



The Colgate-Palmolive Company (CL)

Updated April 27th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	0.0%	Volatility Percentile:	12.1%
Fair Value Price:	\$51	5 Year Growth Estimate:	4.0%	Momentum Percentile:	51.7%
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Growth Percentile:	23.5%
Dividend Yield:	2.4%	5 Year Price Target	\$62	Valuation Percentile:	10.8%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	5.7%

Overview & Current Events

Colgate-Palmolive has been in existence for over 200 years, having been founded in 1806. It operates in many consumer staple markets including Oral Care, Personal Care, Home Care and more recently, Pet Nutrition. These segments afford the company more than \$15 billion in annual revenue. Years of sideways movement in the stock has kept a lid on the market capitalization, which is currently \$61 billion.

Colgate-Palmolive reported Q1 earnings on 4/26/19 and results topped expectations. Total revenue fell 3% year-over-year as organic revenue rose 3% thanks to +1% from volume and +2% from pricing, but was completely offset by a 6% loss from foreign exchange translation. The very global nature of Colgate-Palmolive's business means it is particularly susceptible to forex pressure, and it has struggled for years with this line item.

Gross margin fell 130bps year-over-year to 58.9% in Q1, and fell 110bps on an adjusted basis. Higher raw material and packaging costs once again weighed on results, and were subject to deterioration thanks to forex translation. Higher pricing helped to offset some of these headwinds, but it wasn't enough in Q1.

SG&A costs also deteriorated, adding 30bps to 35.1% of revenue during the quarter. This was due to higher advertising costs, partially offset by lower overhead expenses. As a result, operating profit fell 10% on a dollar basis in Q1, declining 200bps as a percentage of revenue, to 22.6%. despite Colgate-Palmolive's efforts to control costs, it continues to spend heavily on advertising and cede margin to raw material and packaging costs, along with forex translation.

Overall, Q1 looked much like Colgate-Palmolive's other recent quarterly reports as the company struggles immensely with forex translation more than offsetting the small amount of growth it manages via volume and pricing gains. In addition, margins were very weak in Q1, and we are perplexed by the reaction from investors in bidding the stock up.

Colgate-Palmolive guided for organic sales volume of +2% to +4% this year, but investors would do well to remember that this excludes the highly costly forex translation line item. We see revenue as roughly flat against 2018 and as a result, reiterate our earnings-per-share estimate of \$2.70 for this year, a low single digit decline from 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.19	\$2.16	\$2.47	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.70	\$3.28
DPS	\$0.86	\$1.02	\$1.14	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.72	\$2.12
Shares	988	990	960	936	920	907	893	907	875	867	860	845

With earnings reports still coming in weak, we are reiterating our lower our growth expectations for Colgate-Palmolive at just 4% annually. Organic revenue growth continues but forex translation has sabotaged the top line despite the company's best efforts. The cost savings program also is not producing enough margin expansion and while the buyback is helping, it is not enough on its own to offset significant weakness in the company's legacy businesses. Finally, commodity volatility is not helping either, and we see an uphill battle for Colgate-Palmolive to return to a significant level of growth. Significant margin weakness in Q1 has us even more cautious for this year.

The dividend should rise at about the rate of earnings growth, hitting \$2.12 per share in 2024. Colgate-Palmolive's dividend streak should remain intact for years to come as its payout is still a reasonable percentage of earnings.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.1	18.6	17.3	19.6	25.1	28.0	44.1	25.8	27.9	24.2	26.4	19.0
Avg. Yld.	2.5%	2.5%	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.4%	3.4%

As growth has been very tough to come by, we don't believe investors will be willing to pay the same premium for this stock that they have in the past. At 26.4 times earnings today, we see the stock as tremendously overvalued, leading to a 6.4% headwind to total annual returns should it revert to our estimate of fair value. This is among the most expensive valuations Colgate-Palmolive has had in the past decade, and we see it as unsustainable as growth has been so weak.

The yield has moved down as a result of the lower valuation and today, the stock is yielding 2.4%, more in line with historical valuations. We see the combination of the rising payout and lagging share price as boosting the yield above 3% in the coming years, and would recommend those interested in the dividend wait for a better price and yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39%	47%	49%	52%	62%	66%	108%	62%	67%	60%	62%	61%

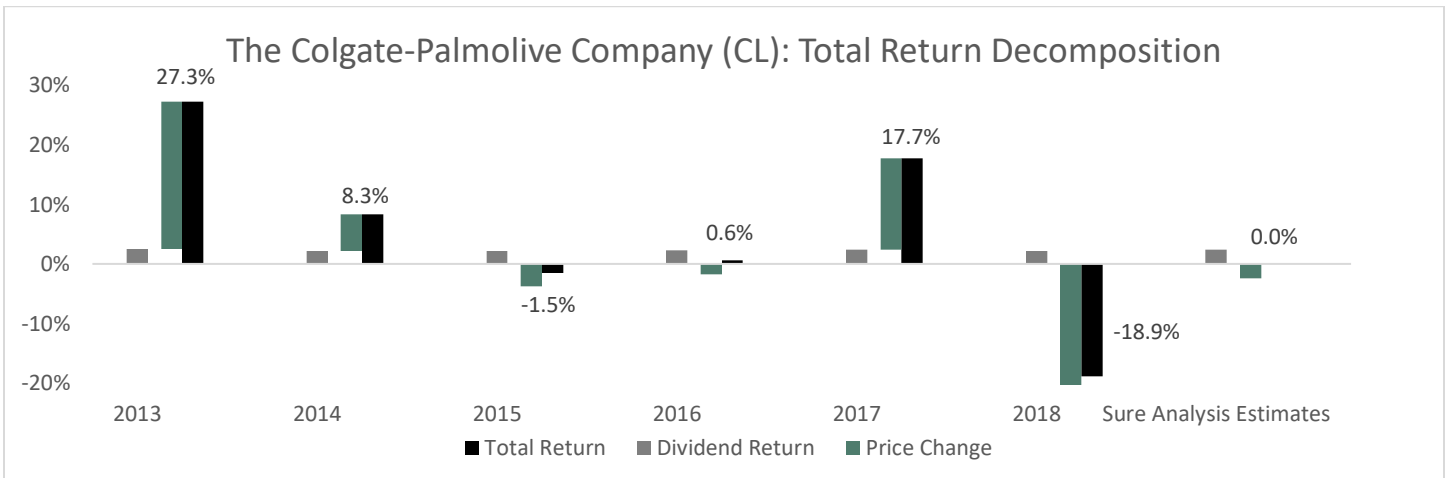
The payout ratio is around 60% of earnings, as it has been for several years. We see the dividend as safe and we believe Colgate-Palmolive will produce many more years of dividend increases.

This is a recession-resistant stock given the staple nature of the products it sells, and its competitive advantage is found in the dominant brands it owns. While Colgate-Palmolive operates in highly competitive product categories, it has strong share in many of them as well as the ability to maintain pricing power.

Final Thoughts & Recommendation

With earnings growth continuing to disappoint, we see Colgate-Palmolive as unattractive at current prices. Sales growth continues to be a problem while margins are simultaneously moving strongly in the wrong direction. The company's efforts to fix these issues have not worked and guidance for 2019 continues to be downbeat. We see 0% total returns in the coming years as 4% earnings growth and the 2.4% yield are collectively offset by a 6.4% headwind from the valuation. We think Colgate-Palmolive will continue to struggle with growth and thus, the stock looks very overvalued; we rate it a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	15327	15564	16734	17085	17420	17277	16034	15195	15454	15544
Gross Profit	9008	9204	9590	9932	10201	10109	9399	9123	9280	9231
Gross Margin	58.8%	59.1%	57.3%	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%
SG&A Exp.	5282	5414	5758	5930	6223	5982	5464	5143	5400	5389
D&A Exp.	351	376	421	425	439	442	449	443	475	511
Operating Profit	3615	3783	3810	3965	3951	4113	3896	3958	3848	3772
Op. Margin	23.6%	24.3%	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.9%	24.3%
Net Profit	2291	2203	2431	2472	2241	2180	1384	2441	2024	2400
Net Margin	14.9%	14.2%	14.5%	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%
Free Cash Flow	2702	2661	2359	2631	2534	2541	2258	2548	2501	2620
Income Tax	1141	1117	1235	1243	1155	1194	1215	1152	1313	906

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	11134	11172	12724	13394	13985	13459	11935	12123	12676	12161
Cash & Equivalents	600	490	878	884	962	1089	970	1315	1535	726
Acc. Receivable	1626	1610	1675	1668	1636	1552	1427	1411	1480	1400
Inventories	1209	1222	1327	1365	1425	1382	1180	1171	1221	1250
Goodwill & Int.	3123	3193	3998	3999	3970	3720	3449	3420	3559	4167
Total Liabilities	7877	8355	10183	11004	11449	12074	11979	12106	12433	11964
Accounts Payable	1172	1165	1244	1290	1343	1231	1110	1124	1212	1222
Long-Term Debt	3182	3424	4810	5230	5657	6148	6548	6533	6577	6366
Total Equity	2947	2675	2375	2189	2305	1145	-299	-243	-60	-102
D/E Ratio	1.02	1.28	2.03	2.39	2.45	5.37	-21.90	-26.88	-109.6	-62.41

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	21.7%	19.8%	20.3%	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%
Return on Equity	97.7%	78.4%	96.3%	108%	99.7%	126%	327%	-901%	-1336%	-2963%
ROIC	37.4%	34.7%	35.8%	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%
Shares Out.	1049	1021.8	984.1	960.2	939.9	924.3	909.7	898.4	887.8	873
Revenue/Share	14.61	15.23	17.00	17.79	18.53	18.69	17.63	16.91	17.41	17.81
FCF/Share	2.58	2.60	2.40	2.74	2.70	2.75	2.48	2.84	2.82	3.00

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

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