



The Colgate-Palmolive Company (CL)

Updated February 4th, 2022, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$83 | 5 Year CAGR Estimate: | 4.2% | Market Cap: | \$70 B |
| Fair Value Price: | \$76 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 04/22/22 ¹ |
| % Fair Value: | 109% | 5 Year Valuation Multiple Estimate: | -1.8% | Dividend Payment Date: | 05/16/22 |
| Dividend Yield: | 2.2% | 5 Year Price Target | \$92 | Years Of Dividend Growth: | 59 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 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 nearly \$18 billion in annual revenue. The stock's market capitalization sits at \$70 billion after a slight gain since our last update.

Colgate-Palmolive reported fourth quarter and full-year earnings on January 28th, 2022, and results were weak against expectations. Fourth quarter earnings were 79 cents, which was in line with estimates. However, revenue of \$4.4 billion was up just 1.9%, and missed estimates by \$20 million.

Organic sales were up 3.0%, but that missed estimates of a 4.3% gain. Organic sales in North America declined -1.5%, which offset some of the gains made internationally. Volume was flat in Q4, while pricing contributed the full 3% of the organic sales gain. Gross margins were very weak, declining 300bps to 8.1% of revenue in the fourth quarter.

Guidance for this year was uninspiring, as the company's CEO said there was still sizable uncertainty coming out of the pandemic's demand spike, as well as supply chain disruptions, increases in raw material and freight costs, as well as volatility in consumer demand.

Net sales growth is expected to be 1% to 4% for the year, including a low-single digit negative impact from forex translation. The company also guided for low-single digit earnings-per-share growth, and we've initiated our estimate at \$3.30 for this year accordingly.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.58 | \$2.38 | \$2.36 | \$1.52 | \$2.72 | \$2.59 | \$2.75 | \$2.75 | \$3.06 | \$3.21 | \$3.30 | \$4.01 |
| DPS | \$1.22 | \$1.33 | \$1.42 | \$1.50 | \$1.55 | \$1.60 | \$1.66 | \$1.71 | \$1.75 | \$1.79 | \$1.80 | \$2.09 |
| Shares² | 936 | 920 | 907 | 893 | 907 | 875 | 867 | 858 | 858 | 842 | 835 | 815 |

We expect moderate growth for Colgate-Palmolive at 4% 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 2022. The pantry-stocking behavior consumers engaged in during the pandemic has ended, which removes a tailwind for Colgate-Palmolive. Last year's results were strong, but weakness in the second half of the year, as well as the company's guidance for 2022, has us cautious on forward growth.

The dividend should rise at about the rate of earnings growth, perhaps hitting \$2.09 per share in 2027. Colgate-Palmolive's dividend increase streak should remain intact for years to come as its payout is still reasonable.

¹ Estimated date

² 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 19.6 | 25.1 | 28.0 | 44.1 | 25.8 | 27.9 | 24.2 | 25.1 | 24.6 | 24.7 | 25.2 | 23.0 |
| Avg. Yld. | 2.4% | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% | 2.5% | 2.5% | 2.3% | 2.3% | 2.2% | 2.3% |

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 25.2 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 2.2%, in line with historical yields. We see the combination of the rising payout and potentially lagging share price combining to keep the yield about where it is today. We also note that if the company cannot boost its earnings growth outlook, the stock's fair value estimate would be subject to decline.

Safety, Quality, Competitive Advantage, & Recession Resiliency

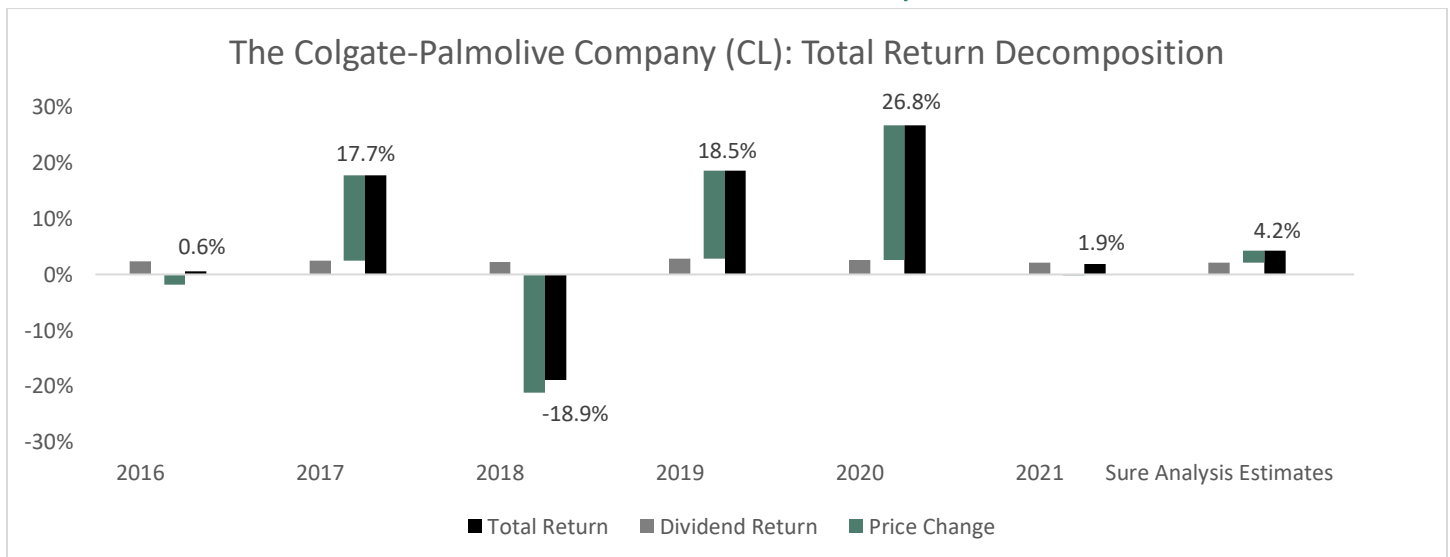
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 52% | 62% | 66% | 108% | 62% | 67% | 60% | 62% | 57% | 56% | 55% | 52% |

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 higher since our last update, Colgate-Palmolive looks somewhat worse than it did at the time of our last update. The company's revenue is intact, but margins are set to suffer further due to raw material and supply chain cost inflation. We forecast 4.2% total returns in the coming years as 4% earnings growth and the yield could be slightly offset by a headwind from the valuation. We are reiterating the stock at a hold rating but note the outlook for 2022 is not off to a good start.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 17,085 | 17,420 | 17,277 | 16,034 | 15,195 | 15,454 | 15,544 | 15,693 | 16,471 | 17,421 |
| Gross Profit | 9,932 | 10,201 | 10,109 | 9,399 | 9,123 | 9,280 | 9,231 | 9,325 | 10,017 | 10,375 |
| Gross Margin | 58.1% | 58.6% | 58.5% | 58.6% | 60.0% | 60.0% | 59.4% | 59.4% | 60.8% | 59.6% |
| SG&A Exp. | 5,930 | 6,223 | 5,982 | 5,464 | 5,143 | 5,400 | 5,389 | 5,575 | 6,019 | 6,407 |
| D&A Exp. | 425 | 439 | 442 | 449 | 443 | 475 | 511 | 519 | 539 | 556 |
| Operating Profit | 3,965 | 3,951 | 4,113 | 3,896 | 3,958 | 3,710 | 3,685 | 3,617 | 3,885 | 3,903 |
| Operating Margin | 23.2% | 22.7% | 23.8% | 24.3% | 26.0% | 24.0% | 23.7% | 23.0% | 23.6% | 22.4% |
| Net Profit | 2,472 | 2,241 | 2,180 | 1,384 | 2,441 | 2,024 | 2,400 | 2,367 | 2,695 | 2,166 |
| Net Margin | 14.5% | 12.9% | 12.6% | 8.6% | 16.1% | 13.1% | 15.4% | 15.1% | 16.4% | 12.4% |
| Free Cash Flow | 2,631 | 2,534 | 2,541 | 2,258 | 2,548 | 2,501 | 2,620 | 2,798 | 3,309 | 2,758 |
| Income Tax | 1,243 | 1,155 | 1,194 | 1,215 | 1,152 | 1,313 | 906 | 774 | 787 | 749 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|--------|--------|--------|---------|---------|---------|---------|--------|--------|--------|
| Total Assets | 13,394 | 13,985 | 13,459 | 11,935 | 12,123 | 12,676 | 12,161 | 15,034 | 15,920 | 15,040 |
| Cash & Equivalents | 884 | 962 | 1,089 | 970 | 1,315 | 1,535 | 726 | 883 | 888 | 832 |
| Accounts Receivable | 1,668 | 1,636 | 1,552 | 1,427 | 1,411 | 1,480 | 1,400 | 1,440 | 1,264 | 1,297 |
| Inventories | 1,365 | 1,425 | 1,382 | 1,180 | 1,171 | 1,221 | 1,250 | 1,400 | 1,673 | 1,692 |
| Goodwill & Int. Ass. | 3,999 | 3,970 | 3,720 | 3,449 | 3,420 | 3,559 | 4,167 | 6,175 | 6,718 | 5,746 |
| Total Liabilities | 11,004 | 11,449 | 12,074 | 11,979 | 12,106 | 12,433 | 11,964 | 14,476 | 14,819 | 14,069 |
| Accounts Payable | 1,290 | 1,343 | 1,231 | 1,110 | 1,124 | 1,212 | 1,222 | 1,237 | 1,393 | --- |
| Long-Term Debt | 5,230 | 5,657 | 6,148 | 6,548 | 6,533 | 6,577 | 6,366 | 7,847 | 7,601 | 7,245 |
| Shareholder's Equity | 2,189 | 2,305 | 1,145 | (299) | (243) | (60) | (102) | 117 | 743 | 609 |
| LTD/E Ratio | 2.39 | 2.45 | 5.37 | (21.90) | (26.88) | (109.6) | (62.41) | 67.07 | 10.23 | 11.90 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 18.9% | 16.4% | 15.9% | 10.9% | 20.3% | 16.3% | 19.3% | 17.4% | 17.4% | 14.0% |
| Return on Equity | 108% | 99.7% | 126% | 327% | --- | --- | --- | --- | --- | --- |
| ROIC | 33.0% | 28.3% | 27.7% | 19.7% | 37.4% | 30.3% | 35.9% | 31.6% | 31.5% | 25.6% |
| Shares Out. | 936 | 920 | 907 | 893 | 907 | 875 | 867 | 858 | 858 | 842 |
| Revenue/Share | 17.79 | 18.53 | 18.69 | 17.63 | 16.91 | 17.41 | 17.81 | 18.22 | 19.17 | 20.54 |
| FCF/Share | 2.74 | 2.70 | 2.75 | 2.48 | 2.84 | 2.82 | 3.00 | 3.25 | 3.85 | 3.25 |

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

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