Procter & Gamble Co. (PG)

Updated April 20th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	2.7%	**Market Cap:**	$343 B
Fair Value Price:	$114	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	04/22/21
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Dividend Payment Date:**	05/17/21
Dividend Yield:	2.5%	**5 Year Price Target:**	$139	**Years Of Dividend Growth:**	65
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	10.0%

Overview & Current Events

Founded in 1837 and headquartered in Cincinnati, Ohio, Procter & Gamble is a consumer products giant that sells its products in over 180 countries. Notable brands include Pampers, Luvs, Tide, Gain, Bounty, Charmin, Puffs, Gillette, Head & Shoulders, Old Spice, Dawn, Febreze, Swiffer, Crest, Oral-B, Scope, Olay and many more. The $343 billion market capitalization company generated $71 billion in sales in fiscal 2020. Procter & Gamble has paid a dividend for 131 years and increased its dividend for 65 consecutive years – one of the longest active streaks of any company.

On April 13th, 2021 Procter & Gamble increased its dividend 10.0% to $0.8698 per quarter from $0.7907.

On April 20th, 2021 Procter & Gamble released Q3 fiscal year 2021 results for the period ending March 31st, 2021. (Procter & Gamble's fiscal year ends June 30th.) For the quarter, the company generated $18.1 billion in sales, a 5.2% increase compared to Q3 2020. This result was led by sales increases of 9%, 4%, 4% and 8% in the company's Beauty, Grooming, Health Care and Fabric & Home Care segments, respectively. Net earnings equaled $3.269 billion or $1.26 per share compared to $2.917 billion or $1.12 per share in Q3 2020.

In addition, Procter & Gamble maintained its fiscal 2021 guidance, anticipating 5% to 6% sales growth and 8% to 10% core earnings-per-share growth from last year's mark of $5.12.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.93	$3.85	$4.05	$4.22	$4.02	$3.67	$3.92	$4.22	$4.52	$5.12	***$5.70***	***$6.93***
DPS	$1.97	$2.14	$2.29	$2.45	$2.59	$2.66	$2.70	$2.79	$2.90	$3.03	***$3.48***	***$4.23***
Shares[1]	2,766	2,748	2,742	2,711	2,715	2,668	2,553	2,498	2,505	2,480	***2,480***	***2,400***

In the 2010 through 2020 stretch, Procter & Gamble grew its earnings-per-share by an average compound rate of 3.8% per annum. This result was driven by sales actually declining by an average of -1.1% per year, offset by an increasing net profit margin – from 13.9% to 18.9% - and a share count that was reduced by -1.3% annually. The company has been going through a major transformation in recent years. It has sold a significant number of low-margin, low-growth brands and has reduced its brand count by almost two-thirds, from ~170 to 65.

This transformation has weighed on the top line, but it should allow Procter & Gamble to focus on its strongest, most profitable brands moving forward. Indeed, results in 2018, 2019 and 2020 have demonstrated this trend, with another strong year expected in 2021.

We are now anticipating $5.70 in earnings-per-share for 2021, weighing the recently reiterated guidance with a strong showing in Q3 2021. Thereafter, we expect 4% annual growth, representing a slowdown compared to recent years, but in-line with the last decade. Procter & Gamble has powerful brands, but it becomes more and more difficult to grow coming off such a large base.

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[1] 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.0	16.7	17.8	19.0	20.9	21.4	22.3	20.1	20.7	23.3	***24.3***	***20.0***
Avg. Yld.	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	3.1%	2.5%	***2.5%***	***3.1%***

Over the past decade shares of Procter & Gamble have traded hands around 20 times earnings. We believe this is a fair starting multiple, taking into consideration the high quality of the company, weighed against modest growth prospects. With shares presently trading near 24 times expected earnings, this implies the potential for a valuation headwind.

Meanwhile, the storied dividend is set to continue to add to shareholder returns, despite the slightly elevated payout ratio and average dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	50%	56%	57%	58%	64%	72%	69%	66%	64%	59%	***61%***	***61%***

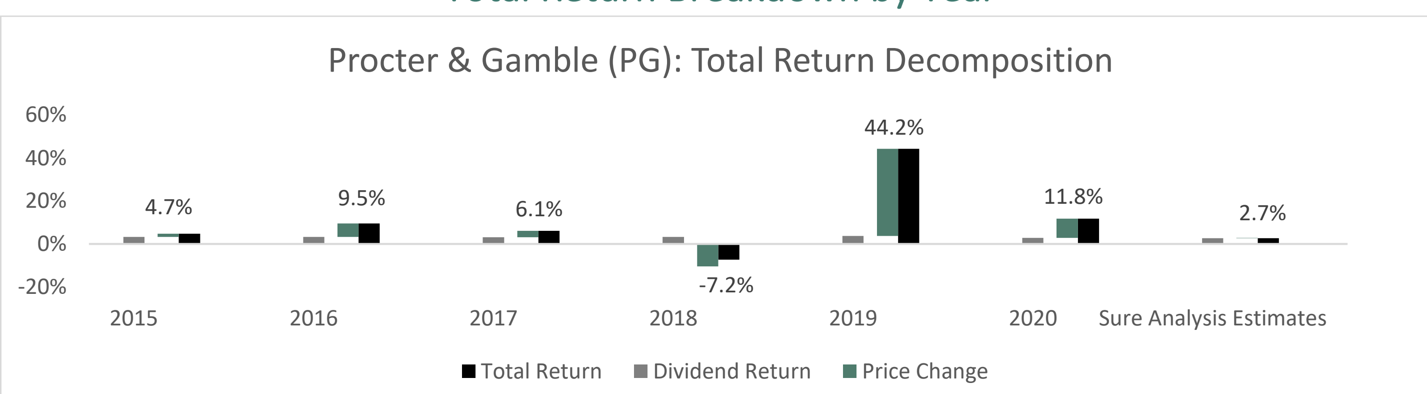
Procter & Gamble's dividend payout ratio has oscillated between 50% and 75% in the last decade, with the current mark coming in around 60%. This is somewhat high for your typical company, but well within a reasonable range for such a high-quality firm. We believe the company can keep growing its dividend at a rate roughly in line with earnings-per-share growth going forward.

Procter & Gamble has significant competitive advantages, due to its strong brands. The company has a number of category-leading brands such as Crest, Tide, Gillette, Bounty, Febreze, Old Spice, Pampers, and many more. These brands provide Procter & Gamble with pricing power and consistent profits, in good times or bad. During the last recession the company posted earnings-per-share of $3.04, $3.64, $3.58, $3.53 and $3.93 in the 2007 through 2011 stretch, while the dividend kept on increasing. Moreover, during the current COVID-19 pandemic, Procter & Gamble has proven resilient once again, with earnings increasing in 2020.

Final Thoughts & Recommendation

Shares are up 4% since our last report. Procter & Gamble has demonstrated strong performance in all environments, with an impressive operating history. While the company's growth rate slowed in the last decade, Procter & Gamble has now completed an important transformation program that has set it up well. Total return potential comes in at 2.7% per annum, stemming from 4% expected growth and a 2.5% starting dividend yield, offset by the potential for a valuation headwind. Procter & Gamble is popular with risk-averse investors seeking reliable income and modest dividend growth. However, due to modest total return potential, shares earn 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	81104	82006	80116	74401	70749	65299	65058	66832	67684	70950
Gross Profit	41245	40595	40125	35371	33693	32390	32420	32400	32916	35700
Gross Margin	50.9%	49.5%	50.1%	47.5%	47.6%	49.6%	49.8%	48.5%	48.6%	50.3%
SG&A Exp.	25750	25984	26000	21461	20616	18949	18654	19037	19084	19990
D&A Exp.	2838	3204	2982	3141	3134	3078	2820	2834	2824	3013
Operating Profit	15495	14611	14125	13910	13077	13441	13766	13363	13832	15710
Op. Margin	19.1%	17.8%	17.6%	18.7%	18.5%	20.6%	21.2%	20.0%	20.4%	22.1%
Net Profit	11797	10756	11312	11643	7036	10508	15326	9750	3897	13030
Net Margin	14.5%	13.1%	14.1%	15.6%	9.9%	16.1%	23.6%	14.6%	5.8%	18.45
Free Cash Flow	10024	9320	10865	10110	10872	12121	9369	11150	11895	14330
Income Tax	3299	3378	3226	2851	2725	3342	3063	3465	2103	2731

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	138	132	139	144	129	127	120	118	115	120.7
Cash & Equivalents	2768	4436	5947	8558	6836	7102	5569	2569	4239	16180
Acc. Receivable	6275	6068	6508	6386	4568	4373	4594	4686	4951	4178
Inventories	7379	6721	6909	6759	4979	4716	4624	4738	5017	5498
Goodwill & Int.	90182	84761	86760	84547	69632	68877	68886	69077	64488	63690
Total Liabilities	70353	68209	70554	74290	66445	69153	64628	65427	67516	73820
Accounts Payable	8022	7920	8777	8461	8138	9325	9632	10344	11260	12070
Long-Term Debt	32014	29778	31543	35417	30345	30598	31592	31286	30059	34720
Total Equity	66406	62244	66927	68103	61342	56303	54178	51326	46266	46520
D/E Ratio	0.47	0.47	0.46	0.51	0.49	0.53	0.57	0.60	0.64	0.75

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.9%	7.9%	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%	3.3%	11.1%
Return on Equity	18.7%	16.7%	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%	8.0%	28.4%
ROIC	12.3%	11.1%	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%	4.8%	16.4%
Shares Out.	2766	2748	2742	2710	2715	2669	2553	2498	2425	2626
Revenue/Share	27.02	27.88	27.34	25.61	24.54	22.96	23.74	25.16	26.65	27.02
FCF/Share	3.34	3.17	3.71	3.48	3.77	4.26	3.42	4.20	4.68	5.46

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