



Roche Holding AG (RHHBY)

Updated February 2nd, 2023 by Derek English

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	11.1%	Market Cap:	\$297B
Fair Value Price:	\$49	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/16/23
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	03/20/23
Dividend Yield:	3.4%	5 Year Price Target	\$57	Years Of Dividend Growth:	36
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Roche Holding AG (RHHBY) is a research-based healthcare company headquartered in Switzerland. Founded in 1896, Roche has grown from producing vitamin preparations to a multinational company with over 97,000 employees. Roche's operating businesses are organized under two divisions. The Pharmaceutical division includes Genentech and Chugai. Genentech is an American biotechnology company, and Chugai is a Japanese biotechnology company. The Diagnostics division comprises four segments: Centralized and Point Care Solutions, Molecular Diagnostics, Tissue Diagnostics, and Diabetes Care.

The company released its 2022 annual report on February 2nd, 2023. The group posted a sales increase of 2% at constant currency rates, mainly due to Diagnostic's strong performance, increasing by 7% year on year. Diagnostics saw robust growth in the Asia Pacific and North America regions despite a higher base in 2021. However, the EMEA region saw a 16% decrease due to a decline in COVID-related sales. In addition, pharmaceuticals increased by 2% year-over-year, impacted by a reduction in COVID-19 products. However, the company's Oncology portfolio transformation continues to reduce the reliance on their AHR¹ cancer drugs as Tacentriq grew 14% and drugs in their HER2 franchise continued to grow in the mid to high single-digit range.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.87	\$1.48	\$1.34	\$1.41	\$1.28	\$1.56	\$1.97	\$2.20	\$2.68	\$2.79	\$2.87	\$3.33
DPS	\$0.97	\$1.11	\$1.00	\$1.02	\$1.03	\$1.08	\$1.07	\$1.14	\$1.16	\$1.24	\$1.29	\$1.48
Shares	6906	6906	6897	6880	6880	6880	6912	6840	6840	6840	6840	6800

Roche is well known to be heavily reliant on cancer drugs Herceptin, Rituxan, and Avastin, which have helped the company's 13.0% earnings CAGR in USD over the past five years. Biosimilars have heavily impacted all three drugs, with sales down 19% for Herceptin and 28% for Avastin. The company expects this downtrend to continue and has estimated sales to erode by ~1.6 billion between all three drugs. However, the company's reliance on cancer drugs is slowing down as new product sales accounted for over 50% of all Pharmaceutical sales last year, with Hemlibra and Ocrevus being the stand-out performers. New medicines continued this strong growth in all regions, offsetting the impact of biosimilars. Earnings growth has exceeded dividend growth over the last ten years, and the payout ratio has been below 60% since 2018. The company expects a challenging year ahead, coming off a High base in 2021 and 2022 due to covid sales with an expected \$1.6 reduction in sales. They have estimated that EPS to decline with sales. However, Roche kept its impressive dividend streak and has again committed to increasing the dividend in Swiss francs for the 36th straight year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	35.4	24.7	25.2	22.2	24.5	19.1	17.5	19.2	16.5	14.08	13.1	17.0
Avg. Yld.	3.2%	3.0%	2.9%	3.3%	3.3%	3.6%	3.1%	2.7%	2.6%	3.3%	3.4%	2.6%

¹ AHR = Avastin, Herceptin, Rituxan

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At 3.4%, Roche Holdings' dividend yield is slightly above its five-year average of 3.1%. However, it still compares favorably to the average dividend yield of 1.60%² for the S&P 500 Index. The company has increased its dividend on average by 4.1% over the last five years. However, they have grown it by a meager 2.1% for 2022 in CHF, expected to be paid on March 20th, 2023, with ex-dividend date on March 16th. We expect this low growth rate to continue until 2027, resulting in a 2027 target yield of 2.7%. The P/E ratio of 13.1 is below the average P/E ratio of 17.3 over the last five years. This year, sales growth has been steady as the company recovers from the pandemic. However, we agree with management on low single-digit growth of around 3% over the next five years as earnings usually track sales. That said, 3% is a conservative figure that reflects the biosimilars impact; however, we may raise our expectations if new medicines continue to grow quickly. As a result, we expect the P/E ratio to remain at around 17 for the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

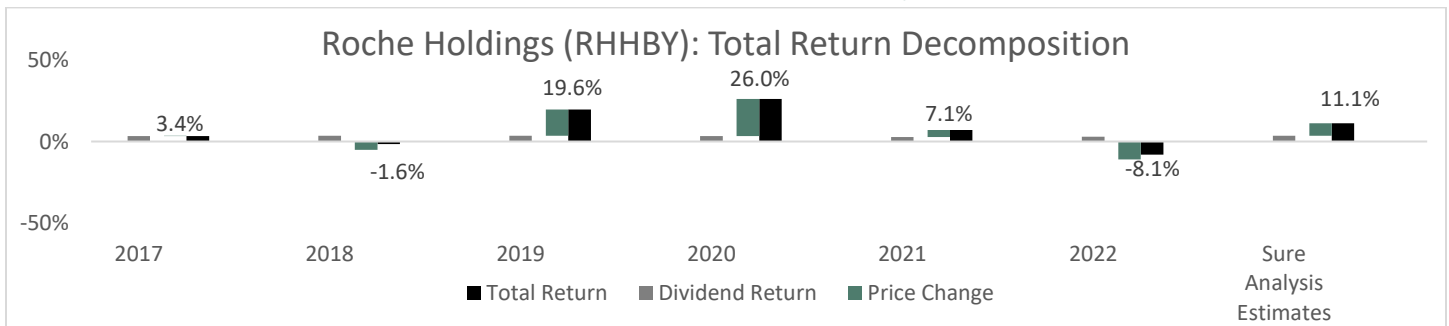
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	111%	75%	75%	72%	80%	69%	55%	52%	43%	47%	45%	44%

Over the last five years, Roche's earnings have grown at a CAGR of 13.0%. Healthcare remains a competitive sector, but the main advantage for Roche is its R&D department. The company initiated four new Phase III trials last quarter, had two approvals, and has ~30 Phase III trials planned for 2023. The company has also been researching novel techniques to cure diseases such as Alzheimer's using quantum computing. In addition, Roche can accelerate future growth through acquisitions; for example, in 2019, they made a significant acquisition of Spark Therapeutics, and in 2020 they also acquired companies such as Stratos Genomics. Finally, as a European dividend aristocrat, Roche has shown resilience to withstand recessions and increase dividends. With a 36-year streak, the company continues to reward shareholders. Roche Holding AG's underlying security is listed on the Swiss Exchange, and the ADR (RHHBY) is listed on the NYSE. Roche reports all their financial statements in Swiss francs for Roche Holding AG. Due to currency fluctuations, the ADR may not see the same dividend increase. The depositary bank performs a tax reclaim process for ADR holders with the Swiss tax authorities. Therefore, the actual dividend tax paid depends on the specific tax status of the dividend recipient.³

Final Thoughts & Recommendations

As a company, Roche holds traits that can be encouraging to investors. Earnings and sales have risen over the last ten years, and the company has an impressive dividend history spanning more than three decades. However, Roche does carry some risks. The healthcare sector is inherently competitive, and biosimilars and capital investment continue to impact the company's top line. Over the next five years, we expect a total return of 11.1%. Therefore, we would rate RHHBY as a buy due to projected returns and the company's fantastic streak of increasing its dividend.

Total Return Breakdown by Year



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² <https://www.multip.com/s-p-500-dividend-yield>

³ https://www.roche.com/investors/us_investors.htm

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	50480	51933	50031	51341	54108	58111	61869	62209
Gross Profit	37587	37292	33966	34916	35653	40458	43398	44954
Gross Margin	74.5%	71.8%	67.9%	68.0%	65.9%	69.6%	70.1%	72.3%
SG&A Exp.	11890	13678	11993	11019	13473	15709	15177	13454
D&A Exp.	2569	2870	3783	4001	3946	3666	4320	4862
Operating Profit	17671	15417	14363	14282	13200	15098	17663	19779
Operating Margin	35.0%	29.7%	28.7%	27.8%	24.4%	26.0%	28.5%	31.8%
Net Profit	12047	10211	9210	9721	8764	10734	13585	15247
Net Margin	23.9%	19.7%	18.4%	18.9%	16.2%	18.5%	22.0%	24.5%
Free Cash Flow	13940	13783	11578	10005	14021	15392	17604	12667
Income Tax	3565	3261	3046	3324	3475	3356	2522	3090

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	70050	76394	76649	75493	78716	79750	85756	98593
Cash & Equivalents	4507	3784	3775	4091	4845	6786	6270	6555
Accounts Receivable	9996	9207	8543	8725	10116	10282	11164	12027
Inventories	6655	7830	7737	7791	7604	6725	6249	8234
Goodwill & Int. Ass.	12495	22986	25235	22925	18936	18581	21721	24341
Total Liabilities	46115	54592	53077	49547	48937	48907	48739	53069
Accounts Payable	1744	2171	2478	2643	2860	2892	3278	3797
Long-Term Debt	21007	26005	23523	21969	19464	19065	14824	16271
Shareholder's Equity	21740	19807	21224	23498	27144	28056	33797	41596
D/E Ratio	0.97	1.31	1.11	0.93	0.72	0.68	0.44	0.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	17.1%	13.9%	12.0%	12.8%	11.4%	13.5%	16.4%	16.5%
Return on Equity	64.0%	49.2%	44.9%	43.5%	34.6%	38.9%	43.9%	40.4%
ROIC	26.7%	22.0%	19.4%	20.5%	18.0%	21.7%	26.7%	26.8%
Shares Out.	6904	6904	6896	6880	6880	6880	6912	6920
Revenue/Share	7.31	7.52	7.26	7.46	7.86	8.45	8.95	8.99
FCF/Share	2.02	2.00	1.68	1.45	2.04	2.24	2.55	1.83

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

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