



Cardinal Health Inc. (CAH)

Updated August 9th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	8.9%	Market Cap:	\$15 B
Fair Value Price:	\$58	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/30/21
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.5%	Dividend Payment Date:	10/15/21
Dividend Yield:	3.9%	5 Year Price Target	\$67	Years Of Dividend Growth:	34
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	1.0%

Overview & Current Events

Dublin, Ohio-based Cardinal Health is one of the “Big 3” drug distribution companies along with McKesson (MCK) and AmerisourceBergen (ABC). Cardinal Health serves over 24,000 United States pharmacies and more than 85% of the country’s hospitals. The company has operations in more than 40 countries with approximately 48,000 employees. With 34 years of dividend increases, the \$15 billion market cap company is a member of the Dividend Aristocrats Index.

On August 5th, 2021, Cardinal Health released Q4 and full year fiscal 2021 results for the period ending June 30th, 2021. For the quarter the company reported revenue of \$42.6 billion, a 16% increase from Q4 2020. On an adjusted basis the company posted earnings of \$227 million or \$0.77 per share compared to \$305 million or \$1.04 in the prior year.

For the year Cardinal Health generated revenue of \$162.5 billion, a 6% increase compared to fiscal 2020. Adjusted net income equaled \$1.6 billion or \$5.57 per share compared to \$1.6 billion or \$5.45 per share in the prior year. This figure was notably lower than prior guidance of \$5.90 to \$6.05 in EPS, due to a COVID-19-related PPE inventory reserve.

For fiscal 2021, Pharmaceutical sales equaled \$145.8 billion, a 6% increase, while segment profit equaled \$1.684 billion, a -4% decline. The Medical segment generated \$16.7 billion in revenue, an 8% gain, while segment profit equaled \$577 million, a -13% decline. The Pharmaceutical segment makes up the lion’s share of revenues, but the Medical segment remains important due to its higher margins and growth potential.

Cardinal Health also provided a fiscal 2022 outlook, anticipating \$5.60 to \$5.90 in adjusted earnings-per-share. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.21	\$3.73	\$3.84	\$4.38	\$5.24	\$5.40	\$5.00	\$5.28	\$5.45	\$5.57	\$5.75	\$6.67
DPS	\$0.88	\$1.09	\$1.25	\$1.41	\$1.61	\$1.81	\$1.86	\$1.91	\$1.93	\$1.94	\$1.96	\$2.38
Shares¹	343	340	337	328	322	316	309	298	294	294	290	280

In the 2011 through 2021 period, Cardinal Health has grown earnings-per-share by an average compound rate of 7.6% per year, while the dividend has grown at more than 9% annually. Moving forward we do not anticipate this sort of growth, especially considering the slowdown in earnings improvement in the last few years. After a disappointing end to fiscal 2021, Cardinal Health is expecting 0.5% to 5.9% improvement for fiscal 2022.

We are forecasting 3% intermediate-term earnings growth, from management’s midpoint guidance (which represents 3.2% growth compared to fiscal year 2020). Our subdued growth rate view could turn out to be conservative, especially with the company’s penchant for share repurchases. However, given the company’s earnings performance in 2016 through 2020, opioid litigation and a hot-topic drug pricing environment we are cautious for now. In addition, while the COVID-19 pandemic has helped results in the short-term, the long-term outlook remains quite uncertain.

Cardinal Health is holding up well in the pandemic, with elective procedures coming back and a material increase in personal protective equipment (PPE) demand.

¹ In millions.

Disclosure: This analyst is long the security discussed in this research report.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.1	12.7	17.9	19.1	14.9	14.4	14.6	9.5	9.2	10.2	8.8	10.0
Avg. Yld.	2.1%	2.3%	1.8%	1.7%	2.1%	2.3%	2.9%	3.8%	3.8%	3.4%	3.9%	3.6%

Cardinal Health has traded hands with an average P/E ratio of about 14 times earnings dating back to 2012. However, this was during a time when growth was much more robust. We have used a multiple of 10 times earnings as a starting place for fair value in recognition of our lower anticipated growth rate and risks in the industry. Given the current valuation near 9 times our estimate of this year's earnings, this implies the potential for a valuation tailwind.

The dividend yield is now robust partly due to an expanding payout ratio, but mostly as a result of a lower share price in the last few years. While the pace of dividend growth has slowed, the starting yield is solid.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	29%	33%	32%	31%	34%	37%	36%	35%	35%	34%	36%

Collectively the three major pharmaceutical wholesalers have a competitive advantage in the industry. Competition is held at bay by the massive scale already in place and the exceptionally low margins.

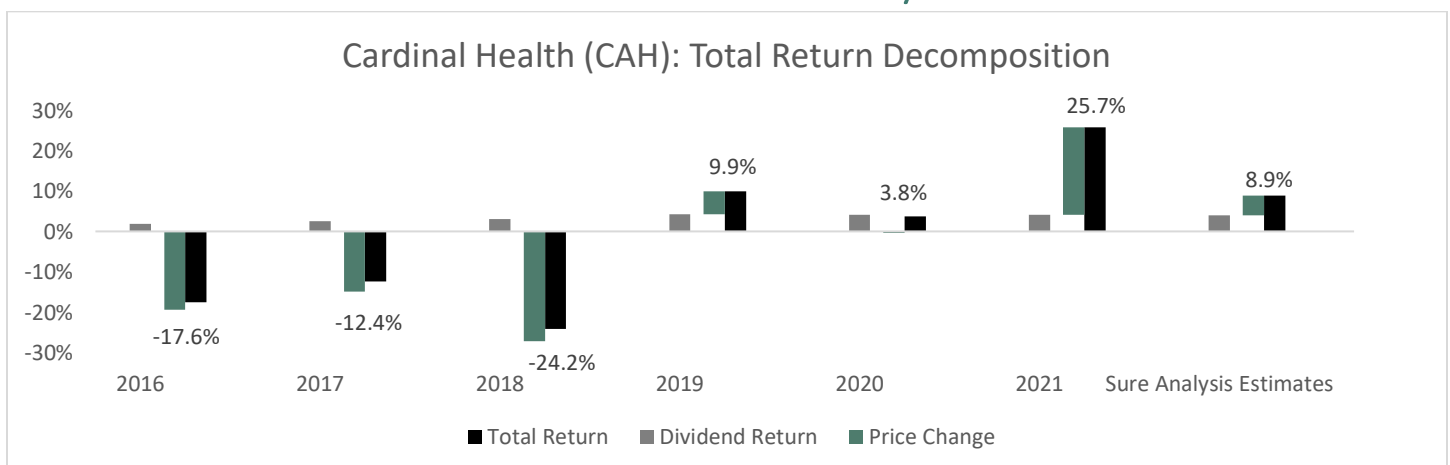
Cardinal Health has proven itself to be a solid operator in many ways – strong earnings for the past decade, a growing dividend and ample interest coverage. The dividend payout ratio had ticked up slightly in recent years, but its back to about a third of expected profits. In turn, the company has the ability to repurchase a meaningful number of shares.

As of the most recent report the company held \$3.4 billion in cash, \$31.0 billion in current assets and \$44.4 billion in total assets (23% of which is goodwill) against \$27.6 billion in current liabilities and \$42.7 billion in total liabilities. Long-term obligations stood at \$5.4 billion.

Final Thoughts & Recommendation

Shares are down -13% since our last report. Total return potential comes in at 8.9% per annum, stemming from a 3% growth rate, a 3.9% dividend yield and the potential for a valuation tailwind. There are risks to the business - namely political pressure, opioid litigation, the ongoing COVID-19 pandemic and the low margin business - but the dividend is well covered. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	107.5	101.1	91.18	102.5	121.5	130.0	136.8	145.5	152.9
Gross Profit	4541	4921	5161	5712	6543	6544	7181	6834	6868
Gross Margin	4.2%	4.9%	5.7%	5.6%	5.4%	5.0%	5.2%	4.7%	4.5%
SG&A Exp.	2677	2875	3028	3240	3648	3775	4596	4480	4572
D&A Exp.	325	397	459	451	641	717	1032	1000	913
Operating Profit	1831	1888	1910	2191	2436	2242	1878	1733	1772
Operating Margin	1.7%	1.9%	2.1%	2.1%	2.0%	1.7%	1.4%	1.2%	1.2%
Net Profit	1069	334	1166	1215	1427	1288	256	1363	-3696
Net Margin	1.0%	0.3%	1.3%	1.2%	1.2%	1.0%	0.2%	0.9%	-2.4%
Free Cash Flow	916	1532	2275	2240	2506	797	2384	2394	1585
Income Tax	628	553	635	755	845	630	-487	386	-79

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	24260	25819	26033	30142	34122	40112	39951	40963	40766
Cash & Equivalents	2274	1901	2865	4616	2356	6879	1763	2531	2771
Acc. Receivable	6355	6304	5380	6523	7405	8048	7800	8448	8264
Inventories	7864	8373	8266	9211	10615	11301	12308	12822	13198
Goodwill & Int.	4392	5574	5870	6018	9426	9207	12229	11808	11275
Total Liabilities	18016	19844	19632	23886	27551	33284	33892	34633	38974
Accounts Payable	11726	12295	12149	14368	17306	17906	19677	21535	21374
Long-Term Debt	2894	3854	3972	5492	5539	10395	9013	8031	6775
Total Equity	6244	5975	6401	6256	6554	6808	6059	6328	1789
D/E Ratio	0.46	0.65	0.62	0.88	0.85	1.53	1.49	1.27	3.79

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.5%	1.3%	4.5%	4.3%	4.4%	3.5%	0.6%	3.4%	-9.0%
Return on Equity	17.7%	5.5%	18.8%	19.2%	22.3%	19.3%	4.0%	22.0%	-91.1%
ROIC	12.2%	3.5%	11.5%	11.0%	12.0%	8.8%	1.6%	9.3%	-32.2%
Shares Out.	343	340	337	328	322	316	309	298	294
Revenue/Share	308.17	293.88	264.01	306.06	368.32	406.18	434.31	483.50	521.92
FCF/Share	2.62	4.45	6.59	6.69	7.59	2.49	7.57	7.95	5.41

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

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