Amgen Inc (AMGN)

Updated May 1st, 2019 by Nathan Parsh

Key Metrics

Current Price:	$176	**5 Year CAGR Estimate:**	12.4%	**Volatility Percentile:**	43.6%
Fair Value Price:	$177	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	46.0%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Growth Percentile:**	87.0%
Dividend Yield:	3.2%	**5 Year Price Target**	$273	**Valuation Percentile:**	55.0%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	75.2%

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 generates nearly $23 billion in annual revenues and trades with a market capitalization of more than $110 billion. Founded in 1980, the company began with just three employees. Today Amgen has more than 19,000 employees and operates in approximately 100 countries.

Amgen reported first quarter financial results on 4/30/2019. The company earned $3.56 per share, topping consensus estimates by $0.08 and improving 2.6% year-over-year. Revenue was essentially flat at $5.6 billion.

Enbrel, which treats rheumatoid arthritis and is Amgen's top grossing product, had 4% sales growth in the quarter due to a slight increase in net selling price and changes in accounting estimates of sales deductions and product returns. *Enbrel* had experienced declines the past several quarters due to biosimilar competition and we expect that this will continue in future quarters. *Neulasta* revenues decreased 12% due to lower net selling price. Amgen saw better success with some of its newer products. *Prolia,* which treats osteoporosis and is the company's third best-selling product, grew 20% on the strength of higher demand. Revenues for *Repatha*, which helps control cholesterol, increased 15% as higher demand was offset by net selling price. The product did see more than 80% volume growth overall (a 90% increase in the U.S.) during the first quarter. Amgen cut the price of *Repatha* by 60% last year in order to help drive unit demand. *Repatha* should perform better once the price cut is lapped. Amgen retired almost 16 million shares at an average price of $189 during the first quarter. The company has $2.1 billion remaining under its stock repurchase authorization.

Amgen provided updated guidance for 2019 and raised the low end of its expected range for both revenue and earnings-per-share. The company expects revenue in the range of $22 billion to $22.9 billion up from previous guidance of $21.8 billion to $22.9 billion. Amgen sees adjusted earnings-per-share in a range of $13.25 to $14.30 up from $13.10 to $14.10 previously. Achieving the midpoint for adjusted earnings would represent a 4.3% decrease from the prior year. Revenue and earnings are below 2018's results in large part to a one-time $1.1 billion milestone payment received last year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$4.83	$5.12	$5.25	$6.46	$7.60	$8.70	$10.38	$11.65	$12.58	$14.40	***$13.78***	***$21.20***
DPS	--	--	$0.56	$1.44	$1.88	$2.44	$3.16	$4.00	$4.60	$5.28	***$5.80***	***$8.92***
Shares	995	932	796	756	755	760	754	738	720	640	***626***	***600***

Amgen's earnings not only held up during the last recession, but grew. Over the last ten years, the company has grown earnings at a rate of 12% per year. We expect earnings-per-share to grow at a more modest rate of 9% annually due to strength in new products and share repurchases. Amgen has been aggressively repurchasing its own shares. The company retired 36% of outstanding shares between 2009 and 2018.

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.4	10.9	10.7	11.8	13.7	15.1	15.2	13.4	13.6	*13.4*	***12.8***	***12.9***
Avg. Yld.	--	--	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	*2.8%*	***3.2%***	***3.3%***

Disclosure: This analyst has a long position in the security discussed in this research report.

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Shares of Amgen have decreased $9, or 5%, since our January 30th update. Based off of updated guidance for 2019, Amgen trades with a multiple of 12.8, down from 13.4 earlier. The ten-year average price-to-earnings multiple is 12.9, which we see as fair value. Shareholders could see a slight addition to annual returns if the stock returns to our target valuation by 2024. Even with double digit earnings growth, Amgen has never seen its price to earnings multiple expand to very high levels. The market seems to understand that some of the company's bestselling drugs have declining revenues and valuations have remained subdued as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	--	--	11%	22%	25%	28%	30%	34%	37%	37%	***42%***	***42%***

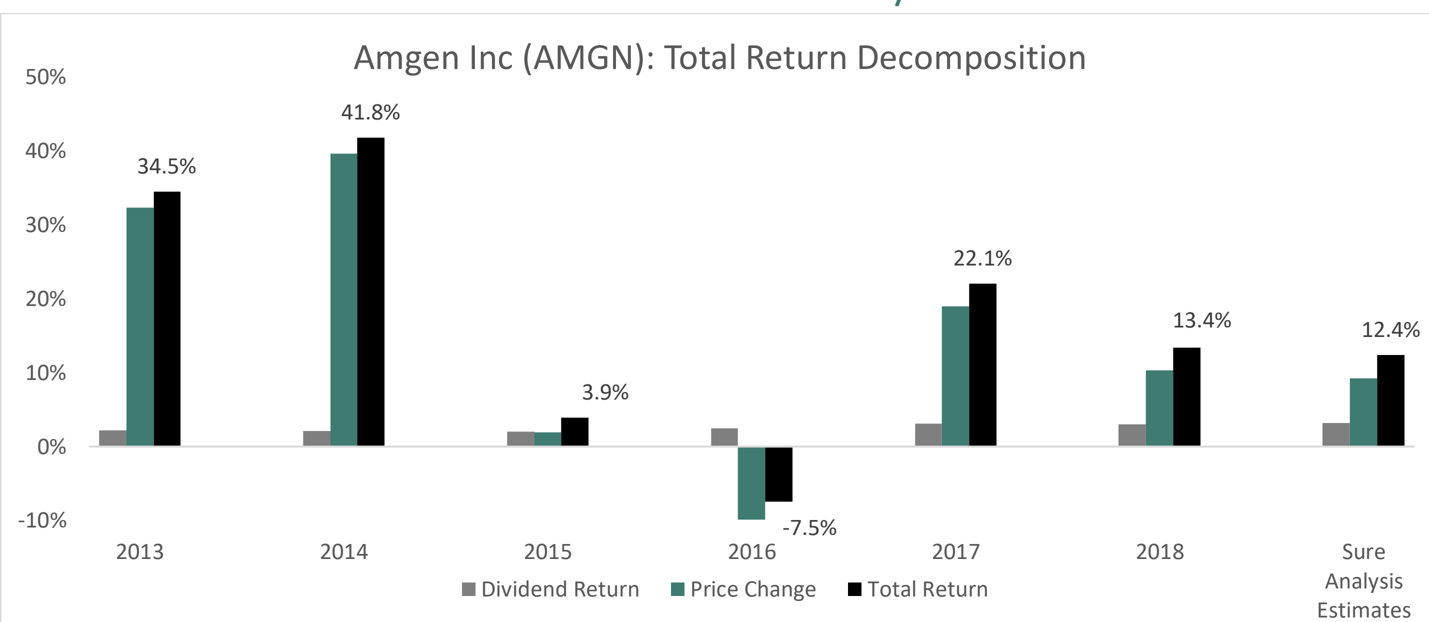
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to raise its dividend going forward, even if a prolonged recession were to take place.

Amgen is the largest biotech company in the world, giving it size and scale over its peers. This allows the company to reduce net selling price on products, such as with *Repatha,* to take market share. Another key competitive advantage Amgen has over its peers is the company's ability to bring new products to market. The company launched nine new products in 2018. The company also reduced its development cycle timeline by 36 months.

Final Thoughts & Recommendation

After factoring in first quarter results, we now anticipate that Amgen can offer a total annual return of 12.4% through 2024, up from 11.2% previously. Amgen's top two selling products, *Enbrel* and *Neulasta*, will likely to see sales decline. Newer products should continue to see growth rates improve in the coming years to help offset these losses. We find *Repatha*, especially once the price cut is annualized, to see growth rates move even higher. Amgen receives a buy recommendation from Sure Dividend at this time due to a combination of low valuation, dividend yield and expected earnings growth. We have raised our 2024 price target $1 to $273 to account for the updated guidance for 2019.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14642	15053	15582	17265	18676	20063	21662	22991	22849	23747
Gross Profit	12551	12833	12874	14066	15330	15641	17435	18829	18780	19646
Gross Margin	85.7%	85.3%	82.6%	81.5%	82.1%	78.0%	80.5%	81.9%	82.2%	82.7%
SG&A Exp.	3820	3983	4499	4814	5184	4699	4846	5062	4870	5332
D&A Exp.	1049	1017	1060	1088	1286	2092	2108	2105	1955	N/A
Operating Profit	5506	5545	4312	5577	5867	6191	8470	9794	9973	10263
Op. Margin	37.6%	36.8%	27.7%	32.3%	31.4%	30.9%	39.1%	42.6%	43.6%	43.2%
Net Profit	4605	4627	3683	4345	5081	5158	6939	7722	1979	8394
Net Margin	31.5%	30.7%	23.6%	25.2%	27.2%	25.7%	32.0%	33.6%	8.7%	35.3%
Free Cash Flow	5806	5207	4552	5168	5598	7949	9137	9616	10513	11296
Income Tax	599	690	467	664	184	427	1039	1441	7618	1151

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	39629	43486	48871	54298	66125	69009	71449	77626	79954	66416
Cash & Equivalents	2884	3287	6946	3257	3805	3731	4144	3241	3800	N/A
Acc. Receivable	2109	2335	2896	2518	2697	2546	2995	3165	3237	3580
Inventories	2220	2022	2484	2744	3019	2647	2435	2745	2834	2940
Goodwill & Int.	19203	13564	14334	16630	28230	27481	26428	25030	23370	22142
Total Liabilities	16962	19542	29842	35238	44029	43231	43366	47751	54713	53916
Accounts Payable	574	716	642	905	787	995	965	917	1352	N/A
Long-Term Debt	10601	13362	21428	26529	32128	30715	31429	34596	35342	33929
Total Equity	22667	23944	19029	19060	22096	25778	28083	29875	25241	12500
D/E Ratio	0.47	0.56	1.13	1.39	1.45	1.19	1.12	1.16	1.40	2.71

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.1%	11.1%	8.0%	8.4%	8.4%	7.6%	9.9%	10.4%	2.5%	11.5%
Return on Equity	21.4%	19.9%	17.1%	22.8%	24.7%	21.5%	25.8%	26.6%	7.2%	44.5%
ROIC	14.4%	13.1%	9.5%	10.1%	10.2%	9.3%	12.0%	12.5%	3.2%	15.7%
Shares Out.	995	932	795.6	756.3	754.6	760.4	754	738.2	720	640
Revenue/Share	14.34	15.60	17.09	21.94	24.41	26.06	28.28	30.49	31.09	35.71
FCF/Share	5.69	5.40	4.99	6.57	7.32	10.32	11.93	12.75	14.30	16.99

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