



Kimberly-Clark Corporation (KMB)

Updated April 23rd, 2019 by Josh Arnold

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	5.0%	Volatility Percentile:	16.3%
Fair Value Price:	\$118	5 Year Growth Estimate:	4.0%	Momentum Percentile:	89.4%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.1%	Growth Percentile:	23.4%
Dividend Yield:	3.1%	5 Year Price Target	\$143	Valuation Percentile:	45.3%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	32.1%

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 towels, 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 \$45 billion and has increased its dividend for 47 consecutive years, making it a member of the Dividend Aristocrats Index.

Kimberly-Clark reported Q1 earnings on 4/22/19 and results were slightly weak, but in line with expectations of low growth. Total sales came in at \$4.6 billion, a decline of 2% year-over-year. Kimberly-Clark was susceptible once again to foreign exchange headwinds, which reduced sales by 5% in Q1. Higher selling prices, which rose 4%, helped to offset a small volume decline. In total, organic revenue rose 3%. North America saw organic sales increase 1% while the international business saw a 7% increase in developing markets.

Operating profit was down slightly on an adjusted basis, falling from \$824 million to \$807 million year-over-year. Higher input costs cut operating profits by \$135 million as pulp and other raw materials continue to deteriorate Kimberly-Clark's profitability. The company's years-old cost savings program continues to pay dividends, saving \$115 million in total during the quarter. The share count was also 2% lower year-over-year, helping to boost earnings-per-share.

The company maintained its outlook for earnings-per-share this year of \$6.50 to \$6.70, so our estimate is unchanged at \$6.55 given its weak revenue growth outlook.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.52	\$4.45	\$3.99	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.55	\$7.97
DPS	\$2.38	\$2.58	\$2.76	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.72
Shares	417	407	396	389	381	365	361	357	351	345	339	310

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. With operating margins rising steadily, increasing profitability is working to offset weak revenue numbers. 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, as it was again in Q1.

Management also recently unveiled its K-C Strategy 2020, which aims to further optimize the company's operations and boost revenue in the coming years. The strategy targets mid-single digit growth in adjusted earnings-per-share, -1% to +3% organic sales growth, and dividend growth in-line with earnings-per-share growth. The "new" strategy looks a lot like the old one, so we do not see material impact at this point. Of course, we will monitor and reassess if necessary.

We see the dividend rising from the current payout of \$4.12 to \$4.72 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

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	12.2	14.1	16.9	18.2	17.8	28.1	40.6	21.2	19.9	16.7	20.0	18.0
Avg. Yld.	4.3%	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.1%	3.3%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of 18 over the last decade. This is in line with its consumer staple dividend-paying stock competitors over the past few years, but compares unfavorably to the current price-to-earnings multiple of 20.0. The recent strong rally in the stock has sent the valuation much higher, and that has caused it to move meaningfully over fair value. However, this has happened before and the stock could follow the same pattern, reverting eventually to the mean, subtracting 2.1% from prospective annual returns.

In addition, the yield is down to 3.1%, more in line with levels of 2016 and 2017. We see the yield rising slightly, but not back to the levels of 2018 when the valuation was much lower. On this metric, the stock also appears to be at least slightly overvalued, reducing the stock's attractiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	53%	58%	69%	67%	59%	86%	127%	61%	62%	61%	61%	59%

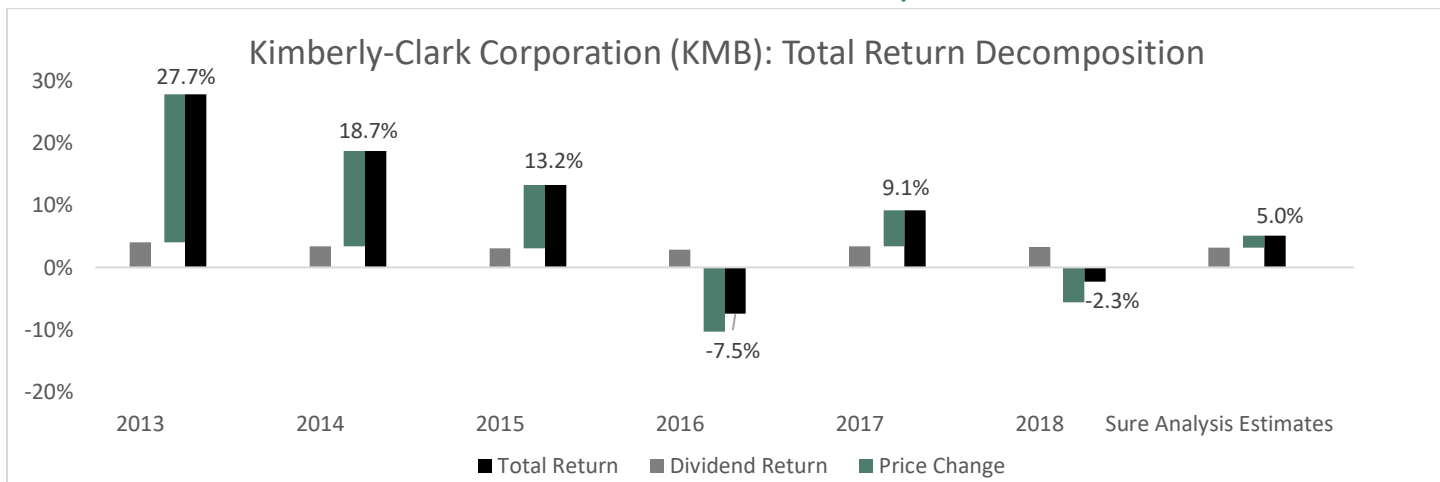
What stands out about Kimberly-Clark's quality metrics is its debt. Indeed, the company maintains far more leverage than many of its peers in the large-cap dividend space. With that said, it also has one of the highest levels of business stability. We believe Kimberly-Clark's balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort by management to reduce leverage at this point.

Kimberly-Clark's competitive advantage is in its longstanding dominance with a variety of its brands, which are well known in the marketplace. It should also perform well during recessions as many of its products are staples.

Final Thoughts & Recommendation

Kimberly-Clark continues to appear capable of delivering just mid-single digit returns with moderate risk. We see 5% total annual returns, consisting of the current 3.1% yield, 4% earnings growth and a 2.1% headwind from a lower valuation. The stock earns high marks for its dividend history, current yield and stability, but growth is a serious concern. We're lowering our rating to hold from buy given the overvaluation of the stock and low projected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	19115	19746	20846	19467	19561	19724	18591	18202	18259	18486
Gross Profit	6420	6550	6152	6129	6609	6683	6624	6651	6553	5597
Gross Margin	33.6%	33.2%	29.5%	31.5%	33.8%	33.9%	35.6%	36.5%	35.9%	30.3%
SG&A Exp.	3498	3673	3761	3757	3699	3709	3443	3326	3227	3367
D&A Exp.	783	813	1091	857	863	862	746	705	724	882
Operating Profit	2825	2773	2442	2377	2903	2521	1613	3317	3299	2229
Op. Margin	14.8%	14.0%	11.7%	12.2%	14.8%	12.8%	8.7%	18.2%	18.1%	12.1%
Net Profit	1884	1843	1591	1750	2142	1526	1013	2166	2278	1410
Net Margin	9.9%	9.3%	7.6%	9.0%	11.0%	7.7%	5.4%	11.9%	12.5%	7.6%
Free Cash Flow	2633	1780	1320	2195	2087	1806	1250	2461	2144	2093
Income Tax	746	788	660	660	828	856	418	922	776	471

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	19209	19864	19373	19873	18919	15526	14842	14602	15151	14518
Cash & Equivalents	798	876	764	1106	1054	789	619	923	616	539
Acc. Receivable	2566	2472	2352	2346	2345	2079	2017	2077	2203	2164
Inventories	2033	2373	2356	2348	2233	1892	1909	1679	1790	1813
Goodwill & Int.	3585	3690	3605	3583	3424	1737	1540	1480	1576	1474
Total Liabilities	13519	13662	13844	14586	13779	14527	14802	14485	14269	14564
Accounts Payable	1920	2206	2388	2443	2598	2616	2612	2609	2834	3190
Long-Term Debt	5402	5464	6132	6185	5761	6956	7775	7572	7425	7455
Total Equity	5406	5917	5249	4985	4856	729	-174	-102	629	-287
D/E Ratio	1.00	0.92	1.17	1.24	1.19	9.54	-44.68	-74.24	11.80	-25.98

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.1%	9.4%	8.1%	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%
Return on Equity	40.6%	32.6%	28.5%	34.2%	43.5%	54.6%	365%	N/A	864%	825%
ROIC	17.7%	16.2%	13.6%	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%
Shares Out.	417	407	396	389	381	365	361	357	351	345
Revenue/Share	45.86	47.65	52.30	49.15	50.51	52.26	50.75	50.32	51.30	52.88
FCF/Share	6.32	4.30	3.31	5.54	5.39	4.79	3.41	6.80	6.02	5.99

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

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