



# The Colgate-Palmolive Company (CL)

Updated May 6<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$70	<b>5 Year CAGR Estimate:</b>	1.8%	<b>Market Cap:</b>	\$60B
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	06/17/20 <sup>1</sup>
<b>% Fair Value:</b>	128%	<b>5 Year Valuation Multiple Estimate:</b>	-4.9%	<b>Dividend Payment Date:</b>	07/15/20 <sup>2</sup>
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$66	<b>Years Of Dividend Growth:</b>	57
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.3%

## Overview & Current Events

Colgate-Palmolive has been in existence for more than 200 years, having been founded in 1806. It operates in many consumer staples 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. The stock's market capitalization sits at \$60 billion.

Colgate-Palmolive reported first quarter earnings on May 1<sup>st</sup>, with the top and bottom lines both coming in higher than expected. Total sales were up 5.5% year-over-year as organic sales soared 7.5%, the company's best result for years. Gains were made on consumer staples products of all kinds as people around the world stocked up on essentials ahead of and during lockdown periods from COVID-19.

Gross margins came in at 60.3% on an adjusted basis, declining year-over-year as the company grappled with higher raw material and packaging costs, as well as unfavorable mix. Cost savings helped mitigate some of the damage, but profitability remains an issue despite much higher revenue.

Still, operating profit rose 5.5% year-over-year on an adjusted basis, and earnings-per-share were up 12% on an adjusted basis to \$0.75. Management withdrew guidance for the rest of the year, unsurprisingly, but we have cut our estimate of earnings-per-share this year slightly to \$2.85 on higher advertising and overhead expenses related to COVID-19, as well as the company's gross margin issues.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.16	\$2.47	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	<b>\$2.85</b>	<b>\$3.47</b>
<b>DPS</b>	\$1.02	\$1.14	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	<b>\$1.76</b>	<b>\$2.25</b>
<b>Shares<sup>3</sup></b>	990	960	936	920	907	893	907	875	867	858	<b>850</b>	<b>810</b>

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 helping either, and we see an uphill battle for Colgate-Palmolive to return to a significant level of growth. Margin weakness yet again in Q1 has us cautious for 2020. We think Colgate-Palmolive will continue to reap the benefits of pantry stocking, but that isn't necessarily translating into profit gains.

The dividend should rise at about the rate of earnings growth, perhaps hitting \$2.25 per share in 2025. Colgate Palmolive's dividend streak should remain intact for years to come as its payout is still a reasonable percentage of earnings

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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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## 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	24.4	19.0
Avg. Yld.	2.5%	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.5%	3.4%

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 24.4 times earnings today, we see the stock as sizably overvalued, leading to a large headwind to total annual returns should it revert to our estimate of fair value. The valuation has come down thanks to COVID-19, but in our view, it hasn't come down enough given margin issues. The yield has moved up as a result of the lower valuation and today, the stock is yielding 2.5%, 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 for buyers of the stock.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

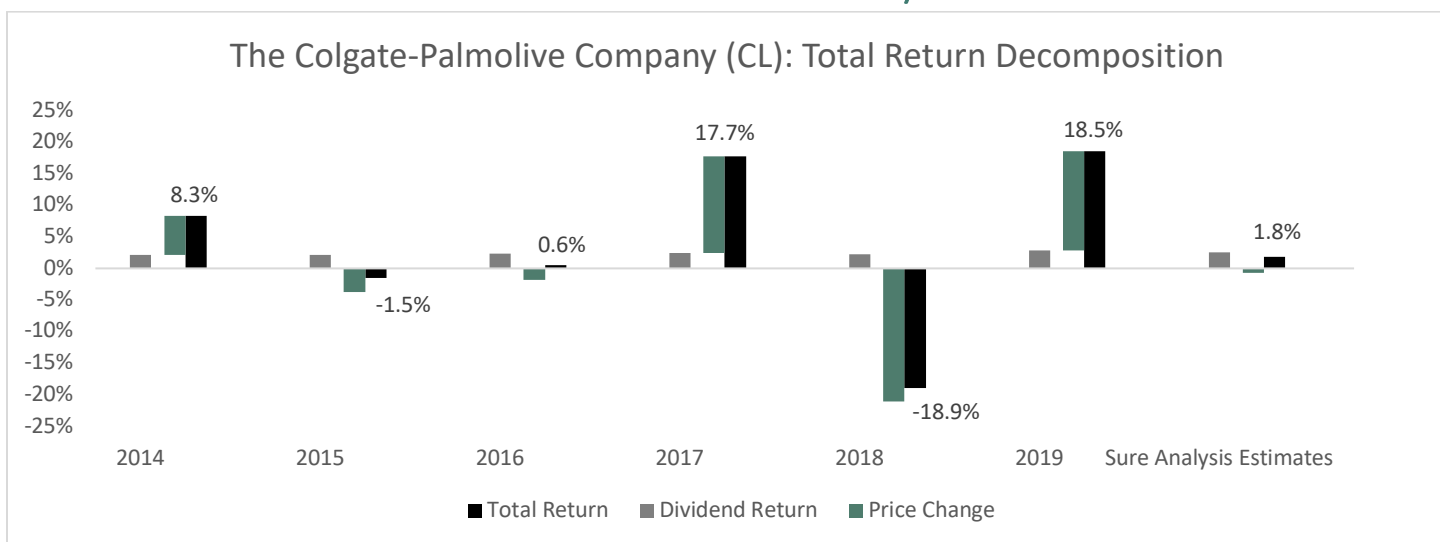
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	49%	52%	62%	66%	108%	62%	67%	60%	62%	62%	65%

The payout ratio is just over 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 1.8% 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	15,564	16,734	17,085	17,420	17,277	16,034	15,195	15,454	15,544	15,693
Gross Profit	9,204	9,590	9,932	10,201	10,109	9,399	9,123	9,280	9,231	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.	5,414	5,758	5,930	6,223	5,982	5,464	5,143	5,400	5,389	5,575
D&A Exp.	376	421	425	439	442	449	443	475	511	519
Operating Profit	3,783	3,810	3,965	3,951	4,113	3,896	3,958	3,710	3,685	3,617
Operating Margin	24.3%	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%
Net Profit	2,203	2,431	2,472	2,241	2,180	1,384	2,441	2,024	2,400	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	2,661	2,359	2,631	2,534	2,541	2,258	2,548	2,501	2,620	2,798
Income Tax	1,117	1,235	1,243	1,155	1,194	1,215	1,152	1,313	906	774

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	11,172	12,724	13,394	13,985	13,459	11,935	12,123	12,676	12,161	15,034
Cash & Equivalents	490	878	884	962	1,089	970	1,315	1,535	726	883
Accounts Receivable	1,610	1,675	1,668	1,636	1,552	1,427	1,411	1,480	1,400	1,440
Inventories	1,222	1,327	1,365	1,425	1,382	1,180	1,171	1,221	1,250	1,400
Goodwill & Int. Ass.	3,193	3,998	3,999	3,970	3,720	3,449	3,420	3,559	4,167	6,175
Total Liabilities	8,355	10,183	11,004	11,449	12,074	11,979	12,106	12,433	11,964	14,476
Accounts Payable	1,165	1,244	1,290	1,343	1,231	1,110	1,124	1,212	1,222	1,237
Long-Term Debt	3,424	4,810	5,230	5,657	6,148	6,548	6,533	6,577	6,366	7,847
Shareholder's Equity	2,675	2,375	2,189	2,305	1,145	(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%	---	---	---	31560%
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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