 26.1% over the past five years. Most recently, the company increased its dividend almost 15% on 12/12/2017. We expect that dividends will increase at the same rate as earnings.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.2	11.4	10.9	10.7	11.8	13.7	15.1	15.2	13.4	13.6	***13.9***	***12.9***
Avg. Yld.	---	---	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	***3.0%***	***3.1%***

Even with double digit earnings growth, Amgen has never seen its price to earnings multiple expand to nose bleed levels. The ten-year average P/E multiple is just 12.9. Based off of expected earnings per share for 2018, Amgen trades with a multiple of 13.9. The market seems to understand that some of the company's bestselling drugs are experiencing declining revenues and isn't bidding up shares. Shareholders would see the multiple contract by 1.5% per year in the stock reverts to its average P/E by 2023.

Thanks to aggressive dividend growth, Amgen has quickly become a high yielding stock. Shares currently have a much more generous yield than that of the S&P 500, but a very similar yield to that of the 10-year treasury bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.9%	31.7%	29.5%	26.3%	25.9%	23.2%	22.7%	24.4%	24.3%	23.5%	***24.1%***	***26.6%***
Debt/A	44.1%	42.8%	44.9%	61.1%	64.9%	66.6%	62.6%	60.7%	61.5%	68.4%	***68%***	***66.3%***
Int. Cov.	28	19.1	26	29.4	10.7	10.4	11	18.4	16.5	29	***27.2***	***19.9***
Payout	---	---	---	10.7%	22.3%	24.7%	28%	30.4%	34.3%	36.6%	***39.8%***	***39.8%***
Std. Dev.	37.2%	27.3%	17.4%	20.7%	15.6%	23.4%	22%	21.6%	22.7%	21.7%	***22%***	***23%***

Amgen's profit to asset ratio has declined in recent years, likely due to top selling drugs posting lower sales totals. We expect this to improve if the company's pipeline of drugs can be used to grow sales. The company has also seen debt level rise, though not to a level that should be alarming. Amgen is well covered when it comes to paying interest on its debt. The company also has a very low payout ratio that will allow it to continue to raise its dividend going forward even if a prolonged recession were to take place.

Final Thoughts & Recommendation

We forecast that shares of Amgen can offer total returns of 10.4% per year over the next five years. This total annual return is a combination of earnings growth (9%), dividends (2.9%) and a small multiple contraction (1.5%). While Amgen is seeing some of its best selling drugs suffer from declining sales, the company has a host of other drugs that are seeing solid growth. Amgen has also been extremely active in repurchasing its own shares and offers double digit dividend growth. Amgen makes a compelling buy when trading at or below fair value.

Total Return Breakdown by Year