



Kimberly-Clark Corporation (KMB)

Updated July 25th, 2018 by Nick McCullum

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	11.3%	Volatility Percentile:	18.4%
Fair Value Price:	\$122	5 Year Growth Estimate:	4.0%	Momentum Percentile:	16.9%
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Valuation Percentile:	81.3%
Dividend Yield:	3.8%	5 Year Price Target	\$152	Total Return Percentile:	69.4%

Overview & Current Events

The Kimberly-Clark Corporation is a global consumer products company that operates in 175 countries and sells disposable consumer goods, including paper towel, diapers, and tissues. It operates through two segments that each house many popular brands: the Personal Care Segment (*Huggies, Pull-Ups, Kotex, Depend, Poise*) and the Consumer Tissue segment (*Kleenex, Scott, Cottonelle, and Viva*). Kimberly-Clark trades with a market capitalization of \$37 billion and has increased its dividend for 46 consecutive years, making it a member of the Dividend Aristocrats Index.

In late July, Kimberly-Clark reported (7/24/18) financial results for the second quarter of fiscal 2018. In the quarter, net sales of \$4.6 billion increased by 1% over the prior year's period. Sales growth was composed of a 1% tailwind from foreign exchange fluctuations and flat organic sales growth. On the bottom line, Kimberly-Clark generated GAAP earnings-per-share of \$1.30 and adjusted diluted earnings-per-share of \$1.59, a 7% increase compared to the prior year's period. Kimberly-Clark faced various operational challenges in the second quarter, specifically with respect to commodity price inflation. Still, the company managed to deliver solid bottom line growth thanks to disciplined cost management and the beneficial impact of its continued share repurchase program. Shares of Kimberly-Clark traded slightly higher following the earnings release as the its performance met expectations on both the top and bottom line.

Kimberly-Clark also revised its 2018 financial guidance with the publication of its second quarter earnings release. Kimberly-Clark is expecting to generate full-year adjusted earnings-per-share between \$6.60 and \$6.80, lower than the previous outlook due to significantly higher commodity costs and the recent weakening of most foreign currencies. For context, this represents a midpoint-to-midpoint reduction of 5.0% from the company's prior guidance of \$6.90 to \$7.20. We have updated our earnings-per-share estimates accordingly.

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	\$6.70	\$8.37
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 meaningfully 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 14.6% in the most recent quarter (and 18.1% in fiscal 2017). Kimberly-Clark's management team has extended this initiative for another three years, aiming for another \$1.5 billion of cumulative savings. This will be the main growth driver in the upcoming years.

The midpoint of Kimberly-Clark's new financial guidance implies 7.5% growth in adjusted earnings-per-share for fiscal 2018. We believe that this level of growth is unsustainable for Kimberly-Clark over full economic cycles. Instead, we believe that 4% earnings-per-share growth is a reasonable expectation moving forward.

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	15.8	18.2
Avg. Yld.	3.7%	4.3%	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.8%	3.0%

Disclosure: This analyst has a long position in the security discussed in this research report.

Kimberly-Clark's 10-year average price-to-earnings ratio is 20.4. With that said, this average is skewed upwards by 2015's irrationally high figure of 40.6. Excluding that figure, the company's 10-year average earnings multiple declines to 18.2, which we believe is a reasonable estimate of fair value for Kimberly-Clark. The company is trading at a price-to-earnings ratio of 15.8 today. We believe that valuation expansion will provide a meaningful boost to Kimberly-Clark's total returns moving forward. More specifically, we mean reversion to a price-to-earnings ratio of 18.2 would add 3.5% to Kimberly-Clark's annualized returns if it occurred over a 5-year holding period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

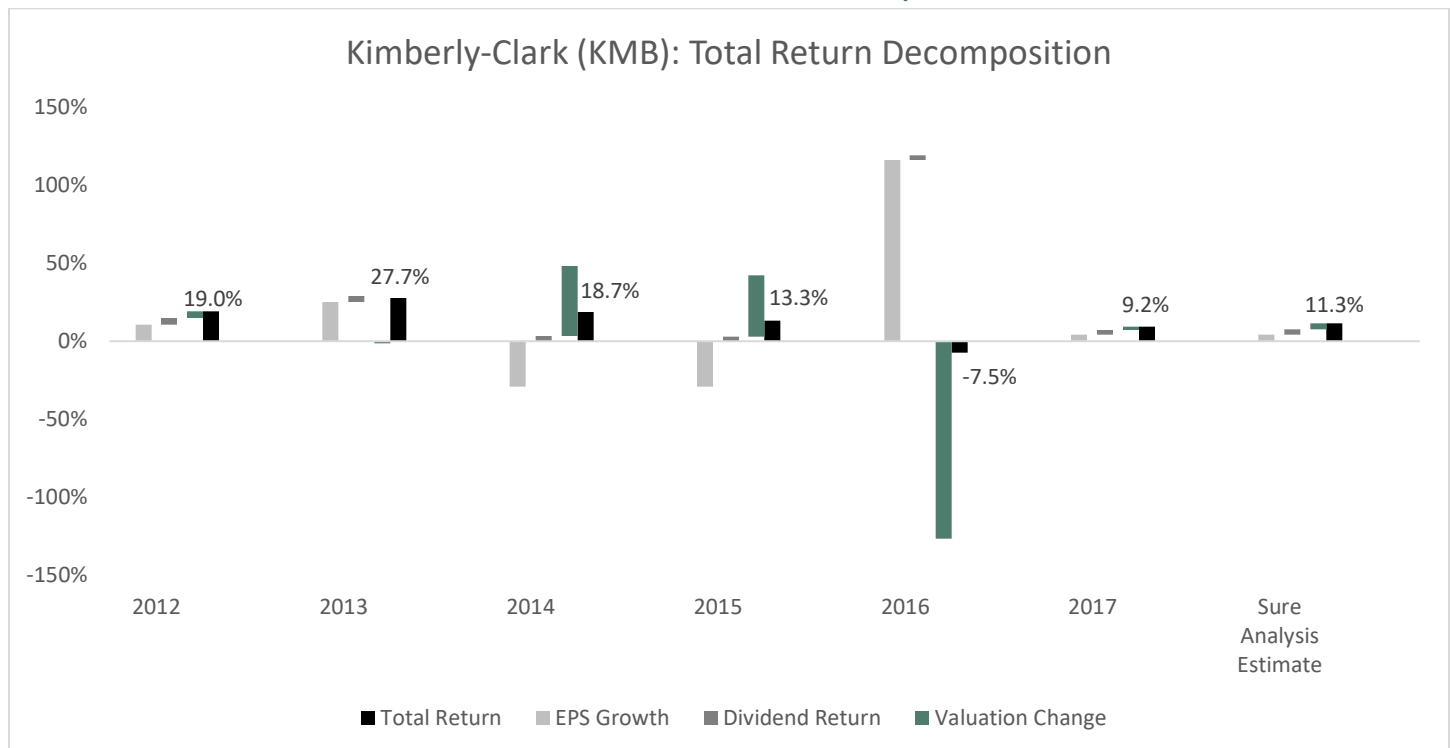
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.4%	33.4%	33.0%	31.8%	30.8%	34.9%	43.0%	44.6%	45.5%	43.3%	45.0%	45.0%
Debt/A	78.6%	71.9%	70.2%	72.9%	74.9%	74.3%	95.3%	101%	101%	95.8%	98.0%	100%
Int. Cov.	10.1	11.4	12.5	9.5	9.0	11.2	9.5	5.9	10.8	10.7	11.7	12.0
Payout	55.9%	52.7%	58.0%	69.2%	67.0%	58.6%	85.9%	127%	61.4%	62.2%	58.1%	55.0%
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%

What stands out about Kimberly-Clark's quality metrics is its debt. Indeed, the company maintains far more leverage than many of its peers in the large-cap dividend space. With that said, it also has one of the highest levels of business stability. Moreover, Kimberly-Clark's shareholders' equity account has been artificially reduced due to a persistent and disciplined string of share repurchases. The company's liability accounts are also concentrated in non-debt categories like trade accounts payable. Because of this, we believe that Kimberly-Clark's balance sheet is sound despite the ostensibly high debt levels that it maintains.

Final Thoughts & Recommendation

Little has changed with respect to Kimberly-Clark since the time of our last quarterly research report. We continue to believe that the company has excellent investment appeal at its current price, particularly on a risk-adjusted basis. We are reiterating our buy recommendation on Kimberly-Clark.

Total Return Breakdown by Year



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