



The Colgate-Palmolive Company (CL)

Updated November 13th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	7.3%	Market Cap:	\$62 B
Fair Value Price:	\$72	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/22/23 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	02/16/23
Dividend Yield:	2.5%	5 Year Price Target	\$96	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$62 billion after a price decline since our last update.

Colgate reported third quarter earnings on October 28th, 2022, and results were mixed. The company reported adjusted earnings-per-share of 74 cents, which was a penny better than estimates. Revenue was up 1.1% to \$4.46 billion, but missed estimates by \$10 million.

Organic sales were up 7% with growth in every division, and in all four product categories. Gross profit margin was down 220bps year-over-year to 57.2% as inflationary pressures take their toll once again.

Net cash provided by operations was \$1.88 billion for the first three quarters of the year. Management noted foreign exchange translation cost it five cents of earnings-per-share during the quarter given its large international sales base.

Guidance was boosted to a range of 6% to 7% from 5% to 7% prior. We now see \$3.00 in earnings-per-share for this year after Q3 results.

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	\$3.00	\$4.01
DPS	\$1.22	\$1.33	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.75	\$1.79	\$1.88	\$2.18
Shares²	936	920	907	893	907	875	867	858	858	842	835	815

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, as well as earnings. 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. Sales are holding up well, but forex and inflationary pressures are strong.

The dividend should rise at about the rate of earnings growth, potentially 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, and earnings hold up well during recessions.

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	25.0	24.0
Avg. Yld.	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	2.3%	2.5%	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 times earnings today, we see the stock as slightly overvalued, leading to a small headwind to total annual returns should it revert to our estimate of fair value at 24 times earnings, in line with historical multiples. The stock is yielding 2.5%, 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

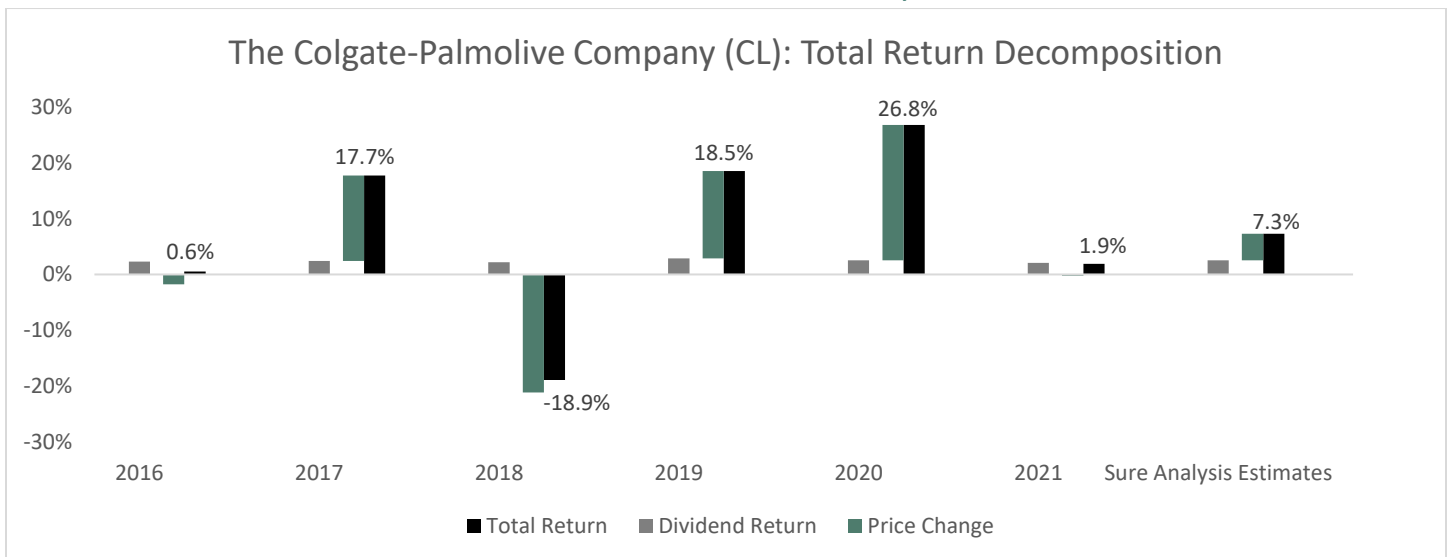
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	62%	66%	108%	62%	67%	60%	62%	57%	56%	63%	54%

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 down 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 7.3% total returns in the coming years as 6% earnings growth and the 2.5% yield could be somewhat offset by a 0.8% headwind from the valuation. We are reiterating the stock at a hold rating but note the outlook for 2022 remains somewhat weak, particularly for margins and forex.

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	1,479
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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