



West Pharmaceutical Services (WST)

Updated July 29th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$397	5 Year CAGR Estimate:	-5.2%	Market Cap:	\$28B
Fair Value Price:	\$195	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	10/16/21 ¹
% Fair Value:	204%	5 Year Valuation Multiple Estimate:	-13.3%	Dividend Payment Date:	11/01/21
Dividend Yield:	0.2%	5 Year Price Target	\$300	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	6.3%

Overview & Current Events

West Pharmaceutical Services manufactures packaging and components involved in the distribution and application of pharmaceuticals. The company's products include *Zenith Crystal*, a medical glass alternative, and *SmartDose*, an automatic medication delivery system. West Pharmaceutical was founded in 1923 and is headquartered in Exton, PA. The company has increased its dividend for 27 consecutive years, which qualifies it to be a Dividend Champion.

West Pharmaceutical Services reported its second quarter earnings results on July 29. The company reported that its revenues totaled \$720 million, which represents a revenue growth rate of 37% compared to the prior year's quarter. West Pharmaceutical Services' revenues were higher than what the analyst community had expected, beating estimates by \$54 million. Revenues were positively impacted by a weakening dollar. Adjusted for that, West Pharmaceutical Services' organic revenues were up by a still very strong 31% year over year.

West Pharmaceutical Services generated adjusted earnings-per-share of \$2.46 during the second quarter, which represents a very appealing increase of 97% compared to the prior year's quarter. West Pharmaceutical Services upped its revenue guidance to \$2.77 billion for the current year, and management is also expecting earnings-per-share in a range of \$8.05 to \$8.20, which would make 2021 a new record year by a wide margin.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.17	\$1.38	\$1.57	\$1.75	\$1.30	\$1.91	\$2.78	\$2.81	\$3.24	\$4.76	\$8.12	\$12.49
DPS	\$0.35	\$0.37	\$0.39	\$0.41	\$0.46	\$0.50	\$0.54	\$0.57	\$0.61	\$0.65	\$0.68	\$1.00
Shares²	67	67	70	71	72	73	74	74	75	76	75	73

West Pharmaceutical grew its earnings-per-share at an attractive pace of 12% annually between 2009 and 2019. This included the recovery from the last financial crisis, when West Pharmaceutical Services' earnings-per-share growth rate was at an above-average level, during 2010 – 2014. During the last financial crisis, West Pharmaceutical Services' earnings-per-share declined by roughly 15%, which was a very solid performance versus most other companies.

West Pharmaceutical projects a long-term organic sales growth rate in a range of 6% to 8%. This seems optimistic, as West Pharmaceutical's revenues have grown at a slower pace of slightly less than 5% over the last 10 years. West Pharmaceutical Services' organic revenue growth rate accelerated during 2019 and 2020, however, which is why the company could be able to generate higher revenue growth in the future, compared to its historic growth rate. Tailwinds for the industry, such as rising healthcare spending, will help West Pharmaceutical in achieving sizeable revenue growth in coming years. Revenue growth will be one source for higher earnings, but a more favorable product mix will positively impact West Pharmaceutical's earnings growth as well. The company seeks to increase its revenues in the Proprietary Products segment, which has significantly higher margins than the Contract-Manufactured Products business. A recently announced buyback program could also help the company in growing its earnings-per-share.

¹ Estimated date

² In Millions

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.8	17.2	23.7	26.1	43.8	38.1	36.0	34.9	46.3	59.5	48.9	24.0
Avg. Yld.	1.7%	1.6%	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	0.4%	0.2%	0.2%	0.3%

West Pharmaceutical Services has never been valued at an especially low valuation throughout the last decade, but in the 2009-2013 time frame, its valuation was at least moderate, although shares still traded at a premium valuation relative to the broad market. More recently, West Pharmaceutical Services' valuation has risen to a very high level, which is not justified by the company's earnings growth record during the last couple of years. We forecast huge downside potential for the company's shares based on expected multiple contraction headwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29.9%	26.8%	24.8%	23.4%	35.4%	26.2%	19.4%	20.3%	18.8%	13.7%	8.4%	8.0%

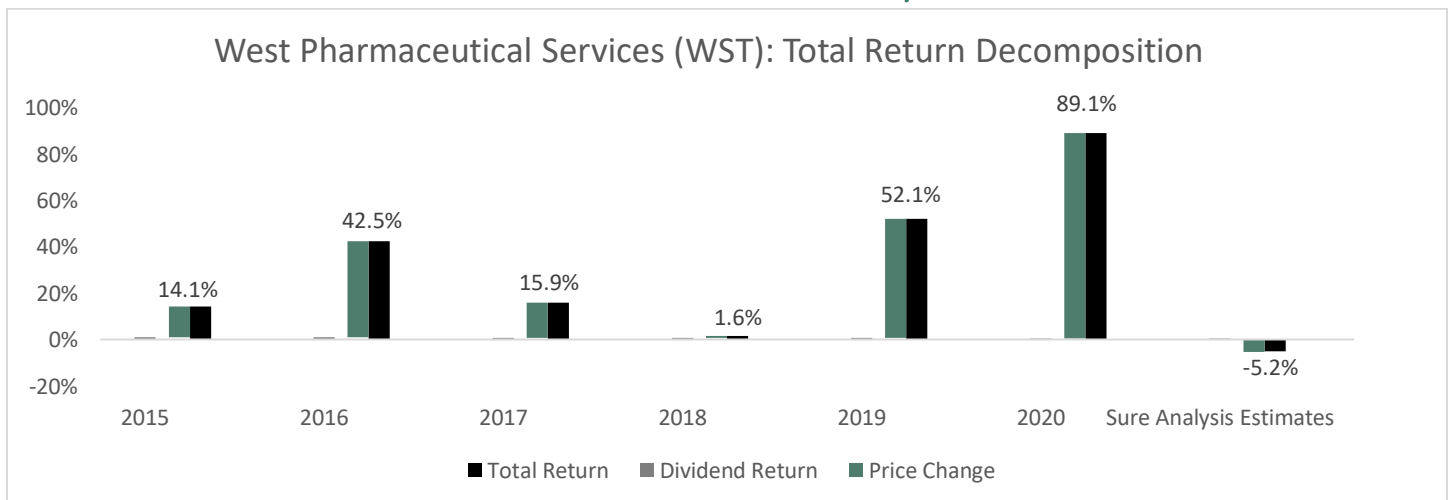
West Pharmaceutical Services' dividend payout ratio has never been high – the company has paid out less than one-third of its net profits in the form of dividends during each year of the last decade. Coupled with the fact that the company continued to raise its dividend during the last financial crisis, the payout appears to be very safe. At well below 1%, the yield is so low that the stock is very uninteresting for income investors.

West Pharmaceutical is not active in a cyclical industry, as demand for medical items and pharmacologic products is not really dependent upon economic conditions. This explains why West Pharmaceutical was not impacted by the last financial crisis to a large degree, showcased by the fact that earnings-per-share declined by just 15% peak-to-trough.

Final Thoughts & Recommendation

West Pharmaceutical Services is active in an industry that is poised to generate solid growth rates over the coming years, and which is also not very vulnerable to recessions. The coronavirus crisis was not a relevant headwind for the company so far. West Pharmaceutical Services also has a solid dividend growth track record. We still do not think that the company is attractive for income investors due to its extremely low dividend yield. Due to a remarkably high valuation of nearly 50 times this year's expected net profits, West Pharmaceutical Services earns a strong sell recommendation from us at the current price, although we would like the company around fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,192	1,266	1,368	1,421	1,400	1,509	1,599	1,717	1,840	2,147
Gross Profit	339	388	435	448	456	501	513	545	606	768
Gross Margin	28.5%	30.6%	31.8%	31.5%	32.6%	33.2%	32.1%	31.8%	32.9%	35.8%
SG&A Exp.	191	218	235	229	244	240	246	263	273	302
D&A Exp.	76	77	85	90	90	91	97	104	103	109
Operating Profit	119	143	164	183	180	227	235	248	305	407
Op. Margin	10.0%	11.3%	12.0%	12.9%	12.9%	15.0%	14.7%	14.4%	16.6%	19.0%
Net Profit	76	81	112	127	96	144	151	207	242	346
Net Margin	6.3%	6.4%	8.2%	8.9%	6.8%	9.5%	9.4%	12.0%	13.1%	16.1%
Free Cash Flow	34	55	65	71	81	49	133	184	241	473
Income Taxes	24	33	40	47	26	54	81	41	59	73

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,399	1,564	1,672	1,670	1,695	1,717	1,863	1,979	2,341	
Cash & Equivalents	92	162	230	255	275	203	236	337	439	616
Accounts Receivable	147	175	186	179	181	201	253	288	319	385
Inventories	152	162	177	182	181	199	215	215	236	321
Goodwill & Int. Ass.	164	163	163	151	142	126	129	126	138	
Total Liabilities	744	835	765	713	671	599	583	583	768	
Accounts Payable	90	103	108	103	120	122	138	130	157	213
Long-Term Debt	349	412	374	336	298	229	197	196	257	-
Shareholder's Equity	655	729	906	957	1,024	1,118	1,280	1,396	1,573	1,855
D/E Ratio	0.53	0.56	0.41	0.35	0.29	0.20	0.15	0.14	0.16	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.6%	5.4%	6.9%	7.6%	5.7%	8.4%	8.4%	10.8%	11.2%	
Return on Equity	11.8%	11.7%	13.7%	13.6%	9.7%	13.4%	12.6%	15.5%	16.3%	20.2%
ROIC	7.6%	7.5%	9.3%	9.9%	7.3%	10.8%	10.7%	13.5%	14.1%	18.8%
Shares Out.	67	67	70	71	72	73	74	74	75	76
Revenue/Share	16.11	17.64	19.17	19.52	18.97	20.12	21.21	22.78	24.40	28.32
FCF/Share	0.46	0.77	0.91	0.97	1.09	0.66	1.76	2.44	3.19	6.23

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

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