



Caterpillar Inc. (CAT)

Updated January 28th, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$201	5 Year CAGR Estimate:	6.3%	Market Cap:	\$110 B
Fair Value Price:	\$192	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/19/22
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	02/18/22
Dividend Yield:	2.2%	5 Year Price Target	\$245	Years Of Dividend Growth:	28
Dividend Risk Score:	A	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 \$110 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 January 28th, 2022, Caterpillar reported Q4 and full year 2021 results for the period ending December 31st, 2021. For the quarter the company generated revenue of \$13.8 billion, a 23% increase compared to the \$11.2 billion earned in Q4 2020. Construction Industries, Resource Industries and Energy & Transportation posted gains of 27%, 27% and 19% respectively. Adjusted earnings-per-share equaled \$2.69 versus \$2.12 in Q4 2020.

For the year Caterpillar generated sales of \$51.0 billion, a 22% increase compared to the \$41.7 billion earned in 2020, driven by higher end-user demand and the impact from changes in dealer inventories. Adjusted earnings-per-share equaled \$10.81 compared to \$6.56 in 2020.

Caterpillar returned \$5.0 billion to shareholders through dividends and share repurchases during the year and the company ended the period with \$9.3 billion of enterprise cash.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$9.36	\$5.79	\$6.37	\$4.62	\$3.44	\$6.88	\$11.20	\$11.06	\$6.56	\$10.81	\$12.00	\$15.32
DPS	\$2.02	\$2.32	\$2.70	\$3.01	\$3.08	\$3.11	\$3.36	\$3.78	\$4.12	\$4.28	\$4.44	\$6.52
Shares¹	655	638	606	582	586	598	576	568	549	549	549	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 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.

In 2020 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 back on track.

We expect earnings to improve once again for 2022 We are forecasting \$12.00 in earnings-per-share for 2022 to go along with a 5% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.0	15.1	15.8	17.1	22.8	16.4	12.9	12.0	22.8	19.7	16.8	16.0
Avg. Yld.	2.2%	2.7%	2.7%	3.8%	3.9%	2.8%	2.3%	3.0%	3.0%	2.0%	2.2%	2.7%

Since 2012, 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 17 times our earnings estimate, this implies the potential for a small valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	40%	42%	65%	90%	45%	30%	34%	63%	40%	37%	43%

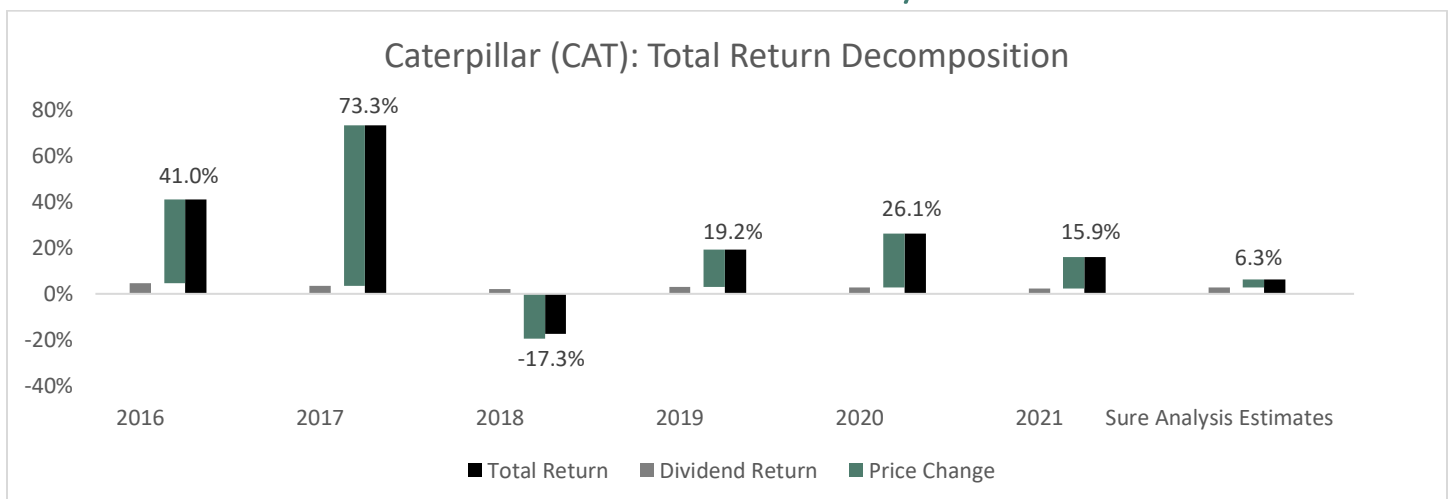
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Since the payout 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. Results in 2020, down over -40%, demonstrate this as well.

Final Thoughts & Recommendation

Shares are up 10% in the last year. Caterpillar is a leader in its industry, with volatile earnings. Total return potential comes in at 6.3% per annum, stemming from 5% 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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