



Kimberly-Clark Corporation (KMB)

Updated May 2nd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$138	5 Year CAGR Estimate:	2.9%	Market Cap:	\$47 B
Fair Value Price:	\$104	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/09/22
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	07/05/22
Dividend Yield:	3.4%	5 Year Price Target	\$133	Years Of Dividend Growth:	50
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

The Kimberly-Clark Corporation is a global consumer products company that operates in 175 countries and sells disposable consumer goods, including paper towels, diapers, and tissues. It operates through two segments that each house many popular brands: Personal Care Segment (*Huggies, Pull-Ups, Kotex, Depend, Poise*) and the Consumer Tissue segment (*Kleenex, Scott, Cottonelle, and Viva*), generating nearly \$20 billion in annual revenue. Kimberly-Clark trades with a market capitalization of \$47 billion and has increased its dividend for 50 consecutive years, making it a member of the extremely prestigious Dividend Kings.

Kimberly-Clark reported first quarter earnings on April 22nd, 2022, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.35, which was 12 cents ahead of estimates. In addition, revenue rose almost 8% to \$5.1 billion, beating estimates by \$180 million.

The company reported double-digit organic sales growth as it saw growth across all segments. The company also said it was investing in improving margins over time. As part of that, and in part to combat rising input cost inflation, net selling prices were up 6% on average.

Sales in North America rose 16% due to price increases and organic sales growth, including particular strength in baby and childcare, adult care, and feminine care.

Full-year organic sales are now forecast to be between 4% and 6%, an increase of 100bps and 200bps, respectively. The company also boosted adjusted earnings-per-share of \$5.60 to \$6.00 for the year. We've updated our estimate of earnings to \$5.80 per share accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.42	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.74	\$6.18	\$5.80	\$7.40
DPS	\$2.96	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$4.56	\$4.64	\$5.63
Shares¹	389	381	365	361	357	351	345	341	339	337	335	328

While Kimberly-Clark has not meaningfully grown its revenue for years, it has managed to grow its earnings-per-share thanks to share repurchases and its cost reduction programs. With operating margins rising steadily over time, increasing profitability is working to offset somewhat weak revenue numbers. Kimberly-Clark's management team has extended this initiative to 2022, aiming for another \$1.5 billion of cumulative savings over the three-year period. This will be a primary growth driver in the upcoming years, particularly as revenue growth topped out after 2020 results. We expect 5% annual earnings growth in the years to come, which we've reduced for 2022 forward because of the obvious declines in demand Kimberly-Clark is seeing. We remain cautious on the company's ability to produce strong growth but have a 5% rate based upon the low base of earnings for 2022.

¹ 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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Management has publicly stated targets of mid-single-digit growth in adjusted earnings-per-share annually, -1% to +3% organic sales growth, and dividend growth in-line with earnings-per-share growth. The company's cost saving programs have worked nicely up to this point, but we note that there will be a point when returns from these cost cuts diminish.

We see the dividend rising from the current payout of \$4.64 to \$5.63 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.2	17.8	28.1	40.6	21.2	19.9	16.7	18.8	18.3	21.7	23.8	18.0
Avg. Yld.	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.4%	3.4%	4.2%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of about 18 over the last decade. This is in-line with its consumer staple dividend-paying stock competitors over the past few years and is lower than the current price-to-earnings multiple of 23.8. With the valuation ahead of our estimate of fair value, we see a negative impact on total returns. The yield is 3.4%, somewhat ahead of recent years. We forecast the yield climbing over time as the valuation moderates, driving the yield higher.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	67%	59%	86%	127%	61%	62%	61%	60%	55%	74%	80%	76%

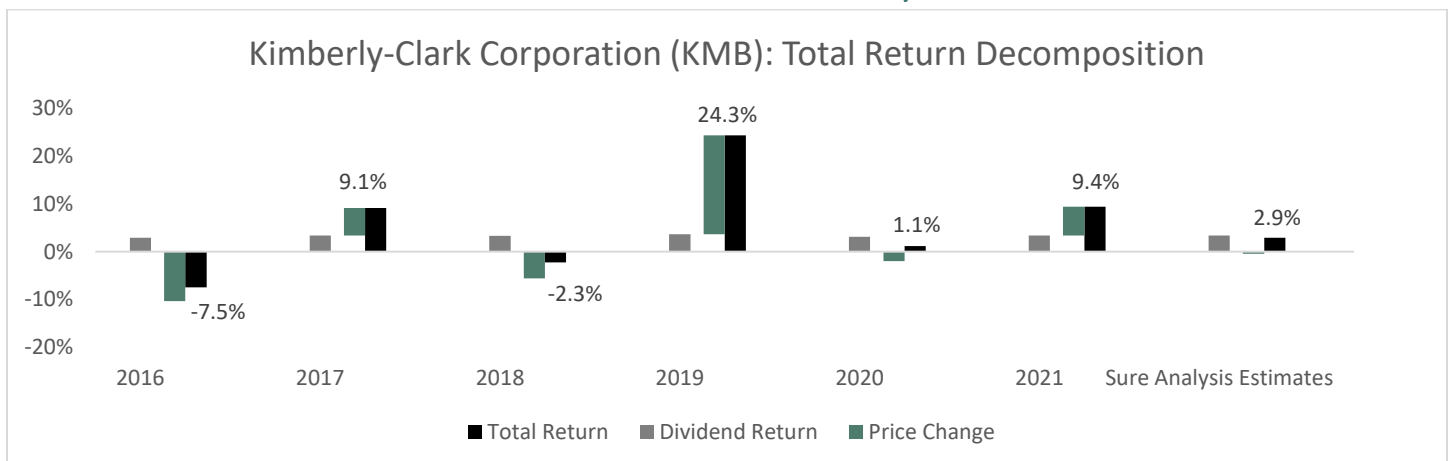
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort by management to reduce leverage at this point.

Kimberly-Clark's competitive advantage is in its longstanding dominance with a variety of its brands, which are well known in the marketplace. It should also perform well during recessions as most of its products are consumable staples.

Final Thoughts & Recommendation

Kimberly-Clark's total return outlook has deteriorated since our last update. We forecast 2.9% total annual returns, consisting of the current 3.4% yield, 5% earnings growth and a modest headwind from the valuation. The stock earns high marks for its dividend history, current yield, and stability, but growth remains a concern, even off the low base of earnings for 2022. The stock earns a sell rating, accordingly.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19,467	19,561	19,724	18,591	18,287	18,348	18,486	18,450	19,140	19,440
Gross Profit	6,129	6,609	6,683	6,624	6,691	6,587	5,597	6,035	6,822	5,988
Gross Margin	31.5%	33.8%	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%	35.6%	30.8%
SG&A Exp.	3,757	3,699	3,709	3,443	3,300	3,202	3,367	3,254	3,632	3,399
D&A Exp.	857	863	862	746	705	724	882	917	796	766
Operating Profit	2,377	2,903	2,521	1,613	3,383	3,358	2,229	2,991	3,244	2,561
Op. Margin	12.2%	14.8%	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%	16.9%	13.2%
Net Profit	1,750	2,142	1,526	1,013	2,166	2,278	1,410	2,157	2,352	1,814
Net Margin	9.0%	11.0%	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%	12.3%	9.3%
Free Cash Flow	2,195	2,087	1,806	1,250	2,461	2,144	2,093	1,527	2,512	1,723
Income Tax	660	828	856	418	922	776	471	576	676	479

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19,873	18,919	15,526	14,842	14,602	15,151	14,518	15,283	17,523	17,837
Cash & Equivalents	1,106	1,054	789	619	923	616	539	442	303	270
Acc. Receivable	2,346	2,345	2,079	2,017	2,077	2,203	2,050	2,131	2,132	2,207
Inventories	2,348	2,233	1,892	1,909	1,679	1,790	1,813	1,790	1,903	2,239
Goodwill & Int.	3,583	3,424	1,737	1,540	1,480	1,576	1,474	1,496	2,727	2,650
Total Liabilities	14,586	13,779	14,527	14,802	14,485	14,269	14,564	15,089	16,654	17,100
Accounts Payable	2,443	2,598	2,616	2,612	2,609	2,834	3,190	3,055	3,336	3,840
Long-Term Debt	6,185	5,761	6,956	7,775	7,572	7,425	7,455	7,747	8,364	8,574
Total Equity	4,985	4,856	729	(174)	(102)	629	(287)	(33)	626	514
LTD/E Ratio	1.24	1.19	9.54	-44.68	-74.24	11.80	-25.98	-234.8	13.36	16.68

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.9%	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%	14.3%	10.3%
Return on Equity	34.2%	43.5%	54.6%	365%	---	865%	825%	---	793%	318%
ROIC	15.1%	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%	27.4%	19.6%
Shares Out.	389	381	365	361	357	351	345	341	339	337
Revenue/Share	49.15	50.51	52.26	50.75	50.56	51.55	52.88	53.39	55.88	57.38
FCF/Share	5.54	5.39	4.79	3.41	6.80	6.02	5.99	4.42	7.33	5.09

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

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