



# Procter & Gamble Co. (PG)

Updated October 22<sup>nd</sup>, 2018 by Bob Ciura

## Key Metrics

<b>Current Price:</b>	\$86	<b>5 Year CAGR Estimate:</b>	7.8%	<b>Volatility Percentile:</b>	2.8%
<b>Fair Value Price:</b>	\$84	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	54.7%
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.5%	<b>Growth Percentile:</b>	30.1%
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$107	<b>Valuation Percentile:</b>	39.4%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	33.0%

## Overview & Current Events

Procter & Gamble is a consumer products giant that sells its products in more than 180 countries and generates over \$65 billion in annual sales. Some of its core brands include Gillette, Tide, Charmin, Crest, Pampers, Febreze, Head & Shoulders, Bounty, Oral-B, and many more. Procter & Gamble has a market capitalization of \$213 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 first-quarter results for the current fiscal 2019 in mid-October (10/19/18). For the quarter, revenue of \$16.69 billion rose 0.2% from the same quarter last year, and beat analyst expectations by \$220 million. Adjusted earnings-per-share of \$1.12 beat analyst expectations by \$0.03 per share. Organic sales increased 4% for the period, while adjusted earnings-per-share increased 3% for the first quarter. Breaking down Procter & Gamble's results by product segment, Beauty products led the way with 7% organic sales growth, followed by Fabric & Home Care with 5% growth. Grooming and Health Care segment organic sales increased 4% for both segments, while the Baby, Feminine, & Family Care segment posted a 1% sales decline. Procter & Gamble also maintained 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
<b>EPS</b>	\$3.58	\$3.53	\$3.93	\$3.85	\$4.05	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	<b>\$4.45</b>	<b>\$5.68</b>
<b>DPS</b>	\$1.64	\$1.80	\$1.97	\$2.14	\$2.29	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	<b>\$2.94</b>	<b>\$3.75</b>
<b>Shares</b>	2917	2839	2766	2748	2742	2710	2715	2669	2553	2498	<b>2425</b>	<b>2400</b>

Procter & Gamble's EPS have only grown 18% total since 2009 for an anemic 1.8% annualized growth rate. 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
<b>Avg. P/E</b>	16.4	17.0	16.0	16.7	17.8	19.0	20.9	21.4	22.3	20.7	<b>19.3</b>	<b>18.8</b>
<b>Avg. Yld.</b>	2.8%	3.0%	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	<b>3.3%</b>	<b>3.5%</b>

Procter & Gamble is trading slightly above 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 19.3 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 would reduce annual returns by approximately 0.5%.

*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.*



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## Safety, Quality, Competitive Advantage, & Recession Resiliency

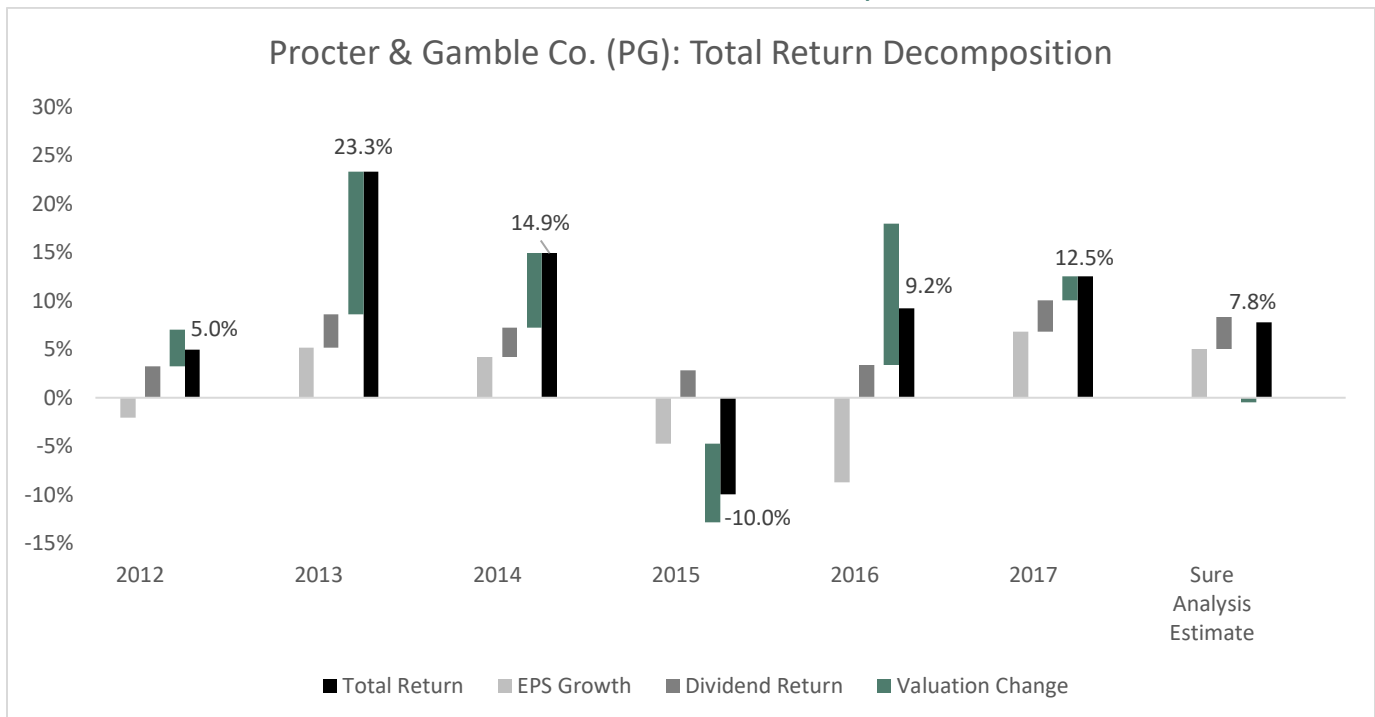
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>GP/A</b>	28.2%	32.0%	29.8%	30.7%	28.8%	24.5%	26.0%	25.5%	27.0%	27.5%	<b>28.0%</b>	<b>28.0%</b>
<b>Debt/A</b>	53.2%	52.3%	51.1%	52.0%	51.1%	52.0%	51.8%	54.9%	54.2%	55.3%	<b>55.0%</b>	<b>55.0%</b>
<b>Int. Cov.</b>	11.6	16.9	19.0	19.2	25.6	23.3	24.4	35.1	46.7	27.1	<b>29.0</b>	<b>40.0</b>
<b>Payout</b>	45.8%	51.0%	50.1%	55.6%	56.5%	58.1%	64.4%	72.5%	68.9%	64.5%	<b>66.1%</b>	<b>66.0%</b>
<b>Std. Dev.</b>	24.7%	13.5%	15.2%	13.5%	16.2%	11.7%	16.2%	14.2%	10.9%	15.3%	<b>13.5%</b>	<b>12.0%</b>

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, the company can easily keep growing its dividend, at a rate about in line with EPS growth going forward. On the positive side, Procter & Gamble has strong interest coverage, and the company is highly resistant to recessions, as its products are essential to consumers. In the Great Recession, 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 not a high-growth stock, but it does not have to grow at a high rate 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 7.8% per year. This 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. Procter & Gamble is a hold at current prices for risk-averse investors seeking above-market current income and income growth.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	76694	77567	81104	82006	80116	74401	70749	65299	65058	66832
<b>Gross Profit</b>	38004	40525	41245	40595	40125	35371	33693	32390	32523	32564
<b>Gross Margin</b>	49.6%	52.2%	50.9%	49.5%	50.1%	47.5%	47.6%	49.6%	50.0%	48.7%
<b>SG&amp;A Exp.</b>	22630	24793	25750	25984	26000	21461	20616	18949	18568	18853
<b>D&amp;A Exp.</b>	3082	3108	2838	3204	2982	3141	3134	3078	2820	2834
<b>Operating Profit</b>	15374	15732	15495	14611	14125	13910	13077	13441	13955	13711
<b>Op. Margin</b>	20.0%	20.3%	19.1%	17.8%	17.6%	18.7%	18.5%	20.6%	21.5%	20.5%
<b>Net Profit</b>	13436	12736	11797	10756	11312	11643	7036	10508	15326	9750
<b>Net Margin</b>	17.5%	16.4%	14.5%	13.1%	14.1%	15.6%	9.9%	16.1%	23.6%	14.6%
<b>Free Cash Flow</b>	11681	13064	10024	9320	10865	10110	10872	12121	9369	11150
<b>Income Tax</b>	3733	4017	3299	3378	3226	2851	2725	3342	3063	3465

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	134.83	128.17	138.35	132.24	139.26	144.27	129.50	127.14	120.41	118.31
<b>Cash &amp; Equivalents</b>	4781	2879	2768	4436	5947	8558	6836	7102	5569	2569
<b>Acc. Receivable</b>	5836	5335	6275	6068	6508	6386	4568	4373	4594	4686
<b>Inventories</b>	6880	6384	7379	6721	6909	6759	4979	4716	4624	4738
<b>Goodwill &amp; Int.</b>	89118	85648	90182	84761	86760	84547	69632	68877	68886	69077
<b>Total Liabilities</b>	71451	66733	70353	68209	70554	74290	66445	69153	64628	65427
<b>Accounts Payable</b>	5980	7251	8022	7920	8777	8461	8138	9325	9632	10344
<b>Long-Term Debt</b>	36972	29832	32014	29778	31543	35417	30345	30598	31541	31179
<b>Total Equity</b>	61775	59838	66406	62244	66927	68103	61342	56303	54178	51326
<b>D/E Ratio</b>	0.59	0.49	0.47	0.47	0.46	0.51	0.49	0.53	0.57	0.60

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	9.6%	9.7%	8.9%	7.9%	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%
<b>Return on Equity</b>	20.7%	20.9%	18.7%	16.7%	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%
<b>ROIC</b>	13.0%	13.3%	12.3%	11.1%	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%
<b>Shares Out.</b>	2917	2839	2766	2748	2742	2710	2715	2669	2553	2498
<b>Revenue/Share</b>	24.32	25.03	27.02	27.88	27.34	25.61	24.54	22.96	23.74	25.16
<b>FCF/Share</b>	3.70	4.22	3.34	3.17	3.71	3.48	3.77	4.26	3.42	4.20

### Disclaimer

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