



# The Colgate-Palmolive Company (CL)

Updated August 8<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$80	<b>5 Year CAGR Estimate:</b>	5.1%	<b>Market Cap:</b>	\$67 B
<b>Fair Value Price:</b>	\$69	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	10/22/22 <sup>1</sup>
<b>% Fair Value:</b>	116%	<b>5 Year Valuation Multiple Estimate:</b>	-2.9%	<b>Dividend Payment Date:</b>	11/16/22
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$92	<b>Years Of Dividend Growth:</b>	60
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 \$67 billion after a slight gain since our last update.

Colgate reported second quarter earnings on July 29<sup>th</sup>, 2022, and results were better than expected on both the top and bottom lines, although only slightly. Adjusted earnings-per-share came to 72 cents, beating estimates by a penny. Revenue was up 5% year-over-year to \$4.48 billion, which was \$130 million ahead of expectations.

Net sales were up 9% on an organic basis, with growth in all of the company's divisions, and in all four of its product categories. Gross profit declined 300 basis points year-over-year to 57% of revenue, as the company continues to grapple with supply chain constraints and inflationary pressures. SG&A costs also rose more quickly than revenue year-over-year, so combined with gross profit declines, the company's operating margin fell sharply from 23.4% of revenue to 19.7%.

Net cash from operating activities was \$914 million for the first half of the year. The company also boosted its guidance for organic sales growth for this year to 5% to 7%. We also now expect to see \$3.00 in earnings-per-share this year, down a dime from prior estimates due to supply chain and margin challenges.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.58	\$2.38	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	\$3.06	\$3.21	<b>\$3.00</b>	<b>\$4.01</b>
<b>DPS</b>	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.75	\$1.79	<b>\$1.88</b>	<b>\$2.18</b>
<b>Shares<sup>2</sup></b>	936	920	907	893	907	875	867	858	858	842	<b>835</b>	<b>815</b>

We expect moderate growth for Colgate-Palmolive at 6% 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 \$2.18 per share in 2027. Colgate-Palmolive's dividend increase streak should remain intact for years to come as its payout is still reasonable.

<sup>1</sup> Estimated date

<sup>2</sup> 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	26.7	23.0
Avg. Yld.	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	2.3%	2.4%	2.4%

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 26.7 times earnings today, we see the stock as overvalued, leading to a small headwind to total annual returns should it revert to our estimate of fair value at 23 times earnings, in line with historical multiples. The stock is yielding 2.4%, 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

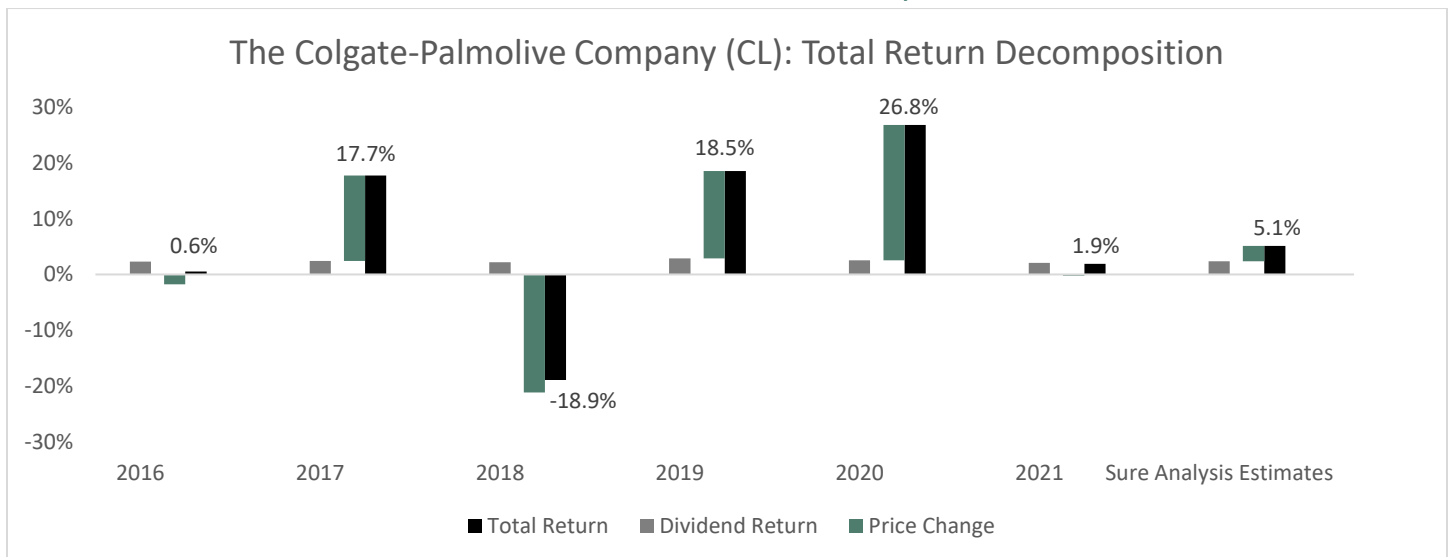
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	62%	66%	108%	62%	67%	60%	62%	57%	56%	63%	54%

The payout ratio is 63% of earnings, somewhat higher 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

The stock has traded up since our last update, and earnings estimates are lower once more. The company's revenue is intact, but margins are set to suffer further due to raw material and supply chain cost inflation. We forecast 5.1% total returns in the coming years as 6% earnings growth and the 2.4% yield could be somewhat offset by a 2.9% 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, particularly for margins.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	17,085	17,420	17,277	16,034	15,195	15,454	15,544	15,693	16,471	17,421
<b>Gross Profit</b>	9,932	10,201	10,109	9,399	9,123	9,280	9,231	9,325	10,017	10,375
<b>Gross Margin</b>	58.1%	58.6%	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%	60.8%	59.6%
<b>SG&amp;A Exp.</b>	5,930	6,223	5,982	5,464	5,143	5,400	5,389	5,575	6,019	6,407
<b>D&amp;A Exp.</b>	425	439	442	449	443	475	511	519	539	556
<b>Operating Profit</b>	3,965	3,951	4,113	3,896	3,958	3,710	3,685	3,617	3,885	3,903
<b>Operating Margin</b>	23.2%	22.7%	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%	23.6%	22.4%
<b>Net Profit</b>	2,472	2,241	2,180	1,384	2,441	2,024	2,400	2,367	2,695	2,166
<b>Net Margin</b>	14.5%	12.9%	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%	16.4%	12.4%
<b>Free Cash Flow</b>	2,631	2,534	2,541	2,258	2,548	2,501	2,620	2,798	3,309	2,758
<b>Income Tax</b>	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
<b>Total Assets</b>	13,394	13,985	13,459	11,935	12,123	12,676	12,161	15,034	15,920	15,040
<b>Cash &amp; Equivalents</b>	884	962	1,089	970	1,315	1,535	726	883	888	832
<b>Accounts Receivable</b>	1,668	1,636	1,552	1,427	1,411	1,480	1,400	1,440	1,264	1,297
<b>Inventories</b>	1,365	1,425	1,382	1,180	1,171	1,221	1,250	1,400	1,673	1,692
<b>Goodwill &amp; Int. Ass.</b>	3,999	3,970	3,720	3,449	3,420	3,559	4,167	6,175	6,718	5,746
<b>Total Liabilities</b>	11,004	11,449	12,074	11,979	12,106	12,433	11,964	14,476	14,819	14,069
<b>Accounts Payable</b>	1,290	1,343	1,231	1,110	1,124	1,212	1,222	1,237	1,393	1,479
<b>Long-Term Debt</b>	5,230	5,657	6,148	6,548	6,533	6,577	6,366	7,847	7,601	7,245
<b>Shareholder's Equity</b>	2,189	2,305	1,145	(299)	(243)	(60)	(102)	117	743	609
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	18.9%	16.4%	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%	17.4%	14.0%
<b>Return on Equity</b>	108%	99.7%	126%	327%	---	---	---	---	---	---
<b>ROIC</b>	33.0%	28.3%	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%	31.5%	25.6%
<b>Shares Out.</b>	936	920	907	893	907	875	867	858	858	842
<b>Revenue/Share</b>	17.79	18.53	18.69	17.63	16.91	17.41	17.81	18.22	19.17	20.54
<b>FCF/Share</b>	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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