# Caterpillar Inc. (CAT)

*Updated November 3rd, 2021, by Eli Inkrot*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $204 | **5 Year CAGR Estimate:** | 4.4% | **Market Cap:** | $112 B |
| **Fair Value Price:** | $168 | **5 Year Growth Estimate:** | 6.0% | **Ex-Dividend Date:** | 10/22/21 |
| **% Fair Value:** | 122% | **5 Year Valuation Multiple Estimate:** | -3.8% | **Dividend Payment Date:** | 11/19/21 |
| **Dividend Yield:** | 2.2% | **5 Year Price Target** | $225 | **Years Of Dividend Growth:** | 28 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Last Dividend Increase:** | 7.8% |

## Overview & Current Events

Founded in 1925 and headquartered in Illinois, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. The $112 billion market cap company operates in three primary segments: Construction Industries, Resource Industries and Energy & Transportation, along with ancillary financing and related services through its Financial Products segment.

On June 9th, 2021, Caterpillar declared a $1.11 quarterly dividend, marking a 7.8% increase after paying the same $1.03 dividend for eight straight quarters.

On October 28th, 2021, Caterpillar reported Q3 2021 results for the period ending September 30th, 2021. For the quarter the company generated revenue of $12.4 billion, a 25% increase compared to the $9.9 billion earned in Q3 2020, driven by higher sales volume and price realization. Construction Industries, Resource Industries and Energy & Transportation posted gains of 30%, 32% and 22% respectively. Adjusted earnings-per-share equaled $2.66 versus $1.52 in Q3 2020.

Caterpillar returned $2.0 billion to shareholders through dividends and share repurchases in the quarter and ended the period with $9.4 billion of enterprise cash.

## Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $7.81 | $9.36 | $5.79 | $6.37 | $4.62 | $3.44 | $6.88 | $11.20 | $11.06 | $6.56 | ***$10.50*** | ***$14.05*** |
| **DPS** | $1.82 | $2.02 | $2.32 | $2.70 | $3.01 | $3.08 | $3.11 | $3.36 | $3.78 | $4.12 | ***$4.44*** | ***$6.52*** |
| **Shares[1]** | 648 | 655 | 638 | 606 | 582 | 586 | 598 | 576 | 568 | 549 | ***550*** | ***530*** |

Caterpillar's customers, primarily mining and construction companies, operate in cyclical industries. During good times they are inclined to expand their operations and to upgrade their equipment in order to make operations more efficient. During weak times they are less likely to expand their operations, and they will defer the purchase of new equipment, which means lower sales for Caterpillar. Caterpillar's business therefore is relatively cyclical, which is clearly visible in the above table. During the Great Recession profits experienced a tremendous decline, and during 2015-2016, when commodity prices were relatively low, Caterpillar's sales and profits declined significantly as well.

Last year global trade uncertainties took a back seat to the COVID-19 pandemic, and bottom-line results fell by more than -40%. Not only did Caterpillar experience reduced demand, but dealers were more cautious with their inventories as well. While results may continue to be volatile, it appears the company is getting back on track.

We expect earnings to improve for 2021, but still come in below the pre-pandemic peak. We are forecasting $10.50 in earnings-per-share for 2021 to go along with a 6% growth rate over the intermediate term. This reflects both some caution with regard to the cyclical nature of the business and Caterpillar's ability to bounce back.

[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** | 12.4 | 10.0 | 15.1 | 15.8 | 17.1 | 22.8 | 16.4 | 12.9 | 12.0 | 22.8 | ***19.5*** | ***16.0*** |
| **Avg. Yld.** | 1.9% | 2.2% | 2.7% | 2.7% | 3.8% | 3.9% | 2.8% | 2.3% | 3.0% | 3.0% | ***2.2%*** | ***2.9%*** |

Since 2011, shares of Caterpillar have traded hands with an average P/E ratio of about 16 times earnings; although this did include periods when earnings collapsed while the share price held up much better. Still, given the company's growth prospects and overall quality, we view 16 times earnings as a reasonable starting place. With the current valuation near 20 times our earnings estimate, this implies the potential for a valuation headwind.

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

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 23% | 22% | 40% | 42% | 65% | 90% | 45% | 30% | 34% | 63% | ***42%*** | ***46%*** |

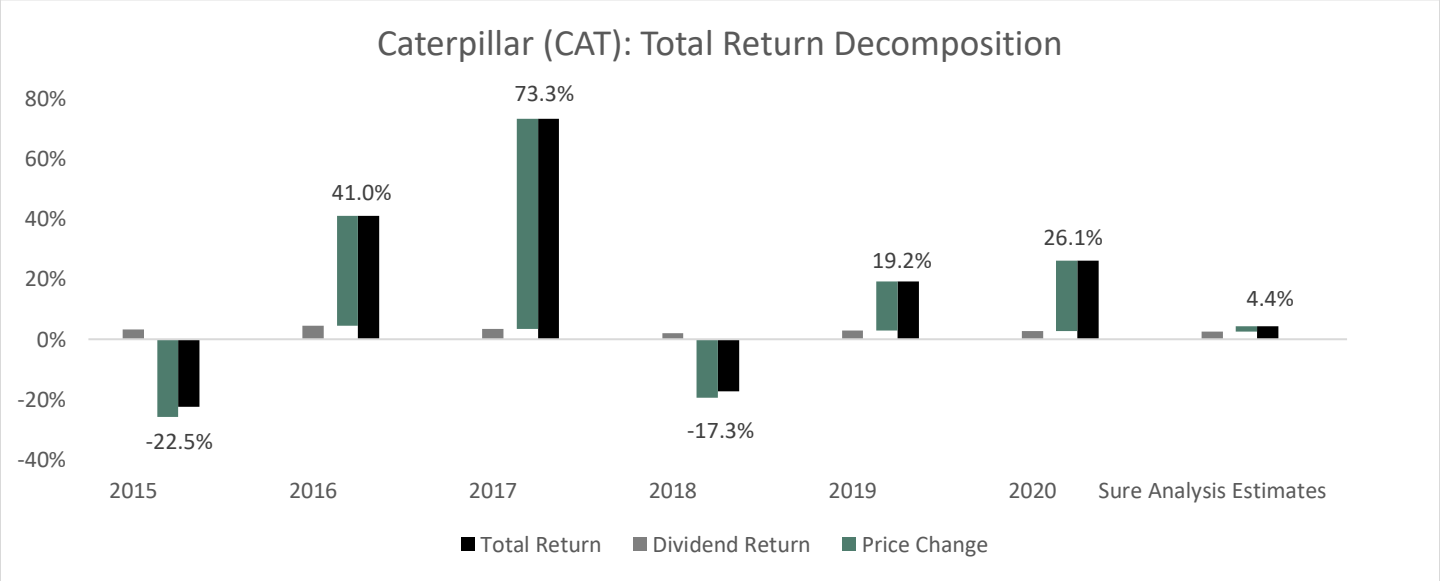
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Due to the fact that the payout ratio rose above 100% during the Great Recession, we view the dividend as somewhat risky, even though Caterpillar did not cut its dividend during this time.

Qualitatively, Caterpillar is one of the largest players in the markets it addresses, with a brand that is well-known and recognized around the globe. The fact that Caterpillar has a global presence and is selling its products to several industries (construction, mining, etc.) makes it less dependent on any single market. That being said, during global economic downturns, Caterpillar's business can be hit hard. This was illustrated during the Great Recession, when EPS declined by -75% between 2008 and 2009. Last year's results, down over -40%, demonstrate this as well.

## Final Thoughts & Recommendation

Shares are up 29% in the last year. Caterpillar is a leader in its industry, with volatile earnings. Total return potential comes in at 4.4% per annum, stemming from 6% growth and a 2.2% starting dividend yield, offset by the potential for a valuation headwind. We are cautious on the cyclical nature of the business. 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 | 60138 | 65875 | 55656 | 55184 | 47011 | 38537 | 45462 | 54722 | 53800 | 41750 |
| Gross Profit | 15734 | 18023 | 14202 | 13842 | 12878 | 9897 | 13556 | 17003 | 16416 | 12080 |
| Gross Margin | 26.2% | 27.4% | 25.5% | 25.1% | 27.4% | 25.7% | 29.8% | 31.1% | 30.5% | 28.9% |
| SG&A Exp. | 5203 | 5919 | 5547 | 6529 | 4951 | 4383 | 4999 | 5478 | 5162 | 4624 |
| D&A Exp. | 2527 | 2813 | 3087 | 3163 | 3046 | 3034 | 2877 | 2766 | 2577 | 2432 |
| Operating Profit | 7153 | 9153 | 5628 | 3314 | 3785 | 1757 | 4460 | 8293 | 8290 | 4553 |
| Op. Margin | 11.9% | 13.9% | 10.1% | 6.0% | 8.1% | 4.6% | 9.8% | 15.2% | 15.4% | 10.9% |
| Net Profit | 4928 | 5681 | 3789 | 2452 | 2512 | -67 | 754 | 6147 | 6093 | 2998 |
| Net Margin | 8.2% | 8.6% | 6.8% | 4.4% | 5.3% | -0.2% | 1.7% | 11.2% | 11.3% | 7.2% |
| Free Cash Flow | 3033 | 108 | 5745 | 4678 | 3438 | 2711 | 3370 | 3642 | 4243 | 4212 |
| Income Tax | 1720 | 2528 | 1319 | 692 | 916 | 192 | 3339 | 1698 | 1746 | 1006 |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 81218 | 88970 | 84896 | 84681 | 78342 | 74704 | 76962 | 78509 | 78453 | 78320 |
| Acc. Receivable | 17725 | 18566 | 17176 | 16764 | 15686 | 14503 | 16193 | 17452 | 17904 | 16780 |
| Inventories | 14544 | 15547 | 12625 | 12205 | 9700 | 8614 | 10018 | 11529 | 11266 | 11400 |
| Goodwill & Int. | 11448 | 10958 | 10552 | 9770 | 9436 | 8369 | 8311 | 8114 | 7761 | 7702 |
| Total Liabilities | 68289 | 71388 | 64018 | 67855 | 63457 | 61491 | 63196 | 64429 | 63824 | 62950 |
| Accounts Payable | 8161 | 6753 | 6560 | 6515 | 5023 | 4614 | 6487 | 7051 | 5957 | 6128 |
| Long-Term Debt | 34546 | 40070 | 37653 | 39200 | 37936 | 36715 | 34441 | 36097 | 37657 | 37060 |
| Total Equity | 12883 | 17532 | 20811 | 16746 | 14809 | 13137 | 13697 | 14039 | 14588 | 15330 |
| D/E Ratio | 2.68 | 2.29 | 1.81 | 2.34 | 2.56 | 2.79 | 2.51 | 2.57 | 1.96 | 2417 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 6.8% | 6.7% | 4.4% | 2.9% | 3.1% | -0.1% | 1.0% | 7.9% | 7.8% | 3.8% |
| Return on Equity | 41.6% | 37.4% | 19.8% | 13.1% | 15.9% | -0.5% | 5.6% | 44.3% | 42.6% | 20.0% |
| ROIC | 11.4% | 10.8% | 6.5% | 4.3% | 4.6% | -0.1% | 1.5% | 12.5% | 11.9% | 5.7% |
| Shares Out. | 648 | 655 | 638 | 606 | 582 | 586 | 598 | 597 | 568 | 549 |
| Revenue/Share | 90.28 | 98.38 | 84.51 | 87.75 | 78.18 | 65.95 | 75.86 | 91.29 | 94.80 | 76.10 |
| FCF/Share | 4.55 | 0.16 | 8.72 | 7.44 | 5.72 | 4.64 | 5.62 | 6.08 | 7.48 | 7.68 |

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


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