Church & Dwight Co. Inc. (CHD)

Updated May 1st, 2018 by Nick McCullum

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	12.2%	**Quality Percentile:**	N/A
Fair Value Price:	$49	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	N/A
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Total Return Percentile:**	N/A
Dividend Yield:	1.9%	**5 Year Price Target**	$75	**Valuation Percentile:**	N/A

Overview & Current Events

Church & Dwight is a diversified consumer staples company that manufactures and distributes products under a number of well-known names like *Arm & Hammer*, *Trojan*, *OxiClean*, *Spinbrush*, *First Response*, *Waterpik*, *Nair*, *Orajel*, and *XTRA*. The company was founded in 1896, has increased its dividend for 12 consecutive years, and trades with a market capitalization of $11 billion.

In February, Church & Dwight reported (2/5/18) very strong financial results for the fourth quarter of fiscal 2018. Performance was driven primarily by the $1 billion purchase of *Waterpik* which closed last August, as well as a significant bottom-line impact from tax reform. Excluding the acquisition, the quarter saw organic sales growth of 2.4% and adjusted earnings-per-share growth of 18%. For the full-year period, Church & Dwight reported sales growth of 8.1% (2.7% ex-acquisitions) and earnings-per-share growth of 66% (10% ex-acquisitions). We were happy with the company's performance and believe that Church & Dwight should achieve its goal of 8% sustainable earnings-per-share growth moving forward.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.72	$0.87	$0.99	$1.11	$1.23	$1.40	$1.51	$1.63	$1.77	$1.94	***$2.26***	***$3.50***
DPS	$0.09	$0.12	$0.16	$0.34	$0.48	$0.56	$0.62	$0.67	$0.71	$0.76	***$0.81***	***$1.25***

Church & Dwight's Chief Executive Officer wrote in his 2017 letter to shareholders that he believes sustainable 8% earnings-per-share growth is feasible *before the impact of acquisitions*. Remarkably, mergers & acquisitions are one of Church & Dwight's core competencies. Ten of the company's eleven "Power Brands" have been acquired in the last 16 years, where a quick integration into Church & Dwight's manufacturing, logistics, and purchasing systems allows the company to create real value for shareholders. With this in mind, our long-term earnings-per-share growth target for Church & Dwight is 9%.

With the release of fourth quarter earnings, Church & Dwight provided its earnings outlook for fiscal 2018. The company is expected to generate earnings-per-share of $2.24 to $2.28. We expect the company should hit the midpoint of this guidance band, or $2.26 of earnings-per-share, in the upcoming fiscal year. Applying an 9% growth rate to this figure gives a 2023 earnings-per-share estimate of $3.32. Given Church & Dwight's preference for growth through acquisitions, we believe that the company's dividend growth is likely to keep pace with its earnings growth, resulting in constant payout ratio over time.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.8	15.8	16.6	18.4	21.2	22.3	23.1	26.0	26.5	25.3	***20.2***	***21.5***
Avg. Yld.	0.6%	0.8%	0.9%	1.7%	1.9%	1.8%	1.8%	1.6%	1.5%	1.5%	***1.9%***	***1.8%***

Church & Dwight has traded at an average price-to-earnings ratio of 21.5 over the last 10 years. We believe that this historical valuation multiple represents a solid guess of fair value for a high-quality consumer staples stock like Church & Dwight. For context, the company is trading at a price-to-earnings ratio of 20.2 today. If the company's valuation multiple reverts to 21.5 times earnings over the next 5 years, this will add 1.3% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.7%	35.3%	39.3%	39.0%	31.5%	33.8%	33.3%	35.5%	36.5%	28.8%	***30.0%***	***33.0%***
Debt/A	52.5%	48.6%	36.5%	34.5%	49.7%	46.0%	51.8%	52.5%	54.6%	63.1%	***55.0%***	***50.0%***
Int. Cov.	8.8	12.5	16.4	74.0	45.2	24.9	26.0	23.0	28.2	14.8	***18.0***	***18.0***
Payout	12.5%	13.8%	16.2%	30.6%	39.0%	40.0%	41.1%	41.1%	40.1%	39.2%	***35.8%***	***35.8%***
Std. Dev.	22.4%	19.2%	16.6%	13.4%	15.1%	14.3%	11.7%	11.7%	16.2%	17.8%	***17.0%***	***17.0%***

Church & Dwight scores very well on a number of our important quality metrics. The company typically maintains a debt-to-equity ratio below 1 (although this has increased temporarily in the aftermath of the *Waterpik* acquisition) and its interest coverage is often above twenty times. Additionally, Church & Dwight has one of the lowest stock price standard deviations in our investment universe. This makes the company suitable to investors that have trouble stomaching the price volatility that is inherent to investing in common stocks.

Qualitatively, Church & Dwight's brand recognition combined with the consumable nature of its products provide the company with a durable competitive advantage. This creates consistency in Church & Dwight's financial performance. Its earnings have increased *each year* since 2001 (at least), and the company's growth trajectory was essentially unchanged during the 2007-2009 financial crisis. Because of its recession-resiliency, Church & Dwight is an appealing investment opportunity for conservative investors when it can be acquired at the right price (which is the case today).

Final Thoughts & Recommendation

Church & Dwight has many of the characteristics of a high-quality dividend investment. Most notably, the company's portfolio of brands allow it to grow its earnings through each stage of the economic cycle, and Church & Dwight shares this growth with its stockholders through consistent dividend increases. The company's growth-through-acquisition strategy is time-tested, and its management team has developed considerable expertise in scaling smaller brands through its existing infrastructure. We believe Church & Dwight is capable of delivering double-digit total returns from its current price with far less risk than the broader stock market. Accordingly, we're issuing a buy recommendation on this blue-chip dividend stock.

Total Return Breakdown by Year