



# Reckitt Benckiser (RBGLY)

Updated July 27<sup>th</sup>, 2021 by Derek English

## Key Metrics

<b>Current Price:</b>	\$16.00	<b>5 Year CAGR Estimate:</b>	8.8%	<b>Market Cap:</b>	\$47.14B
<b>Fair Value Price:</b>	\$18.00	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	08/05/21
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.4%	<b>Dividend Payment Date:</b>	09/15/21
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$22.00	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	0.0%

## Overview & Current Events

Reckitt Benckiser Group plc is a British consumer goods company headquartered in London, UK. The company can trace its history back to 1814. However, the Reckitt Benckiser Group plc as we know it today was formed in 1999 when Reckitt & Colman plc and Benckiser N.V. RBGLY combined. Today, the company operates in over 200 countries and employs more than 40,000 people. The company is organized into three business units: Health, Hygiene, and Nutrition. The health business unit comprises products such as Durex, Veet, and Nurofen. The hygiene business unit includes Finish and Air Wick products, and the nutrition business unit comprises Enfa and Nutramigen. In addition, the company is classified into three reportable business segments for reporting purposes: North America, Europe, and Developed Markets.

Reckitt Benckiser released H1 results on July 27<sup>th</sup>, 2021. The company posted results including and excluding IFCN China as they have agreed to sell this business to Primavera capital group for \$2.2 billion. Revenue grew 3.7%, reflecting volume growth of just 0.3% and price improvements of 3.4%. Although flagship brands such as Lysol and Dettol have declined this year, the hygiene segment continues to see growth. The health segment has also stagnated compared to last year as customers loaded up on cold and flu brands at the beginning of the pandemic. The operating margin dropped to 22.7% due to planned investment and cost inflation and free cash flow was down 72% due to reduced working capital. Still, the company has committed to sustaining the dividend at 2019 levels.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.77	\$0.82	\$0.76	\$1.53	\$0.75	\$0.72	\$2.31	\$0.81	(\$1.32)	\$1.10	<b>\$1.20</b>	<b>\$1.46</b>
<b>DPS</b>	\$0.31	\$0.34	\$0.39	\$0.44	\$0.45	\$0.39	\$0.41	\$0.42	\$0.45	\$0.43	<b>\$0.44</b>	<b>\$0.53</b>
<b>Shares</b>	3679	3665	3645	3654	3618	3572	3556	3545	3543	3550	<b>3569</b>	<b>3500</b>

Reckitt Benckiser's earnings per share have grown at a CAGR of 4.0% over the last nine years. While Covid-19 posted many challenges for most companies, Reckitt Benckiser saw a benefit in the short term as consumers focused more on health and hygiene. Based on the significant growth last year, H1 2019 may be a better foundation to compare the company's performance. In this respect, the company held or gained market share in 60% of its Core category market units. The company still targets mid-single-digit growth, which we believe is achievable in the current climate if the company can continue to grow its market share. We estimate a 4% annualized growth rate with the only negative coming from the infant formula business, which will see a decline due to the impact of pandemic-driven lower birth rates in 2020.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	16.2	15.5	19.0	10.9	24.1	26.1	8.1	21.0	N/A	16.1	<b>13.3</b>	<b>15.0</b>
<b>Avg. Yld.</b>	2.5%	2.7%	2.7%	2.6%	2.5%	2.1%	2.2%	2.5%	2.8%	2.4%	<b>2.7%</b>	<b>2.4%</b>

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Since 2011, Reckitt Benckiser has traded, on average, at 14.5 times its earnings per share and had an average dividend yield of around 2.5%. The company is currently trading at a P/E ratio of 13.3, which indicates that the company is slightly undervalued at approximately \$16.00. Given our 4% growth estimate over the next five years, we have set a price target of \$22 by 2026. We would expect the average yield to continue to hover around 2.5%, given the companies stance on maintaining its dividend.

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

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	40%	42%	52%	28%	60%	54%	18%	52%	N/A	39%	36%	36%

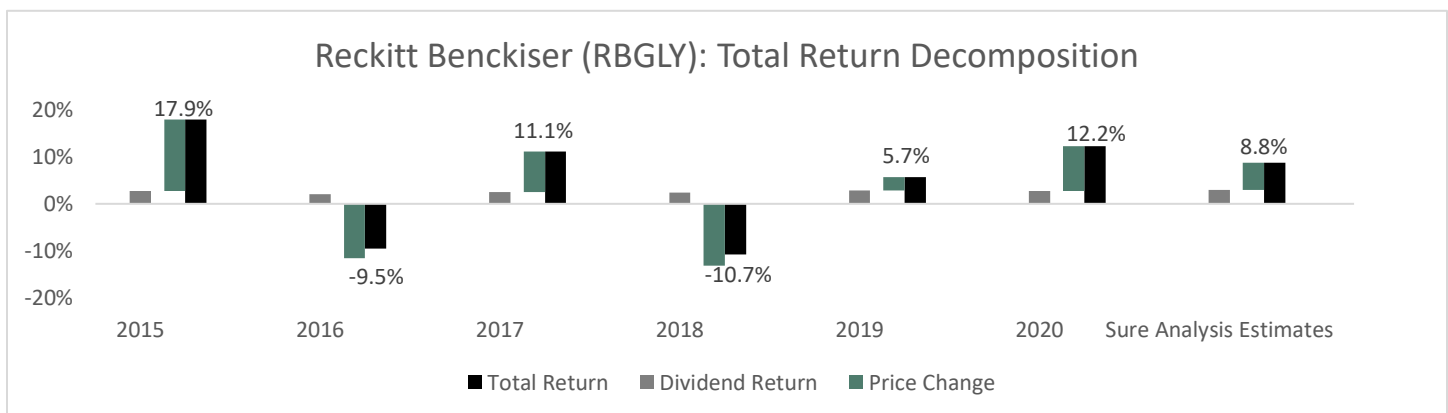
One of Reckitt's main competitive advantages lies within its premium brand power. For example, Lysol is present in over half of all U.S. homes, while Brands such as Finish and Gaviscon have increased market share in H1 2021. Customers are often willing to pay extra for brands as they are a symbol of quality. Digital marketing lowers the barriers to entry for launching a new brand, leading to fierce price competition. In response, e-RB was established as a dedicated organization to drive each Global Business Unit with digital business development. eCommerce net revenue is up 15% and now accounts for over 12% of the company's revenue with solid growth in the intimate wellness category.

The company is shifting some of its focus to immunity and senior nutrition due to the increased emphasis on preventative health initiatives. The company is a reliable European dividend distributor as it has paid a stable dividend since 2000. They showed strong recession resiliency during the last financial crash by increasing the dividend every year until 2015 in Great British pounds. However, debt rose significantly in 2017 due to The \$18 billion acquisition of Mead Johnson, a baby formula specialist. The company priorities a long-term growing dividend and aims to payout 50% of net income. However, the company will remain at 2019 levels in GBP for 2021.

## Final Thoughts & Recommendations

Reckitt Benckiser is one of those rare companies that benefited from the pandemic as consumers become more focused on health and hygiene. Tailwinds in the infant nutrition division will slightly offset strong headwinds in health and hygiene. Investors looking for a sustainable dividend will be happy with RBGLY's policy of maintaining a 50% payout ratio. If revenue and free cash flow are growing, then the dividend will grow in tandem. With an expected earnings per share growth rate of 4%, a dividend yield of 2.5% and a low single-digit contribution from valuation expansion, we expect a total return of 8.8% annually for Reckitt Benckiser through 2026 at current prices. We prefer returns of over 10%, which means Reckitt Benckiser falls short of a buy rating from us. The company remains a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	17959	16403	16808	14783	12844	13561	14565	14497	15160	15209
<b>Gross Profit</b>	10826	9931	10187	8810	7860	8017	8400	8227	8776	8738
<b>Gross Margin</b>	60.3%	60.5%	60.6%	59.6%	61.2%	59.1%	57.7%	56.7%	57.9%	57.4%
<b>SG&amp;A Exp.</b>	6422	5570	5390	4541	4093	4187	4581	4644	4442	4613
<b>D&amp;A Exp.</b>	1870	7092	546	346	240	261	265	243	235	252
<b>Operating Profit</b>	4036	4037	4391	3976	3572	3628	3602	3353	4084	3988
<b>Operating Margin</b>	22.5%	24.6%	26.1%	26.9%	27.8%	26.8%	24.7%	23.1%	26.9%	26.2%
<b>Net Profit</b>	1523	-4703	2881	7969	2482	2664	5313	2721	2886	2798
<b>Net Margin</b>	8.5%	-28.7%	17.1%	53.9%	19.3%	19.6%	36.5%	18.8%	19.0%	18.4%
<b>Free Cash Flow</b>	3891	1236	2785	2766	2753	2453	3157	2968	2711	2461
<b>Income Tax</b>	924	849	715	-1154	705	708	762	709	924	997

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	42646	42140	48160	50444	22137	22620	24119	24981	24347	21765
<b>Cash &amp; Equivalents</b>	2058	1861	1879	2872	1084	1096	1427	1332	1433	985
<b>Accounts Receivable</b>	2122	2250	2328	2708	1789	1724	1612	1862	1975	1921
<b>Inventories</b>	2170	1723	1619	1623	946	1009	1160	1230	1188	1168
<b>Goodwill &amp; Int. Ass.</b>	31316	31810	38420	39849	16528	16735	17513	18372	18038	15806
<b>Total Liabilities</b>	30164	29806	29417	32123	11785	12388	13482	14533	14777	12858
<b>Accounts Payable</b>	4680	3791	2281	6256	1527	1453	1541	1634	1532	1544
<b>Long-Term Debt</b>	13961	15564	15072	17826	2934	3584	3997	4555	5288	3863
<b>Shareholder's Equity</b>	12422	12276	18683	18267	10345	10228	10634	10445	9568	8800
<b>D/E Ratio</b>	1.1	1.3	0.8	1.0	0.3	0.4	0.4	0.4	0.6	0.4

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	3.6%	-10.4%	5.8%	22.0%	11.1%	11.4%	21.6%	11.0%	12.5%	13.2%
<b>Return on Equity</b>	12.3%	-30.4%	15.6%	55.7%	24.1%	25.5%	50.4%	27.2%	31.4%	33.7%
<b>ROIC</b>	5.6%	-15.2%	8.2%	32.2%	18.3%	18.7%	35.9%	18.2%	20.9%	22.6%
<b>Shares Out.</b>	3568.7	3543.4	3545.0	3555.6	3571.5	3617.7	3653.7	3645.3	3665.0	3679.2
<b>Revenue/Share</b>	5.03	4.63	4.74	4.16	3.60	3.75	3.99	3.98	4.14	4.13
<b>FCF/Share</b>	1.09	0.35	0.79	0.78	0.77	0.68	0.86	0.81	0.74	0.67

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

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