



Kimberly-Clark Corporation (KMB)

Updated April 26th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$132	5 Year CAGR Estimate:	6.5%	Market Cap:	\$44.6 B
Fair Value Price:	\$134	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	06/05/21 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	07/02/21
Dividend Yield:	3.5%	5 Year Price Target	\$155	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	6.5%

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 about \$20 billion in annual revenue. Kimberly-Clark trades with a market capitalization of \$45 billion and has increased its dividend for 49 consecutive years, making it a member of the Dividend Aristocrats Index.

Kimberly-Clark reported first quarter earnings on April 23rd, 2021, and results were weaker than expected on both the top and bottom lines. Guidance was weak as well, sending the stock down sharply.

Total revenue was down -5% year-over-year to \$4.7 billion. The company said the Softex Indonesia acquisition boosted the top line by 2%, while forex helped fractionally as well. Volumes, however, declined -10%, while selling and mix contributed 1% each. Volume was down compared to sharply increased demand in the year-ago period as COVID-19 began to take hold. The stocking up behavior that drove sales for last year's Q1 and Q2 began to unwind later in the year, and Kimberly-Clark states this was the reason for weak revenue in this year's Q1. The company is also facing certain supply chain disruptions, which is causing temporary manufacturing shutdowns. Kimberly-Clark's results were nearly flat in developing markets, but in North America and other developed markets around the world, organic sales were down -10% or more.

Operating profit was \$770 million during the quarter, down from \$904 million in last year's Q1. On an adjusted basis – which excludes charges – operating profit fell from \$997 million to \$804 million. Lower sales and higher input costs were to blame for lower operating profits.

Our estimate for this year is now \$7.45 in earnings-per-share following weak Q1 results.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.99	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.74	\$7.45	\$8.64
DPS	\$2.76	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$4.56	\$5.53
Shares²	396	389	381	365	361	357	351	345	341	339	335	325

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 – Q1 notwithstanding – increasing profitability is working to offset somewhat weak revenue numbers. Kimberly-Clark's management team has extended this initiative to 2022, aiming for another \$1.5 billion of cumulative savings over the three-year period. This will be a primary growth driver in the upcoming years, particularly as revenue growth tops out after 2020 results. We expect 3% annual earnings growth in the years to come.

¹ Estimated date

² 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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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.

We see the dividend rising from the current payout of \$4.56 to \$5.53 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.9	18.2	17.8	28.1	40.6	21.2	19.9	16.7	18.8	18.3	17.7	18.0
Avg. Yld.	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.5%	3.6%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of about 18 over the last decade. This is in-line with its consumer staple dividend-paying stock competitors over the past few years and is comparable to the current price-to-earnings multiple of 17.7. With the valuation near our estimate of fair value, we see little impact on total returns. In addition, the yield is up to 3.5%, somewhat ahead of recent years. We see the yield remaining about where it is today in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	69%	67%	59%	86%	127%	61%	62%	61%	60%	55%	61%	64%

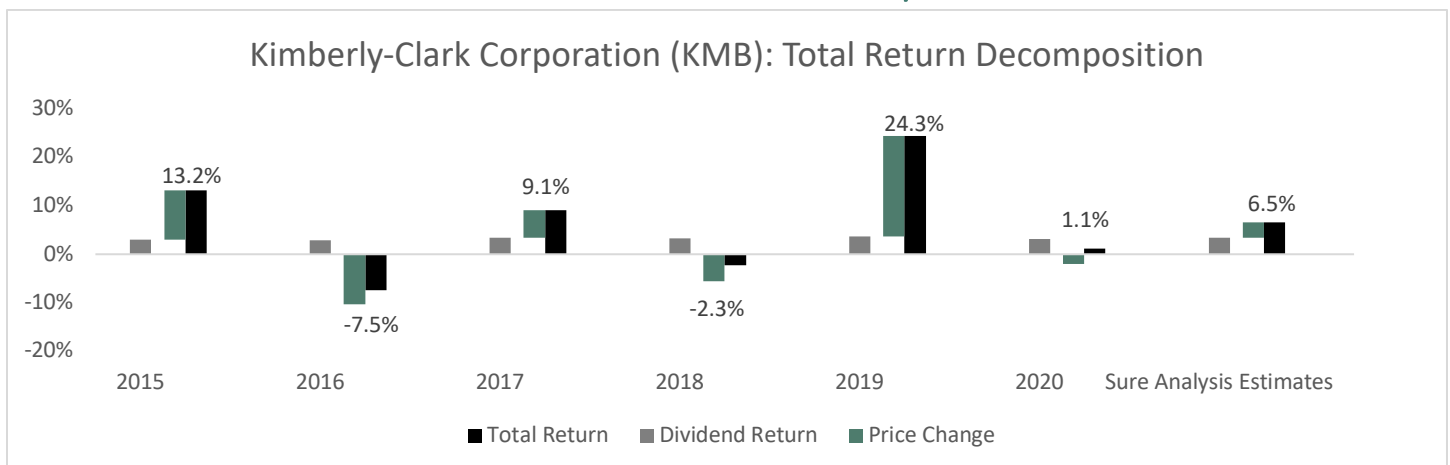
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort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

Final Thoughts & Recommendation

Kimberly-Clark continues to appear capable of delivering decent returns with moderate risk. We see 6.5% total annual returns, consisting of the current 3.5% yield, 3% earnings growth and essentially no impact from the valuation. The stock earns high marks for its dividend history, current yield and stability, but growth remains a concern, particularly in 2021. We're reiterating Kimberly-Clark 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	20,846	19,467	19,561	19,724	18,591	18,287	18,348	18,486	18,450	19,140
Gross Profit	6,152	6,129	6,609	6,683	6,624	6,691	6,587	5,597	6,035	6,822
Gross Margin	29.5%	31.5%	33.8%	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%	35.6%
SG&A Exp.	3,761	3,757	3,699	3,709	3,443	3,300	3,202	3,367	3,254	3,632
D&A Exp.	1,091	857	863	862	746	705	724	882	917	796
Operating Profit	2,442	2,377	2,903	2,521	1,613	3,383	3,358	2,229	2,991	3,244
Op. Margin	11.7%	12.2%	14.8%	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%	16.9%
Net Profit	1,591	1,750	2,142	1,526	1,013	2,166	2,278	1,410	2,157	2,352
Net Margin	7.6%	9.0%	11.0%	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%	12.3%
Free Cash Flow	1,320	2,195	2,087	1,806	1,250	2,461	2,144	2,093	1,527	2,512
Income Tax	660	660	828	856	418	922	776	471	576	676

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	19,373	19,873	18,919	15,526	14,842	14,602	15,151	14,518	15,283	17,523
Cash & Equivalents	764	1,106	1,054	789	619	923	616	539	442	303
Acc. Receivable	2,352	2,346	2,345	2,079	2,017	2,077	2,203	2,050	2,263	2,235
Inventories	2,356	2,348	2,233	1,892	1,909	1,679	1,790	1,813	1,790	1,903
Goodwill & Int.	3,605	3,583	3,424	1,737	1,540	1,480	1,576	1,474	1,467	2,727
Total Liabilities	13,844	14,586	13,779	14,527	14,802	14,485	14,269	14,564	15,089	16,654
Accounts Payable	2,388	2,443	2,598	2,616	2,612	2,609	2,834	3,190	3,055	3,336
Long-Term Debt	6,132	6,185	5,761	6,956	7,775	7,572	7,425	7,455	7,747	8,364
Total Equity	5,249	4,985	4,856	729	(174)	(102)	629	(287)	(33)	626
D/E Ratio	1.17	1.24	1.19	9.54	(44.7)	(74.2)	11.80	(26.0)	(234)	13.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.1%	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%	14.3%
Return on Equity	28.5%	34.2%	43.5%	54.6%	365%	---	865%	825%	---	793%
ROIC	13.6%	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%	27.4%
Shares Out.	396	389	381	365	361	357	351	345	341	339
Revenue/Share	52.30	49.15	50.51	52.26	50.75	50.56	51.55	52.88	53.39	55.91
FCF/Share	3.31	5.54	5.39	4.79	3.41	6.80	6.02	5.99	4.42	7.34

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

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