



Caterpillar Inc. (CAT)

Updated October 29th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$219	5 Year CAGR Estimate:	5.9%	Market Cap:	\$115.7 B
Fair Value Price:	\$206	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/21/22
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	11/18/22
Dividend Yield:	2.2%	5 Year Price Target	\$262	Years Of Dividend Growth:	29
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$115.7 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 October 27th, 2022, Caterpillar reported its Q3 results for the period ending September 30th, 2022. For the quarter, the company generated revenue of \$15.0 billion, a 21% increase compared to the \$12.4 billion produced in the third quarter of 2021. Construction Industries, Resource Industries, and Energy & Transportation posted growth of 19%, 30%, and 22%, respectively.

The increase was primarily due to favorable price realization and higher sales volume. The increase in sales volume was driven by changes in dealer inventories, higher equipment sales to end users, and higher services. Dealers increased inventories by \$700 million during the quarter, compared with a decrease of \$300 million last year.

Caterpillar's operating profit margin was 16.2%, compared to 13.4% last year. Margin expansion combined with revenue growth resulted in adjusted earnings-per-share landing at \$3.95 against \$2.66 in the comparable period last year, recording a notable improvement. This was due to a lower effective tax rate and a lower share count.

Caterpillar returned \$2.0 billion to shareholders through dividends and share repurchases during the quarter, ending with \$6.3 billion of enterprise cash. Following Caterpillar's third quarter results, we are now forecasting fiscal 2022 adjusted EPS to land close to \$13.70.

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	\$13.70	\$17.49
DPS	\$2.02	\$2.32	\$2.70	\$3.01	\$3.08	\$3.11	\$3.36	\$3.78	\$4.12	\$4.28	\$4.80	\$7.05
Shares¹	655	638	606	582	586	598	576	568	549	549	525	500

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 \$13.70 in adjusted earnings-per-share for 2022 to go along with a 5% growth

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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rate over the intermediate term. This reflects both some caution with regard to the cyclical nature of the business and Caterpillar's ability to grow its business. We also expect dividends to grow by a CAGR of 8% in the medium-term.

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	16.0	15.0
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 16.5 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 15 times earnings as a reasonable starting place. This is lower than the stock's historical P/E, to account for rising rates causing economic growth (and thus Caterpillar's activities) to ease up.

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%	35%	40%

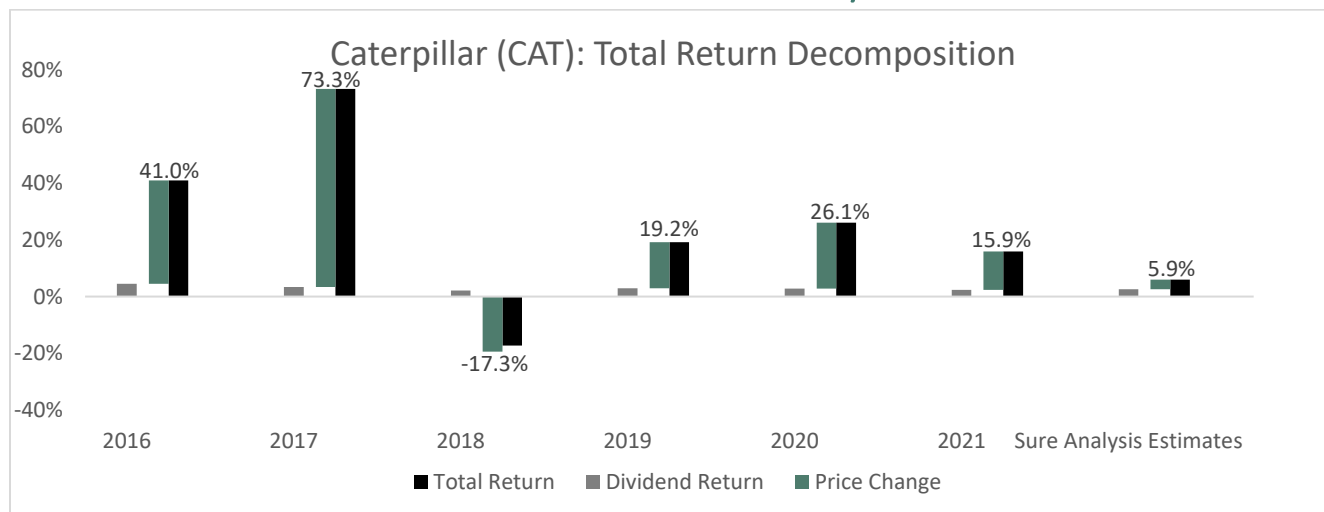
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Since the payout 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 6% year-to-date. Caterpillar is a leader in its industry, but could post relatively volatile earnings. Total return potential comes in at 5.9% per annum, stemming from 5% growth and a 2.2% starting dividend yield, offset by a possible valuation headwind. We are cautious about the cyclical nature of the business. CAT earns a hold 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	65875	55656	55184	47011	38537	45462	54722	53800	41750	50970
Gross Profit	18023	14202	13842	12878	9897	13556	17003	16416	12080	15000
Gross Margin	27.4%	25.5%	25.1%	27.4%	25.7%	29.8%	31.1%	30.5%	28.9%	29.4%
SG&A Exp.	5919	5547	6529	4951	4383	4999	5478	5162	4624	5365
D&A Exp.	2813	3087	3163	3046	3034	2877	2766	2577	2432	2352
Operating Profit	9153	5628	3314	3785	1757	4460	8293	8290	4553	6878
Op. Margin	13.9%	10.1%	6.0%	8.1%	4.6%	9.8%	15.2%	15.4%	10.9%	13.5%
Net Profit	5681	3789	2452	2512	-67	754	6147	6093	2998	6489
Net Margin	8.6%	6.8%	4.4%	5.3%	-0.2%	1.7%	11.2%	11.3%	7.2%	12.7%
Free Cash Flow	108	5745	4678	3438	2711	3370	3642	4243	4212	4726
Income Tax	2528	1319	692	916	192	3339	1698	1746	1006	1742

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	88970	84896	84681	78342	74704	76962	78509	78453	78320	82790
Acc. Receivable	18566	17176	16764	15686	14503	16193	17452	17904	16780	17380
Inventories	15547	12625	12205	9700	8614	10018	11529	11266	11400	14040
Goodwill & Int.	10958	10552	9770	9436	8369	8311	8114	7761	7702	7366
Total Liabilities	71388	64018	67855	63457	61491	63196	64429	63824	62950	66280
Accounts Payable	6753	6560	6515	5023	4614	6487	7051	5957	6128	8154
Long-Term Debt	40070	37653	39200	37936	36715	34441	36097	37657	37060	37710
Total Equity	17532	20811	16746	14809	13137	13697	14039	14588	15330	16480
LTD/E Ratio	2.29	1.81	2.34	2.56	2.79	2.51	2.57	1.96	2.42	2.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.7%	4.4%	2.9%	3.1%	-0.1%	1.0%	7.9%	7.8%	3.8%	8.1%
Return on Equity	37.4%	19.8%	13.1%	15.9%	-0.5%	5.6%	44.3%	42.6%	20.0%	40.8%
ROIC	10.8%	6.5%	4.3%	4.6%	-0.1%	1.5%	12.5%	11.9%	5.7%	12.2%
Shares Out.	655	638	606	582	586	598	597	568	549	549
Revenue/Share	98.38	84.51	87.75	78.18	65.95	75.86	91.29	94.80	76.10	92.93
FCF/Share	0.16	8.72	7.44	5.72	4.64	5.62	6.08	7.48	7.68	8.62

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

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