



# Caterpillar Inc. (CAT)

Updated April 25<sup>th</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$336	<b>5 Year CAGR Estimate:</b>	3.4%	<b>Market Cap:</b>	\$167.9 B
<b>Fair Value Price:</b>	\$315	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	04/19/24
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Dividend Payment Date:</b>	05/20/24
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$365	<b>Years Of Dividend Growth:</b>	30
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Sell

## 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 \$167.9 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 April 25<sup>th</sup>, 2024, Caterpillar reported its Q1 results for the period ending March 31<sup>st</sup>, 2024. For the quarter, the company generated revenue of \$15.8 billion, a 0.6% decrease compared to last year.

The Construction Industries saw a 5% decrease in sales due to lower sales volume, partially offset by favorable price realization. The decrease in sales volume was mainly driven by lower sales of equipment to end users. The Resource Industries segment saw sales decline by 7%, following exactly the same rationale as described in the Construction Industries result. These declines were mostly offset by the Energy & Transportation division, which saw sales grow by 7% compared to last year. The increase in sales was mainly due to higher sales volume and favorable price realization.

More specifically, oil and gas sales within E&T increased for turbines and turbine-related services. Sales also increased in reciprocating engines used in gas compression applications. Power Generation-related sales also increased in engines, primarily utilized in data center applications.

Caterpillar's adjusted operating profit margin was 22.3%, compared to 17.3% last year. Margin expansion combined with relatively stable revenues resulted in adjusted earnings-per-share landing at \$5.60 against \$4.91 last year. For FY2024, we expect adjusted EPS of \$21.00.

## 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>\$21.00</b>	<b>\$24.34</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	514	<b>494</b>	<b>480</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	16.0	15.0
Avg. Yld.	2.7%	3.8%	3.9%	2.8%	2.3%	3.0%	3.0%	2.0%	2.1%	1.5%	1.5%	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 results remain 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. Therefore, the possibility of a modest valuation compression is possible.

## 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%	25%	31%

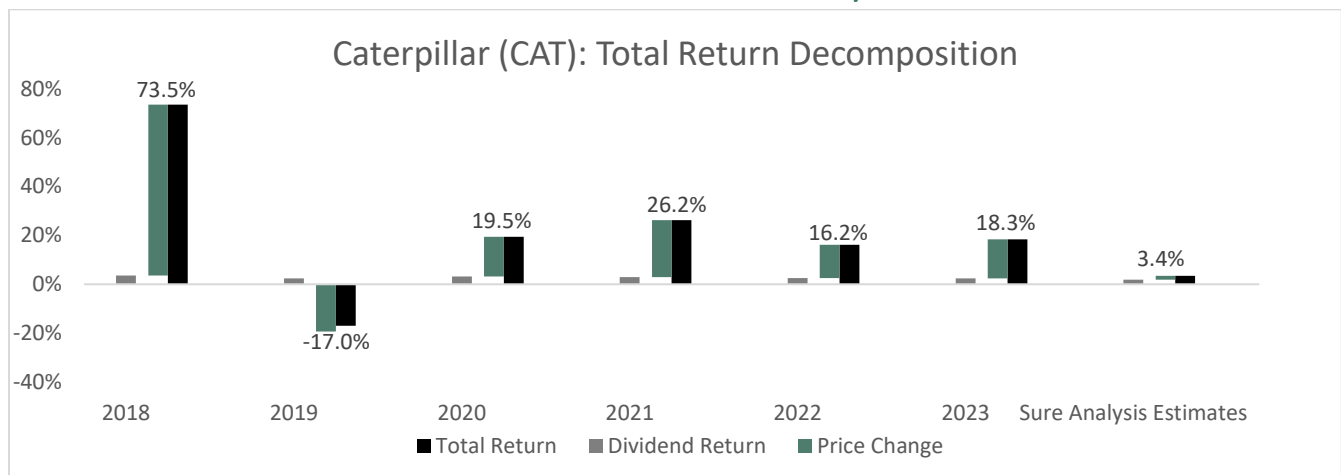
Caterpillar's dividend payout ratio has moved up and down throughout the last couple of years, which is not surprising as the company's profits were quite cyclical. In 2018, the significant increase in Caterpillar's earnings-per-share allowed the payout ratio to decline substantially. Since the payout 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 has posted fantastic results in recent years, though its growth is likely to slow down after sustaining robust momentum for some time. Combined with the stock having likely run ahead of itself, we project a total return potential of just 3.4% per annum moving forward. This stems from the 3% growth in EPS, the 1.5% starting dividend yield, and a 1.3% annual valuation headwind. Thus, we have now downgraded CAT to a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	55184	47011	38537	45462	54722	53800	41750	50970	59430	67060
<b>Gross Profit</b>	13842	12878	9897	13556	17003	16416	12080	15000	17510	23260
<b>Gross Margin</b>	25.1%	27.4%	25.7%	29.8%	31.1%	30.5%	28.9%	29.4%	29.5%	34.7%
<b>SG&amp;A Exp.</b>	6529	4951	4383	4999	5478	5162	4624	5365	5651	6371
<b>D&amp;A Exp.</b>	3163	3046	3034	2877	2766	2577	2432	2352	2219	2144
<b>Operating Profit</b>	3314	3785	1757	4460	8293	8290	4553	6878	8829	12970
<b>Op. Margin</b>	6.0%	8.1%	4.6%	9.8%	15.2%	15.4%	10.9%	13.5%	14.9%	19.3%
<b>Net Profit</b>	2452	2512	-67	754	6147	6093	2998	6489	6705	10340
<b>Net Margin</b>	4.4%	5.3%	-0.2%	1.7%	11.2%	11.3%	7.2%	12.7%	11.3%	15.4%
<b>Free Cash Flow</b>	4678	3438	2711	3370	3642	4243	4212	4726	5167	9793
<b>Income Tax</b>	692	916	192	3339	1698	1746	1006	1742	2067	2781

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	84681	78342	74704	76962	78509	78453	78320	82790	81940	87480
<b>Acc. Receivable</b>	16764	15686	14503	16193	17452	17904	16780	17380	17870	18820
<b>Inventories</b>	12205	9700	8614	10018	11529	11266	11400	14040	16270	16560
<b>Goodwill &amp; Int.</b>	9770	9436	8369	8311	8114	7761	7702	7366	7602	5872
<b>Total Liabilities</b>	67855	63457	61491	63196	64429	63824	62950	66280	66050	67970
<b>Accounts Payable</b>	6515	5023	4614	6487	7051	5957	6128	8154	8689	7906
<b>Long-Term Debt</b>	39200	37936	36715	34441	36097	37657	37060	37710	36880	37940
<b>Total Equity</b>	16746	14809	13137	13697	14039	14588	15330	16480	15870	19490
<b>LTD/E Ratio</b>	2.34	2.56	2.79	2.51	2.57	1.96	2.42	2.23	2.32	1.95

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.9%	3.1%	-0.1%	1.0%	7.9%	7.8%	3.8%	8.1%	8.1%	12.2%
<b>Return on Equity</b>	13.1%	15.9%	-0.5%	5.6%	44.3%	42.6%	20.0%	40.8%	41.5%	58.4%
<b>ROIC</b>	4.3%	4.6%	-0.1%	1.5%	12.5%	11.9%	5.7%	12.2%	12.5%	18.7%
<b>Shares Out.</b>	606	582	586	598	597	568	549	549	530	514
<b>Revenue/Share</b>	87.75	78.18	65.95	75.86	91.29	94.80	76.10	92.93	112.04	130.57
<b>FCF/Share</b>	7.44	5.72	4.64	5.62	6.08	7.48	7.68	8.62	9.74	19.07

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

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