



Procter & Gamble Co. (PG)

Updated January 23rd, 2020 by Samuel Smith

Key Metrics

Current Price:	\$125	5 Year CAGR Estimate:	2.3%	Market Cap:	\$312B
Fair Value Price:	\$96	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	4/23/20 ¹
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.0%	Dividend Payment Date:	5/18/20 ²
Dividend Yield:	2.4%	5 Year Price Target	\$123	Years Of Dividend Growth:	63
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	4%

Overview & Current Events

Procter & Gamble is a consumer products giant that sells its products in more than 180 countries and generates over \$70 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 \$312 billion. Amazingly, the company has paid increasing dividends for 63 consecutive years, one of the longest active streaks of any company. This qualifies the company to be a Dividend King.

Procter & Gamble released second fiscal quarter results in January (1/23/20). Organic sales grew by a solid 5%, led by 8% growth in the beauty segment and a 7% increase in the healthcare segment. Organic volumes increased by 3%, as favorable pricing and mix boosted organic sales even further.

Currency-neutral core gross margins increased by ~210 basis points thanks in large part to significant productivity savings, pricing benefits, and commodity cost improvements. Adjusted gross margin stood at 51.6% of sales during the quarter, beating consensus estimates of 50.4%. That being said, the growth was driven in large part by heavy marketing investment and inflation also ate into returns, driving SG&A cost as a percentage of sales up 20 basis points, though the increase was kept fairly minimal thanks to significant sales leverage benefits and overhead savings. Moving forward, the company expects continued all-in sales growth of 4%-5% and earnings-per-share growth of 8%-11% this year. It also expects to return about \$15 billion to shareholders this year, split roughly evenly between dividends and share repurchases.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.53	\$3.93	\$3.85	\$4.05	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	\$4.52	\$4.82	\$6.15
DPS	\$1.80	\$1.97	\$2.14	\$2.29	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	\$2.90	\$2.94	\$3.75
Shares³	2839	2766	2748	2742	2710	2715	2669	2553	2498	2425	2425	2400

Procter & Gamble's earnings-per-share 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 earnings-per-share has grown at nearly a 10% rate over the past three years, giving the company strong growth momentum. Procter & Gamble's adjusted earnings-per-share guidance for fiscal 2020 calls for 14% growth at the median. At the same time, the global economy appears to be slowing, so we are forecasting earnings-per-share growth of 5% per year over the next half decade. We believe the decision to focus on core brands will continue to yield positive results for Procter & Gamble.

¹ Estimate

² Estimate

³ In millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.0	16.0	16.7	17.8	19.0	20.9	21.4	22.3	20.7	24.0	25.9	20.0
Avg. Yld.	3.0%	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	2.5%	2.4%	3.0%

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 25.9 based on 2020 estimates. 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 in a low interest rate environment. As a result, we expect the stock to face slight multiple compression in the years ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	51.0%	50.1%	55.6%	56.5%	58.1%	64.4%	72.5%	68.9%	64.5%	64.2%	61.0%	61.0%

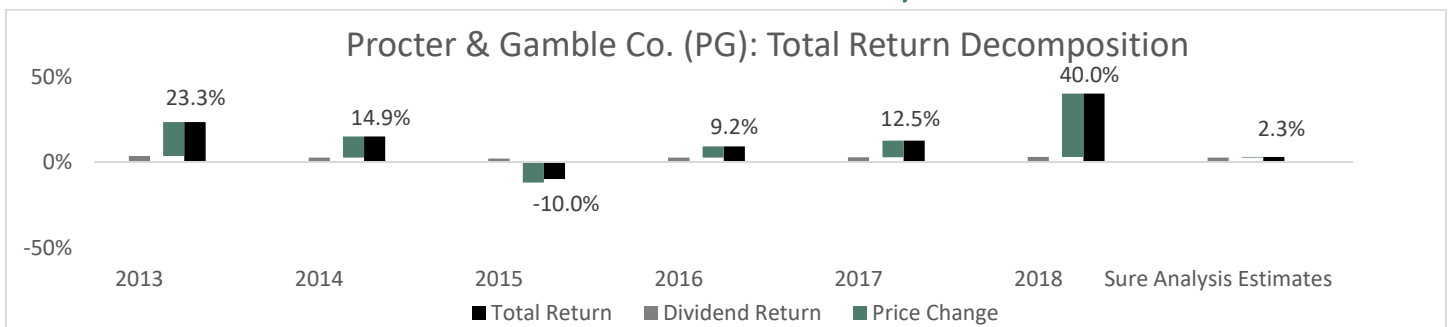
Procter & Gamble's dividend payout ratio has significantly increased in the last decade, due to its slowing earnings growth in that time. As a result, the company has drastically reduced its dividend growth rate in the last three years. Nevertheless, the company can easily keep growing its dividend at a rate about in line with earnings-per-share 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 earnings-per-share 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 2.3% per year as the 2.4% dividend yield will be unable to offset the expected annual headwind from valuation multiple contraction. 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 popular with risk-averse investors seeking reliable income and modest dividend growth. However, it is unlikely to generate satisfactory returns given its elevated valuation. As a result, we rate it a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	77567	81104	82006	80116	74401	70749	65299	65058	66832	67684
Gross Profit	40525	41245	40595	40125	35371	33693	32390	32420	32400	32916
Gross Margin	52.2%	50.9%	49.5%	50.1%	47.5%	47.6%	49.6%	49.8%	48.5%	48.6%
SG&A Exp.	24793	25750	25984	26000	21461	20616	18949	18654	19037	19084
D&A Exp.	3108	2838	3204	2982	3141	3134	3078	2820	2834	2824
Operating Profit	15732	15495	14611	14125	13910	13077	13441	13766	13363	13832
Op. Margin	20.3%	19.1%	17.8%	17.6%	18.7%	18.5%	20.6%	21.2%	20.0%	20.4%
Net Profit	12736	11797	10756	11312	11643	7036	10508	15326	9750	3897
Net Margin	16.4%	14.5%	13.1%	14.1%	15.6%	9.9%	16.1%	23.6%	14.6%	5.8%
Free Cash Flow	13064	10024	9320	10865	10110	10872	12121	9369	11150	11895
Income Tax	4017	3299	3378	3226	2851	2725	3342	3063	3465	2103

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	128	138	132	139	144	129	127	120	118	115
Cash & Equivalents	2879	2768	4436	5947	8558	6836	7102	5569	2569	4239
Acc. Receivable	5335	6275	6068	6508	6386	4568	4373	4594	4686	4951
Inventories	6384	7379	6721	6909	6759	4979	4716	4624	4738	5017
Goodwill & Int.	85648	90182	84761	86760	84547	69632	68877	68886	69077	64488
Total Liabilities	66733	70353	68209	70554	74290	66445	69153	64628	65427	67516
Accounts Payable	7251	8022	7920	8777	8461	8138	9325	9632	10344	11260
Long-Term Debt	29832	32014	29778	31543	35417	30345	30598	31592	31286	30059
Total Equity	59838	66406	62244	66927	68103	61342	56303	54178	51326	46266
D/E Ratio	0.49	0.47	0.47	0.46	0.51	0.49	0.53	0.57	0.60	0.64

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.7%	8.9%	7.9%	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%	3.3%
Return on Equity	20.9%	18.7%	16.7%	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%	8.0%
ROIC	13.3%	12.3%	11.1%	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%	4.8%
Shares Out.	2839	2766	2748	2742	2710	2715	2669	2553	2498	2425
Revenue/Share	25.03	27.02	27.88	27.34	25.61	24.54	22.96	23.74	25.16	26.65
FCF/Share	4.22	3.34	3.17	3.71	3.48	3.77	4.26	3.42	4.20	4.68

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