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Abbott Labs

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Our community is very familiar with Abbott Labs (ABT) as the company ranks #32 in the MANIFEST 40. Abbott has long been regarded as a "rock" of stable growth and profitability and resides as a core holding in many portfolios.

Abbott manufactures and markets pharmaceuticals, medical devices, blood glucose monitoring kits, and nutritional health care products. Products include prescription drugs, coronary and carotid stents, and nutritional liquids for infants and adults. Abbott generates slightly less than 60% of revenue from pharmaceuticals. (Source: Morningstar)

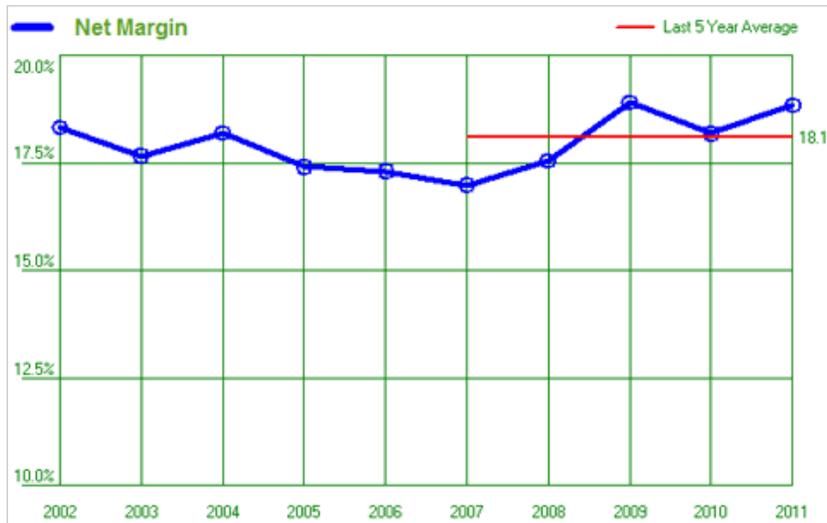
Growth

Morningstar forecasts revenue growth of 6% over the next ten years. Value Line pegs growth (per share) at 7.5% for the next 3-5 years and the top line forecast would check in closer to 5%. We're using a 8% sales growth forecast for ABT.



Profitability

The trailing 5-year average for net margin is approximately 17.3%. Value Line has a 3-5 year projected net margin of 20%. Our projected net margin is 18%.



Abbott Labs (ABT): Profitability Trends. Despite some challenges, Abbott managed to deliver some historically-high margins in 2009 and the outlook for 2010 and 2011 is pretty favorable.

Valuation

The average projected P/E for the Drugs (Diversified) industry is 19x. The 5-year historical average P/E is 17.3x for ABT. Based on analyst consensus P/E forecasts and historical trends, a P/E of 12-22x is feasible. The current P/E was 13.4x at the time of selection. For our study, we've used a projected average P/E of 17x.



Abbott Labs (ABT): Valuation Trends. This 2 1/2-year look at monthly P/E ratios for Abbott displays a "tendency" to settle out in the 15-17x range going forward. We've used a projected average P/E of 17x.

Expected Returns, Quality & Conclusions

Based on a price at the time of the study of \$50.75, the projected annual return was approximately 16%. ABT has a debt-to-capital ratio of 39% and an effective interest rate of 4.42% contributing to a consensus financial strength rating of 96. Morningstar rates Abbott a strong buy with a price-to-fair value ratio of 74.6% (based on a fair value of \$68.) S&P has a fair value estimated at \$58.20 and has a "buy" rating for Abbott.

97.5% of CAPS All-Stars see "outperformance" for ABT.

The pipeline includes some efforts in the areas of oncology and a variety of neurological and pain ailments. Research & development represented 8.9% of net sales for 2009 and they seem intent on easing pain. That makes me feel better.

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