



# The Colgate-Palmolive Company (CL)

Updated November 30<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$85	<b>5 Year CAGR Estimate:</b>	3.3%	<b>Market Cap:</b>	\$73 B
<b>Fair Value Price:</b>	\$70	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	01/22/20 <sup>1</sup>
<b>% Fair Value:</b>	121%	<b>5 Year Valuation Multiple Estimate:</b>	-3.8%	<b>Dividend Payment Date:</b>	02/16/20 <sup>2</sup>
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$90	<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 \$73 billion after a sustained, COVID-19-fueled rally that has taken place virtually all year.

Colgate-Palmolive posted third quarter earnings on October 30<sup>th</sup>, 2020 and results for both the top and bottom lines came in ahead of expectations. Total revenue was up 5.5% year-over-year to \$4.2 billion, but on an organic basis, revenue rose 7.5%, easily beating estimates for a 3.9% gain. Particular strength was seen in Latin America, Africa/Eurasia, as well as Pet Nutrition, all of which posted double-digit organic growth gains.

Gross margins were up 220bps to 61.2% of sales, also beating estimates. Operating margin was 24.1% of sales, 150bps better than expected. The company continues to be a primary beneficiary of the pandemic and the consumer behavior shifts that have accompanied it.

Earnings-per-share came to \$0.79 on an adjusted basis, up 11% year-over-year. The company guided for net and organic sales to be up mid-single digits, while also expecting gross margin expansion, increased advertising spending, and 6% to 7% earnings-per-share growth. We have boosted our estimate of earnings-per-share to \$3.05 for this year after a very strong Q3 report.

## 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>\$3.05</b>	<b>\$3.89</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>

We expect moderate growth for Colgate-Palmolive at 5% 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 seems to have reversed course given Q3 results, so that is a positive. We think Colgate-Palmolive will continue to reap the benefits of pantry stocking, but that isn't necessarily translating into sustainable 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 increase 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	27.9	23.0
Avg. Yld.	2.5%	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.1%	2.5%

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 27.9 times earnings today, we see the stock as sizably overvalued, leading to a headwind to total annual returns should it revert to our estimate of fair value, which now stands at 23 times earnings. The stock is yielding 2.1%, more in line with historical yields. We see the combination of the rising payout and lagging share price as boosting the yield nearer to 2.5% in the coming years and believe there could be an opportunity for a better price and yield for buyers of the stock, even with earnings estimates rising.

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

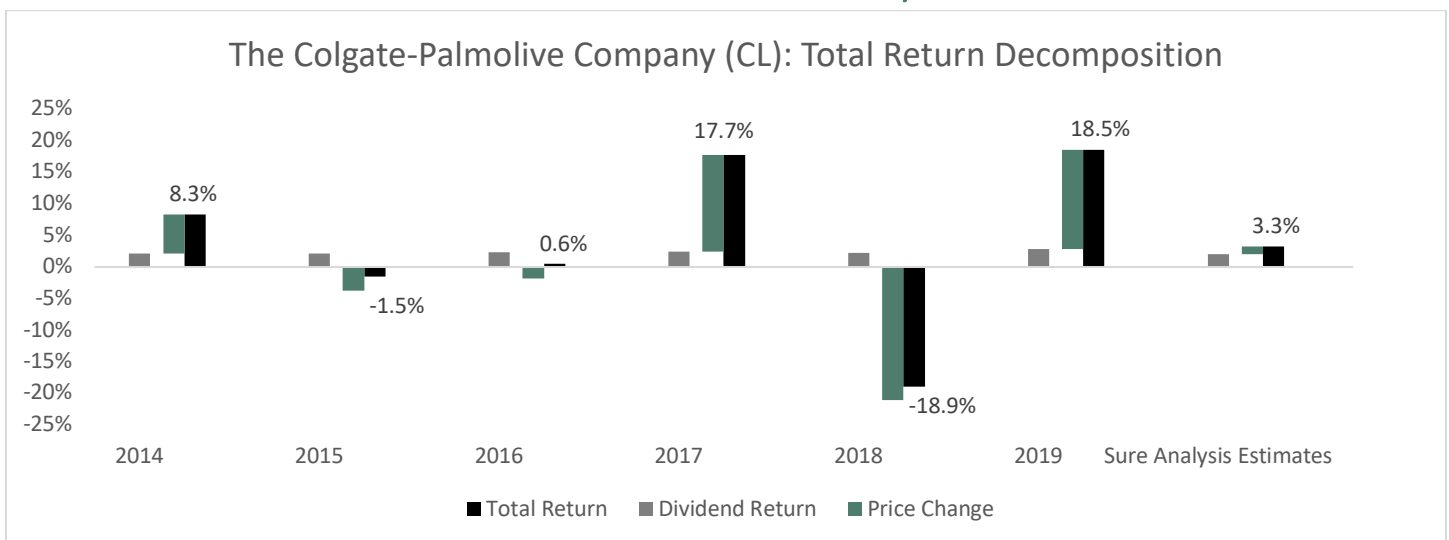
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	49%	52%	62%	66%	108%	62%	67%	60%	62%	58%	58%

The payout ratio is right at 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 ~28 today.

## Final Thoughts & Recommendation

With earnings growth after 2020's huge performance in doubt to some degree, we see Colgate-Palmolive as unattractive at current prices. The company seems to have turned the corner on revenue growth and margins, but how sustainable that will be remains to be seen. We forecast 3.3% total returns in the coming years as 5% earnings growth and the yield are somewhat offset by a headwind from the valuation. We think Colgate-Palmolive will continue to struggle with growth; the stock looks overvalued. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	15,564	16,734	17,085	17,420	17,277	16,034	15,195	15,454	15,544	15,693
<b>Gross Profit</b>	9,204	9,590	9,932	10,201	10,109	9,399	9,123	9,280	9,231	9,325
<b>Gross Margin</b>	59.1%	57.3%	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%
<b>SG&amp;A Exp.</b>	5,414	5,758	5,930	6,223	5,982	5,464	5,143	5,400	5,389	5,575
<b>D&amp;A Exp.</b>	376	421	425	439	442	449	443	475	511	519
<b>Operating Profit</b>	3,783	3,810	3,965	3,951	4,113	3,896	3,958	3,710	3,685	3,617
<b>Operating Margin</b>	24.3%	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%
<b>Net Profit</b>	2,203	2,431	2,472	2,241	2,180	1,384	2,441	2,024	2,400	2,367
<b>Net Margin</b>	14.2%	14.5%	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%
<b>Free Cash Flow</b>	2,661	2,359	2,631	2,534	2,541	2,258	2,548	2,501	2,620	2,798
<b>Income Tax</b>	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
<b>Total Assets</b>	11,172	12,724	13,394	13,985	13,459	11,935	12,123	12,676	12,161	15,034
<b>Cash &amp; Equivalents</b>	490	878	884	962	1,089	970	1,315	1,535	726	883
<b>Accounts Receivable</b>	1,610	1,675	1,668	1,636	1,552	1,427	1,411	1,480	1,400	1,440
<b>Inventories</b>	1,222	1,327	1,365	1,425	1,382	1,180	1,171	1,221	1,250	1,400
<b>Goodwill &amp; Int. Ass.</b>	3,193	3,998	3,999	3,970	3,720	3,449	3,420	3,559	4,167	6,175
<b>Total Liabilities</b>	8,355	10,183	11,004	11,449	12,074	11,979	12,106	12,433	11,964	14,476
<b>Accounts Payable</b>	1,165	1,244	1,290	1,343	1,231	1,110	1,124	1,212	1,222	1,237
<b>Long-Term Debt</b>	3,424	4,810	5,230	5,657	6,148	6,548	6,533	6,577	6,366	7,847
<b>Shareholder's Equity</b>	2,675	2,375	2,189	2,305	1,145	(299)	(243)	(60)	(102)	117
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	19.8%	20.3%	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%
<b>Return on Equity</b>	78.4%	96.3%	108%	99.7%	126%	327%	---	---	---	---
<b>ROIC</b>	34.7%	35.8%	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%
<b>Shares Out.</b>	990	960	936	920	907	893	907	875	867	858
<b>Revenue/Share</b>	15.23	17.00	17.79	18.53	18.69	17.63	16.91	17.41	17.81	18.22
<b>FCF/Share</b>	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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