



Kimberly-Clark Corporation (KMB)

Updated April 25th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$142	5 Year CAGR Estimate:	5.7%	Market Cap:	\$47.8B
Fair Value Price:	\$134	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	06/05/20 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	07/02/20 ²
Dividend Yield:	3.0%	5 Year Price Target	\$163	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	3.9%

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: Personal Care Segment (*Huggies, Pull-Ups, Kotex, Depend, Poise*) and the Consumer Tissue segment (*Kleenex, Scott, Cottonelle, and Viva*), generating over \$18 billion in annual revenue. Kimberly-Clark trades with a market capitalization of \$48 billion and has increased its dividend for 48 consecutive years, making it a member of the Dividend Aristocrats Index.

Kimberly-Clark reported Q1 earnings on April 22nd and results beat expectations on both the top and bottom lines. Total revenue soared 8% in Q1 to \$5 billion despite a -2% headwind from foreign exchange translation, and minor divestitures. Organic sales were up 11% as volumes increased 8%, driven by increased shipments to support consumers stocking up for the COVID-19 crisis. All major product categories and geographies saw higher volumes in Q1.

Operating profit came to \$904 million in Q1, up from \$655 million in the year-ago period. Adjusted for charges in both quarters, operating profit rose from \$807 million in last year's Q1 to \$997 million this year. Organic sales gains and significant cost savings from the company's ongoing cost reduction programs helped boost operating profits. In addition, input costs were \$115 million lower year-over-year, driven by pulp pricing.

Earnings-per-share on an adjusted, diluted basis rose 28% year-over-year from \$1.66 to \$2.13. The company withdrew its previous guidance due to the crisis, but we've slightly boosted our earnings-per-share estimate for this year to \$7.45.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.45	\$3.99	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.45	\$9.06
DPS	\$2.58	\$2.76	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$5.19
Shares³	407	396	389	381	365	361	357	351	345	341	337	322

While Kimberly-Clark has not meaningfully grown its revenue for years, it has managed to grow its earnings-per-share thanks to share repurchases and its cost reduction programs. With operating margins rising steadily, increasing profitability is working to offset somewhat 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 a primary growth driver in the upcoming years, as it was again in Q1.

Management has publicly stated targets of mid-single-digit growth in adjusted earnings-per-share annually, -1% to +3% organic sales growth, and dividend growth in-line with earnings-per-share growth. The company's cost saving programs have worked nicely up to this point, but we note that there will be a point when returns from these cost cuts diminish. In addition, Kimberly-Clark has suspended its buyback program for now.

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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We see the dividend rising from the current payout of \$4.28 to \$5.19 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	14.1	16.9	18.2	17.8	28.1	40.6	21.2	19.9	16.7	18.8	19.0	18.0
Avg. Yld.	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.2%

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 19. The valuation has moderated somewhat of late, but shares still trade in excess of our estimate of fair value. If shares eventually revert to the security's historical mean, this could subtract -1.1% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	58%	69%	67%	59%	86%	127%	61%	62%	61%	60%	57%	57%

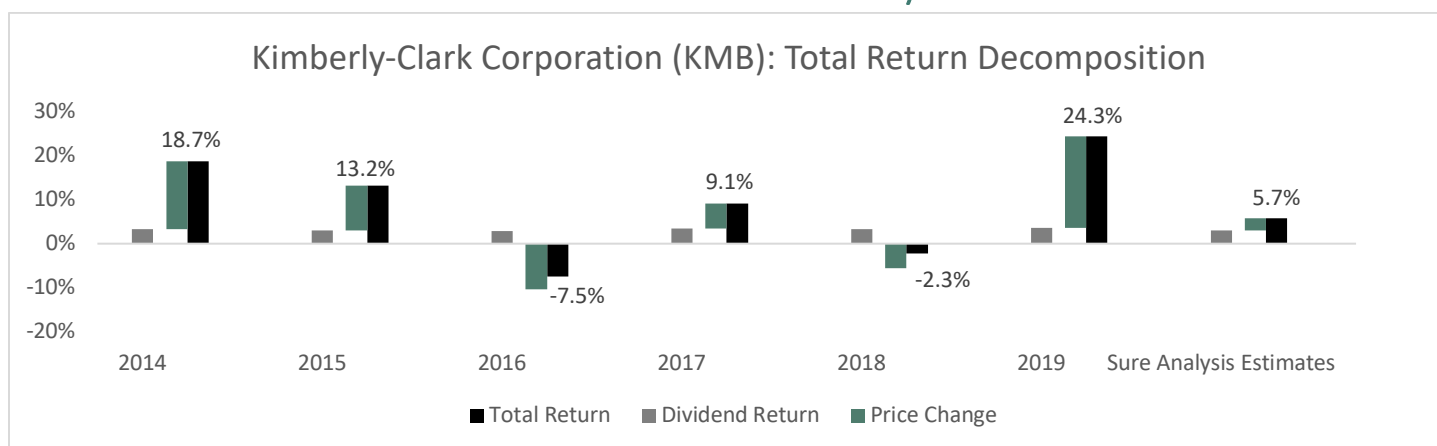
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort 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 most of its products are staples.

Final Thoughts & Recommendation

Kimberly-Clark continues to appear capable of delivering mid-single-digit returns with moderate risk. We see 5.7% total annual returns, consisting of the current 3% yield, 4% earnings growth and a small 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 higher valuation of the stock and low projected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	19,746	20,846	19,467	19,561	19,724	18,591	18,287	18,348	18,486	18,450
Gross Profit	6,550	6,152	6,129	6,609	6,683	6,624	6,691	6,587	5,597	6,035
Gross Margin	33.2%	29.5%	31.5%	33.8%	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%
SG&A Exp.	3,673	3,761	3,757	3,699	3,709	3,443	3,300	3,202	3,367	3,254
D&A Exp.	813	1,091	857	863	862	746	705	724	882	917
Operating Profit	2,773	2,442	2,377	2,903	2,521	1,613	3,383	3,358	2,229	2,991
Op. Margin	14.0%	11.7%	12.2%	14.8%	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%
Net Profit	1,843	1,591	1,750	2,142	1,526	1,013	2,166	2,278	1,410	2,157
Net Margin	9.3%	7.6%	9.0%	11.0%	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%
Free Cash Flow	1,780	1,320	2,195	2,087	1,806	1,250	2,461	2,144	2,093	1,527
Income Tax	788	660	660	828	856	418	922	776	471	576

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	19,864	19,373	19,873	18,919	15,526	14,842	14,602	15,151	14,518	15,283
Cash & Equivalents	876	764	1,106	1,054	789	619	923	616	539	442
Acc. Receivable	2,472	2,352	2,346	2,345	2,079	2,017	2,077	2,203	2,050	2,263
Inventories	2,373	2,356	2,348	2,233	1,892	1,909	1,679	1,790	1,813	1,790
Goodwill & Int.	3,690	3,605	3,583	3,424	1,737	1,540	1,480	1,576	1,474	1,467
Total Liabilities	13,662	13,844	14,586	13,779	14,527	14,802	14,485	14,269	14,564	15,089
Accounts Payable	2,206	2,388	2,443	2,598	2,616	2,612	2,609	2,834	3,190	3,055
Long-Term Debt	5,464	6,132	6,185	5,761	6,956	7,775	7,572	7,425	7,455	7,747
Total Equity	5,917	5,249	4,985	4,856	729	(174)	(102)	629	(287)	(33)
D/E Ratio	0.92	1.17	1.24	1.19	9.54	(44.7)	(74.2)	11.80	(26.0)	(234)

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.4%	8.1%	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%
Return on Equity	32.6%	28.5%	34.2%	43.5%	54.6%	365%	N/A	865%	825%	N/A
ROIC	16.2%	13.6%	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%
Shares Out.	407	396	389	381	365	361	357	351	345	341
Revenue/Share	47.65	52.30	49.15	50.51	52.26	50.75	50.56	51.55	52.88	53.39
FCF/Share	4.30	3.31	5.54	5.39	4.79	3.41	6.80	6.02	5.99	4.42

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

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