

McMURTRY INVESTMENT REPORT™

Investment Advice for Everyone

Equity investments in Healthcare sector

May 2022

Company	Price May 1st	PE FWD	EPS 2021	EPS 2022	EPS 2023	EPS % Ch 2022/ 2021	PEG FWD
CVS	96.13	11.62	8.40	8.27	8.954	-1.55	N/M
WBA	42.40	8.41	5.31	5.039	4.852	-5.10	N/M
UNH	508.55	23.46	19.02	21.68	24.72	13.99	1.68
ANTM	501.93	17.53	25.98	28.63	32.43	10.20	1.72
HUM	444.56	18.05	20.64	24.63	27.55	19.33	0.93
DHR	251.13	24.17	10.05	10.39	10.91	3.38	7.15
TMO	552.92	24.22	25.13	22.83	24.47	-9.15	N/M
BSX	42.11	23.59	1.63	1.785	2.036	9.51	2.48
MDT	104.36	18.43	4.44	5.662	5.772	27.52	0.67
SYK	241.26	24.98	9.09	9.66	10.85	6.27	3.98
MRK	88.69	12.15	6.02	7.297	7.334	21.21	0.57
LLY	292.13	34.36	8.16	8.501	9.513	4.29	8.01
AZN	66.40	20.37	2.645	3.26	4.523	23.25	0.88
PFE	49.07	6.89	4.42	7.127	5.464	61.24	0.11
ABT	113.50	23.40	5.21	4.851	4.951	-6.89	N/M
JNJ	180.46	17.59	9.80	10.26	10.92	4.69	3.75
HCA	214.55	12.52	17.50	17.14	19.37	-2.06	N/M
CURA.CX	7.60	N/M	(0.1051)	0.00	0.2734	N/M	N?M

Domestically the healthcare sector has few true healthcare companies. Consequently, the index is principally weighted to the cannabis companies which are all having difficulty at the moment. There is some hope south of the border in regards to ongoing legislation to legalize the selling of recreational cannabis products. This would open up an enormous market for cannabis producers, including Canadian ones. However, the probability of legislation passing over the immediate term is not favourable with the Republicans blocking it with any opportunity they have. In addition the US mid term elections next year are not looking very promising for the Democrats in the House and this will not help getting any legislation passed in the short term.

The US equity market offers many companies exposed to traditional healthcare. The sector is really divided up into several groups such as: Pharma/ Biotechnology, Medical Devices, Medical Insurance and Hospital Management. From the attached table I have tried to include companies from each group.

The environment for this sector has improved recently. Weaker economic growth means that healthcare companies' earnings relative to the rest of the market are now looking better. Secondly the probability of the Democrats imposing very restrictive price controls on the pharma/ biotech companies is looking much less likely with the US mid term elections next year tilting towards the Republicans.

In the pharma / biotech space, Astra Zeneca and Merck look well positioned going forward. While annual EPS growth this year for Pfizer is very strong, this is expected to decline sharply in subsequent years with the eventual decline of Covid cases. However Pfizer's PE on this year's earnings is only 6.89 times indicating the market has already discounted the projected decline in EPS in 2023 and beyond. The reasons I have kept Pfizer on the list are twofold – the valuation is very cheap and it is quite likely the company will either sharply beef up its R&D budget and / or make a significant acquisition to enhance the company's long term drug pipeline.

I continue to like Astra Zeneca with its strong pipeline of new drugs and solid growth prospects. It certainly appears that Merck is winning out in the lung cancer area from companies like Bristol Myers. Consequently I will be adding Merck to both portfolios in this sector. The company pays an attractive dividend of 2.41%.

In the medical devices area, I continue to like Medtronic. The stock is reasonably priced, especially when you take into consideration the strong growth in EPS. This area of healthcare will most certainly benefit from the ending of pandemic lockdowns that resulted in the postponement of non essential surgeries.

Both Danaher and Thermo Fisher historically been serial acquirers leading to strong growth in revenues and earnings. Currently both companies' EPS growth prospects seems much less favourable than in the past. Consequently I have decided to delete Thermo Fisher from my Growth portfolio while still maintaining Danaher as a long term investment.

In the health insurance area, Unitedhealth, Anthem and Humana have all exhibited strong EPS growth prospects. I am adding Humana to both portfolios. It offers a dividend yield of 0.71% that is well covered by cash flow and where the dividend per share is growing nicely.

Lastly in the hospital management area, I included HCA on the attached table for review. While I do like the company's longer term prospects, I want to do some more research before considering adding it to the model portfolios.

Please see our [disclaimer](#) at mcmurtryinvestmentreport.ca.

[Copyright](#) © McMurtry Investment Report™. All rights reserved.

mcmurtryinvestmentreport.ca

Strategies for do-it-yourself investors™