



Roche Holding AG (RHHBY)

Updated July 28th, 2023 by Derek English

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	10.5%	Market Cap:	\$250 B
Fair Value Price:	\$49	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/15/24 ¹
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	03/20/24
Dividend Yield:	3.2%	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 ~ 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 has four segments: Centralized and Point Care Solutions, Molecular Diagnostics, Tissue Diagnostics, and Diabetes Care.

The company released its second quarter 2023 sales update on July 27th, 2023. Excluding the impact of COVID-19 products, Roche demonstrated a solid performance with an 8% increase in Group sales at constant exchange rates. As projected, the demand for COVID-19 products declined, resulting in a 2% decrease in Group sales. However, the Pharmaceuticals Division experienced robust growth of 8%, driven by sustained high demand for newer medicines, notably led by the successful launch of the latest eye medicine Vabysmo. The Diagnostics Division also maintained positive momentum in its base business, achieving a 6% increase in sales. It's worth noting that total divisional sales were impacted, showing a 23% decline due to the extraordinary surge in demand for COVID-19 tests during the first half of 2022. The company's core earnings per share witnessed a modest decrease of 5%, influenced by lower demand for COVID-19 products and a base effect resulting from a patent settlement in 2022. Consequently, net income declined by 9%, attributed to lower core operating profit and higher interest expenses.

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	\$1.28	\$1.47
Shares	6906	6906	6897	6880	6880	6880	6912	6840	6840	6840	6880	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 Vabysmo, 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.

¹ Estimated

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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	13.5	17.0
Avg. Yld.	3.2%	3.0%	2.9%	3.3%	3.3%	3.6%	3.1%	2.7%	2.6%	3.3%	3.2%	2.6%

At 3.2%, 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 1.50%² for the S&P 500 Index. The company has increased its dividend on average by 4.1% over the last five years. However, the dividend grew by a meager 2.1% for 2022 in CHF, which was paid on March 20th, 2023. We expect this low growth rate to continue until 2028, resulting in a 2028 target yield of 2.6%. The P/E ratio of 13.5 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 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

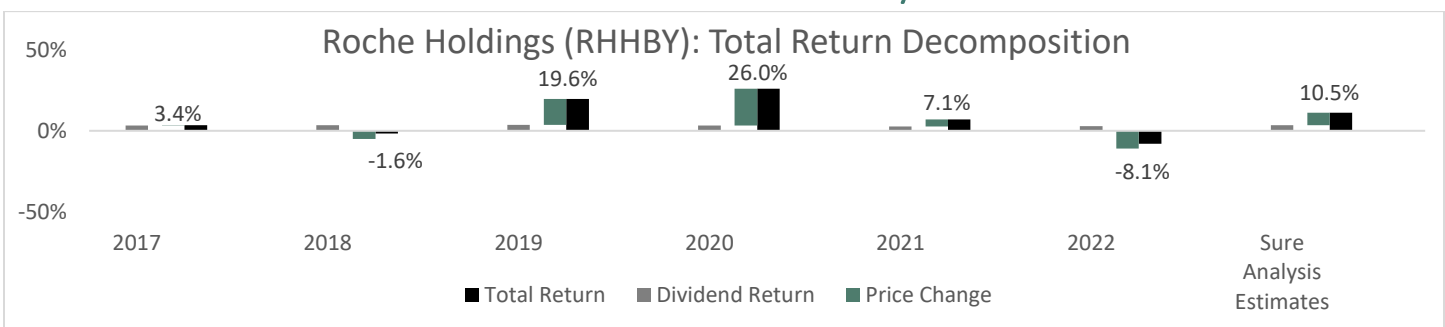
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	111%	75%	75%	72%	80%	69%	55%	52%	43%	47%	45%	44%

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.

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 annual return of 10.5%. 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.multpl.com/s-p-500-dividend-yield>

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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	51933	50031	51341	54108	58111	61869	62209	68710
Gross Profit	37292	33966	34916	35653	40458	43398	44954	47220
Gross Margin	71.8%	67.9%	68.0%	65.9%	69.6%	70.1%	72.3%	68.7%
SG&A Exp.	13678	11993	11019	13473	15709	15177	13454	14500
D&A Exp.	2870	3783	4001	3946	3666	4320	4862	4861
Operating Profit	15417	14363	14282	13200	15098	17663	19779	19860
Operating Margin	29.7%	28.7%	27.8%	24.4%	26.0%	28.5%	31.8%	28.9%
Net Profit	10211	9210	9721	8764	10734	13585	15247	15240
Net Margin	19.7%	18.4%	18.9%	16.2%	18.5%	22.0%	24.5%	22.2%
Free Cash Flow	13783	11578	10005	14021	15392	17604	12667	17970
Income Tax	3261	3046	3324	3475	3356	2522	3090	2695

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	76394	76649	75493	78716	79750	85756	98593	100990
Cash & Equivalents	3784	3775	4091	4845	6786	6270	6555	7494
Accounts Receivable	9207	8543	8725	10116	10282	11164	12027	12500
Inventories	7830	7737	7791	7604	6725	6249	8234	8440
Goodwill & Int. Ass.	22986	25235	22925	18936	18581	21721	24341	25080
Total Liabilities	54592	53077	49547	48937	48907	48739	53069	69980
Accounts Payable	2171	2478	2643	2860	2892	3278	3797	4205
Long-Term Debt	26005	23523	21969	19464	19065	14824	16271	34130
Shareholder's Equity	19807	21224	23498	27144	28056	33797	41596	26790
D/E Ratio	1.31	1.11	0.93	0.72	0.68	0.44	0.39	1.27

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	13.9%	12.0%	12.8%	11.4%	13.5%	16.4%	16.5%	15.3%
Return on Equity	49.2%	44.9%	43.5%	34.6%	38.9%	43.9%	40.4%	44.6%
ROIC	22.0%	19.4%	20.5%	18.0%	21.7%	26.7%	26.8%	24.0%
Shares Out.	6904	6896	6880	6880	6880	6912	6920	6880
Revenue/Share	7.52	7.26	7.46	7.86	8.45	8.95	8.99	9.99
FCF/Share	2.00	1.68	1.45	2.04	2.24	2.55	1.83	2.61

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

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