3 Pharmaceutical Stocks to Watch

The pharmaceutical industry is anticipated to grow due to rising chronic diseases and an aging population. Given the industry's strong long-term prospects, quality stocks Novo Nordisk (NVO), Novartis (NVS), and Bristol-Myers Squibb (BMY) could be worth adding to your watchlist. Continue reading….

The pharmaceutical industry tends to perform steadily amid economic downturns, as it enjoys inelastic demand for its products and services. So, amid the possibility of a recession later this year or early next year, quality pharma stocks Novo Nordisk A/S (NVO), Novartis AG (NVS), and Bristol-Myers Squibb Company (BMY) could be wise investments.

According to the U.S. pharmaceutical industry statistics, the nation will represent 43.7% of the worldwide pharma market in 2023. In addition, the United States is estimated to spend $605 to $635 billion on pharmaceuticals by 2025.

The worldwide pharmaceutical industry is predicted to increase at a 5.4% CAGR to $1.44 trillion by 2027. Increasing chronic diseases and an aging population are two significant factors driving the pharmaceutical industry's expansion.

Investors' interest in pharma stocks is evident from VanEck Vectors Pharmaceutical ETF's (PPH) 9.1% returns over the past nine months.

Let's delve deeper into the fundamentals of the featured stocks.

Novo Nordisk A/S (NVO)

Headquartered in Bagsvaerd, Denmark, NVO is a global healthcare company engaged in discovering, developing,

manufacturing, and marketing pharmaceutical products. It operates through two business segments: Diabetes and Obesity care; and Biopharm.

NVO’s trailing-12-month EBITDA of 46.13% is significantly higher than the industry average of 2.18%. Its trailing-12-month CAPEX/Sales of 8.14% is 75.2% higher than the industry average of 4.64%.

NVO has paid dividends for 40 consecutive years. Over the last three years, NVO’s dividend payouts have grown at 12.6% CAGR. NVO’s four-year average dividend yield is 1.71%. Its forward annual dividend of $2.36 translates to a 1.50% yield.

For the fiscal first quarter that ended March 31, 2023, NVO’s net sales increased 26.9% year-over-year to Kr53.37 billion ($7.68 billion), while its operating profit came in at Kr17.09 billion ($3.59 billion), up 30.6% year-over-year. The company’s net profit came in at Kr13.59 billion ($2.85 billion), and EPS Kr8.78, representing 39.4% and 41.2% increases year-over-year, respectively.

The consensus revenue estimate of $31.96 billion for the year ending December 2023 represents a 22.3% increase year-over-year. Its EPS is expected to grow 40% year-over-year to $5.05 for the same period. It surpassed EPS estimates in all four trailing quarters. NVO’s shares have gained 53.7% over the past nine months to close the last trading session at $157.14.

NVO’s POWR Ratings reflect this promising outlook. The stock has an overall rating of A, equating to a Strong Buy in our proprietary rating system. The POWR Ratings assess stocks by 118 different factors, each with its own weighting.

NVO has an A grade for Quality and a B for Stability, Growth, Value, Momentum, and Sentiment. It is ranked #3 out of 167 stocks in the Medical – Pharmaceuticals industry. Click here for the additional POWR Ratings for NVO.

Novartis AG (NVS)

Headquartered in Basel, Switzerland, NVS researches, develops, manufactures, and markets healthcare products worldwide through two segments: Innovative Medicines and Sandoz.

On May 4, 2023, Sandoz signed a distribution and collaboration deal with Adalvo for the exclusive rights to commercialize six pharmaceuticals in the major therapeutic areas of anti-infectives and oncology. These drugs, which are scheduled to launch in the mid-term of 2024 and have a market value of roughly $3 billion, will advance Sandoz's product pipeline in the critical U.S. generics market.

NVS' trailing-12-month gross profit margin of 71.17% is 27.6% higher than the industry average of 55.77%. Its trailing-12-month EBITDA margin of 35.60% is significantly higher than the industry average of 2.18%.

NVS has paid dividends for 26 consecutive years. Over the last three years, NVS' dividend payouts have grown at 4.3% CAGR. NVS' four-year average dividend yield is 3.60%. Its forward annual dividend of $3.50 translates to a 3.54% yield.

For the fiscal first quarter that ended March 31, 2023, NVS' net sales increased 3.4% year-over-year to $12.95 billion. Its operating income grew marginally from the year-ago value to $2.86 billion. Also, its net income and EPS came in at $2.29 billion and $1.09, representing 3.4% and 9% year-over-year increases, respectively.

Analysts expect NVS' revenue to increase 5.3% year-over-year to $53.21 billion for the fiscal year ending December 2023. Its EPS is expected to grow 14.3% year-over-year to $6.99 for the same period. It surpassed EPS estimates in all four trailing quarters. Over the past nine months, the stock has gained 24.1% to close its last trading session at $98.91.

NVS has an overall A rating, translating to Strong Buy in our

POWR Ratings system. It has an A grade for Growth, Stability, and Quality and a B for Value and Sentiment. It is ranked first in the same industry.

Beyond what is stated above, we've also rated NVS for Momentum. Get all NVS ratings here.

Bristol-Myers Squibb Company (BMY)

BMY is a biopharmaceutical company offering pharmaceutical products for treating hematology, oncology, cardiovascular, immunology, fibrotic, neuroscience, and COVID-19 diseases.

BMY's trailing-12-month gross profit margin of 78.46% is 40.7% higher than the industry average of 55.77%. Its trailing-12-month EBITDA margin of 42.79% is significantly higher than the industry average of 2.18%.

BMY has paid dividends for 33 consecutive years. Over the last three years, BMY's dividend payouts have grown at 8.9% CAGR. BMY's four-year average dividend yield is 3%. Its forward annual dividend of $2.28 translates to a 3.47% yield.

BMY's net earnings increased 77% year-over-year to $2.27 billion in the fiscal first quarter that ended March 31, 2023. The company's EPS came in at $1.07, up 81.4% year-over-year in the same period. Also, its total expenses decreased 14% year-over-year to $8.57 billion.

Street expects BMY's revenue to increase marginally year-over-year to $46.68 billion for the year ending December 2023. Its EPS is expected to increase 4.4% year-over-year to $8.04 for the same period. It surpassed EPS estimates in all four trailing quarters. BMY's shares have gained marginally intraday to close the last trading session at $65.66.

BMY's strong fundamentals are reflected in its POWR Ratings. The stock has an overall rating of A, which equates to a Strong Buy in our proprietary rating system.

It is ranked #4 in the same industry. It has an A grade for Value and a B for Stability, Growth, and Quality. To see additional BMY ratings for Sentiment and Momentum, click here.

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NVO shares rose $1.35 (+0.86%) in premarket trading Monday. Year-to-date, NVO has gained 17.78%, versus a 12.40% rise in the benchmark S&P 500 index during the same period.

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Rashmi is passionate about capital markets, wealth management, and financial regulatory issues, which led her to pursue a career as an investment analyst. With a master’s degree in commerce, she aspires to make complex financial matters understandable for individual investors and help them make appropriate investment decisions.

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