



# Caterpillar Inc. (CAT)

Updated February 5<sup>th</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$317	<b>5 Year CAGR Estimate:</b>	4.9%	<b>Market Cap:</b>	\$161.6 B
<b>Fair Value Price:</b>	\$320	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	01/19/24
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.1%	<b>Dividend Payment Date:</b>	02/20/24
<b>Dividend Yield:</b>	1.6%	<b>5 Year Price Target</b>	\$370	<b>Years Of Dividend Growth:</b>	30
<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 \$161.6 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 February 5<sup>th</sup>, 2024, Caterpillar reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2023. For the quarter, the company generated revenues of \$17.1 billion, a 3% increase compared to the \$16.6 billion posted in the fourth quarter of 2022. The Construction Industries and Resource Industries segments posted a decline of 15% and 6% in revenues, respectively. However, these declines were more than offset by 12% higher revenues in the Energy & Transportation segment.

The Construction Industries saw a decrease due to lower sales volume, partially offset by favorable price realization. The decrease in sales volume was driven by the impact of changes in dealer inventories, partially offset by higher sales of equipment to end users. The Resource Industries segment was negatively affected by similar factors. Energy & Transportation posted higher revenues due to higher sales volume and favorable price realization, mainly related to the oil and gas and power generation industries.

Caterpillar's adjusted operating profit margin was 18.9%, compared to 17.0% last year. Margin expansion combined with revenue growth resulted in adjusted earnings-per-share landing at \$5.23 against \$3.86 in the comparable period last year. For the year, adjusted earnings-per-share surged 53% to \$21.21. For FY2024, we expect adjusted EPS of \$21.30.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$6.37	\$4.62	\$3.44	\$6.88	\$11.20	\$11.06	\$6.56	\$10.81	\$13.84	\$21.21	<b>\$21.30</b>	<b>\$24.69</b>
<b>DPS</b>	\$2.70	\$3.01	\$3.08	\$3.11	\$3.36	\$3.78	\$4.12	\$4.36	\$4.71	\$5.10	<b>\$5.20</b>	<b>\$7.64</b>
<b>Shares<sup>1</sup></b>	629	601	584	599	599	568	549	549	530	513.6	<b>513.6</b>	<b>480.0</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. In fact, the \$1.2 trillion bipartisan infrastructure bill should to sustain strong demand for Caterpillar's machinery. We expect adjusted earnings-

<sup>1</sup> In millions.

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per-share growth of 3% in the medium-term. This reflects some caution coming off record EPS with regard to the cyclical nature of the business. We also expect dividends to grow by a CAGR of 8% in the medium-term.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.8	17.1	22.8	16.4	12.9	12	22.8	19.7	15.9	10.9	14.9	15.0
Avg. Yld.	2.7%	3.8%	3.9%	2.8%	2.3%	3.0%	3.0%	2.0%	2.1%	1.5%	1.6%	2.1%

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. While the company's growth remains impressive, we view 15 times earnings as a reasonable starting place. It's lower than its historical average due to the current interest rate environment. However, it still implies that a valuation expansion is possible from the current, rather depressed multiple.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	65%	90%	45%	30%	34%	63%	40%	34%	24%	24%	31%

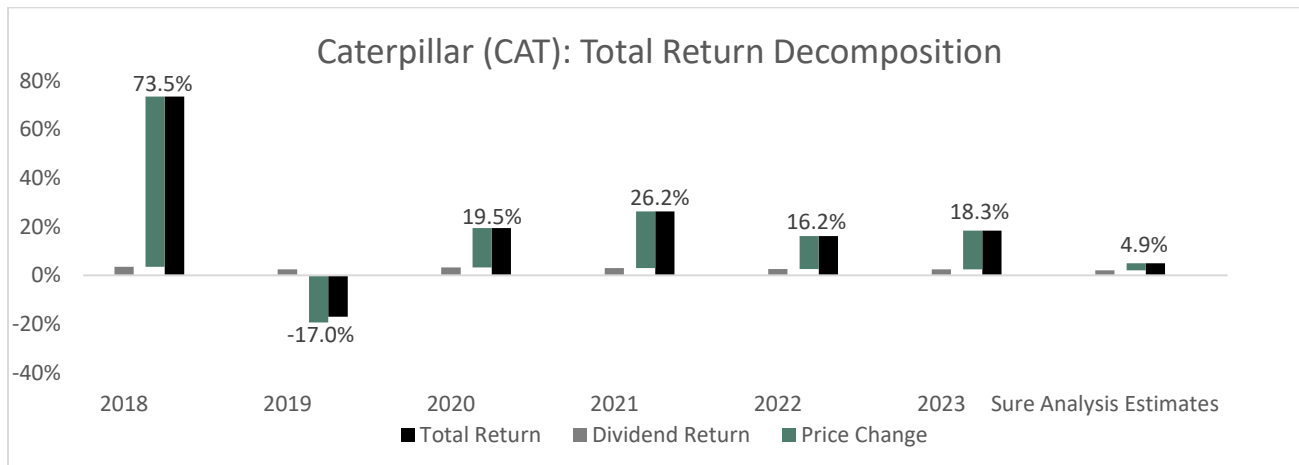
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Since the payout 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 can post relatively volatile earnings. Total return potential comes in at 4.9% per annum, stemming from the 3% growth in EPS, the 1.6% starting dividend yield, and stable valuation estimates. We are optimistic about Caterpillar's prospects despite its cyclical nature. CAT earns 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	55656	55184	47011	38537	45462	54722	53800	41750	50970	59430
Gross Profit	14202	13842	12878	9897	13556	17003	16416	12080	15000	17510
Gross Margin	25.5%	25.1%	27.4%	25.7%	29.8%	31.1%	30.5%	28.9%	29.4%	29.5%
SG&A Exp.	5547	6529	4951	4383	4999	5478	5162	4624	5365	5651
D&A Exp.	3087	3163	3046	3034	2877	2766	2577	2432	2352	2219
Operating Profit	5628	3314	3785	1757	4460	8293	8290	4553	6878	8829
Op. Margin	10.1%	6.0%	8.1%	4.6%	9.8%	15.2%	15.4%	10.9%	13.5%	14.9%
Net Profit	3789	2452	2512	-67	754	6147	6093	2998	6489	6705
Net Margin	6.8%	4.4%	5.3%	-0.2%	1.7%	11.2%	11.3%	7.2%	12.7%	11.3%
Free Cash Flow	5745	4678	3438	2711	3370	3642	4243	4212	4726	5167
Income Tax	1319	692	916	192	3339	1698	1746	1006	1742	2067

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	84896	84681	78342	74704	76962	78509	78453	78320	82790	81940
Acc. Receivable	17176	16764	15686	14503	16193	17452	17904	16780	17380	17870
Inventories	12625	12205	9700	8614	10018	11529	11266	11400	14040	16270
Goodwill & Int.	10552	9770	9436	8369	8311	8114	7761	7702	7366	7602
Total Liabilities	64018	67855	63457	61491	63196	64429	63824	62950	66280	66050
Accounts Payable	6560	6515	5023	4614	6487	7051	5957	6128	8154	8689
Long-Term Debt	37653	39200	37936	36715	34441	36097	37657	37060	37710	36880
Total Equity	20811	16746	14809	13137	13697	14039	14588	15330	16480	15870
LTD/E Ratio	1.81	2.34	2.56	2.79	2.51	2.57	1.96	2.42	2.23	2.32

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.4%	2.9%	3.1%	-0.1%	1.0%	7.9%	7.8%	3.8%	8.1%	8.1%
Return on Equity	19.8%	13.1%	15.9%	-0.5%	5.6%	44.3%	42.6%	20.0%	40.8%	41.5%
ROIC	6.5%	4.3%	4.6%	-0.1%	1.5%	12.5%	11.9%	5.7%	12.2%	12.5%
Shares Out.	638	606	582	586	598	597	568	549	549	530
Revenue/Share	84.51	87.75	78.18	65.95	75.86	91.29	94.80	76.10	92.93	112.04
FCF/Share	8.72	7.44	5.72	4.64	5.62	6.08	7.48	7.68	8.62	9.74

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

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