



Procter & Gamble Co. (PG)

Updated July 31st, 2018 by Ben Reynolds

Key Metrics

Current Price: \$81	5 Year CAGR Estimate: 9.3%	Volatility Percentile: 7.6%
Fair Value Price: \$84	5 Year Growth Estimate: 5.0%	Momentum Percentile: 18.9%
% Fair Value: 97%	5 Year Valuation Multiple Estimate: 0.7%	Valuation Percentile: 67.7%
Dividend Yield: 3.6%	5 Year Price Target \$107	Total Return Percentile: 61.2%

Overview & Current Events

Procter & Gamble is a consumer products giant that sells its products in more than 180 countries. Procter & Gamble has a market capitalization of \$202 billion. Amazingly, the company has paid increasing dividends *for 62 consecutive years*, one of the longest active streaks of any company. This qualifies the company to be a Dividend King.

Procter & Gamble released 4th quarter and full year fiscal 2018 results on July 31st. In the 4th quarter, adjusted sales increased 1% versus the same quarter a year ago and adjusted earnings-per-share (EPS) grew 11%. Organic sales growth was driven primarily by the Beauty segment, which saw 7% organic sales growth in the 4th quarter versus the same quarter a year ago. The Beauty segment was also responsible for the bulk of earnings growth at Procter & Gamble. The SK-II and Olay brands in particular have been performing well.

Full year fiscal 2018 results were generally positive. Procter & Gamble realized adjusted sales and adjusted EPS growth of 1% and 8%, respectively. Earnings are able to grow significantly faster than sales thanks to margin gains and share repurchases. Procter & Gamble also released fiscal 2019 guidance. The company is expecting 3% to 8% adjusted EPS growth, for adjusted EPS of \$4.45 at the midpoint.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.58	\$3.53	\$3.93	\$3.85	\$4.05	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	\$4.45	\$5.68
DPS	\$1.64	\$1.80	\$1.97	\$2.14	\$2.29	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	\$2.94	\$3.75

Procter & Gamble's EPS have only grown 18% *total* since 2009 for an anemic 1.8% annualized growth rate. For comparison, this is about the rate of inflation over the same time period. Procter & Gamble has been unable to meaningfully grow its EPS in real terms in around a decade. In an attempt to return to growth, the company has been going through a major transformation in recent years. It has sold an unprecedented number of low-margin, low-growth brands and has thus reduced its brand count by almost two-thirds, from 170 to 65. Procter & Gamble is now focused on its strongest brands. After years of stagnation, these efforts finally seem to be bearing fruit. Adjusted EPS have grown at 7.2% annually from 2016 through 2018, a welcome return to growth.

Procter & Gamble's adjusted EPS guidance for fiscal 2019 calls for 5.5% growth at the median. We believe this is about in line with the company's long-term expectations and are forecasting EPS growth of 5% per year moving forward. We believe the decision to focus on core brands will continue to yield positive results for Procter & Gamble.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.4	17.0	16.0	16.7	17.8	19.0	20.9	21.4	22.3	20.7	18.1	18.8
Avg. Yld.	2.8%	3.0%	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	3.6%	3.5%

Procter & Gamble is trading around fair value. The company's 10 year historical average price-to-earnings ratio is 18.8. The stock is currently trading for a price-to-earnings ratio of 18.1 using expected fiscal 2019 EPS. We believe a fair price-to-earnings ratio for Procter & Gamble is 18.8, in line with its historical average. If the company reverts to its historical price-to-earnings ratio by the end of fiscal 2024, it will add 0.7% to annualized total returns.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	28.2%	32.0%	29.8%	30.7%	28.8%	24.5%	26.0%	25.5%	27.0%	27.5%	27.5%	27.5%
Debt/A	53.2%	52.3%	51.1%	52.0%	51.1%	52.0%	51.8%	54.9%	54.2%	55.3%	55.0%	53.0%
Int. Cov.	11.6	16.9	19.0	19.2	25.6	23.3	24.4	35.1	46.7	27.1	29.0	40.0
Payout	45.8%	51.0%	50.1%	55.6%	56.5%	58.1%	64.4%	72.5%	68.9%	64.5%	66.1%	66.0%
Std. Dev.	24.7%	13.5%	15.2%	13.5%	16.2%	11.7%	16.2%	14.2%	10.9%	15.3%	13.5%	12.0%

Due to lack of earnings growth, Procter & Gamble's dividend payout ratio has significantly increased in the last decade. As a result, the company has drastically reduced its dividend growth rate in the last three years. Nevertheless, as the payout ratio is not extreme, the company can easily keep growing its dividend for years, albeit at a rate about in line with EPS growth going forward. On the positive side, Procter & Gamble has a low stock price standard deviation and has more-than-ample interest coverage.

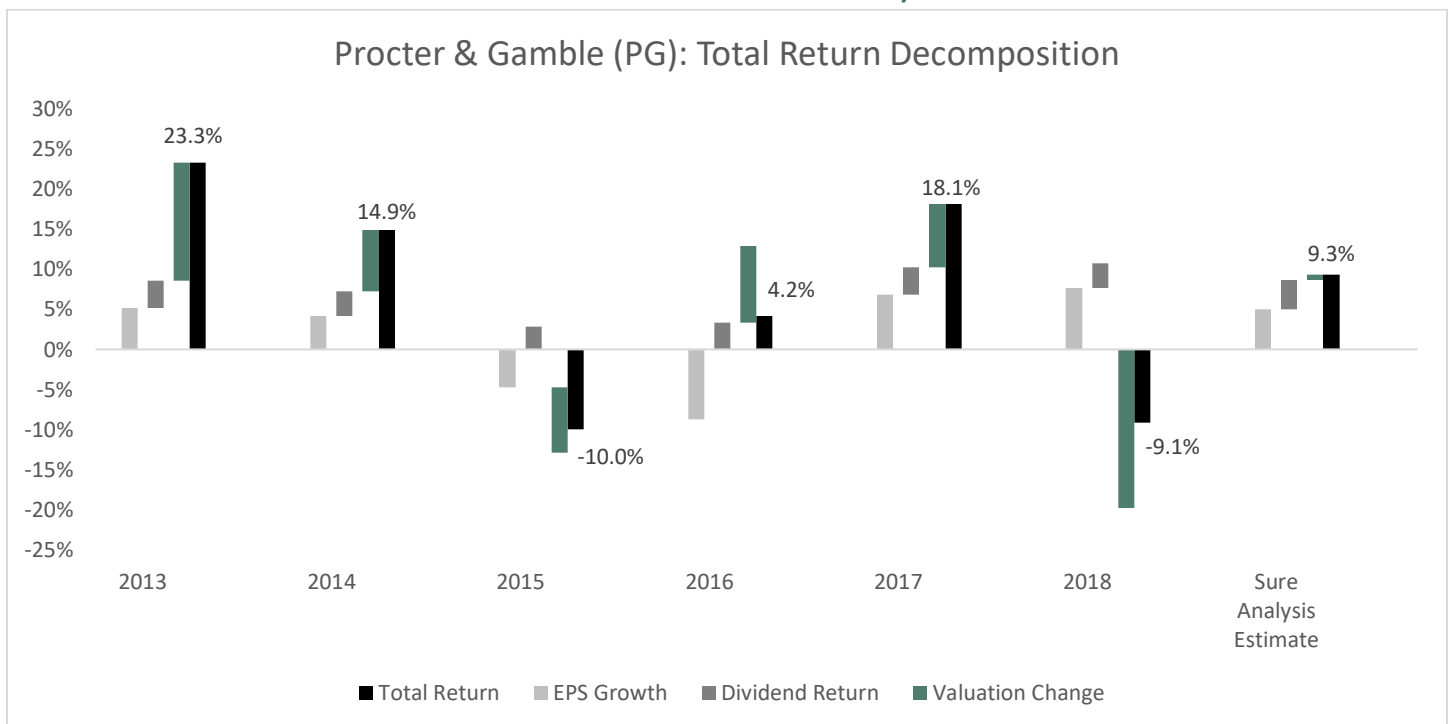
Procter & Gamble is markedly resistant to recessions, as its products are essential to consumers. To be sure, in the Great Recession, when most companies saw their earnings collapse, Procter & Gamble saw its EPS fall only 1.6% in 2009 and 1.4% in 2010. Whenever the next recession shows up, this stock is likely to outperform the market once again.

Final Thoughts & Recommendation

Procter & Gamble is unlikely to ever return to rapid growth. With that said, the stock does not have to in order to provide shareholders with strong *risk-adjusted* total returns. If Procter & Gamble grows by 5% per year, investors today can expect annualized total returns of 9.3% per year from the company's current 3.6% dividend yield combined with a 0.7% tailwind from valuation multiple expansion.

A 9.3% return might not be as eye-catching as what other companies can deliver, but Procter & Gamble is an especially recession-resistant company that also sports a low stock price standard deviation. Make no mistake, Procter & Gamble is still a low-risk investment at current prices. Expected total returns of 9.3% per year more than compensate investors for taking on Procter & Gamble stock's low risk profile. Procter & Gamble is a buy at current prices for risk-averse investors seeking above-market current income and income growth.

Total Return Breakdown by Year



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