



Procter & Gamble Co. (PG)

Updated April 21st, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$164	5 Year CAGR Estimate:	0.1%	Market Cap:	\$377 B
Fair Value Price:	\$118	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	04/21/22
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	05/16/22
Dividend Yield:	2.2%	5 Year Price Target:	\$144	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Founded in 1837 and headquartered in Cincinnati, Ohio, Procter & Gamble is a consumer products giant that sells its products in over 180 countries. Notable brands include Pampers, Luvs, Tide, Gain, Bounty, Charmin, Puffs, Gillette, Head & Shoulders, Old Spice, Dawn, Febreze, Swiffer, Crest, Oral-B, Scope, Olay and many more. The \$377 billion market capitalization company generated \$76 billion in sales in fiscal 2021. Procter & Gamble has paid a dividend for 131 years and has grown its dividend for 66 consecutive years – one of the longest active streaks of any company.

On April 12th, 2022, Procter & Gamble raised its dividend by 5.0%, from \$0.8698 per quarter to \$0.9133.

In mid-April, Procter & Gamble reported (4/20/22) financial results for the third quarter of fiscal 2022 (Procter & Gamble's fiscal year ends June 30th). The company grew its sales and its organic sales 7% and 10%, respectively, over the prior year's quarter. Organic sales growth resulted from 3% volume growth, 5% price hikes and 2% benefit from product mix. Despite the strong headwind from high cost inflation, adjusted earnings-per-share grew 6%. Procter & Gamble raised its fiscal 2022 guidance for a second quarter in a row, anticipating 4%-5% sales growth (from 3%-4%). On the other hand, due to high cost inflation, it expects earnings-per-share growth at the low end of its 3%-6% guidance.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.85	\$4.05	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	\$4.52	\$5.12	\$5.66	\$5.90	\$7.18
DPS	\$2.14	\$2.29	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	\$2.90	\$3.03	\$3.24	\$3.65	\$4.55
Shares¹	2,748	2,742	2,711	2,715	2,668	2,553	2,498	2,505	2,480	2,430	2,500	2,400

In the 2011 through 2021 stretch, Procter & Gamble grew its earnings-per-share by an average annual compound rate of 3.7%. This result was driven by sales declining by an average of -0.8% per year, offset by an increasing net profit margin and a lower share count. The company has been going through a major transformation in recent years. It has sold a significant number of low-margin, low-growth brands and has reduced its brand count from ~170 to 65.

This transformation has weighed on the top line, but it should allow Procter & Gamble to focus on its strongest, most profitable brands moving forward. Indeed, results in 2018 – 2021 have demonstrated this trend, with another strong year expected in 2022. It should be noted that inflationary pressure appears to be picking up, but over time Procter & Gamble has proven capable of sustaining price hikes to offset this headwind thanks to its strong brands.

We are anticipating \$5.90 in earnings-per-share for 2022, near the mid-point of management's guidance. Thereafter, we expect 4% annual growth, representing a slowdown compared to recent years, but in-line with the last decade. Procter & Gamble has powerful brands, but it becomes more and more difficult to grow coming off such a large base.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.7	17.8	19.0	20.9	21.4	22.3	20.1	20.7	23.3	23.8	27.8	20.0
Avg. Yld.	3.3%	3.2%	3.1%	3.1%	3.4%	3.1%	3.3%	3.1%	2.5%	2.4%	2.2%	3.2%

¹ In millions

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Procter & Gamble has traded at an average price-to-earnings ratio of approximately 20.0. We believe this is a fair earnings multiple, taking into consideration the high quality of the company, weighed against modest growth prospects. The stock is currently trading at a price-to-earnings ratio of 27.8. If it reaches our fair valuation level over the next five years, it will incur a -6.4% annualized drag in its returns. Meanwhile, the storied dividend is set to continue to add to shareholder returns, despite the slightly elevated payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	56%	57%	58%	64%	72%	69%	66%	64%	59%	57%	62%	63%

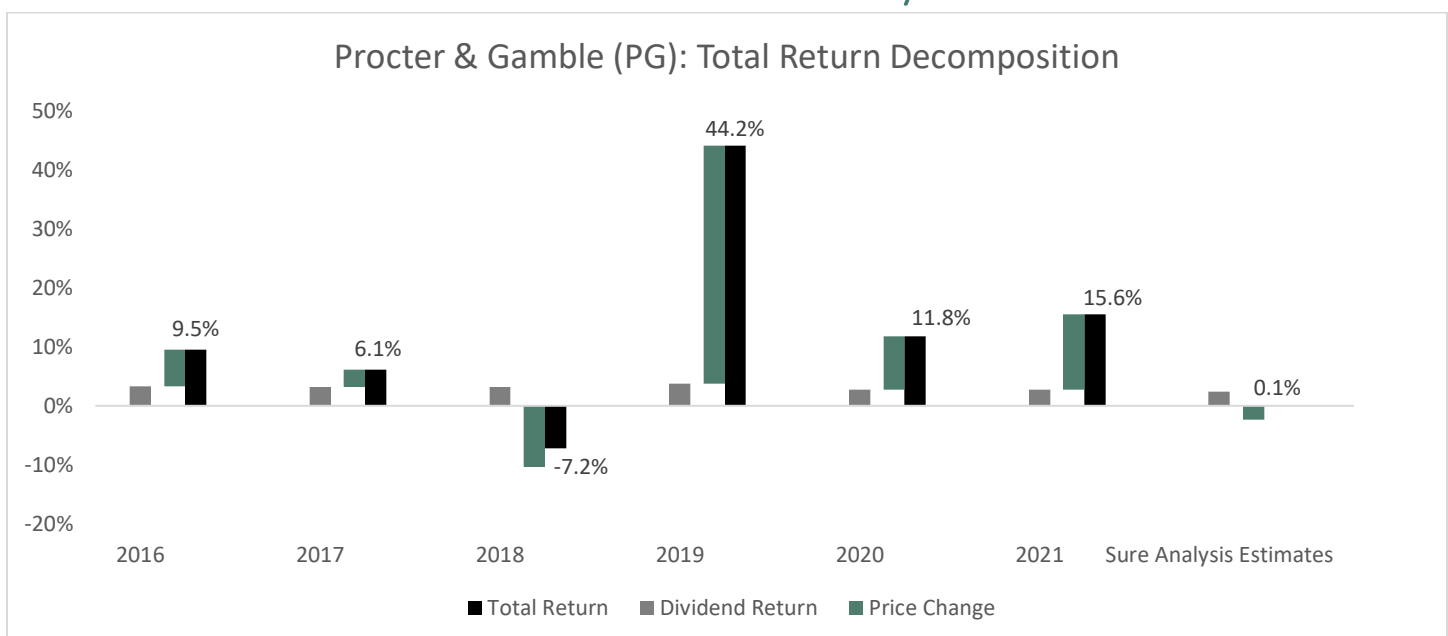
Procter & Gamble's dividend payout ratio has oscillated between 50% and 75% in the last decade, with the current mark coming in around 60%. This is somewhat high for your typical company, but well within a reasonable range for such a high-quality firm. We believe that the company can keep growing its dividend at a rate roughly in line with earnings-per-share growth going forward.

Procter & Gamble has significant competitive advantages thanks to its strong brands. The company has several category-leading brands such as Crest, Tide, Gillette, Bounty, Febreze, Old Spice, Pampers, and many more. These brands provide Procter & Gamble with pricing power and consistent profits, in good times or bad. During the Great Recession, the company posted earnings-per-share of \$3.04, \$3.64, \$3.58, \$3.53, and \$3.93 in the 2007 through 2011 stretch, while the dividend kept on rising. Moreover, during the current COVID-19 pandemic, Procter & Gamble has proven resilient once again, with record earnings in 2020 and 2021.

Final Thoughts & Recommendation

Procter & Gamble has demonstrated strong performance in all environments, with an impressive operating history. While its growth rate slowed in the last decade, Procter & Gamble has now completed an important transformation program, which has enhanced growth. However, the stock is trading at a 10-year high valuation level and hence could offer poor long-term returns. Procter & Gamble is appealing to risk-averse investors who seek reliable dividend growth. However, due to its rich valuation, the stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	82006	80116	74401	70749	65299	65058	66832	67684	70950	76120
Gross Profit	40595	40125	35371	33693	32390	32420	32400	32916	35700	39010
Gross Margin	49.5%	50.1%	47.5%	47.6%	49.6%	49.8%	48.5%	48.6%	50.3%	51.2%
SG&A Exp.	25984	26000	21461	20616	18949	18654	19037	19084	19990	21020
D&A Exp.	3204	2982	3141	3134	3078	2820	2834	2824	3013	2735
Operating Profit	14611	14125	13910	13077	13441	13766	13363	13832	15710	17990
Op. Margin	17.8%	17.6%	18.7%	18.5%	20.6%	21.2%	20.0%	20.4%	22.1%	23.6%
Net Profit	10756	11312	11643	7036	10508	15326	9750	3897	13030	14310
Net Margin	13.1%	14.1%	15.6%	9.9%	16.1%	23.6%	14.6%	5.8%	18.45	18.8%
Free Cash Flow	9320	10865	10110	10872	12121	9369	11150	11895	14330	15580
Income Tax	3378	3226	2851	2725	3342	3063	3465	2103	2731	3263

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	132	139	144	129	127	120	118	115	120.7	119.3
Cash & Equivalents	4436	5947	8558	6836	7102	5569	2569	4239	16180	10290
Acc. Receivable	6068	6508	6386	4568	4373	4594	4686	4951	4178	4725
Inventories	6721	6909	6759	4979	4716	4624	4738	5017	5498	5983
Goodwill & Int.	84761	86760	84547	69632	68877	68886	69077	64488	63690	64570
Total Liabilities	68209	70554	74290	66445	69153	64628	65427	67516	73820	72650
Accounts Payable	7920	8777	8461	8138	9325	9632	10344	11260	12070	13720
Long-Term Debt	29778	31543	35417	30345	30598	31592	31286	30059	34720	31990
Total Equity	62244	66927	68103	61342	56303	54178	51326	46266	46520	46650
D/E Ratio	0.47	0.46	0.51	0.49	0.53	0.57	0.60	0.64	0.75	1.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.9%	8.3%	8.2%	5.1%	8.2%	12.4%	8.2%	3.3%	11.1%	11.9%
Return on Equity	16.7%	17.5%	17.2%	10.9%	17.9%	27.7%	18.5%	8.0%	28.4%	31.0%
ROIC	11.1%	11.7%	11.3%	7.1%	11.5%	17.4%	11.4%	4.8%	16.4%	17.9%
Shares Out.	2748	2742	2710	2715	2669	2553	2498	2425	2626	2601
Revenue/Share	27.88	27.34	25.61	24.54	22.96	23.74	25.16	26.65	27.02	29.26
FCF/Share	3.17	3.71	3.48	3.77	4.26	3.42	4.20	4.68	5.46	5.99

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

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