



# Kimberly-Clark Corporation (KMB)

Updated July 26<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$141	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$48 B
<b>Fair Value Price:</b>	\$131	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	09/07/24 <sup>1</sup>
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.4%	<b>Dividend Payment Date:</b>	10/02/24
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$168	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$48 billion and has increased its dividend for 52 consecutive years, making it a member of the extremely prestigious Dividend Kings.

Kimberly-Clark posted second quarter earnings on July 23<sup>rd</sup>, 2024, and results were somewhat mixed. Adjusted earnings-per-share came to \$1.96, which was 25 cents ahead of expectations. Revenue was off 2% year-over-year to \$5 billion, and missed estimates by \$100 million.

Adjusted gross margin was 36.9% of revenue, which was driven by organic net sales growth, as well as gross productivity gains through the company's cost saving efforts. The company saw a 2% increase in price, and a 2% increase in volume and mix during the quarter, both of which helped the top and bottom lines.

Management expects organic net sales to be up at a mid-single digit rate, while reported sales are expected to be negatively impacted by 400 basis points from currency headwinds and 120 basis points due to divestitures. Adjusted operating profit is expected to grow by mid-to-high teens rates, which is an improvement from the prior guidance.

We have boosted our estimate of earnings-per-share to \$7.30 after Q2 results.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.91	\$2.77	\$5.99	\$6.23	\$6.61	\$6.89	\$7.74	\$6.18	\$5.63	\$6.57	<b>\$7.30</b>	<b>\$9.32</b>
<b>DPS</b>	\$3.36	\$3.52	\$3.68	\$3.88	\$4.00	\$4.12	\$4.28	\$4.56	\$4.64	\$4.72	<b>\$4.88</b>	<b>\$5.92</b>
<b>Shares<sup>2</sup></b>	365	361	357	351	345	341	339	337	338	337	<b>335</b>	<b>330</b>

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 over time. 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, and pricing was still a modest tailwind in Q2.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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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	19.3	18.0
Avg. Yld.	3.1%	3.1%	2.9%	3.1%	3.6%	3.2%	3.0%	3.4%	3.4%	3.9%	3.5%	3.5%

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 but is lower than the current price-to-earnings multiple of 19.3. With the valuation ahead of our estimate of fair value, we see a slightly negative impact on total returns. The yield is 3.5%, 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%	67%	64%

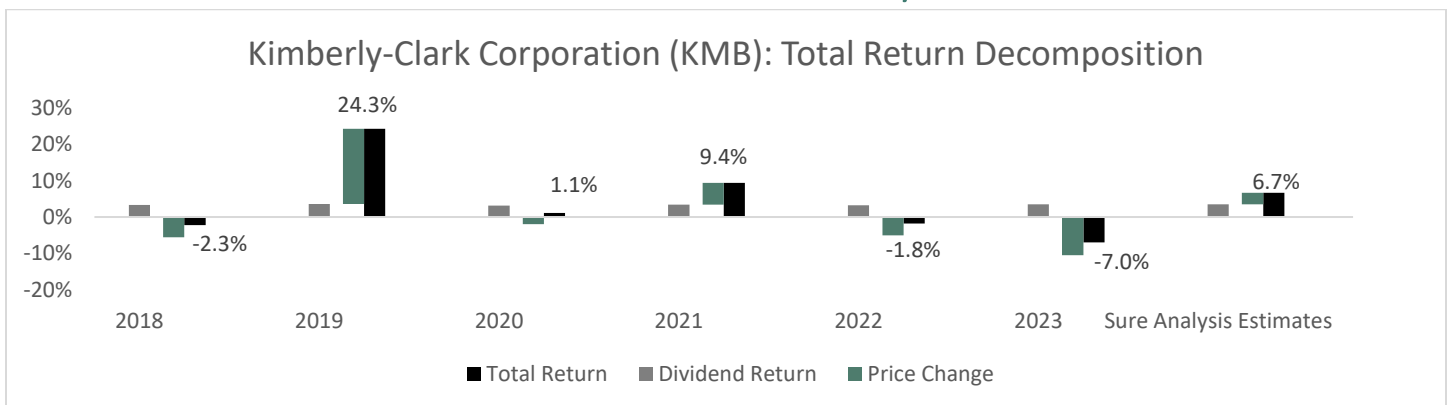
What stands out about Kimberly-Clark's quality metrics is its debt. The company maintains far more leverage than many of its peers in the large-capitalization dividend space. We believe its balance sheet is sound despite the high debt levels that it maintains; we also do not see any meaningful effort 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 6.7% total annual returns, consisting of the current 3.5% yield, 5% earnings growth and a 1.4% 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
<b>Revenue</b>	19,724	18,591	18,287	18,348	18,486	18,450	19,140	19,440	20,175	20,431
<b>Gross Profit</b>	6,683	6,624	6,691	6,587	5,597	6,035	6,822	5,988	6,219	7,032
<b>Gross Margin</b>	33.9%	35.6%	36.6%	35.9%	30.3%	32.7%	35.6%	30.8%	30.8%	34.4%
<b>SG&amp;A Exp.</b>	3,709	3,443	3,300	3,202	3,367	3,254	3,632	3,399	3,581	3,961
<b>D&amp;A Exp.</b>	862	746	705	724	882	917	796	766	754	753
<b>Operating Profit</b>	2,521	1,613	3,383	3,358	2,229	2,991	3,244	2,561	2,681	3,002
<b>Op. Margin</b>	12.8%	8.7%	18.5%	18.3%	12.1%	16.2%	16.9%	13.2%	13.3%	14.7%
<b>Net Profit</b>	1,526	1,013	2,166	2,278	1,410	2,157	2,352	1,814	1,934	1,764
<b>Net Margin</b>	7.7%	5.4%	11.8%	12.4%	7.6%	11.7%	12.3%	9.3%	9.6%	8.6%
<b>Free Cash Flow</b>	1,806	1,250	2,461	2,144	2,093	1,527	2,512	1,723	1,857	2,776
<b>Income Tax</b>	856	418	922	776	471	576	676	479	495	453

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	15,526	14,842	14,602	15,151	14,518	15,283	17,523	17,837	17,970	17,344
<b>Cash &amp; Equivalents</b>	789	619	923	616	539	442	303	270	427	1,093
<b>Acc. Receivable</b>	2,079	2,017	2,077	2,203	2,050	2,131	2,132	2,207	2,280	2,135
<b>Inventories</b>	1,892	1,909	1,679	1,790	1,813	1,790	1,903	2,239	2,269	1,955
<b>Goodwill &amp; Int.</b>	1,737	1,540	1,480	1,576	1,474	1,496	2,727	2,650	2,925	2,282
<b>Total Liabilities</b>	14,527	14,802	14,485	14,269	14,564	15,089	16,654	17,100	17,270	16,276
<b>Accounts Payable</b>	2,616	2,612	2,609	2,834	3,190	3,055	3,336	3,840	3,813	3,653
<b>Long-Term Debt</b>	6,956	7,775	7,572	7,425	7,455	7,747	8,364	8,574	8,422	7,984
<b>Total Equity</b>	729	(174)	(102)	629	(287)	(33)	626	514	547	915
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.9%	6.7%	14.7%	15.3%	9.5%	14.5%	14.3%	10.3%	10.8%	10.0%
<b>Return on Equity</b>	54.6%	365%	---	865%	825%	---	793%	318%	365%	241%
<b>ROIC</b>	16.2%	12.8%	27.9%	28.5%	17.9%	28.1%	27.4%	19.6%	21.0%	19.4%
<b>Shares Out.</b>	365	361	357	351	345	341	339	337	338	339
<b>Revenue/Share</b>	52.26	50.75	50.56	51.55	52.88	53.39	55.88	57.38	59.64	60.30
<b>FCF/Share</b>	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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