Cencora, Inc. (COR)

Updated November 3rd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$195	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$39 B
Fair Value Price:	$193	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/10/23
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	11/27/23
Dividend Yield:	1.0%	**5 Year Price Target**	$283	**Years Of Dividend Growth:**	20
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Cencora (formerly known as AmerisourceBergen prior to September 2023) was formed in 2001 by the merger of AmeriSource and Bergen Brunswig. Today, the company is one of the largest healthcare distributors in the U.S., along with Cardinal Health and McKesson. Cencora provides pharmaceutical products and business solutions to a variety of customers, which include healthcare providers, veterinary practices, and livestock producers. Cencora also services global manufacturers to improve supply chain efficiency. More than 90% of the company's revenue comes from its pharmaceutical segment. Cencora has a market cap of $39 billion and generated $262 billion in revenue last year.

On November 1st, 2023, Cencora increased its quarterly dividend 5.4% to $0.51, marking its 20th consecutive annual dividend increase.

On April 20th, 2023, Cencora and TPG, a global alternative asset management firm, agreed to acquire OneOncology from General Atlantic, a global growth equity firm, for $2.1 billion. ABC will hold a minority interest in the joint venture for $685 million cash, which represents 35% ownership.

On November 2nd, 2023, Cencora announced Q4 FY 2023 results. (Cencora 's fiscal year ends September 30th.) For the quarter, revenue came in at $68.9 billion, a 12.7% increase compared to Q4 2022. Adjusted diluted earnings-per-share equaled $2.86 per share compared to $2.62 per share in Q4 2022, a 10% year-over-year increase.

Cencora provided its FY 2024 guidance, which sees adjusted earnings of $12.70 to $13.00 per share, on revenue growth of 7% to 10%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.97	$4.96	$5.62	$5.88	$6.49	$7.09	$7.90	$9.26	$11.03	$11.99	***$12.85***	***$18.88***
DPS	$0.94	$1.16	$1.36	$1.46	$1.52	$1.60	$1.66	$1.76	$1.84	$1.94	***$2.04***	***$3.00***
Shares[1]	219	207	220	218	213	207	204	209	211	211	***201.0***	***195.0***

The pharmaceutical distribution industry has been pressured, with increasing demand for generics fueling drug price deflation in the U.S., along with opioid litigation. In addition, there are fears of heightened competition from e-commerce giant Amazon, along with mounting political pressure on the industry. Despite these headwinds, Cencora continues to grow, partially thanks to the company's recent acquisitions, which continues to strengthen the company's position in the U.S. pharmaceutical distribution market.

In the 2014 through 2023 stretch, Cencora grew its earnings-per-share by 13.1% per annum. In the last five years, it increased its earnings-per-share at a 13.6% CAGR. The company is expecting bottom line growth in the mid- to high-single digits for 2023 following healthy growth in the prior year. We are forecasting 8% annual growth off this much higher base over the intermediate term, reflecting some confidence in the company's ability to take on the poor operating environment, management's guidance and a share repurchase program. This is balanced against the idea that it becomes more and more difficult to grow as the company gets larger and 2024 could prove to be a high starting base.

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[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.6	20.4	15.7	14.4	13.6	11.7	10.1	12.9	15.3	18.1	***15.2***	***15.0***
Avg. Yld.	1.3%	1.1%	1.5%	1.7%	1.7%	1.9%	1.8%	1.8%	1.2%	1.1%	***1.0%***	***1.1%***

Over the past decade shares of Cencora have traded hands with an average P/E ratio of about 15 times earnings. We are using 15 times earnings as a starting fair value baseline to account for some of the growing uncertainty in the industry. With shares trading at 15.2 times expected earnings, this implies a small valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2022	2023	2024	2029
Payout	24%	23%	24%	25%	23%	23%	21%	19%	17%	16%	***16%***	***16%***

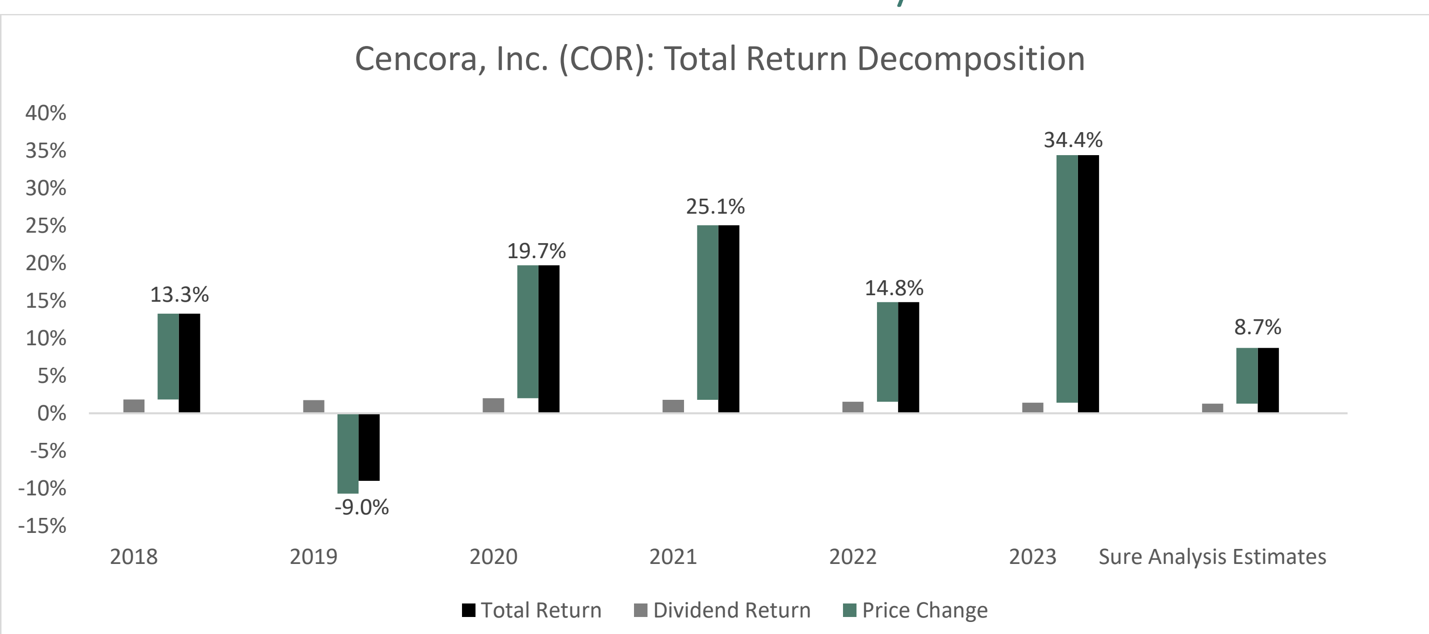
Cencora 's main competitive advantage is its industry position. As one of the 'Big 3,' Cencora has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. Cencora sources over 1.5 million products delivered from over 30 distribution centers, which is a major competitive advantage over smaller companies.

In terms of income safety, Cencora continues to operate with a dividend payout ratio below 25%, allowing for ample dividend increases along the way. As of the most recent report the company held $2.6 billion in cash, $42.8 billion in current assets and $62.6 billion in total assets against $48.8 billion in current liabilities and $61.9 billion in total liabilities. Long-term debt stood at $4.1 billion.

Final Thoughts & Recommendation

Shares are up 19% year-to-date, which is above the S&P 500 Index's 14% gain. Cencora's valuation has declined in the last half decade as the market has turned negative toward the major pharmaceutical distributors. Our view has become more cautious as well; however, the fundamentals remain strong. We forecast an 8.7% total return potential, comprising of an 8.0% growth rate and a 1.0% starting yield. Shares earn a hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue ($B)	120	136	147	153	168	180	190	214	239	262
Gross Profit	2,982	3,529	4,273	4,546	4,612	5,138	5,192	6,943	8296	8959
Gross Margin	2.5%	2.6%	2.9%	3.0%	2.7%	2.9%	2.7%	3.2%	3.5%	3.4%
SG&A Exp.	1,581	1,908	2,091	2,129	2,460	2,664	2,767	3,549	4849	5310
D&A Exp.	197	256	392	432	510	498	408	---	---	---
Operating Profit	1213	1373	1817	2020	1687	2012	2034	2844	2754	2686
Op. Margin	1.0%	1.0%	1.2%	1.3%	1.0%	1.1%	1.1%	1.3%	1.2%	1.0%
Net Profit	274	-138	1,428	364	1,658	855	-3,409	1540	1699	1745
Net Margin	0.2%	-0.1%	1.0%	0.2%	1.0%	0.5%	-1.8%	0.7%	0.7%	0.7%
Free Cash Flow	1200	3691	2714	1038	1075	2034	1837	2228	2207	3453
Income Tax	388	407	(37)	553	(438)	113	(1894)	677	517	428

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21532	27963	33638	35316	37670	39172	44270	57,340	56561	62560
Cash & Equivalents	1,809	2,167	2,742	2,435	2,493	3,374	4,598	2,547	3388	2592
Acc. Receivable	6313	8223	9176	10303	11314	12387	13850	18,170	18453	20910
Inventories	8594	9755	10724	11461	11919	11060	12590	15,370	15556	17450
Goodwill & Int.	3,482	6,138	8,959	8,878	9,612	9,000	8,593	14,290	12837	14010
Total Liabilities	19575	27347	31508	33252	34620	36179	45110	56750	56489	61890
Accounts Payable	15593	20886	23926	25404	26837	28385	31710	38010	40193	45840
Long-Term Debt	1,996	3,493	4,187	3,442	4,310	4,173	4,120	6,684	5703	4787
Total Equity	1,957	616	2,129	2,064	2,933	2,879	-1,019	584	-290	666
D/E Ratio	1.02	5.67	1.97	1.67	1.47	1.45	(4.04)	11.44	-19.68	7.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.4%	-0.6%	4.6%	1.1%	4.5%	2.2%	-8.2%	3.0%	3.0%	2.9%
Return on Equity	12.8%	-10.7%	104%	17.4%	66.4%	29.4%	-367%	---	---	768%
ROIC	7.2%	-3.4%	27.4%	6.2%	25.8%	11.8%	-65.3%	29.2%	26.8%	31.1%
Shares Out.	219	207	220	218	213	207	204	208	211	205
Revenue/Share	508	624	650	691	762	848	927	1026.5	1129.6	1281.5
FCF/Share	5.10	16.95	12.01	4.68	4.88	9.60	8.97	10.69	10.45	16.88