



Kimberly-Clark Corporation (KMB)

Updated April 8th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$109	5 Year CAGR Estimate:	11.0%	Quality Percentile:	N/A
Fair Value Price:	\$128	5 Year Growth Estimate:	4.0%	Momentum Percentile:	N/A
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Total Return Percentile:	N/A
Dividend Yield:	3.7%	5 Year Price Target	\$155	Valuation Percentile:	N/A

Overview & Current Events

Kimberly-Clark was founded in 1872. It manufactures personal care products and consumer tissue products and sells them in 175 countries. While the company has expanded in almost every country, it still generates 52% of its total sales and 70% of its operating income from North America, where the competition is cutthroat. As consumers have become markedly price-sensitive in recent years, private-label products have gained market share. Moreover, large retailers, such as Walmart and Target, have engaged in a price war and have thus begun to exert great pressure on their suppliers for lower prices. In addition, due to the nature of the products of Kimberly-Clark, there is little potential for differentiation.

All these factors have taken their toll on the performance of Kimberly-Clark, which has failed to grow its revenues for 6 consecutive years. In addition, the stock has been severely hit by the rising interest rates, as its dividend directly competes with the other available yields in the market. Consequently, the stock has dramatically underperformed S&P in the last two years, having plunged 20% while the index has rallied 26%. Thus the stock is currently trading near its 3-year low while its dividend yield has climbed to a 6-year high level.

In January, Kimberly-Clark reported its Q4 results. The report was very similar to the previous ones, with the revenues decreasing 1% but the earnings per share exceeding the analysts' estimates by 1% thanks to cost-cutting measures.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.06	\$4.52	\$4.45	\$3.99	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.99	\$8.50
DPS	\$2.27	\$2.38	\$2.58	\$2.76	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.60

While Kimberly-Clark has not grown its revenues for years, it has managed to grow its earnings per share thanks to share repurchases and its cost-reduction program called FORCE. Thanks to this program, it has improved its operating margin from 12.2% in 2012 to 18.1% lately. The management has extended this initiative for another three years, aiming for another \$1.5 B of cumulative savings. This will be the main growth driver in the upcoming years.

This year, the company expects 11%-16% EPS growth, partly thanks to a 6% boost from the recent tax reform. The analysts seem to agree with the guidance of the management and thus expect EPS of \$6.99 this year. Going forward, it is reasonable to expect 2% operating income growth, as per the latest guidance of the management. Therefore, given also the recent average annual buyback rate of 2%, it is reasonable to expect at least 4% annual EPS growth, from \$6.99 in 2018 to \$8.50 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.2	12.2	14.1	16.9	18.2	17.8	28.1	40.6	21.2	19.9	15.5	18.2
Avg. Yld.	3.7%	4.3%	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.7%	3.0%

The 10-year average P/E ratio of Kimberly-Clark is 20.4. However, in 2015, the P/E of the stock was an abnormally high 40.6 due to some non-recurring items, which resulted in depressed GAAP earnings per share. Therefore, it is prudent to exclude that abnormal P/E. In this way, the average historical P/E ratio of the stock becomes 18.2. This means that the current 15.5 P/E (using expected 2018 EPS) of the stock is much lower than its average P/E. As it is reasonable to expect

the stock to revert towards its average P/E in 2023, the stock is likely to enjoy an average annual return of 3.3% thanks to P/E expansion in the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.4%	33.4%	33.0%	31.8%	30.8%	34.9%	43.0%	44.6%	45.5%	43.3%	45.0%	45.0%
Debt/A	78.6%	71.9%	70.2%	72.9%	74.9%	74.3%	95.3%	101%	101%	95.8%	96.0%	100%
Int. Cov.	10.1	11.4	12.5	9.5	9.0	11.2	9.5	5.9	10.8	10.7	10.6	10.0
Payout	55.9%	52.7%	58.0%	69.2%	67.0%	58.6%	85.9%	127%	61.4%	62.2%	57.2%	54.1%
Std. Dev.	31.4%	21.1%	13.6%	14.9%	11.4%	16.3%	15.0%	18.1%	15.8%	14.2%	18.0%	16.0%

The debt/assets ratio has markedly increased in recent years but Kimberly-Clark enjoys reliable free cash flows thanks to the strength of its brands. To be sure, it has enjoyed free cash flows higher than \$1.2 billion every single year throughout the last decade. As a result, it can maintain its current leverage without any problem. In addition, the stock has maintained an essentially flat and healthy payout ratio during the last decade. Therefore, it can easily maintain its 46-year dividend growth streak. Moreover, the stock is resilient during recessions, as its products are essential to consumers, who continue to consume them even during the roughest economic periods.

Final Thoughts & Recommendation

Due to stagnant revenues in recent years and the rising interest rates, Kimberly-Clark has dramatically underperformed the market in the last two years. Consequently, the stock is now trading near its 3-year low while its dividend yield has risen to a 6-year high. However, the company is poised to post 11%-16% EPS growth this year thanks to its cost-cutting initiatives, its share buybacks and its reduced tax rate. When the market realizes this, it is likely to reward the stock with a higher P/E ratio. In the next five years, the stock is likely to reward its shareholders with 4% annual EPS growth, 3.3% annualized expansion of its P/E and a 3.7% dividend for a total annual return of 11.0%. This return is certainly attractive, particularly given the rich valuation of most stocks amid the ongoing 9-year bull market. Moreover, investors are compensated with a 3.7% dividend while waiting for the stock to reward them with its EPS growth and a more normal valuation.

Total Return Breakdown by Year

