Novo Nordisk (NVO)

Updated September 14th, 2018 by Bob Ciura

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	8.3%	**Volatility Percentile:**	72.0%
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	31.1%
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Valuation Percentile:**	78.8%
Dividend Yield:	1.0%	**5 Year Price Target**	$69	**Total Return Percentile:**	66.8%

Overview & Current Events

Novo Nordisk A/S is a global healthcare company. It was founded in 1925 and is headquartered in Denmark. Today, the company performs research, development, and manufacturing of pharmaceutical products. It focuses on two core segments: Diabetes & Obesity Care, and Biopharmaceuticals. The Diabetes & Obesity Care segment manufactures products for insulin, related delivery systems, oral anti-diabetic products, and products to treat obesity. Over 80% of the company's annual sales are derived from its diabetes care products. The Biopharmaceuticals segment manufactures products for hemophilia, growth hormone therapy, and hormone replacement therapy.

On 8/8/18 Novo Nordisk announced first-half 2018 financial results. Sales declined by 5%, but excluding currency fluctuations, sales increased 4% in the first half. Sales of the company's core product Victoza increased 12% in local currency. New products contributed strong growth for Novo Nordisk. Sales of Saxenda, Tresiba, and Xultophy increased 50%, 11%, and 165%, respectively. In terms of geographic regions, sales in North America were flat, while sales outside North America increased 8% over the first six months. Diluted earnings-per-share increased 7% through the first half of 2018.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.59	$0.69	$0.88	$1.04	$1.38	$1.73	$1.64	$1.98	$2.12	$2.48	***$2.52***	***$3.22***
DPS	$0.19	$0.22	$0.27	$0.38	$0.50	$0.62	$0.83	$0.73	$1.41	$1.14	***$0.47***	***$0.60***
Shares	3,041	2,939	2,859	2,780	2,715	2,647	2,593	2,548	2,504	2,444	***2,425***	***2,425***

Novo Nordisk experienced strong earnings growth in the years after the Great Recession. The company benefited from the global economic recovery, as well as rising drug prices for many years. However, the environment has shifted, and large pharmaceutical manufacturers are experiencing new challenges. First, Novo Nordisk has had to overcome patent expiration and heightened competition from generics, which has weighed on profit margins. In response, Novo Nordisk is investing aggressively to expand its next-generation insulin portfolio, which includes Tresiba, Ryzodeg, and Xultophy. These products showed strong growth over the first half of 2018. We expect 5% earnings and dividend growth per year over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.3	16.3	19.6	22.2	21.4	19.8	27.1	27.1	23.0	17.2	***19.1***	***21.4***
Avg. Yld.	1.6%	1.9%	1.6%	1.6%	1.7%	1.8%	1.9%	1.4%	2.9%	2.7%	***1.0%***	***0.9%***

Shares of Novo Nordisk trade for a price-to-earnings ratio of 19.1. By contrast, in the past 10 years the stock traded for an average price-to-earnings ratio of 21.4. This is a reasonable estimate of fair value, since Novo Nordisk is still generating growth and has a strong business model. We view the stock as modestly undervalued. An expanding price-to-earnings ratio could add approximately 2.3% to Novo Nordisk's annual returns. Novo Nordisk pays a dividend, but significantly reduced its dividend for 2018 compared with prior years. The company declared a dividend of DKK 3.00 per share for 2018, after paying out DKK 7.85 in 2017. As a result, the stock has a fairly low dividend yield of 1%. For U.S. investors, there is a 27% dividend withholding tax on dividends, meaning the effective yield is approximately 0.73%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

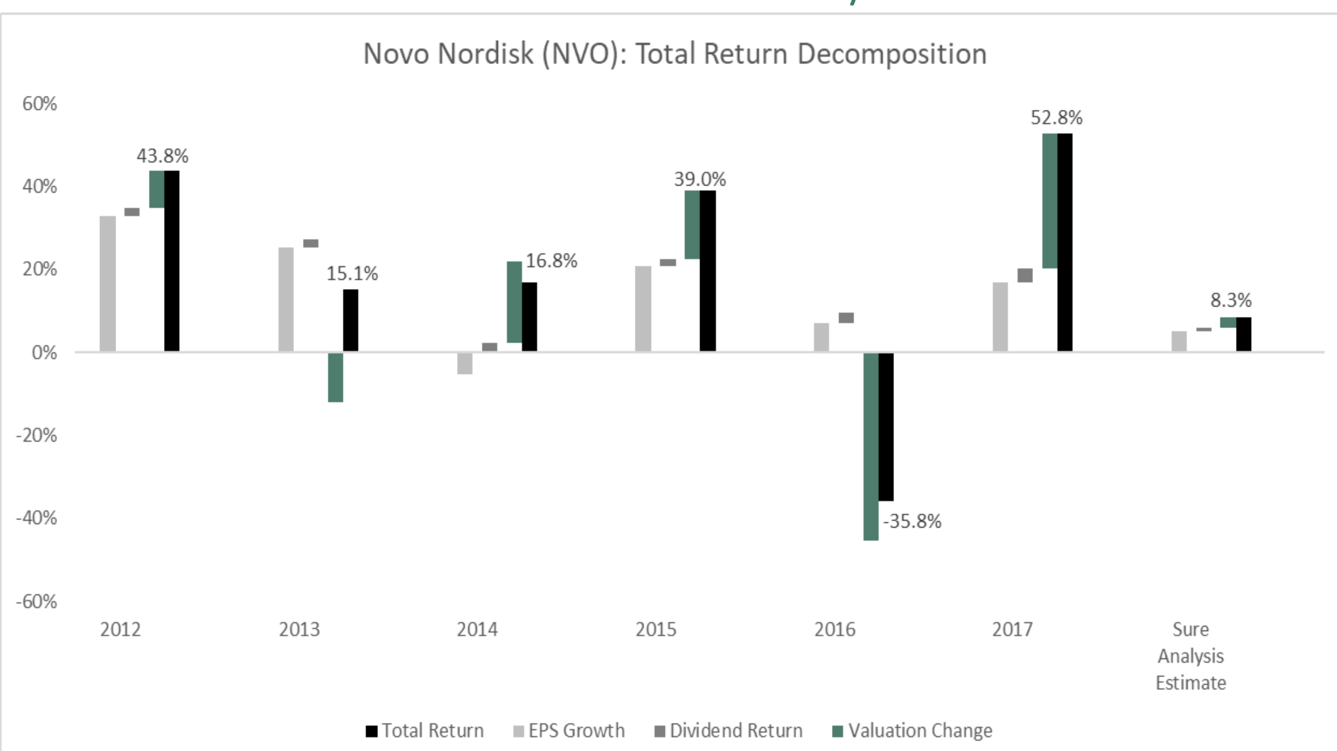
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	73.5%	72.2%	79.8%	89.1%	95.8%	95.0%	105%	102%	101%	86.8%	***87.0%***	***87.0%***
Debt/A	34.8%	34.7%	39.8%	42.1%	38.1%	39.5%	47.7%	48.8%	53.6%	51.3%	***51.5%***	***51.5%***
Int. Cov.	18.2	11.8	9.2	23.3	16.5	48.0	61.3	8.2	66.7	31.9	***32.0***	***32.0***
Payout	32.2%	31.9%	30.7%	36.5%	36.2%	35.8%	50.6%	36.9%	66.5%	46.0%	***18.7%***	***18.7%***
Std. Dev.	27.1%	22.0%	17.6%	25.2%	22.4%	20.0%	23.0%	20.4%	31.3%	19.3%	***19.5%***	***19.5%***

Novo Nordisk receives high marks for safety and quality. The company has a manageable level of debt and a high level of interest coverage. It also has a dividend payout ratio below 20%. Novo Nordisk's competitive advantage is primarily its research and development. The company invested over $2.1 billion into R&D last year, and as a result has a focused portfolio in high-growth categories. According to Novo Nordisk, more than 425 million people around the world have diabetes. This is an emerging growth area, and Novo Nordisk is quickly building a top position. Novo Nordisk is likely to be resistant to a recession. As a major healthcare company, Novo Nordisk has a highly stable business model. People will always need to take their medications, even when the economy is in recession.

Final Thoughts & Recommendation

Novo Nordisk has had to accelerate its investments in new product development, due to falling drug prices and elevated generics competition. The company has done a good job of returning to growth, even in a challenging environment. The only major criticism of Novo Nordisk is its low dividend yield. However, there is room for higher dividend payments down the road, as the turnaround materializes. The combination of earnings growth, dividends, and valuation changes is expected to result in annual returns of 8.3%, which makes Novo Nordisk a buy.

Total Return Breakdown by Year



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