Amgen Inc. (AMGN)

Updated August 1st, 2018 by Nate Parsh

Key Metrics

Current Price:	$196	**5 Year CAGR Estimate:**	9.5%	**Volatility Percentile:**	56.7%
Fair Value Price:	$176	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	61.2%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Valuation Percentile:**	38.4%
Dividend Yield:	2.7%	**5 Year Price Target**	$271	**Total Return Percentile:**	61.5%

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 trades with a market capitalization of more than $127 billion. Founded in 1980, the company began with just three employees. Today Amgen has more than 19,000 employees.

Amgen reported 2nd quarter earnings on July 26th. The company earned $3.83 per share, $0.29 ahead of expectations and 17.1% higher year over year. Revenue grew 4.3% to $6.06 billion, beating estimates by $330 million.

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	***$13.65***	***$21.00***
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. Amgen saw product sales grow 2% globally, thanks in large part to strength in new and recently launched medicines. *Repatha*, which helps control cholesterol, saw growth of almost 80% based on higher unit demand. *Repatha* sales total just $148 million and is currently only available in the U.S. The company is waiting on test results to bring the drug to international markets. *Prolia*, which treats osteoporosis, had sales growth of 21% in the quarter, after growing 17% last quarter. *Neulasta*, treatment for infections, increased 1% from the 2nd quarter of 2017. As Amgen's #2 top selling drug, this is positive news, especially since *Neulasta* declined 4.5% on a year over year basis last quarter. Amgen's *Enbrel* suffered a 11% revenue drop. *Enbrel*, which treats rheumatoid arthritis, declined more than 6% last quarter as net selling prices continue to decline as demand for treatment drops. Amgen has an agreement in place with AbbVie (ABBV) to begin producing a biosimilar for AbbVie's drug Humira. Amgen will pay a royalty, but will not be able to market its biosimilar in the U.S. until 2023. Amgen can market in most EU countries in October. After raising guidance in the 1st quarter, Amgen again raised its guidance for 2018. The company now expects EPS of $13.65, up from $13.25 previously. Amgen spent $3.2 billion on share repurchases at an average purchase point below $176, 11% below the current price.

Amgen has only paid dividends since 2011. Amgen has an average raise of 26.1% over the past five years. 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	***14.4***	***12.9***
Avg. Yld.	---	---	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	***2.7%***	***3.0%***

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

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. The stock price has increased $12, or 6.5%, since our June 3rd update. Based off of updated guidance, Amgen trades with a multiple of 14.4, up from 13.9 earlier. 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 2.2% 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

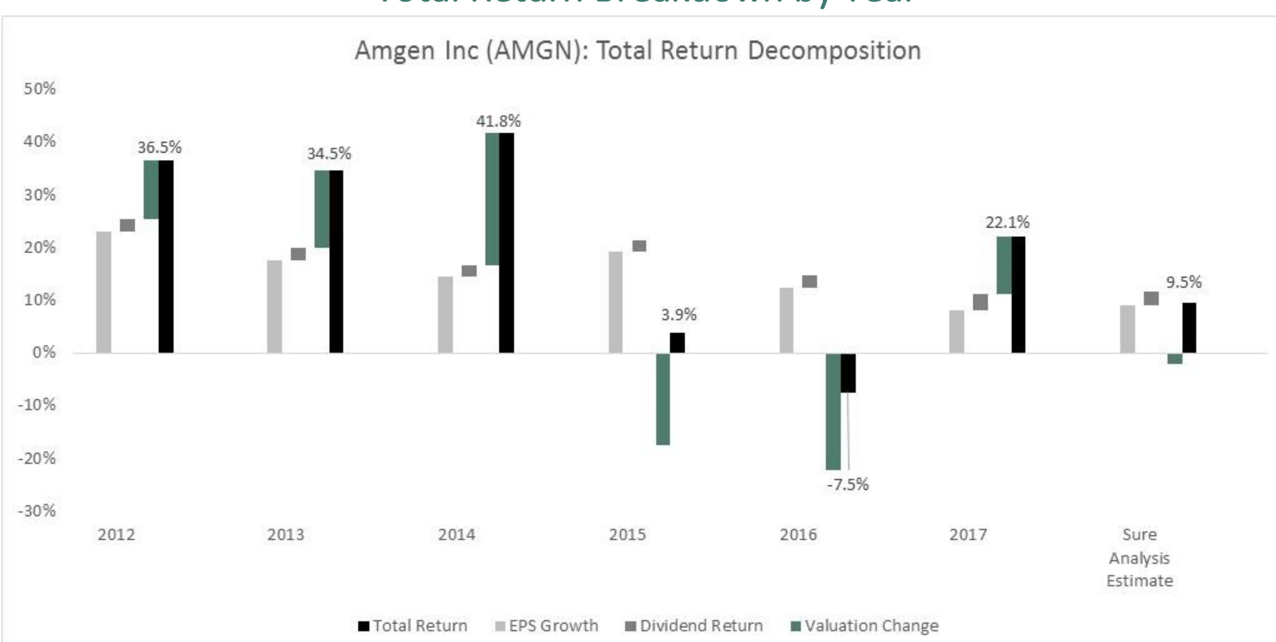
Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2023**
GP/A	34.9%	31.7%	29.5%	26.3%	25.9%	23.2%	22.7%	24.4%	24.3%	23.5%	***24.1%***	***26.6%***
Debt/A	44.1%	42.8%	44.9%	61.1%	64.9%	66.6%	62.6%	60.7%	61.5%	68.4%	***68%***	***66.3%***
Int. Cov.	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%	***38.7%***	***38.7%***
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

After the second quarter earnings release, we feel that Amgen can offer total returns of 9.5% per year through 2023, down from 10.4% earlier. Even with an increase in earnings-per-share guidance for the year, the rise in share price has reduced our expected total return by about 1%. Some of Amgen's largest products are showing double digit declines, but the growth in the company's new and recently released offerings is very strong. Investors who believe that the company's new drugs will continue to grow should consider adding the name to their portfolio. We have increased our 2023 price target $8 to $271 due to update in EPS guidance.

Total Return Breakdown by Year



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