



Reckitt Benckiser (RBGLY)

Updated October 29th, 2022 by Derek English

Key Metrics

Current Price:	\$13.20	5-Year CAGR Estimate:	13.2%	Market Cap:	\$44.6 B
Fair Value Price:	\$18	5-Year Growth Estimate:	4.0%	Ex-Dividend Date:	04/05/23
% Fair Value:	73%	5-Year Valuation Multiple Estimate:	6.4%	Dividend Payment Date:	04/28/23
¹Dividend Yield:	3.6%	5-Year Price Target	\$22	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 Q3 2022 results on October 27th, 2022. Like-for-like revenue grew 7.4%, reflecting a volume decline of 4.6%, but with price improvements of 12.7%, demonstrating the company's ability to pass on the cost of inflation to its customers. Like the last two quarters, the Hygiene segment revenue declined 1.6% as products such as Lysol continued to normalize, contributing to a 13% volume decline. The Health segment revenue increased 10.7% on a like-for-like basis in Q3, driven by over-the-counter cold and flu brands such as Nurofen and Strepsil. Nutrition grew net revenue by 24.7%, led by the U.S. market, where competitors continue to have supply chain issues. The company estimate that 20% of its growth this quarter in the Nutrition segment can be attributed to its competitor's supply chain issues.

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	\$0.47	\$0.57
Shares	3543	3545	3555	3571	3617	3653	3645	3665	3679	3569	3560	3550

Reckitt Benckiser's earnings per share have declined at a CAGR of 7.9% over the last nine years. While Covid-19 posed 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, particularly in products such as Lysol and Dettol. As a result, the company targets mid-single-digit growth of 6% to 8% 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 continue to drop in 2022. The final year dividend was \$0.49², representing an 11.2% increase from 2020.

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	11.0	15.0
Avg. Yld.	3.1%	3.0%	2.7%	2.2%	2.2%	2.2%	2.6%	2.7%	2.5%	2.9%	3.6%	2.6%

¹ Estimated

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

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At 3.6%, Reckitt Benckiser's dividend yield sits nicely above its 5-year average of 2.6%. This is an attractive yield compared to the average of the S&P 500, which is 1.67%³. The P/E ratio of 11 suggests the company is slightly undervalued compared to the last five years, where the average P/E was 17.2. Inflation and supply chain issues can stunt the company's growth, and we estimate that the P/E will rise to around 15 with a multiple expansion adding 6.4% to annual returns over the next five years. Given our 4% growth estimate over the next five years, we have set a price target of \$22 by 2027. We also expect the average dividend yield to move closer to 2.6% by 2027, given the company's 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%	39%	39%

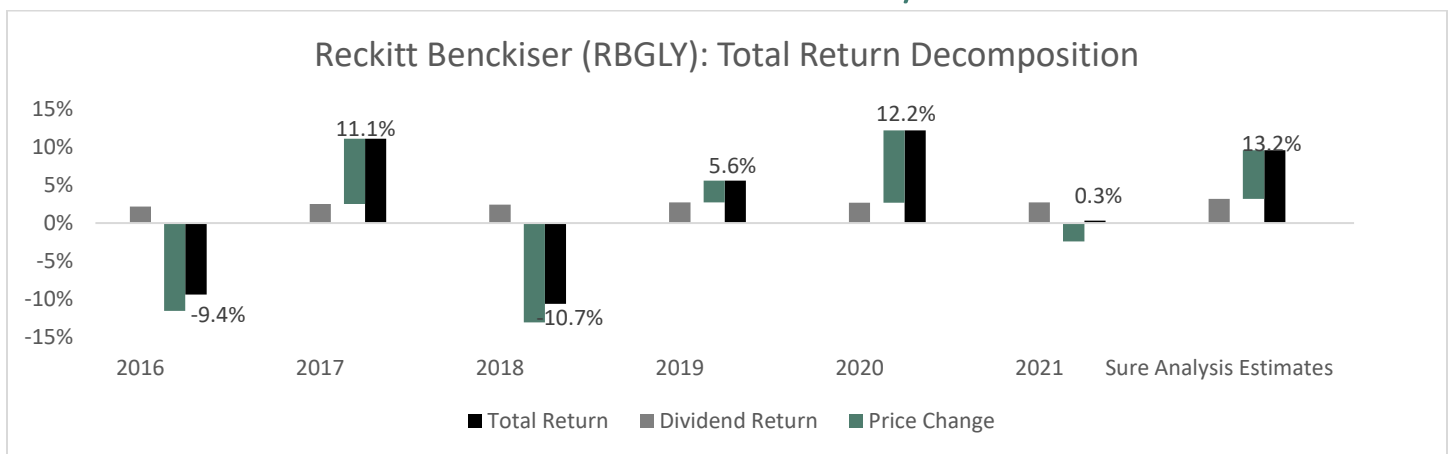
One of Reckitt's main competitive advantages lies within its premium brand power. For example, Lysol is present in over half of all U.S. homes, while brands such as Finish and Gaviscon have increased market share in 2022. Customers are often willing to pay extra for brands as they symbolize quality. 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 5% 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 yearly 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 prioritizes 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 50% payout ratio policy. If revenue and free cash flow grow, the dividend will grow in tandem. With an expected earnings-per-share growth rate of 4%, a dividend yield of 3.6%, and a low single-digit contribution from valuation expansion, we expect a total return of 13.2% annually for Reckitt Benckiser through 2027. Therefore, the company is a buy at current prices.

Total Return Breakdown by Year



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³ <https://www.multip.com/s-p-500-dividend-yield>

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	16403	16808	14783	12844	13561	14565	14497	15160	15209	18210
Gross Profit	9931	10187	8810	7860	8017	8400	8227	8776	8738	10560
Gross Margin	60.5%	60.6%	59.6%	61.2%	59.1%	57.7%	56.7%	57.9%	57.4%	58.0%
SG&A Exp.	5570	5390	4541	4093	4187	4581	4644	4442	4613	6397
D&A Exp.	7092	546	346	240	261	265	243	235	252	662
Operating Profit	4037	4391	3976	3572	3628	3602	3353	4084	3988	3734
Operating Margin	24.6%	26.1%	26.9%	27.8%	26.8%	24.7%	23.1%	26.9%	26.2%	20.5%
Net Profit	-4703	2881	7969	2482	2664	5313	2721	2886	2798	-44
Net Margin	-28.7%	17.1%	53.9%	19.3%	19.6%	36.5%	18.8%	19.0%	18.4%	-0.2%
Free Cash Flow	1236	2785	2766	2753	2453	3157	2968	2711	2461	1716
Income Tax	849	715	-1154	705	708	762	709	924	997	-286

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	42140	48160	50444	22137	22620	24119	24981	24347	21765	36370
Cash & Equivalents	1861	1879	2872	1084	1096	1427	1332	1433	985	1613
Accounts Receivable	2250	2328	2708	1789	1724	1612	1862	1975	1921	2093
Inventories	1723	1619	1623	946	1009	1160	1230	1188	1168	1969
Goodwill & Int. Ass.	31810	38420	39849	16528	16735	17513	18372	18038	15806	25470
Total Liabilities	29806	29417	32123	11785	12388	13482	14533	14777	12858	26310
Accounts Payable	3791	2281	6256	1527	1453	1541	1634	1532	1544	4320
Long-Term Debt	15564	15072	17826	2934	3584	3997	4555	5288	3863	12460
Shareholder's Equity	12276	18683	18267	10345	10228	10634	10445	9568	8800	9986
LTD/E Ratio	1.3	0.8	1.0	0.3	0.4	0.4	0.4	0.6	0.4	1.25

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-10.4%	5.8%	22.0%	11.1%	11.4%	21.6%	11.0%	12.5%	13.2%	-0.1%
Return on Equity	-30.4%	15.6%	55.7%	24.1%	25.5%	50.4%	27.2%	31.4%	33.7%	-0.4%
ROIC	-15.2%	8.2%	32.2%	18.3%	18.7%	35.9%	18.2%	20.9%	22.6%	-0.2%
Shares Out.	3543.4	3545.0	3555.6	3571.5	3617.7	3653.7	3645.3	3665.0	3679.2	3569
Revenue/Share	4.63	4.74	4.16	3.60	3.75	3.99	3.98	4.14	4.13	5.10
FCF/Share	0.35	0.79	0.78	0.77	0.68	0.86	0.81	0.74	0.67	0.48

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

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