



Procter & Gamble Co. (PG)

Updated January 23rd, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$149	5 Year CAGR Estimate:	4.4%	Market Cap:	\$352 B
Fair Value Price:	\$128	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	1/18/24
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	2/15/24
Dividend Yield:	2.5%	5 Year Price Target:	\$163	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Founded in 1837 and headquartered in Cincinnati, Ohio, Procter & Gamble is a consumer products giant that sells its products in over 180 countries. Notable brands include Pampers, Luvs, Tide, Gain, Bounty, Charmin, Puffs, Gillette, Head & Shoulders, Old Spice, Dawn, Febreze, Swiffer, Crest, Oral-B, Scope, Olay and many more. The \$352 billion market capitalization company generated \$82 billion in sales in fiscal 2023. Procter & Gamble has paid a dividend for 133 years and has grown its dividend for 67 consecutive years – one of the longest active streaks of any company.

On April 11th, 2023, Procter & Gamble raised its dividend by 3.0%, from \$0.9133 per quarter to \$0.9407.

In late January, Procter & Gamble reported (1/23/24) financial results for the second quarter of fiscal 2024 (its fiscal year ends June 30th). It grew its sales and its organic sales by 3% and 4%, respectively, over last year's quarter. Organic sales growth resulted from 4% price hikes, which offset a marginal decrease in volumes. Despite the headwind of high cost inflation, earnings-per-share grew 16% thanks to price hikes, from \$1.59 to \$1.84, beating the analysts' consensus by \$0.14. The firm sales amid strong price hikes are a testament to the strength of the brands of Procter & Gamble. The company reiterated its guidance for 4%-5% organic sales growth in fiscal 2024 and improved its guidance for growth of earnings-per-share from 6%-9% to 8%-9%. As we were expecting an improved guidance, we still expect earnings-per-share of \$6.40. Procter & Gamble has beaten the analysts' estimates in 23 of the last 25 quarters.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.22	\$4.02	\$3.67	\$3.92	\$4.22	\$4.52	\$5.12	\$5.66	\$5.81	\$5.90	\$6.40	\$8.17
DPS	\$2.45	\$2.59	\$2.66	\$2.70	\$2.79	\$2.90	\$3.03	\$3.24	\$3.52	\$3.68	\$3.76	\$4.68
Shares¹	2,711	2,715	2,668	2,553	2,498	2,505	2,480	2,430	2,523	2,478	2,430	2,300

Procter & Gamble has grown its earnings-per-share by 3.8% per year on average over the last decade. Sales have remained nearly flat over this period, but net profit margin has increased. The company has been going through a major transformation in recent years. It has sold a significant number of low-margin, low-growth brands and has reduced its brand count from ~170 to 65. This transformation has weighed on the top line, but it should allow Procter & Gamble to focus on its strongest, most profitable brands moving forward. Indeed, the company has returned to solid growth mode in the last six years. Inflationary pressures have increased in the last two years, but over time Procter & Gamble has proven capable of sustaining price hikes to offset this headwind thanks to its strong brands. Overall, we expect 5% average annual growth of earnings-per-share, somewhat higher than the 10-year average growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.0	20.9	21.4	22.3	20.1	20.7	23.3	23.8	25.7	24.3	23.3	20.0
Avg. Yld.	3.1%	3.1%	3.4%	3.1%	3.3%	3.1%	2.5%	2.4%	2.4%	2.6%	2.5%	2.9%

¹ In millions

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Procter & Gamble has traded at an average price-to-earnings ratio of approximately 22.2 over the last decade. We assume a fair earnings multiple of 20.0, taking into consideration the high quality of the company, weighed against modest growth prospects. The stock is currently trading at an elevated price-to-earnings ratio of 23.3. If it reaches our fair valuation level over the next five years, it will incur a -3.0% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	58%	64%	72%	69%	66%	64%	59%	57%	61%	62%	59%	57%

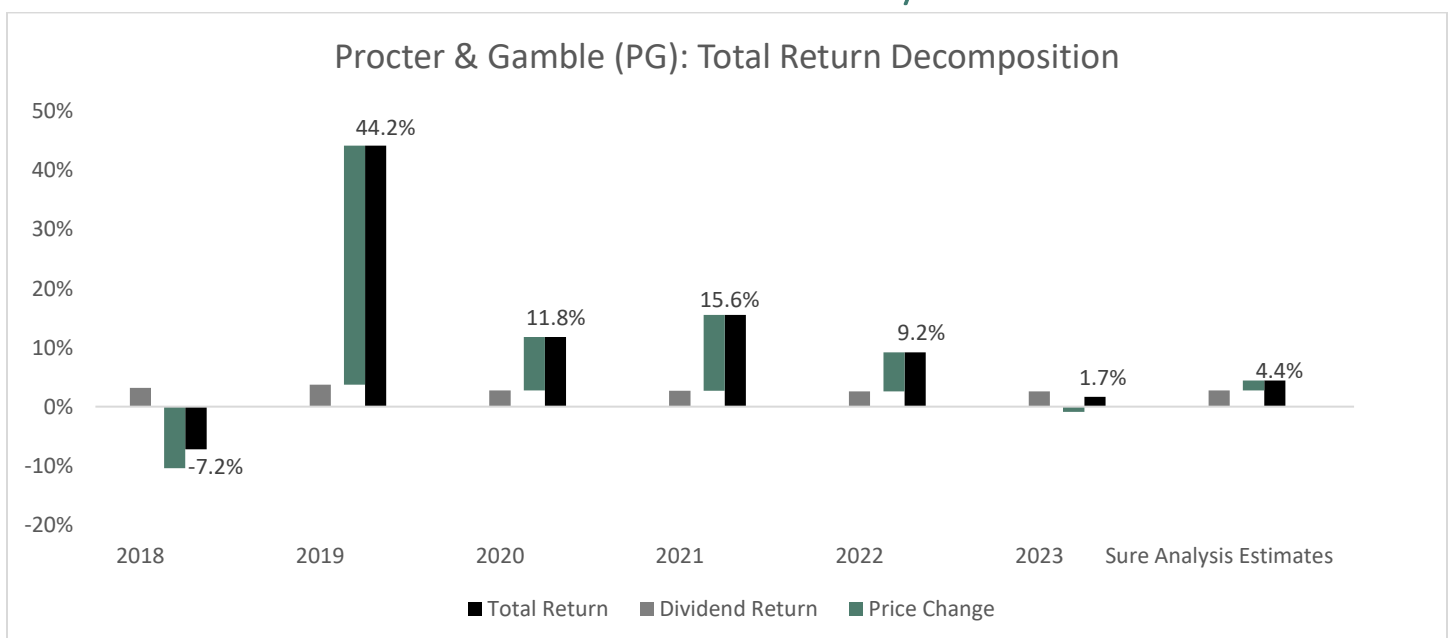
Procter & Gamble's dividend payout ratio has oscillated between 50% and 75% in the last decade, with the current mark at 59%. This is somewhat high for your typical company, but well within a reasonable range for such a high-quality firm. We believe that the company can keep growing its dividend at a rate roughly in line with earnings-per-share growth going forward.

Procter & Gamble has significant competitive advantages thanks to its strong brands. The company has several category-leading brands such as Crest, Tide, Gillette, Bounty, Febreze, Old Spice, Pampers, and many more. These brands provide Procter & Gamble with pricing power and consistent profits, in good times or bad. During the Great Recession, the company posted earnings-per-share of \$3.04, \$3.64, \$3.58, \$3.53, and \$3.93 in the 2007 through 2011 stretch, while the dividend kept on rising. Moreover, during the COVID-19 pandemic, Procter & Gamble proved resilient once again, with record earnings in each of the last four years.

Final Thoughts & Recommendation

Procter & Gamble has demonstrated strong performance in all environments, with an impressive operating history. While its growth rate slowed in the last decade, Procter & Gamble has now completed an important transformation program, which has enhanced growth. However, the stock is trading at a rich valuation level and hence it could offer just a 4.4% average annual return over the next five years, as its 5.0% growth and its 2.5% dividend may be partly offset by a -3.0% valuation headwind. Procter & Gamble is appealing to risk-averse investors who seek reliable dividend growth. However, due to its rich valuation, the stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	74401	70749	65299	65058	66832	67684	70950	76120	80187	82006
Gross Profit	35371	33693	32390	32420	32400	32916	35700	39010	38030	39246
Gross Margin	47.5%	47.6%	49.6%	49.8%	48.5%	48.6%	50.3%	51.2%	47.4%	47.9%
SG&A Exp.	21461	20616	18949	18654	19037	19084	19990	21020	20217	21112
D&A Exp.	3141	3134	3078	2820	2834	2824	3013	2735	2807	2714
Operating Profit	13910	13077	13441	13766	13363	13832	15710	17990	17813	18134
Op. Margin	18.7%	18.5%	20.6%	21.2%	20.0%	20.4%	22.1%	23.6%	22.2%	22.1%
Net Profit	11643	7036	10508	15326	9750	3897	13030	14310	14742	14653
Net Margin	15.6%	9.9%	16.1%	23.6%	14.6%	5.8%	18.45	18.8%	18.4%	17.9%
Free Cash Flow	10110	10872	12121	9369	11150	11895	14330	15580	13567	13786
Income Tax	2851	2725	3342	3063	3465	2103	2731	3263	3202	3615

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	144	129	127	120	118	115	120.7	119.3	117.2	120.8
Cash & Equivalents	8558	6836	7102	5569	2569	4239	16180	10290	7214	8246
Acc. Receivable	6386	4568	4373	4594	4686	4951	4178	4725	5143	5471
Inventories	6759	4979	4716	4624	4738	5017	5498	5983	6924	7073
Goodwill & Int.	84547	69632	68877	68886	69077	64488	63690	64570	63379	64442
Total Liabilities	74290	66445	69153	64628	65427	67516	73820	72650	70354	73764
Accounts Payable	8461	8138	9325	9632	10344	11260	12070	13720	14882	14598
Long-Term Debt	35417	30345	30598	31592	31286	30059	34720	31990	31493	34607
Total Equity	68103	61342	56303	54178	51326	46266	46520	46650	45746	45958
D/E Ratio	0.51	0.49	0.53	0.57	0.60	0.64	0.75	1.56	0.68	0.74

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.2%	5.1%	8.2%	12.4%	8.2%	3.3%	11.1%	11.9%	12.5%	12.3%
Return on Equity	17.2%	10.9%	17.9%	27.7%	18.5%	8.0%	28.4%	31.0%	32.3%	32.0%
ROIC	11.3%	7.1%	11.5%	17.4%	11.4%	4.8%	16.4%	17.9%	18.8%	18.3%
Shares Out.	2710	2715	2669	2553	2498	2425	2626	2601	2539	2484
Revenue/Share	25.61	24.54	22.96	23.74	25.16	26.65	27.02	29.26	31.58	33.02
FCF/Share	3.48	3.77	4.26	3.42	4.20	4.68	5.46	5.99	5.34	5.55

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

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