



Reckitt Benckiser (RBGLY)

Updated February 19th, 2022 by Derek English

Key Metrics

Current Price:	\$17.40	5 Year CAGR Estimate:	7.0%	Market Cap:	\$47.1 B
Fair Value Price:	\$18	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/05/22 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	06/21/22
Dividend Yield:	2.8%	5 Year Price Target	\$22	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	11.2%

Overview & Current Events

Reckitt Benckiser Group plc is a British consumer goods company headquartered in London, UK. The company can trace its history back to 1814. However, the Reckitt Benckiser Group plc as we know it today was formed in 1999 when Reckitt & Colman plc and Benckiser N.V. RBGLY combined. Today, the company operates in over 200 countries and employs more than 40,000 people. The company is organized into three business units: Health, Hygiene, and Nutrition. The health business unit comprises products such as Durex, Veet, and Nurofen. The hygiene business unit includes Finish and Air Wick products, and the nutrition business unit comprises Enfa and Nutramigen. In addition, the company is classified into three reportable business segments for reporting purposes: North America, Europe, and Developed Markets.

Reckitt Benckiser released full-year 2021 results on February 17th, 2021. The company posted results including and excluding IFCN China as they have agreed to sell this business to Primavera capital group for \$2.2 billion. Revenue grew 3.5%, reflecting volume growth of 0.6% and price improvements of 2.9%. The Hygiene segment increased 1.6% as Lysol and Air Wick continued their positive momentum with high single-digit growth. The health segment declined 5% partly due to the sale of Scholl, but also as Dettol's net revenue decreased to levels before the pandemic. The Nutrition segment suffered an 18.6% revenue loss, including IFCN China, or a loss of 5.4% excluding IFCN China. Low demand for products and a competitive market contributed to the decline. The disposal of IFCN China was completed on September 9th, 2021. Free cash dropped by just over 50% due to transactions and tax costs related to the sale of IFCN China. Operating margin remained at 22.9% due to planned investment and cost inflation while the company ended the year with net debt of 2.6x Adjusted EBITDA.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.82	\$0.76	\$1.53	\$0.75	\$0.72	\$2.31	\$0.81	(\$1.32)	\$1.10	\$0.39	\$1.20	\$1.46
DPS	\$0.34	\$0.39	\$0.44	\$0.45	\$0.39	\$0.41	\$0.42	\$0.45	\$0.43	\$0.49	\$0.44	\$0.53
Shares	3665	3645	3654	3618	3572	3556	3545	3543	3550	3557	3550	3500

Reckitt Benckiser's earnings per share have declined at a CAGR of 7.9% over the last nine years. While Covid-19 posted many challenges for most companies, Reckitt Benckiser saw a benefit in the short term as consumers focused more on health and hygiene. However, we are starting to see sales in both segments normalize and return to pre-pandemic levels. In addition, lower operating profit and adverse F.X. contributed to the EPS decline in 2021.

The company targets mid-single-digit growth in 2022, which we believe is achievable in the current climate if it can continue to grow its market share. Stronger cold and flu sales should also aid growth. As a result, we estimate a 4% annualized growth rate with the only negative coming from Lysol's uncertainty, where sales are expected to drop in 2022. The final year dividend was \$0.49², representing an 11.2% increase from 2020.

¹ Estimated dividend dates

² <https://www.adr.com/drprofile/756255204>

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.5	19.0	10.9	24.1	26.1	8.1	21.0	-12.0	16.1	43.6	14.5	15.0
Avg. Yld.	3.1%	3.0%	2.7%	2.2%	2.2%	2.2%	2.6%	2.7%	2.5%	2.9%	2.8%	2.4%

Since 2012, Reckitt Benckiser has traded, on average, at 17.2 times its earnings per share and had an average dividend yield of around 2.6%. The company is currently trading at a P/E ratio of 14.5, which indicates that the company is slightly compared to our target multiple. Given our 4% growth estimate over the next five years, we have set a price target of \$22 by 202. We would expect the average yield to continue to hover around 2.4%, given the companies stance on maintaining its dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47%	57%	29%	52%	57%	18%	54%	-33%	40%	125%	36%	36%

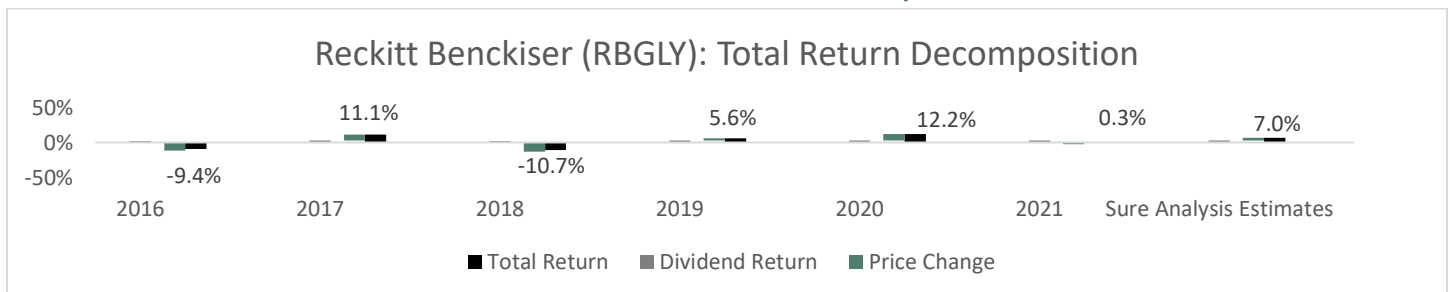
One of Reckitt's main competitive advantages lies within its premium brand power. For example, Lysol is present in over half of all U.S. homes, while brands such as Finish and Gaviscon have increased market share in 2021. Customers are often willing to pay extra for brands as they symbolize quality. Digital marketing lowers the barriers to entry for launching a new brand, leading to fierce price competition. In response, e-RB was established as a dedicated organization to drive each Global Business Unit with digital business development. eCommerce net revenue is up 17% and now accounts for over 12% of the company's revenue, with solid growth in the intimate wellness category.

The company is shifting some of its focus to immunity and senior nutrition due to the increased emphasis on preventative health initiatives. The company is a reliable European dividend distributor as it has paid a stable dividend since 2000. They showed strong recession resiliency during the last financial crash by increasing the dividend every year until 2015 in Great British pounds. However, debt rose significantly in 2017 due to The \$18 billion acquisition of Mead Johnson, a baby formula specialist. The company priorities a long-term growing dividend and aims to payout 50% of net income.

Final Thoughts & Recommendations

Reckitt Benckiser is starting to show signs of stabilizing after the worst of the pandemic, with key brands such as Lysol and Dettol beginning to return to pre-2019 levels. Investors looking for a sustainable dividend will be happy with RBGLY's policy of maintaining a 50% payout ratio. If revenue and free cash flow grow, then the dividend will grow in tandem. With expected earnings per share growth rate of 4%, a dividend yield of 2.5%, and a low single-digit contribution from valuation expansion, we expect a total return of 7.0% annually for Reckitt Benckiser through 2027 at current prices. We prefer returns of over 10% prior to issuing a buy rating on a security, which means Reckitt Benckiser still falls short of our threshold. Therefore, the company remains a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	17959	16403	16808	14783	12844	13561	14565	14497	15160	15209
Gross Profit	10826	9931	10187	8810	7860	8017	8400	8227	8776	8738
Gross Margin	60.3%	60.5%	60.6%	59.6%	61.2%	59.1%	57.7%	56.7%	57.9%	57.4%
SG&A Exp.	6422	5570	5390	4541	4093	4187	4581	4644	4442	4613
D&A Exp.	1870	7092	546	346	240	261	265	243	235	252
Operating Profit	4036	4037	4391	3976	3572	3628	3602	3353	4084	3988
Operating Margin	22.5%	24.6%	26.1%	26.9%	27.8%	26.8%	24.7%	23.1%	26.9%	26.2%
Net Profit	1523	-4703	2881	7969	2482	2664	5313	2721	2886	2798
Net Margin	8.5%	-28.7%	17.1%	53.9%	19.3%	19.6%	36.5%	18.8%	19.0%	18.4%
Free Cash Flow	3891	1236	2785	2766	2753	2453	3157	2968	2711	2461
Income Tax	924	849	715	-1154	705	708	762	709	924	997

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	42646	42140	48160	50444	22137	22620	24119	24981	24347	21765
Cash & Equivalents	2058	1861	1879	2872	1084	1096	1427	1332	1433	985
Accounts Receivable	2122	2250	2328	2708	1789	1724	1612	1862	1975	1921
Inventories	2170	1723	1619	1623	946	1009	1160	1230	1188	1168
Goodwill & Int. Ass.	31316	31810	38420	39849	16528	16735	17513	18372	18038	15806
Total Liabilities	30164	29806	29417	32123	11785	12388	13482	14533	14777	12858
Accounts Payable	4680	3791	2281	6256	1527	1453	1541	1634	1532	1544
Long-Term Debt	13961	15564	15072	17826	2934	3584	3997	4555	5288	3863
Shareholder's Equity	12422	12276	18683	18267	10345	10228	10634	10445	9568	8800
LTD/E Ratio	1.1	1.3	0.8	1.0	0.3	0.4	0.4	0.4	0.6	0.4

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.6%	-10.4%	5.8%	22.0%	11.1%	11.4%	21.6%	11.0%	12.5%	13.2%
Return on Equity	12.3%	-30.4%	15.6%	55.7%	24.1%	25.5%	50.4%	27.2%	31.4%	33.7%
ROIC	5.6%	-15.2%	8.2%	32.2%	18.3%	18.7%	35.9%	18.2%	20.9%	22.6%
Shares Out.	3568.7	3543.4	3545.0	3555.6	3571.5	3617.7	3653.7	3645.3	3665.0	3679.2
Revenue/Share	5.03	4.63	4.74	4.16	3.60	3.75	3.99	3.98	4.14	4.13
FCF/Share	1.09	0.35	0.79	0.78	0.77	0.68	0.86	0.81	0.74	0.67

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

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