



Kimberly-Clark Corporation (KMB)

Updated October 25th, 2018 by Nick McCullum

Key Metrics

Current Price:	\$105	5 Year CAGR Estimate:	10.8%	Volatility Percentile:	17.0%
Fair Value Price:	\$122	5 Year Growth Estimate:	4.0%	Momentum Percentile:	39.9%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Growth Percentile:	20.1%
Dividend Yield:	3.8%	5 Year Price Target	\$152	Valuation Percentile:	72.0%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	58.5%

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 October, Kimberly-Clark reported (10/22/18) financial results for the third quarter of fiscal 2018. In the quarter, net sales of \$4.6 billion decreased by 2% over the same period a year ago. Changes in foreign currency exchange rates reduced reported sales by 3% while organic sales actually increased by 1%. On the bottom line, adjusted earnings-per-share of \$1.71 increased by 7% over the \$1.60 reported in last year's comparable period. Kimberly-Clark's performance in the quarter was driven by cost savings and share repurchases. More specifically, the company generated total cost savings of \$145 million while also returning \$520 million to shareholders through a combination of dividend payments and shares repurchases. Lastly, Kimberly-Clark reaffirmed its financial guidance for fiscal 2018. The company continues to expect full-year sales growth of approximately 1% and adjusted diluted earnings-per-share of \$6.60 to \$6.80.

In a separate but concurrent press release, Kimberly-Clark announced (10/22/18) that it has named Michael D. Hsu its Chief Executive Officer effective January 1, 2019. The outgoing CEO, Thomas J. Falk, has served in the role since 2002. Kimberly-Clark's earnings-per-share have risen from \$3.36 to \$6.23 under his tutelage. Incoming CEO Mr. Hsu has served as Kimberly-Clark's President and Chief Operating Officer since January 1st, 2017 and is currently a member of the company's Board of Directors. Prior to his appointment as President and COO, Mr. Hsu oversaw the company's ~\$8 billion North American Personal Care and Consumer Tissue business, a role that he took after working as Executive Vice President and Chief Commercial Officer at Kraft Foods. Kimberly-Clark's executive succession announcement appears to be nothing out of the ordinary, as the press release noted "*Tom and Mike have worked closely with the Board over the past two years to plan this transition.*"

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
Shares	413.6	417.0	406.9	395.7	389.3	380.8	365.3	360.9	356.6	351.1	345	315

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 18.2% 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.

We are reaffirming our 2018 and 2023 estimates for Kimberly-Clark's earnings-per-share this quarter.

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



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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	15.7	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%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of 18.2 over the last decade. The company is trading at a price-to-earnings ratio of 15.7 today. If Kimberly-Clark's price-to-earnings ratio expands to 18.2 over the next 5 years, this will increase its annualized returns by 3.0% per year 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	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%

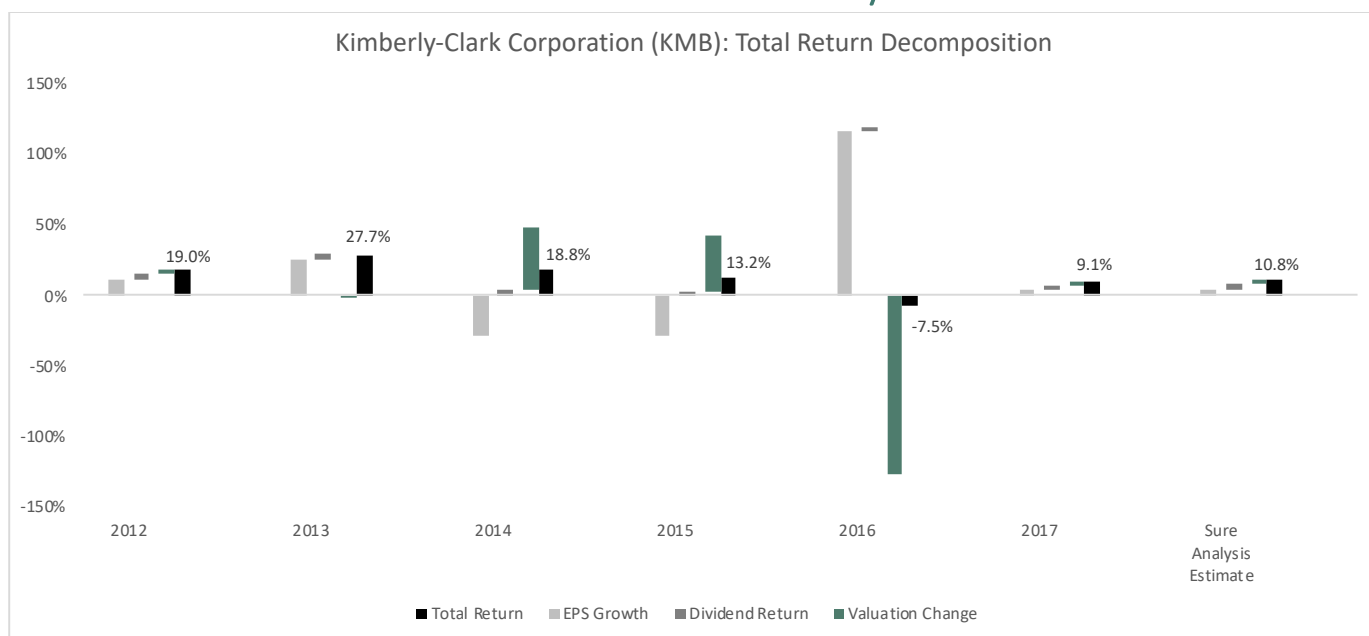
What stands out about Kimberly-Clark's quality metrics is its debt. Indeed, the company maintains far more leverage than many of its peers in the large-cap dividend space. With that said, it also has one of the highest levels of business stability. We believe Kimberly-Clark's balance sheet is sound despite the ostensibly high debt levels that it maintains.

From a dividend perspective, Kimberly-Clark's long dividend history, conservative payout ratio, and above-average dividend yield allow it to earn A ratings for both Dividend Safety and Retirement Suitability.

Final Thoughts & Recommendation

Kimberly-Clark continues to appear capable of delivering low double-digit returns with very little risk. We are reiterating our buy recommendation on Kimberly-Clark with the publication of this quarter's research report.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	19415	19115	19746	20846	19467	19561	19724	18591	18202	18259
Gross Profit	5858	6420	6550	6152	6129	6609	6683	6624	6651	6553
Gross Margin	30.2%	33.6%	33.2%	29.5%	31.5%	33.8%	33.9%	35.6%	36.5%	35.9%
SG&A Exp.	3291	3498	3673	3761	3757	3699	3709	3443	3326	3227
D&A Exp.	775	783	813	1091	857	863	862	746	705	724
Operating Profit	2547	2825	2773	2442	2377	2903	2521	1613	3317	3299
Op. Margin	13.1%	14.8%	14.0%	11.7%	12.2%	14.8%	12.8%	8.7%	18.2%	18.1%
Net Profit	1690	1884	1843	1591	1750	2142	1526	1013	2166	2278
Net Margin	8.7%	9.9%	9.3%	7.6%	9.0%	11.0%	7.7%	5.4%	11.9%	12.5%
Free Cash Flow	1610	2633	1780	1320	2195	2087	1806	1250	2461	2144
Income Tax	618	746	788	660	660	828	856	418	922	776

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	18089	19209	19864	19373	19873	18919	15526	14842	14602	15151
Cash & Equivalents	364	798	876	764	1106	1054	789	619	923	616
Acc. Receivable	2492	2566	2472	2352	2346	2345	2079	2017	2077	2203
Inventories	2493	2033	2373	2356	2348	2233	1892	1909	1679	1790
Goodwill & Int.	2743	3585	3690	3605	3583	3424	1737	1540	1480	1576
Total Liabilities	13807	13519	13662	13844	14586	13779	14527	14802	14485	14269
Accounts Payable	1422	1920	2206	2388	2443	2598	2616	2612	2609	2834
Long-Term Debt	5965	5402	5464	6132	6185	5761	6956	7775	7572	7425
Total Equity	3878	5406	5917	5249	4985	4856	729	-174	-102	629
D/E Ratio	1.54	1.00	0.92	1.17	1.24	1.19	9.54	-44.68	-74.24	11.80

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.3%	10.1%	9.4%	8.1%	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%
Return on Equity	37.1%	40.6%	32.6%	28.5%	34.2%	43.5%	54.6%	365%	N/A	865%
ROIC	15.8%	17.7%	16.2%	13.6%	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%
Shares Out.	413.6	417.0	406.9	395.7	389.3	380.8	365.3	360.9	356.6	351.1
Revenue/Share	46.38	45.86	47.65	52.30	49.15	50.51	52.26	50.75	50.32	51.30
FCF/Share	3.85	6.32	4.30	3.31	5.54	5.39	4.79	3.41	6.80	6.02

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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