



The Colgate-Palmolive Company (CL)

Updated February 6th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	5.7%	Market Cap:	\$68 B
Fair Value Price:	\$75	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/22/21 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	05/16/21 ²
Dividend Yield:	2.2%	5 Year Price Target	\$95	Years Of Dividend Growth:	57
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	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 \$17 billion in annual revenue. The stock's market capitalization sits at \$68 billion following a recent selloff.

Colgate-Palmolive reported fourth quarter and full-year earnings on January 29th, 2021 with results coming in ahead of expectations on the top and bottom lines. Total revenue was up 7.5% year-over-year during Q4 to \$4.3 billion, as organic sales growth was strong once again, driven by demand in North America.

The company reported organic sales growth of 8.5% in Q4, far exceeding consensus of +5.4%. North America produced +8.5% organic sales, Latin America was +10.5%, and Pet Nutrition was +14.5%.

The company's adjusted gross margin rate came to 61.1% of revenue, while adjusted operating margin was 22.4%, which was 100bps below expectations. The company said it expects high levels of uncertainty as its results begin to lap the pantry-stocking behavior that was driven by the initial outbreak to COVID-19, which begins during the current quarter. Colgate-Palmolive warns of volatility in raw material and logistics costs, as well as foreign exchange translation, which add to potential headwinds.

We see \$3.25 in earnings-per-share for this year as the company will almost certainly see some benefit from continued pantry-stocking, but also as outright growth rates slow as the pandemic is lapped.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.47	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	\$3.06	\$3.25	\$4.15
DPS	\$1.14	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.75	\$1.76	\$2.25
Shares³	960	936	920	907	893	907	875	867	858	858	858	840

We expect moderate growth for Colgate-Palmolive at 5% annually. Organic revenue growth continues, but forex translation has sabotaged the top line in some cases 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 and Q4 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. We also note that behavior will almost certainly abate at some point in the relatively near future.

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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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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.3	19.6	25.1	28.0	44.1	25.8	27.9	24.2	25.1	24.6	24.6	23.0
Avg. Yld.	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	2.2%	2.4%

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 24.6 times earnings today, we see the stock as modestly overvalued, leading to a small headwind to total annual returns should it revert to our estimate of fair value at 23 times earnings. The stock is yielding 2.2%, in line with historical yields. We see the combination of the rising payout and lagging share price as boosting the yield nearer to 2.4% in the coming years and believe there could be an opportunity for a better price and yield, even with earnings estimates rising.

Safety, Quality, Competitive Advantage, & Recession Resiliency

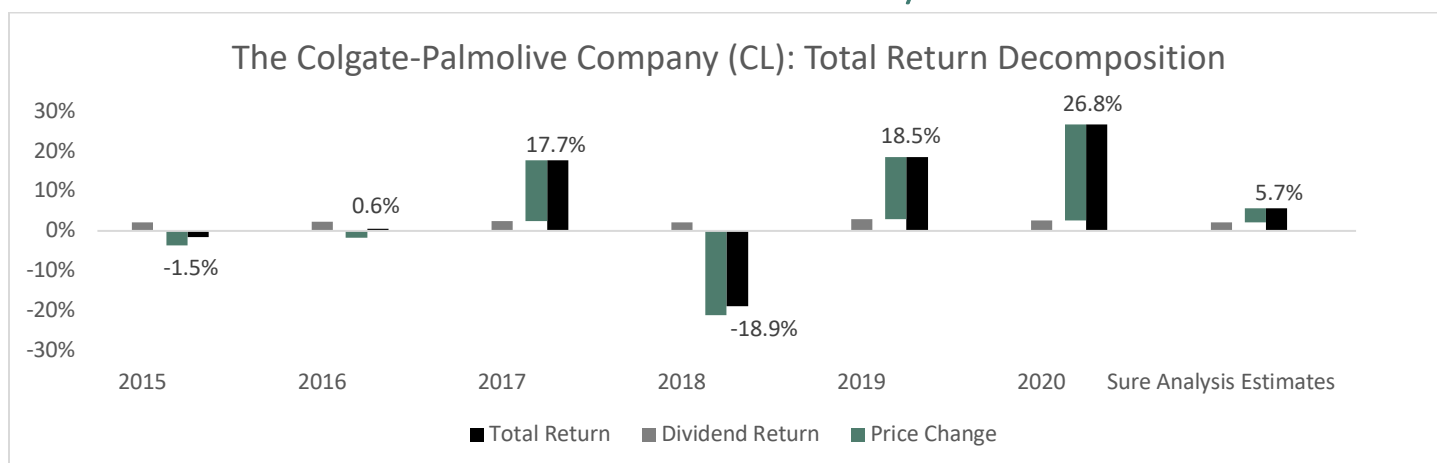
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49%	52%	62%	66%	108%	62%	67%	60%	62%	57%	54%	54%

The payout ratio is 54% of earnings, somewhat lower than recent 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, so that is a potential risk in future recessions.

Final Thoughts & Recommendation

With the stock having pulled back while estimates are rising, Colgate-Palmolive looks more attractive than it did at the time of our last update. 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 5.7% total returns in the coming years as 5% earnings growth and the yield could be slightly offset by a headwind from the valuation. We are reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16,734	17,085	17,420	17,277	16,034	15,195	15,454	15,544	15,693	16,471
Gross Profit	9,590	9,932	10,201	10,109	9,399	9,123	9,280	9,231	9,325	10,017
Gross Margin	57.3%	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%	60.8%
SG&A Exp.	5,758	5,930	6,223	5,982	5,464	5,143	5,400	5,389	5,575	6,019
D&A Exp.	421	425	439	442	449	443	475	511	519	539
Operating Profit	3,810	3,965	3,951	4,113	3,896	3,958	3,710	3,685	3,617	3,885
Operating Margin	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%	23.6%
Net Profit	2,431	2,472	2,241	2,180	1,384	2,441	2,024	2,400	2,367	2,695
Net Margin	14.5%	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%	16.4%
Free Cash Flow	2,359	2,631	2,534	2,541	2,258	2,548	2,501	2,620	2,798	3,309
Income Tax	1,235	1,243	1,155	1,194	1,215	1,152	1,313	906	774	787

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	12,724	13,394	13,985	13,459	11,935	12,123	12,676	12,161	15,034	15,920
Cash & Equivalents	878	884	962	1,089	970	1,315	1,535	726	883	888
Accounts Receivable	1,675	1,668	1,636	1,552	1,427	1,411	1,480	1,400	1,440	1,264
Inventories	1,327	1,365	1,425	1,382	1,180	1,171	1,221	1,250	1,400	1,673
Goodwill & Int. Ass.	3,998	3,999	3,970	3,720	3,449	3,420	3,559	4,167	6,175	6,718
Total Liabilities	10,183	11,004	11,449	12,074	11,979	12,106	12,433	11,964	14,476	14,819
Accounts Payable	1,244	1,290	1,343	1,231	1,110	1,124	1,212	1,222	1,237	---
Long-Term Debt	4,810	5,230	5,657	6,148	6,548	6,533	6,577	6,366	7,847	7,601
Shareholder's Equity	2,375	2,189	2,305	1,145	(299)	(243)	(60)	(102)	117	743
D/E Ratio	2.03	2.39	2.45	5.37	(21.90)	(26.88)	(109.6)	(62.41)	67.07	10.23

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	20.3%	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%	17.4%
Return on Equity	96.3%	108%	99.7%	126%	327%	---	---	---	---	---
ROIC	35.8%	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%	31.5%
Shares Out.	960	936	920	907	893	907	875	867	858	858
Revenue/Share	17.00	17.79	18.53	18.69	17.63	16.91	17.41	17.81	18.22	19.17
FCF/Share	2.40	2.74	2.70	2.75	2.48	2.84	2.82	3.00	3.25	3.85

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

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