



# Kimberly-Clark Corporation (KMB)

Updated July 26<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$135	<b>5 Year CAGR Estimate:</b>	4.8%	<b>Volatility Percentile:</b>	18.5%
<b>Fair Value Price:</b>	\$121	<b>5 Year Growth Estimate:</b>	4.0%	<b>Momentum Percentile:</b>	84.2%
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.2%	<b>Growth Percentile:</b>	25.6%
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$147	<b>Valuation Percentile:</b>	54.9%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	35.3%

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

Kimberly-Clark reported Q2 earnings on 7/23/19 and results were very strong, including a guidance raise. Sales came in at \$4.6 billion in Q2, which was even with the comparable period last year. Changes in foreign currency translation reduced the top line by 5%, while planned business exits also slightly reduced revenue. However, organic sales were up a very strong 5%, which was better than expectations. Net selling prices were up 5% while a 1% gain from product mix was offset by a similarly-sized volume decline. In the core North America market, organic sales rose 5% in consumer products and 2% in the company's professional segment. Outside the US, organic sales rose 9% in developing and emerging markets and 1% in developed markets.

Operating profit came to \$670 million, virtually flat with last year's total of \$674 million. Adjusted operating profit, however, which excludes restructuring charges, was up from \$774 million to \$789 million in Q2. The company continues to benefit from its FORCE program, which reduces costs where possible; \$70 million of savings were realized in Q2. Higher input costs due to pulp inflation and other raw materials, in addition to higher distribution costs were headwinds to operating profit in Q2. Higher compensation expense and higher advertising costs also crimped margins in Q2.

Adjusted earnings-per-share rose from \$1.59 to \$1.67 thanks to cost savings and high growth in organic sales. In addition, the company raised its guidance for this year to 3% organic sales growth and \$6.55 to \$6.80 in earnings-per-share. As a result, we've boosted our estimate to \$6.70 from \$6.55.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$4.52	\$4.45	\$3.99	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	<b>\$6.70</b>	<b>\$8.15</b>
<b>DPS</b>	\$2.38	\$2.58	\$2.76	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	<b>\$4.12</b>	<b>\$4.80</b>
<b>Shares</b>	417	407	396	389	381	365	361	357	351	345	<b>339</b>	<b>310</b>

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 Q2.

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.

*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.*



# Kimberly-Clark Corporation (KMB)

Updated July 26<sup>th</sup>, 2019 by Josh Arnold

We see the dividend rising from the current payout of \$4.12 to \$4.80 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

## 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	20.2	18.0
Avg. Yld.	4.3%	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.0%	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 20.2. The recent strong rally in the stock has sent the valuation much higher, causing it to move meaningfully over our view of fair value. If shares eventually revert to the security's historical mean, this could subtract 2.2% annually from prospective annual returns.

In addition, the yield is down to 3%, 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%	62%	59%

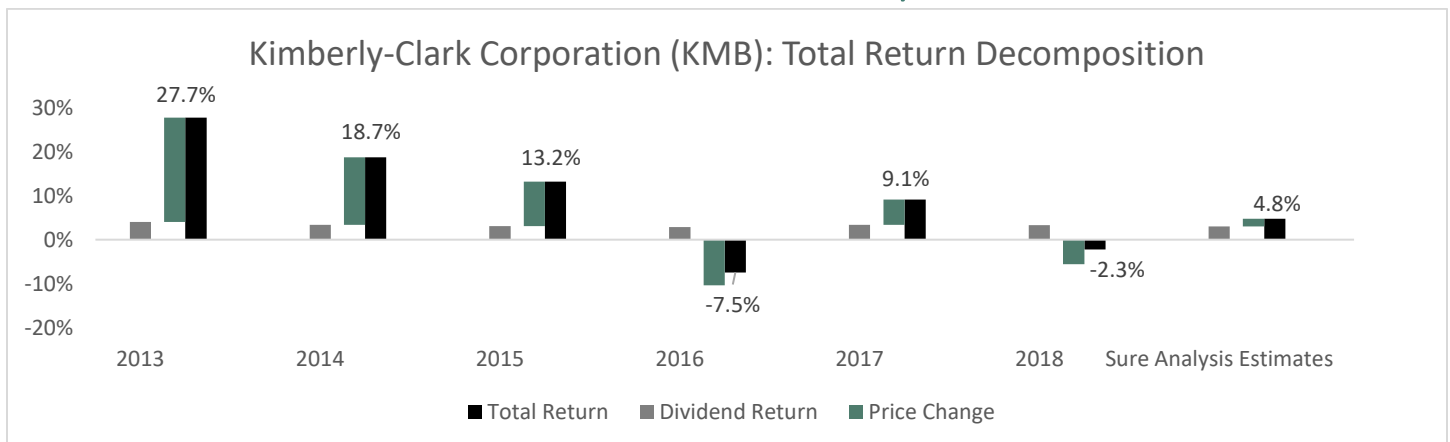
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-cap dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort by management 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 4.8% total annual returns, consisting of the current 3% yield, 4% earnings growth and a 2.2% headwind from a lower valuation. The stock earns high marks for its dividend history, current yield and stability, but growth remains a concern. We're reiterating our hold rating given the overvaluation of the stock and low projected total returns.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Kimberly-Clark Corporation (KMB)

Updated July 26<sup>th</sup>, 2019 by Josh Arnold

## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	19209	19864	19373	19873	18919	15526	14842	14602	15151	14518
<b>Cash &amp; Equivalents</b>	798	876	764	1106	1054	789	619	923	616	539
<b>Acc. Receivable</b>	2566	2472	2352	2346	2345	2079	2017	2077	2203	2164
<b>Inventories</b>	2033	2373	2356	2348	2233	1892	1909	1679	1790	1813
<b>Goodwill &amp; Int.</b>	3585	3690	3605	3583	3424	1737	1540	1480	1576	1474
<b>Total Liabilities</b>	13519	13662	13844	14586	13779	14527	14802	14485	14269	14564
<b>Accounts Payable</b>	1920	2206	2388	2443	2598	2616	2612	2609	2834	3190
<b>Long-Term Debt</b>	5402	5464	6132	6185	5761	6956	7775	7572	7425	7455
<b>Total Equity</b>	5406	5917	5249	4985	4856	729	-174	-102	629	-287
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	10.1%	9.4%	8.1%	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%
<b>Return on Equity</b>	40.6%	32.6%	28.5%	34.2%	43.5%	54.6%	365%	N/A	864%	825%
<b>ROIC</b>	17.7%	16.2%	13.6%	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%
<b>Shares Out.</b>	417	407	396	389	381	365	361	357	351	345
<b>Revenue/Share</b>	45.86	47.65	52.30	49.15	50.51	52.26	50.75	50.32	51.30	52.88
<b>FCF/Share</b>	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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.