



# The Colgate-Palmolive Company (CL)

Updated August 7<sup>th</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$79	<b>5 Year CAGR Estimate:</b>	6.0%	<b>Market Cap:</b>	\$67 B
<b>Fair Value Price:</b>	\$75	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	10/22/21 <sup>1</sup>
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Dividend Payment Date:</b>	11/16/21
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$95	<b>Years Of Dividend Growth:</b>	58
<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 \$17 billion in annual revenue. The stock's market capitalization sits at \$67 billion after a slight decline since our last update.

Colgate posted second quarter earnings on July 30<sup>th</sup>, 2021, with results coming in ahead of expectations on both the top and bottom lines. However, the company's guidance was weak, and the stock fell following the report as a result. The company's CEO said he expects to see a difficult cost environment in the back half of the year, which will undoubtedly impact margins, and potentially revenue through supply shortages.

For Q2, total revenue was up 9.5% year-over-year as the company lapped the worst of the pandemic. The \$4.26 billion in total revenue was fractionally better than expectations. However, organic growth came in light against consensus, adding 5%, short of the 6.2% expected. North America was the company's weakest region, posting a -4% decline in revenue, while all other regions were positive.

Earnings-per-share came to 80 cents on an adjusted basis, up from 74 cents in the year-ago period. However, guidance spooked investors as the company said it now expects a decline in gross margins, which is a sharp reversal from prior guidance of a gross margin gain. The company also slightly trimmed its earnings-per-share growth target for this year, and we've reduced our estimate by a nickel to \$3.25 per share.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.47	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	\$3.06	<b>\$3.25</b>	<b>\$4.15</b>
<b>DPS</b>	\$1.14	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.75	<b>\$1.80</b>	<b>\$2.30</b>
<b>Shares<sup>2</sup></b>	960	936	920	907	893	907	875	867	858	858	<b>858</b>	<b>840</b>

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 is back, particularly with weak guidance for the rest of the year. We think Colgate-Palmolive will continue to reap the benefits of pantry stocking, but that isn't necessarily translating into sustainable profit gains given the margin situation. We also note that behavior will almost certainly abate at some point in the relatively near future. Q2 results were still solid, but the company has made it clear the second half of 2021 is going to be tough.

The dividend should rise at about the rate of earnings growth, perhaps hitting \$2.30 per share in 2026. Colgate-Palmolive's dividend increase streak should remain intact for years to come as its payout is still reasonable.

<sup>1</sup> Estimated date

<sup>2</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	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	<b>24.3</b>	<b>23.0</b>
Avg. Yld.	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	<b>2.3%</b>	<b>2.4%</b>

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 24.3 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 2.3%, in line with historical yields. We see the combination of the rising payout and potentially lagging share price as boosting the yield to 2.4% in the coming years.

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

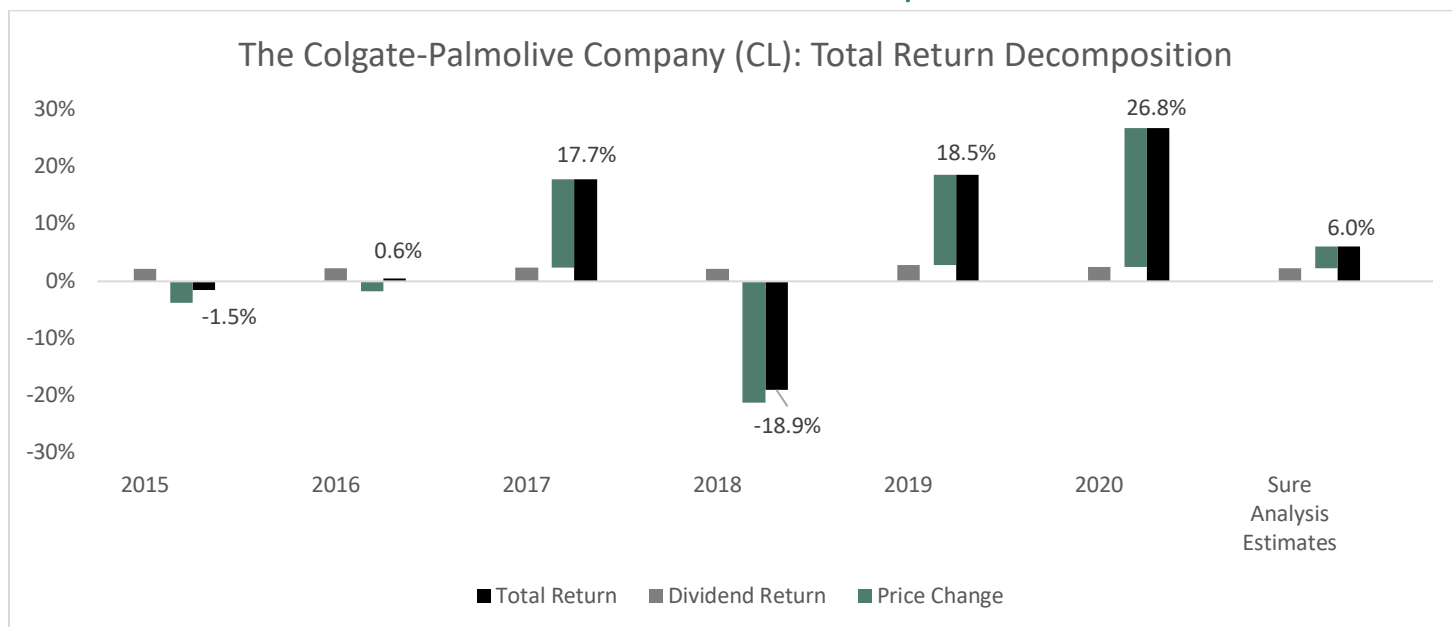
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49%	52%	62%	66%	108%	62%	67%	60%	62%	57%	<b>55%</b>	<b>55%</b>

The payout ratio is 55% 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 traded modestly lower since our last update, Colgate-Palmolive looks about the same as it did at the time of our last update. The company's revenue is intact, but margins are set to suffer. We forecast 6% 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
<b>Revenue</b>	16,734	17,085	17,420	17,277	16,034	15,195	15,454	15,544	15,693	16,471
<b>Gross Profit</b>	9,590	9,932	10,201	10,109	9,399	9,123	9,280	9,231	9,325	10,017
<b>Gross Margin</b>	57.3%	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%	60.8%
<b>SG&amp;A Exp.</b>	5,758	5,930	6,223	5,982	5,464	5,143	5,400	5,389	5,575	6,019
<b>D&amp;A Exp.</b>	421	425	439	442	449	443	475	511	519	539
<b>Operating Profit</b>	3,810	3,965	3,951	4,113	3,896	3,958	3,710	3,685	3,617	3,885
<b>Operating Margin</b>	22.8%	23.2%	22.7%	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%	23.6%
<b>Net Profit</b>	2,431	2,472	2,241	2,180	1,384	2,441	2,024	2,400	2,367	2,695
<b>Net Margin</b>	14.5%	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%	16.4%
<b>Free Cash Flow</b>	2,359	2,631	2,534	2,541	2,258	2,548	2,501	2,620	2,798	3,309
<b>Income Tax</b>	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
<b>Total Assets</b>	12,724	13,394	13,985	13,459	11,935	12,123	12,676	12,161	15,034	15,920
<b>Cash &amp; Equivalents</b>	878	884	962	1,089	970	1,315	1,535	726	883	888
<b>Accounts Receivable</b>	1,675	1,668	1,636	1,552	1,427	1,411	1,480	1,400	1,440	1,264
<b>Inventories</b>	1,327	1,365	1,425	1,382	1,180	1,171	1,221	1,250	1,400	1,673
<b>Goodwill &amp; Int. Ass.</b>	3,998	3,999	3,970	3,720	3,449	3,420	3,559	4,167	6,175	6,718
<b>Total Liabilities</b>	10,183	11,004	11,449	12,074	11,979	12,106	12,433	11,964	14,476	14,819
<b>Accounts Payable</b>	1,244	1,290	1,343	1,231	1,110	1,124	1,212	1,222	1,237	---
<b>Long-Term Debt</b>	4,810	5,230	5,657	6,148	6,548	6,533	6,577	6,366	7,847	7,601
<b>Shareholder's Equity</b>	2,375	2,189	2,305	1,145	(299)	(243)	(60)	(102)	117	743
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	20.3%	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%	17.4%
<b>Return on Equity</b>	96.3%	108%	99.7%	126%	327%	---	---	---	---	---
<b>ROIC</b>	35.8%	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%	31.5%
<b>Shares Out.</b>	960	936	920	907	893	907	875	867	858	858
<b>Revenue/Share</b>	17.00	17.79	18.53	18.69	17.63	16.91	17.41	17.81	18.22	19.17
<b>FCF/Share</b>	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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