



The Colgate-Palmolive Company (CL)

Updated February 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	0.9%	Market Cap:	\$65.2B
Fair Value Price:	\$57	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	04/16/20 ¹
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	05/14/20 ²
Dividend Yield:	2.3%	5 Year Price Target	\$69	Years Of Dividend Growth:	56
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.4%

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 \$16 billion in annual revenue. Years of sideways movement in the stock has kept a lid on the market capitalization, which is currently \$65 billion.

Colgate-Palmolive reported Q4 and full-year earnings on January 31st and results beat expectations for both revenue and profit. Reported net income and diluted earnings-per-share came to \$643 million and \$0.75, respectively, compared to \$606 million and \$0.70 in the year-ago period. On an adjusted basis, which excludes certain costs and gains, net income was down -2% year-over-year while earnings-per-share declined -1%.

Colgate-Palmolive reported organic sales rose an impressive 5% in Q4 thanks to all of its regions outside of North America posting gains of at least 6%. North America was up just 1.5% in Q4.

Gross margin was 60.1% in Q4, up from 59.1% in the year-ago period. However, excluding charges from the company's cost savings program, gross margins were up 80bps year-over-year to 60.2% of revenue. Higher pricing continues to contribute to the company's margin gains, but were once again partially offset by higher raw material and packaging costs. Mix also continues to contribute positively.

SG&A costs were 35.2% of sales in Q4, up from 34.8% in the same quarter of 2018. Advertising expenses rose 13% year-over-year, which more than offset a small amount of fixed cost leverage.

Operating profit was down 120bps year-over-year to 23.4% of revenue on an adjusted basis due to the factors above. Net cash provided by operations was \$3.1 billion for the year, up slightly from 2018.

The company expects organic sales growth of 3% to 5% this year for total revenue growth of 4% to 6%. We expect this to drive earnings-per-share of \$3.00 for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.16	\$2.47	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	\$3.00	\$3.65
DPS	\$1.02	\$1.14	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.72	\$2.20
Shares³	990	960	936	920	907	893	907	875	867	858	850	810

With earnings reports still coming in relatively weak, we expect low growth 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

¹ Estimated date

² Estimated date

³ Share count 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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helping either, and we see an uphill battle for Colgate-Palmolive to return to a significant level of growth. Margin weakness yet again in Q4 has us cautious for 2020.

The dividend should rise at about the rate of earnings growth, perhaps hitting \$2.20 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.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.6	17.3	19.6	25.1	28.0	44.1	25.8	27.9	24.2	25.1	25.3	19.0
Avg. Yld.	2.5%	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	3.2%

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 25.3 times earnings today, we see the stock as sizably overvalued, leading to a -5.6% 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 2.3%, 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 believe there could be an opportunity for a better price and yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	49%	52%	62%	66%	108%	62%	67%	60%	62%	57%	60%

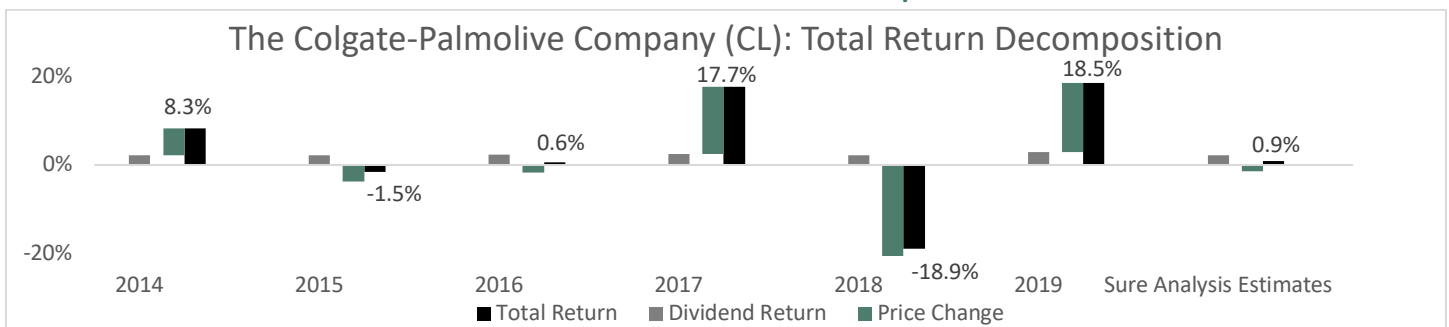
The payout ratio is just under 60% of earnings, as it has been for several years. We see the dividend as safe and we believe Colgate-Palmolive will produce many more years of dividend increases.

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. We also note that even though the stock is defensive in nature, its valuation was in the mid-teens during the last recession against 25+ today.

Final Thoughts & Recommendation

With earnings growth continuing to disappoint, we see Colgate-Palmolive as unattractive at current prices. The company seems to have turned the corner on revenue growth, but margins are still an issue. We see 0.9% total returns in the coming years as 4% earnings growth and the yield are largely offset by a sizable headwind from the valuation. We think Colgate-Palmolive will continue to struggle with growth; the stock looks very overvalued. We rate the stock as 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	15564	16734	17085	17420	17277	16034	15195	15454	15544	15,693
Gross Profit	9204	9590	9932	10201	10109	9399	9123	9280	9231	9,325
Gross Margin	59.1%	57.3%	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%
SG&A Exp.	5414	5758	5930	6223	5982	5464	5143	5400	5389	5,575
D&A Exp.	376	421	425	439	442	449	443	475	511	519
Operating Profit	3783	3810	3965	3951	4113	3896	3958	3848	3772	3,554
Op. Margin	24.3%	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.9%	24.3%	22.6%
Net Profit	2203	2431	2472	2241	2180	1384	2441	2024	2400	2,367
Net Margin	14.2%	14.5%	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%
Free Cash Flow	2661	2359	2631	2534	2541	2258	2548	2501	2620	2,798
Income Tax	1117	1235	1243	1155	1194	1215	1152	1313	906	774

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	11172	12724	13394	13985	13459	11935	12123	12676	12161	15,034
Cash & Equivalents	490	878	884	962	1089	970	1315	1535	726	883
Acc. Receivable	1610	1675	1668	1636	1552	1427	1411	1480	1400	1,440
Inventories	1222	1327	1365	1425	1382	1180	1171	1221	1250	1,400
Goodwill & Int.	3193	3998	3999	3970	3720	3449	3420	3559	4167	6,175
Total Liabilities	8355	10183	11004	11449	12074	11979	12106	12433	11964	14,476
Accounts Payable	1165	1244	1290	1343	1231	1110	1124	1212	1222	
Long-Term Debt	3424	4810	5230	5657	6148	6548	6533	6577	6366	7,847
Total Equity	2675	2375	2189	2305	1145	-299	-243	-60	-102	117
D/E Ratio	1.28	2.03	2.39	2.45	5.37	-21.90	-26.88	-109.6	-62.41	67.07

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	19.8%	20.3%	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%
Return on Equity	78.4%	96.3%	108%	99.7%	126%	327%	N/A	N/A	N/A	N/A
ROIC	34.7%	35.8%	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%
Shares Out.	990	960	936	920	907	893	907	875	867	858
Revenue/Share	15.23	17.00	17.79	18.53	18.69	17.63	16.91	17.41	17.81	18.22
FCF/Share	2.60	2.40	2.74	2.70	2.75	2.48	2.84	2.82	3.00	3.25

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

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