



# Kimberly-Clark Corporation (KMB)

Updated October 27<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$120	<b>5 Year CAGR Estimate:</b>	9.2%	<b>Market Cap:</b>	\$41 B
<b>Fair Value Price:</b>	\$125	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	12/08/23 <sup>1</sup>
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Dividend Payment Date:</b>	01/05/24
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$160	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 almost \$21 billion in annual revenue. Kimberly-Clark trades with a market capitalization of \$41 billion and has increased its dividend for 51 consecutive years, making it a member of the extremely prestigious Dividend Kings.

Kimberly-Clark posted third quarter results on October 24<sup>th</sup>, 2023, and results were somewhat mixed. The company beat expectations of earnings-per-share by 15 cents, coming in at \$1.74. Revenue was up 2% year-over-year to \$5.1 billion, which missed estimates by \$60 million.

Sales were up 5% on an organic basis, driven by a 5% increase in pricing, 1% favorable product mix, and a -1% impact from a decrease in volume. Forex translation reduced sales by 2%, and divestiture of the company's Brazilian business reduced sales a further 1%.

Gross margin was up 530 basis points to 35.8% of revenue. This was due to higher net revenue realization, cost savings, and favorable input costs. These were partially offset by unfavorable currency impacts, as well as other manufacturing costs.

Operating profit was \$774 million, up from \$655 million a year ago. This equates to 15.1% of revenue, with gains seen from cost reductions and lower input costs. We now see \$6.60 in earnings-per-share for this year, an increase from our prior estimate, as margins outperformed.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.53	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.74	\$6.18	\$5.63	<b>\$6.60</b>	<b>\$8.42</b>
<b>DPS</b>	\$3.24	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$4.56	\$4.64	<b>\$4.72</b>	<b>\$5.73</b>
<b>Shares<sup>2</sup></b>	381	365	361	357	351	345	341	339	337	338	<b>338</b>	<b>338</b>

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 2023, 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, as we expect volumes to normalize in 2023 and beyond. We note that the massive price increases the company has seen recently aren't sustainable.

<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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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 \$4.72 to \$5.73 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.8	28.1	40.6	21.2	19.9	16.7	18.8	18.3	21.7	24.1	18.2	19.0
Avg. Yld.	3.3%	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.4%	3.4%	3.9%	3.6%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of about 19 over the last decade. This is in-line with its consumer staple dividend-paying stock competitors over the past few years and is higher than the current price-to-earnings multiple of 18.2. With the valuation now below our estimate of fair value, we see a positive impact on total returns. The yield is 3.9%, which is elevated compared to most of the last decade. We forecast the yield falling over time as the valuation rises, driving the yield lower.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	59%	86%	127%	61%	62%	61%	60%	55%	74%	82%	72%	68%

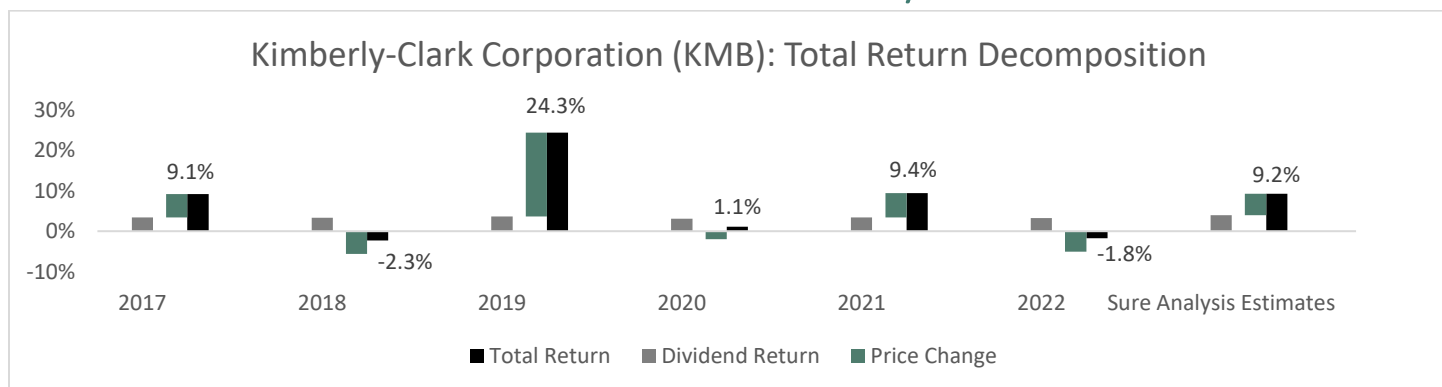
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort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

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, which was evidenced during the COVID recession.

## Final Thoughts & Recommendation

Kimberly-Clark's total return outlook has improved since our last update. We forecast 9.2% total annual returns, consisting of the current 3.9% yield, 5% earnings growth and a 0.9% tailwind from the valuation. The stock earns high marks for its dividend history, current yield, and stability, but growth and valuation remain concerns. We reiterate the stock at a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	19,561	19,724	18,591	18,287	18,348	18,486	18,450	19,140	19,440	20,175
Gross Profit	6,609	6,683	6,624	6,691	6,587	5,597	6,035	6,822	5,988	6,219
Gross Margin	33.8%	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%	35.6%	30.8%	30.8%
SG&A Exp.	3,699	3,709	3,443	3,300	3,202	3,367	3,254	3,632	3,399	3,581
D&A Exp.	863	862	746	705	724	882	917	796	766	754
Operating Profit	2,903	2,521	1,613	3,383	3,358	2,229	2,991	3,244	2,561	2,681
Op. Margin	14.8%	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%	16.9%	13.2%	13.3%
Net Profit	2,142	1,526	1,013	2,166	2,278	1,410	2,157	2,352	1,814	1,934
Net Margin	11.0%	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%	12.3%	9.3%	9.6%
Free Cash Flow	2,087	1,806	1,250	2,461	2,144	2,093	1,527	2,512	1,723	1,857
Income Tax	828	856	418	922	776	471	576	676	479	495

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	18,919	15,526	14,842	14,602	15,151	14,518	15,283	17,523	17,837	17,970
Cash & Equivalents	1,054	789	619	923	616	539	442	303	270	427
Acc. Receivable	2,345	2,079	2,017	2,077	2,203	2,050	2,131	2,132	2,207	2,280
Inventories	2,233	1,892	1,909	1,679	1,790	1,813	1,790	1,903	2,239	2,269
Goodwill & Int.	3,424	1,737	1,540	1,480	1,576	1,474	1,496	2,727	2,650	2,925
Total Liabilities	13,779	14,527	14,802	14,485	14,269	14,564	15,089	16,654	17,100	17,270
Accounts Payable	2,598	2,616	2,612	2,609	2,834	3,190	3,055	3,336	3,840	3,813
Long-Term Debt	5,761	6,956	7,775	7,572	7,425	7,455	7,747	8,364	8,574	8,422
Total Equity	4,856	729	(174)	(102)	629	(287)	(33)	626	514	547
LTD/E Ratio	1.19	9.54	-44.68	-74.24	11.80	-25.98	-234.8	13.36	16.68	15.40

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.0%	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%	14.3%	10.3%	10.8%
Return on Equity	43.5%	54.6%	365%	---	865%	825%	---	793%	318%	365%
ROIC	19.1%	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%	27.4%	19.6%	21.0%
Shares Out.	381	365	361	357	351	345	341	339	337	338
Revenue/Share	50.51	52.26	50.75	50.56	51.55	52.88	53.39	55.88	57.38	59.64
FCF/Share	5.39	4.79	3.41	6.80	6.02	5.99	4.42	7.33	5.09	5.49

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

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