



# Caterpillar Inc. (CAT)

Updated January 31<sup>st</sup>, 2023, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$252	<b>5 Year CAGR Estimate:</b>	5.0%	<b>Market Cap:</b>	\$131.3 B
<b>Fair Value Price:</b>	\$228	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	01/19/23
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.0%	<b>Dividend Payment Date:</b>	02/17/23
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$291	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$131.3 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 January 31<sup>st</sup>, 2023, Caterpillar reported its Q4 2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, the company generated revenues of \$16.6 billion, a 20% increase compared to the \$13.8 billion posted in the fourth quarter of 2021. Construction Industries, Resource Industries, and Energy & Transportation posted growth of 19%, 26%, and 19%, respectively.

The increase was due to favorable price realization and higher sales volume, partially offset by unfavorable currency impacts primarily related to the euro, Japanese yen, and Australian dollar. The increase in sales volume was driven by changes in dealer inventories and higher equipment sales to end users. Dealers increased inventories by \$700 million during the quarter, compared to remaining about flat during the prior-year period.

Caterpillar's adjusted operating profit margin was 17%, compared to 11.4% last year. Margin expansion combined with revenue growth resulted in adjusted earnings-per-share landing at \$3.86 against \$2.69 in the comparable period last year, closing the year with great momentum in earnings-per-share growth. A lower share count also boosted the result.

Caterpillar returned \$6.7 billion to shareholders through dividends and share repurchases during the year, ending with \$7.0 billion of enterprise cash. Our initial estimates for FY2023 point toward adjusted earnings-per-share of \$15.20.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.79	\$6.37	\$4.62	\$3.44	\$6.88	\$11.20	\$11.06	\$6.56	\$10.81	\$13.84	<b>\$15.20</b>	<b>\$19.40</b>
<b>DPS</b>	\$2.32	\$2.70	\$3.01	\$3.08	\$3.11	\$3.36	\$3.78	\$4.12	\$4.36	\$4.71	<b>\$4.80</b>	<b>\$7.05</b>
<b>Shares<sup>1</sup></b>	638	606	582	586	598	576	568	549	549	530	<b>530</b>	<b>500</b>

Caterpillar's customers, primarily mining and construction companies, operate in cyclical industries. During good times they are inclined to expand their operations and 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 adjusted earnings-

<sup>1</sup> In millions.

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per-share growth of 5% in the medium-term. This reflects both some caution with regard to the cyclical nature of the business and Caterpillar's ability to prosper. We also expect dividends to grow by a CAGR of 8% in the medium-term.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.1	15.8	17.1	22.8	16.4	12.9	12.0	22.8	19.7	15.9	16.6	15.0
Avg. Yld.	2.7%	2.7%	3.8%	3.9%	2.8%	2.3%	3.0%	3.0%	2.0%	2.1%	1.9%	2.4%

Since 2013, shares of Caterpillar have traded hands with an average P/E ratio of about 17 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	42%	65%	90%	45%	30%	34%	63%	40%	34%	32%	36%

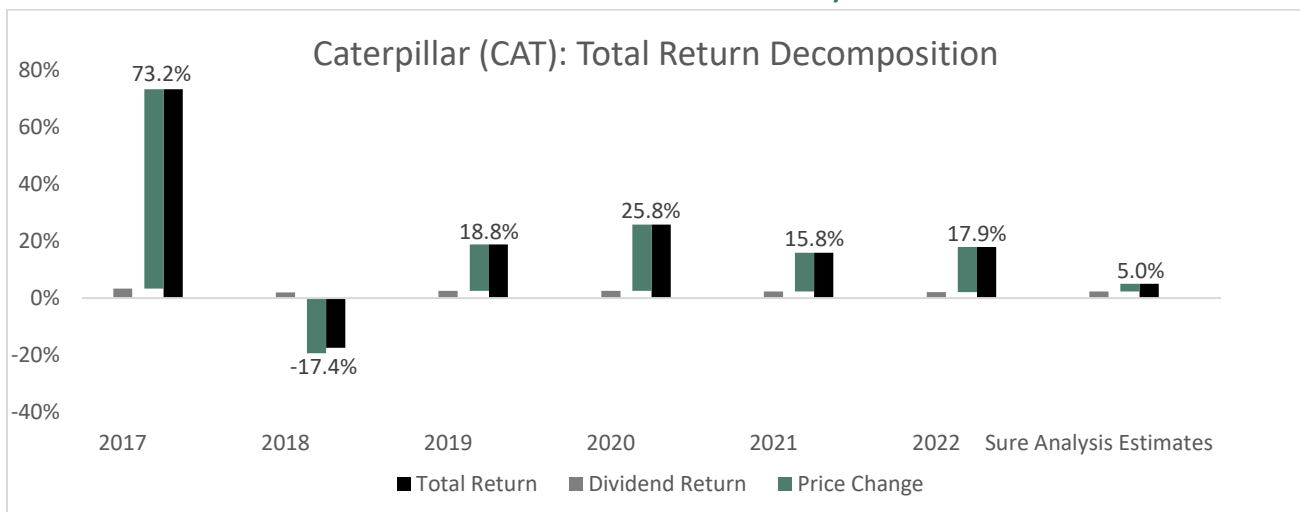
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Since the payout 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

Caterpillar is a leader in its industry, but could post relatively volatile earnings. Total return potential comes in at 5.0% per annum, stemming from 5% growth and a 1.9% starting dividend yield, offset by possible valuation headwinds. We are cautious about the cyclical nature of the business despite its excellent results lately. 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
<b>Revenue</b>	65875	55656	55184	47011	38537	45462	54722	53800	41750	50970
<b>Gross Profit</b>	18023	14202	13842	12878	9897	13556	17003	16416	12080	15000
<b>Gross Margin</b>	27.4%	25.5%	25.1%	27.4%	25.7%	29.8%	31.1%	30.5%	28.9%	29.4%
<b>SG&amp;A Exp.</b>	5919	5547	6529	4951	4383	4999	5478	5162	4624	5365
<b>D&amp;A Exp.</b>	2813	3087	3163	3046	3034	2877	2766	2577	2432	2352
<b>Operating Profit</b>	9153	5628	3314	3785	1757	4460	8293	8290	4553	6878
<b>Op. Margin</b>	13.9%	10.1%	6.0%	8.1%	4.6%	9.8%	15.2%	15.4%	10.9%	13.5%
<b>Net Profit</b>	5681	3789	2452	2512	-67	754	6147	6093	2998	6489
<b>Net Margin</b>	8.6%	6.8%	4.4%	5.3%	-0.2%	1.7%	11.2%	11.3%	7.2%	12.7%
<b>Free Cash Flow</b>	108	5745	4678	3438	2711	3370	3642	4243	4212	4726
<b>Income Tax</b>	2528	1319	692	916	192	3339	1698	1746	1006	1742

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	88970	84896	84681	78342	74704	76962	78509	78453	78320	82790
<b>Acc. Receivable</b>	18566	17176	16764	15686	14503	16193	17452	17904	16780	17380
<b>Inventories</b>	15547	12625	12205	9700	8614	10018	11529	11266	11400	14040
<b>Goodwill &amp; Int.</b>	10958	10552	9770	9436	8369	8311	8114	7761	7702	7366
<b>Total Liabilities</b>	71388	64018	67855	63457	61491	63196	64429	63824	62950	66280
<b>Accounts Payable</b>	6753	6560	6515	5023	4614	6487	7051	5957	6128	8154
<b>Long-Term Debt</b>	40070	37653	39200	37936	36715	34441	36097	37657	37060	37710
<b>Total Equity</b>	17532	20811	16746	14809	13137	13697	14039	14588	15330	16480
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	6.7%	4.4%	2.9%	3.1%	-0.1%	1.0%	7.9%	7.8%	3.8%	8.1%
<b>Return on Equity</b>	37.4%	19.8%	13.1%	15.9%	-0.5%	5.6%	44.3%	42.6%	20.0%	40.8%
<b>ROIC</b>	10.8%	6.5%	4.3%	4.6%	-0.1%	1.5%	12.5%	11.9%	5.7%	12.2%
<b>Shares Out.</b>	655	638	606	582	586	598	597	568	549	549
<b>Revenue/Share</b>	98.38	84.51	87.75	78.18	65.95	75.86	91.29	94.80	76.10	92.93
<b>FCF/Share</b>	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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