Amgen Inc (AMGN)

Updated October 31st, 2018 by Nate Parsh

Key Metrics

Current Price:	$189	**5 Year CAGR Estimate:**	11.0%	**Volatility Percentile:**	46.8%
Fair Value Price:	$182	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	72.4%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Growth Percentile:**	82.2%
Dividend Yield:	2.8%	**5 Year Price Target**	$280	**Valuation Percentile:**	40.0%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	58.8%

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 3rd quarter earnings results on October 30th. The company earned $3.69 per share, $0.24 above of expectations and 12.8% improvement year over year. Revenue grew 2.3% to $5.9 billion, beating estimates by $120 million.

Enbrel, which treats rheumatoid arthritis, had a revenue decline of 5.2%. Amgen's top selling drug saw lower unit demand and selling price. *Neulasta* sales dropped 6.4% as the company's infection fighting drug saw net selling price and unit demand move lower year over year. *Prolia* sales increased nearly 15%. *Prolia,* which treats osteoporosis, had a much higher unit demand during the quarter. *Repatha*, which helps control cholesterol, had sales growth of 35%. Amgen recently cut the price of *Repatha* by 60%. This lower selling price partially offset higher unit demand. Amgen is waiting on test results to bring the drug to most international markets, but China recently approved *Repatha* for treatment in those over the age of 12. Amgen generated $3.1 billion in free cash flow during the 3rd quarter, down slightly from the previous year. The company also repurchase $1.7 billion worth of its own stock at an average price of $195 per share. Amgen has $3.7 billion remaining under its current repurchase authorization.

Amgen increased for its midpoint for EPS guidance for the year to $14.13 from $13.65 previously. This is the third consecutive quarter that the company has increased its earnings guidance. Amgen expects sales to be in the range of $23.2-$23.5 billion, up from $22.5-$23.2 billion.

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	***$14.13***	***$21.74***
DPS	---	---	---	$0.56	$1.44	$1.88	$2.44	$3.16	$4.00	$4.60	***$5.28***	***$8.12***
Shares	1047	995	932	795.6	756.3	754.6	760.4	754	738.2	720	***700***	***675***

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.

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	***13.4***	***12.9***
Avg. Yld.	---	---	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	***2.8%***	***2.9%***

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Shares of Amgen have decreased $7, or 3.6%, since our August 1st update. Based off of updated guidance, Amgen trades with a multiple of 13.4, down from 14.4 earlier. The ten-year average P/E multiple is just 12.9. Shareholders could see the multiple contract 0.8% per year if the stock reverts to its average P/E by 2023. Even with double digit earnings growth, Amgen has never seen its price to earnings multiple expand to nose bleed levels. The market seems to understand that some of the company's bestselling drugs have declining revenues and isn't bidding up shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

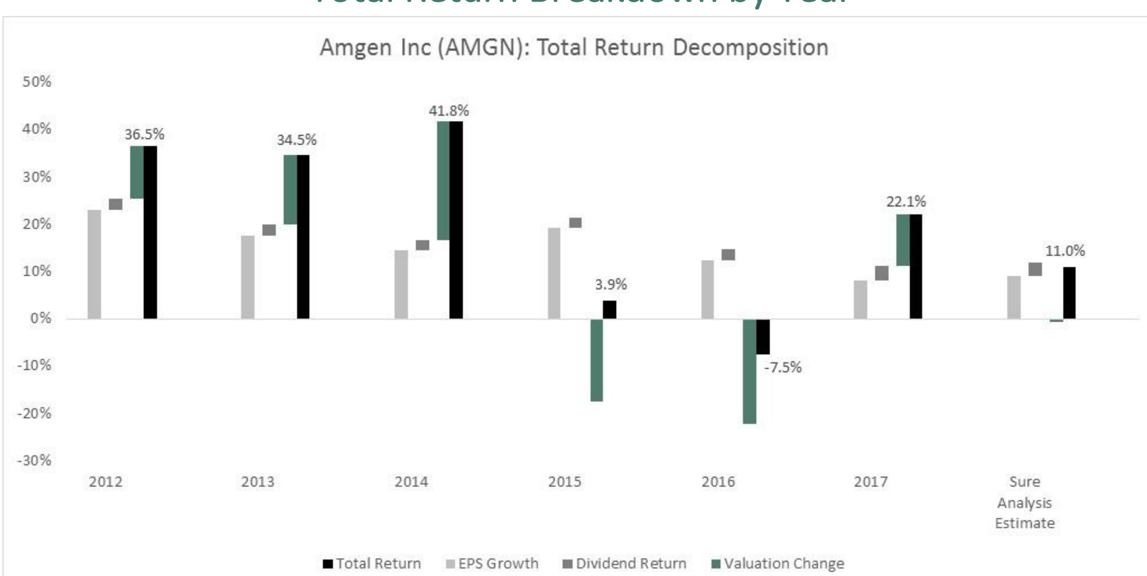
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.9%	31.7%	29.5%	26.3%	25.9%	23.2%	22.7%	24.4%	24.3%	23.5%	***24.1%***	***26.6%***
Debt/A	44.1%	42.8%	44.9%	61.1%	64.9%	66.6%	62.6%	60.7%	61.5%	68.4%	***68%***	***66.3%***
Int. Cov.	28	19.1	26	29.4	10.7	10.4	11	18.4	16.5	29	***27.2***	***19.9***
Payout	---	---	---	10.7%	22.3%	24.7%	28%	30.4%	34.3%	36.6%	***37.4%***	***37.4%***
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 3rd quarter earnings release, we feel that Amgen can offer total returns of 11% per year through 2023, up from 9.5% previously. Amgen's top selling drugs continue to experience revenue declines, but this has been an ongoing issue for some time. We feel that the market is aware of this and this is the cause behind Amgen's very low P/E. Several of Amgen's smaller revenue generating drugs, such as *Prolia* and *Repatha*, are showing strong growth rates. Even with a massive decrease in selling price, *Repatha* remains attractive given that is only approved in just a few international markets. Amgen has one of the highest estimated total returns in our coverage universe. We raise our 2023 price target $9 to $280 and rate shares of Amgen as 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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	15003	14642	15053	15582	17265	18676	20063	21662	22991	22849
Gross Profit	12707	12551	12833	12874	14066	15330	15641	17435	18829	18780
Gross Margin	84.7%	85.7%	85.3%	82.6%	81.5%	82.1%	78.0%	80.5%	81.9%	82.2%
SG&A Exp.	3789	3820	3983	4499	4814	5184	4699	4846	5062	4870
D&A Exp.	1073	1049	1017	1060	1088	1286	2092	2108	2105	1955
Operating Profit	5214	5506	5545	4312	5577	5867	6191	8470	9794	9973
Op. Margin	34.8%	37.6%	36.8%	27.7%	32.3%	31.4%	30.9%	39.1%	42.6%	43.6%
Net Profit	4052	4605	4627	3683	4345	5081	5158	6939	7722	1979
Net Margin	27.0%	31.5%	30.7%	23.6%	25.2%	27.2%	25.7%	32.0%	33.6%	8.7%
Free Cash Flow	5316	5806	5207	4552	5168	5598	7949	9137	9616	10513
Income Tax	963	599	690	467	664	184	427	1039	1441	7618

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	36443	39629	43486	48871	54298	66125	69009	71449	77626	79954
Cash & Equivalents	1774	2884	3287	6946	3257	3805	3731	4144	3241	3800
Acc. Receivable	2073	2109	2335	2896	2518	2697	2546	2995	3165	3237
Inventories	2075	2220	2022	2484	2744	3019	2647	2435	2745	2834
Goodwill & Int.	14327	19203	13564	14334	16630	28230	27481	26428	25030	23370
Total Liabilities	16057	16962	19542	29842	35238	44029	43231	43366	47751	54713
Accounts Payable	504	574	716	642	905	787	995	965	917	1352
Long-Term Debt	10176	10601	13362	21428	26529	32128	30715	31429	34596	35342
Total Equity	20386	22667	23944	19029	19060	22096	25778	28083	29875	25241
D/E Ratio	0.50	0.47	0.56	1.13	1.39	1.45	1.19	1.12	1.16	1.40

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	11.4%	12.1%	11.1%	8.0%	8.4%	8.4%	7.6%	9.9%	10.4%	2.5%
Return on Equity	21.2%	21.4%	19.9%	17.1%	22.8%	24.7%	21.5%	25.8%	26.6%	7.2%
ROIC	13.6%	14.4%	13.1%	9.5%	10.1%	10.2%	9.3%	12.0%	12.5%	3.2%
Shares Out.	1047	995	932	795.6	756.3	754.6	760.4	754	738.2	720
Revenue/Share	13.96	14.34	15.60	17.09	21.94	24.41	26.06	28.28	30.49	31.09
FCF/Share	4.95	5.69	5.40	4.99	6.57	7.32	10.32	11.93	12.75	14.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.