



West Pharmaceutical Services (WST)

Updated February 21st, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$356	5 Year CAGR Estimate:	-3.5%	Market Cap:	\$26B
Fair Value Price:	\$191	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	04/25/24 ¹
% Fair Value:	187%	5 Year Valuation Multiple Estimate:	-11.7%	Dividend Payment Date:	05/02/24 ²
Dividend Yield:	0.2%	5 Year Price Target	\$293	Years Of Dividend Growth:	31
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

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 31 consecutive years, which qualifies it to be a Dividend Champion.

West Pharmaceutical Services reported its fourth quarter earnings results on February 15. The company reported that its revenues totaled \$730 million, which represents a revenue increase of 3% compared to the prior year's quarter. West Pharmaceutical Services' revenues were slightly lower than what the analyst community had expected, like during the previous quarter, when it missed the consensus estimate as well. Revenues were positively impacted by currency rate changes during the period, unlike during the previous quarter when there was no such impact.

West Pharmaceutical Services generated adjusted earnings-per-share of \$1.83 during the fourth quarter, which represents an increase of 3% compared to the prior year's quarter. West Pharmaceutical Services is forecasting revenues of \$3.00 billion to \$3.03 billion for fiscal 2024. On top of that, the company guides for earnings-per-share to fall into a range of \$7.50 to \$7.75, which implies a decline versus the previous year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.75	\$1.30	\$1.91	\$2.78	\$2.81	\$3.24	\$4.76	\$8.56	\$8.58	\$8.08	\$7.63	\$11.74
DPS	\$0.41	\$0.46	\$0.50	\$0.54	\$0.57	\$0.61	\$0.65	\$0.69	\$0.73	\$0.77	\$0.80	\$1.07
Shares³	71	72	73	74	74	75	76	75	75	74	74	72

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 Estimated date

³ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	26.1	43.8	38.1	36.0	34.9	46.3	59.5	54.7	27.4	41.4	46.7	25.0
Avg. Yld.	0.9%	0.8%	0.7%	0.6%	0.6%	0.4%	0.2%	0.1%	0.3%	0.2%	0.2%	0.4%

West Pharmaceutical Services has never been valued at an especially low valuation in the past, but through 2014, its valuation was at least moderate, whereas the company's valuation expanded to a very high level in the following years. Today, West Pharmaceutical Services' valuation is way too high, we believe, as shares are trading for ~47x this year's expected net profits. We see multiple compression as a major headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23.4%	35.4%	26.2%	19.4%	20.3%	18.8%	13.7%	8.0%	8.9%	9.5%	10.5%	9.1%

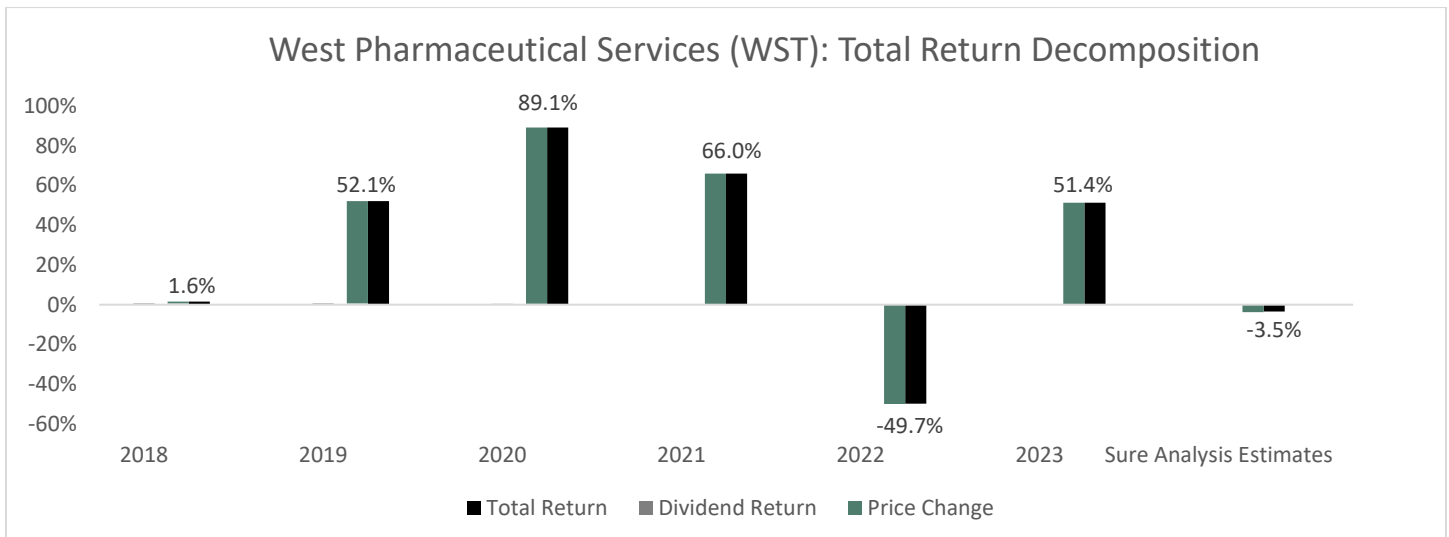
West Pharmaceutical Services' dividend payout ratio has never been high – the company has paid out less than one-third of its net profits in the form of dividends during each year of the last decade. Coupled with the fact that the company continued to raise its dividend during the last financial crisis, 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. West Pharmaceutical Services also has a solid dividend growth track record. We still do not think that the company is attractive for income investors, mainly due to its very low dividend yield. West Pharmaceutical Services' valuation has risen further since our last update and shares are pretty expensive at current prices. Since forecasted total returns are very unconvincing, we rate the stock a sell at the current level.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,421	1,400	1,509	1,599	1,717	1,840	2,147	2,832	2,887	2,950
Gross Profit	448	456	501	513	545	606	768	1,176	1,136	1,129
Gross Margin	31.5%	32.6%	33.2%	32.1%	31.8%	32.9%	35.8%	41.5%	39.4%	38.3%
SG&A Exp.	229	244	240	246	263	273	302	363	317	353
D&A Exp.	90	90	91	97	104	103	109	122	121	137
Operating Profit	181	178	225	228	242	299	419	760	761	707
Op. Margin	12.7%	12.7%	14.9%	14.2%	14.1%	16.2%	19.5%	26.8%	26.4%	24.0%
Net Profit	127	96	144	151	207	242	346	662	586	593
Net Margin	8.9%	6.8%	9.5%	9.4%	12.0%	13.1%	16.1%	23.4%	20.3%	20.1%
Free Cash Flow	71	81	49	133	184	241	298	331	439	415
Income Taxes	47	26	54	81	41	59	73	107	115	122

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,670	1,695	1,717	1,863	1,979	2,341	2,794	3,314	3,617	3,830
Cash & Equivalents	255	275	203	236	337	439	616	763	894	854
Accounts Receivable	179	181	201	253	288	319	385	489	507	512
Inventories	182	181	199	215	215	236	321	378	415	435
Goodwill & Int. Ass.	151	142	126	129	126	138	142	133	126	124
Total Liabilities	713	671	599	583	583	768	939	978	932	949
Accounts Payable	103	120	122	138	130	157	213	232	215	242
Long-Term Debt	336	298	229	197	196	257	255	253	209	207
Shareholder's Equity	957	1,024	1,118	1,280	1,396	1,573	1,855	2,335	2,685	2,881
LTD/E Ratio	0.35	0.29	0.20	0.15	0.14	0.16	0.14	0.11	0.08	0.07

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.6%	5.7%	8.4%	8.4%	10.8%	11.2%	13.5%	21.7%	16.9%	15.9%
Return on Equity	13.6%	9.7%	13.4%	12.6%	15.5%	16.3%	20.2%	31.6%	23.3%	21.3%
ROIC	9.9%	7.3%	10.8%	10.7%	13.5%	14.1%	17.6%	28.2%	21.4%	19.8%
Shares Out.	71	72	73	74	74	75	76	75	75	74
Revenue/Share	19.52	18.97	20.12	21.21	22.78	24.40	28.32	37.11	38.09	39.17
FCF/Share	0.97	1.09	0.66	1.76	2.44	3.19	3.93	4.33	5.80	5.50

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

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