



Kimberly-Clark Corporation (KMB)

Updated April 27th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$135	5 Year CAGR Estimate:	7.1%	Market Cap:	\$46 B
Fair Value Price:	\$128	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/07/24 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	07/02/24
Dividend Yield:	3.6%	5 Year Price Target	\$163	Years Of Dividend Growth:	52
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	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 over \$20 billion in annual revenue. Kimberly-Clark trades with a market capitalization of \$46 billion and has increased its dividend for 52 consecutive years, making it a member of the extremely prestigious Dividend Kings.

Kimberly-Clark posted first quarter earnings on April 23rd, 2024, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.01, which was 37 cents ahead of estimates. Revenue was off 1% year-over-year at \$5.15 billion, but beat expectations by \$60 million. The company also raised guidance based upon expected continued gains from volume and mix favorability. Management also noted strong productivity gains to help optimize margins.

Organic sales were up 6% year-over-year, driven by a 4% gain in pricing, 1% in product mix, and a 1% increase in volumes. Management said pricing increases were necessitated by higher local costs in economies such as Argentina.

Gross margin was up 390 basis points to 37.1% of revenue as organic growth and operating efficiencies more than offset input cost inflation.

Management now expects organic net sales growth in the mid-single digits, up from prior guidance. Adjusted operating profit is now expected to grow at a low-teens percentage rate, up from high single digits before. We've boosted our estimate to \$7.10 per share following a strong start to the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.74	\$6.18	\$5.63	\$6.57	\$7.10	\$9.06
DPS	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$4.56	\$4.64	\$4.72	\$4.88	\$5.92
Shares²	365	361	357	351	345	341	339	337	338	337	335	330

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 continuously extended this initiative, 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 remain largely steady, as evidenced again in Q1. We note that the massive price increases the company has seen recently aren't sustainable, and the company is lapping a difficult period for pricing power in 2024, introducing a potential growth headwind. For now, the company seems able to weather this.

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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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 \$4.88 to \$5.92 as the company continues with slow rates of earnings growth and a relatively high payout ratio.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	28.1	40.6	21.2	19.9	16.7	18.8	18.3	21.7	24.1	18.5	19.0	18.0
Avg. Yld.	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.4%	3.4%	3.9%	3.6%	3.6%

Excluding outlier years, Kimberly-Clark has traded at an average price-to-earnings ratio of about 18 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 19. With the valuation ahead of our estimate of fair value, we see a slightly negative impact on total returns. The yield is 3.6%, which is roughly equal to most of the last decade. We forecast the yield remaining about where it is over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	86%	127%	61%	62%	61%	60%	55%	74%	82%	72%	69%	65%

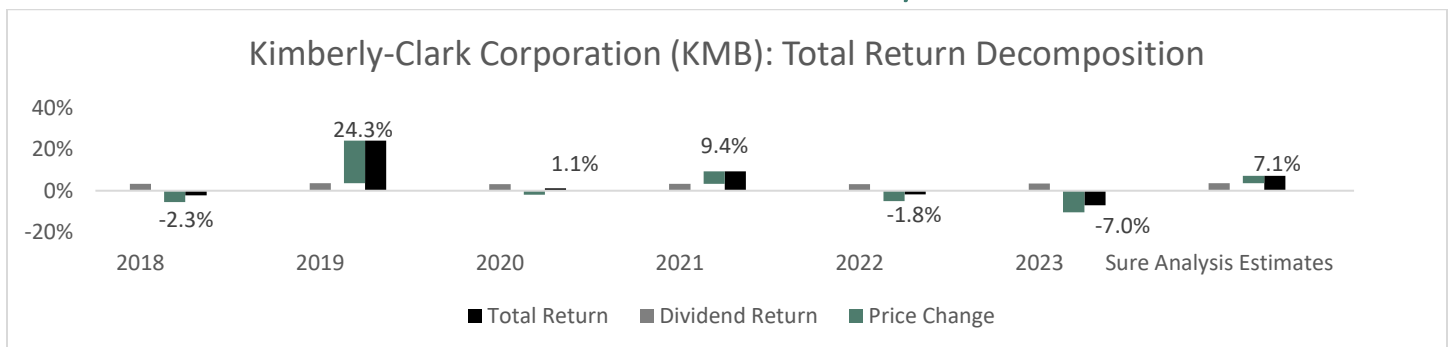
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort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

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 declined slightly since our last update. We forecast 7.1% total annual returns, consisting of the current 3.6% yield, 5% earnings growth and a 1.1% headwind 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	19,724	18,591	18,287	18,348	18,486	18,450	19,140	19,440	20,175	20,431
Gross Profit	6,683	6,624	6,691	6,587	5,597	6,035	6,822	5,988	6,219	7,032
Gross Margin	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%	35.6%	30.8%	30.8%	34.4%
SG&A Exp.	3,709	3,443	3,300	3,202	3,367	3,254	3,632	3,399	3,581	3,961
D&A Exp.	862	746	705	724	882	917	796	766	754	753
Operating Profit	2,521	1,613	3,383	3,358	2,229	2,991	3,244	2,561	2,681	3,002
Op. Margin	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%	16.9%	13.2%	13.3%	14.7%
Net Profit	1,526	1,013	2,166	2,278	1,410	2,157	2,352	1,814	1,934	1,764
Net Margin	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%	12.3%	9.3%	9.6%	8.6%
Free Cash Flow	1,806	1,250	2,461	2,144	2,093	1,527	2,512	1,723	1,857	2,776
Income Tax	856	418	922	776	471	576	676	479	495	453

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	15,526	14,842	14,602	15,151	14,518	15,283	17,523	17,837	17,970	17,344
Cash & Equivalents	789	619	923	616	539	442	303	270	427	1,093
Acc. Receivable	2,079	2,017	2,077	2,203	2,050	2,131	2,132	2,207	2,280	2,135
Inventories	1,892	1,909	1,679	1,790	1,813	1,790	1,903	2,239	2,269	1,955
Goodwill & Int.	1,737	1,540	1,480	1,576	1,474	1,496	2,727	2,650	2,925	2,282
Total Liabilities	14,527	14,802	14,485	14,269	14,564	15,089	16,654	17,100	17,270	16,276
Accounts Payable	2,616	2,612	2,609	2,834	3,190	3,055	3,336	3,840	3,813	3,653
Long-Term Debt	6,956	7,775	7,572	7,425	7,455	7,747	8,364	8,574	8,422	7,984
Total Equity	729	(174)	(102)	629	(287)	(33)	626	514	547	915
LTD/E Ratio	9.54	-44.68	-74.24	11.80	-25.98	-234.8	13.36	16.68	15.40	8.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%	14.3%	10.3%	10.8%	10.0%
Return on Equity	54.6%	365%	---	865%	825%	---	793%	318%	365%	241%
ROIC	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%	27.4%	19.6%	21.0%	19.4%
Shares Out.	365	361	357	351	345	341	339	337	338	339
Revenue/Share	52.26	50.75	50.56	51.55	52.88	53.39	55.88	57.38	59.64	60.30
FCF/Share	4.79	3.41	6.80	6.02	5.99	4.42	7.33	5.09	5.49	8.19

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

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