



Procter & Gamble Co. (PG)

Updated April 25th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	5.0%	Volatility Percentile:	8.2%
Fair Value Price:	\$89	5 Year Growth Estimate:	5.0%	Momentum Percentile:	96.4%
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Growth Percentile:	35.8%
Dividend Yield:	2.9%	5 Year Price Target	\$114	Valuation Percentile:	29.0%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	24.3%

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 \$259 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 third-quarter results for fiscal 2019 in April (4/23/19). The company posted strong 5% organic sales growth (the third straight quarter with organic sales growth) with a 40 basis point increase in adjusted operating margins. The organic sales growth was especially impressive given that it came from a combination of price, mix, and volume improvement, reflecting a healthy business. These results prompted management to boost their FY2019 sales growth outlook to 4% from a midpoint of 3%, although EPS growth was held steady at 5.5% at 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
Shares	2917	2839	2766	2748	2742	2710	2715	2669	2553	2498	2425	2400

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 grew 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	23.2	20.0
Avg. Yld.	2.8%	3.0%	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	3.1%	3.5%

Procter & Gamble's 10-year historical average price-to-earnings ratio is 18.8. The stock is currently trading for a price-to-earnings ratio of 23.2 using expected fiscal 2019 EPS. Due to the accelerating earnings growth and strong performance in recent quarters, we have increased our fair value estimate to a price-to-earnings ratio of 20.0. The revised fair value estimate is slightly above the stock's 10-year average of 18.8, but is a reasonable estimate for a highly profitable blue-chip company. If the price-to-earnings ratio declines to fair value over the next five years, annual returns would be reduced by 2.9%.

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
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%

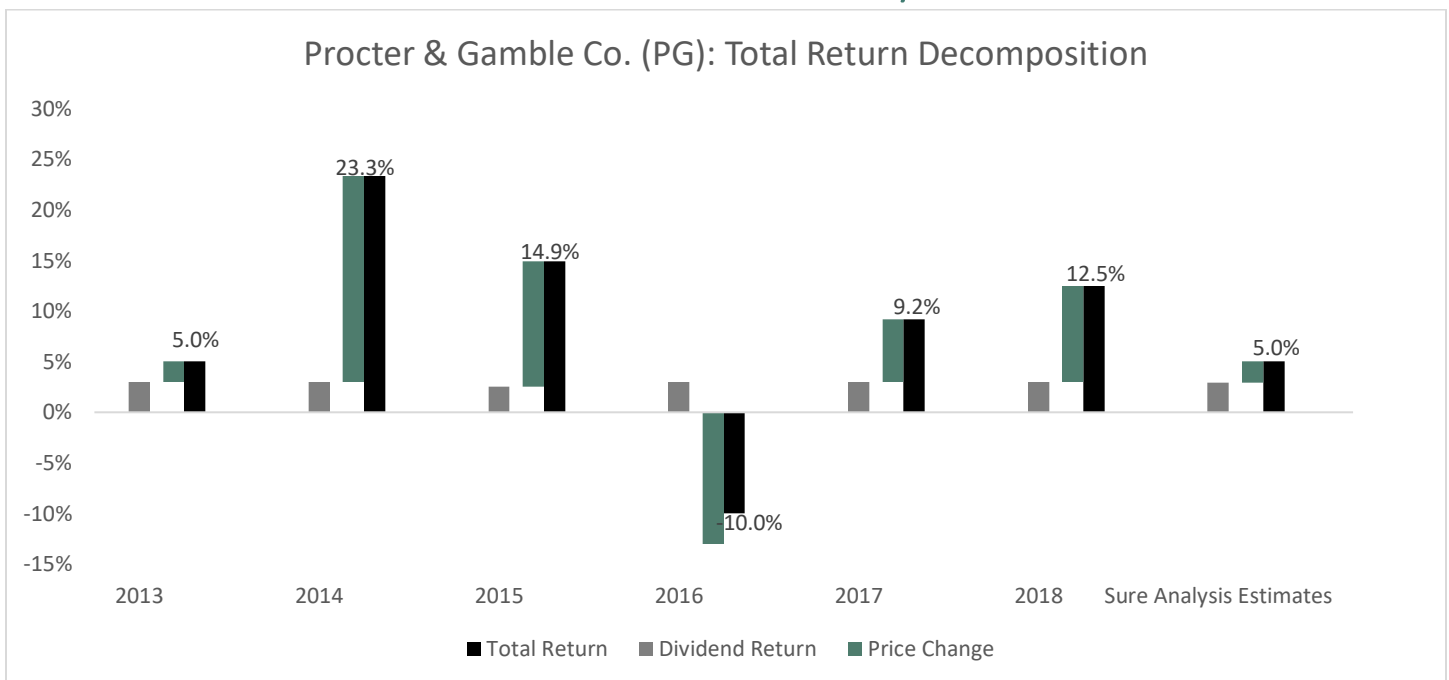
Procter & Gamble's dividend payout ratio has significantly increased in the last decade, due to its slowing earnings growth in that time. As a result, the company has drastically reduced its dividend growth rate in the last three years. Nevertheless, the company can easily keep growing its dividend at 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. Procter & Gamble has significant competitive advantages, specifically its strong brands. It has a number of category-leading brands such as Crest, Tide, Gillette, Bounty, Febreze, Old Spice, Pampers, and many more. These brands provide Procter & Gamble with pricing power and consistent profits.

Final Thoughts & Recommendation

Procter & Gamble is finally seeing the results of a prolonged turnaround. The company has returned to strong organic sales growth and earnings growth. If Procter & Gamble grows earnings by 5% per year, investors today can expect annualized total returns of around 5% per year as the 2.9% dividend yield will offset the expected 2.9% declines in valuation multiple. Procter & Gamble is an especially recession-resistant company that also sports low share price volatility. Because of its amazing dividend history and solid dividend yield, Procter & Gamble is a hold at current prices for risk-averse investors seeking reliable income and modest dividend growth. However, it is unlikely to generate strong returns given its elevated valuation.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	134.83	128.17	138.35	132.24	139.26	144.27	129.50	127.14	120.41	118.31
Cash & Equivalents	4781	2879	2768	4436	5947	8558	6836	7102	5569	2569
Acc. Receivable	5836	5335	6275	6068	6508	6386	4568	4373	4594	4686
Inventories	6880	6384	7379	6721	6909	6759	4979	4716	4624	4738
Goodwill & Int.	89118	85648	90182	84761	86760	84547	69632	68877	68886	69077
Total Liabilities	71451	66733	70353	68209	70554	74290	66445	69153	64628	65427
Accounts Payable	5980	7251	8022	7920	8777	8461	8138	9325	9632	10344
Long-Term Debt	36972	29832	32014	29778	31543	35417	30345	30598	31541	31179
Total Equity	61775	59838	66406	62244	66927	68103	61342	56303	54178	51326
D/E Ratio	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
Return on Assets	9.6%	9.7%	8.9%	7.9%	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%
Return on Equity	20.7%	20.9%	18.7%	16.7%	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%
ROIC	13.0%	13.3%	12.3%	11.1%	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%
Shares Out.	2917	2839	2766	2748	2742	2710	2715	2669	2553	2498
Revenue/Share	24.32	25.03	27.02	27.88	27.34	25.61	24.54	22.96	23.74	25.16
FCF/Share	3.70	4.22	3.34	3.17	3.71	3.48	3.77	4.26	3.42	4.20

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