



The Colgate-Palmolive Company (CL)

Updated October 26th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	7.4%	Market Cap:	\$78 B
Fair Value Price:	\$86	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	01/19/25 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	02/15/25
Dividend Yield:	2.1%	5 Year Price Target	\$126	Years Of Dividend Growth:	63
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Colgate-Palmolive has been in existence for more than 200 years, having been founded in 1806. It operates in many consumer staples markets, including Oral Care, Personal Care, Home Care, and more recently, Pet Nutrition. These segments afford the company just over \$20 billion in annual revenue. The stock's market capitalization sits at \$78 billion after another rally since our last update.

Colgate-Palmolive posted third quarter earnings on October 25th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 91 cents, which was three cents ahead of estimates. Revenue was up 2.2% year-over-year to \$5.03 billion, which was also \$20 million ahead of expectations. North American organic sales, which are about 20% of revenue, fell 1.9% year-over-year. Latin American organic sales were up 14.2%, and up 10.8% in Africa/Eurasia.

The company noted adjusted gross margins rose for the sixth consecutive quarter, this time adding 270 basis points to 61.3% of revenue, and adjusted operating margins rose 50 basis points to 21.5% of revenue.

Sales are now forecast to rise between 3% and 5% this year, up from 2% to 5% in prior guidance. Organic sales have been boosted as well, from 6% to 8% to a new range of 7% to 8%. Adjusted earnings-per-share growth is now expected to be 10% to 11%, up from 8% to 11%.

We've boosted our estimate by three cents to \$3.58 with one quarter remaining.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.36	\$1.52	\$2.72	\$2.59	\$2.75	\$2.75	\$3.06	\$3.21	\$2.97	\$3.23	\$3.58	\$5.26
DPS	\$1.42	\$1.50	\$1.55	\$1.60	\$1.66	\$1.71	\$1.75	\$1.79	\$1.86	\$1.91	\$2.00	\$2.32
Shares²	907	893	907	875	867	858	858	842	833	823	810	780

We expect growth for Colgate-Palmolive at 8% annually. Organic revenue growth continues, as well as cost saving measures in place, we think the future looks bright. The repurchase program is providing another tailwind to earnings-per-share as well. Finally, commodity volatility is not helping, but pricing efforts are paying off in the form of higher revenue and margins. We note forex translation has shifted from a tailwind to a headwind, per updated guidance after Q2 results. Margin weakness seems to have abated according to 2023 results. We note 8% growth projected from here is on what would be a record base of earnings in 2024. Pricing power continues unabated despite the fact that the original pandemic tailwinds driving pricing are long since gone. This is boosting margins as well, and generating robust free cash flows for Colgate. We note that North American results in Q3 were weak, and could be a headwind going forward. However, with about four-fifths of total revenue coming from outside North America, it's possible the company can work through it. Investors would do well to monitor the strong US dollar as well given the immense foreign revenue the company generates.

¹ Estimated date

² Share count in millions

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The dividend should rise at about the rate of earnings growth, potentially hitting \$2.32 per share in 2029. Colgate-Palmolive's dividend increase streak should remain intact for years to come as its payout is still reasonable, and earnings hold up well during recessions.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	28.0	44.1	25.8	27.9	24.2	25.1	24.6	24.7	26.5	24.7	26.8	24.0
Avg. Yld.	2.2%	2.2%	2.2%	2.2%	2.5%	2.5%	2.3%	2.3%	2.4%	2.4%	2.1%	1.8%

At 26.8 times earnings today, we see the stock as overvalued, leading to a small headwind to total annual returns should it revert to our estimate of fair value at 24 times earnings, in line with historical multiples. The stock is yielding 2.1%, in line with historical yields. We see the combination of the rising payout and potentially rising share price to push the yield lower over time, and note that the current yield isn't particularly attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

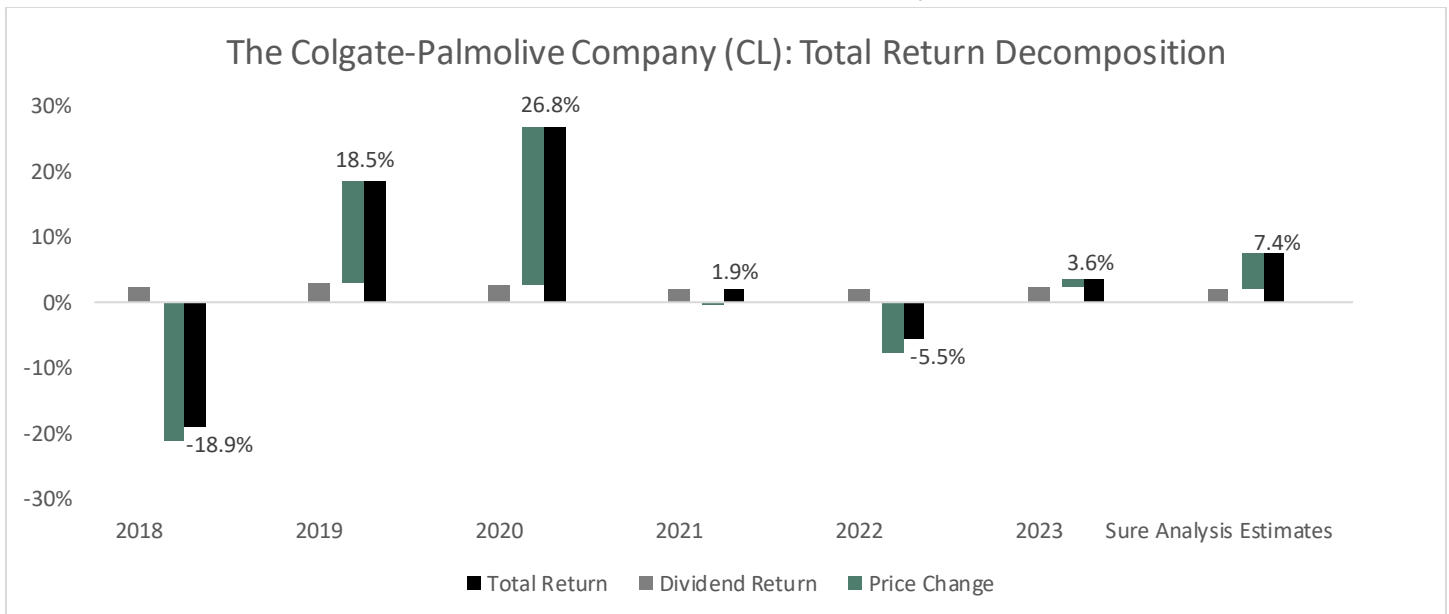
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	66%	108%	62%	67%	60%	62%	57%	56%	63%	59%	56%	44%

The payout ratio is 56% of earnings, somewhat lower than recent years. We see the dividend as safe, and we believe Colgate-Palmolive will produce many more years of dividend increases. This is a recession-resistant stock given the staple nature of the products it sells, and its competitive advantage is found in the dominant brands it owns. While Colgate-Palmolive operates in highly competitive product categories, it has a strong share in many of them as well as the ability to maintain pricing power. We also note that even though the stock is defensive in nature, its valuation was in the mid-teens during the last recession, so that is a potential risk in future recessions.

Final Thoughts & Recommendation

The stock has traded slightly lower since our last update, and earnings estimates are higher. The company's revenue is intact, and margins remain strong on pricing power. We forecast 7.4% total returns in the coming years as 8% earnings growth and the 2.1% yield could be slightly offset by a 2.2% headwind from the valuation. We are reiterating the stock at a hold rating after Q3 results with projected returns at 7.4% annually.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,277	16,034	15,195	15,454	15,544	15,693	16,471	17,421	17,967	19,457
Gross Profit	10,109	9,399	9,123	9,280	9,231	9,325	10,017	10,375	10,248	11,326
Gross Margin	58.5%	58.6%	60.0%	60.0%	59.4%	59.4%	60.8%	59.6%	57.0%	58.2%
SG&A Exp.	5,982	5,464	5,143	5,400	5,389	5,575	6,019	6,407	6,565	7,151
D&A Exp.	442	449	443	475	511	519	539	556	545	567
Operating Profit	4,113	3,896	3,958	3,710	3,685	3,617	3,885	3,903	3,614	3,984
Operating Margin	23.8%	24.3%	26.0%	24.0%	23.7%	23.0%	23.6%	22.4%	20.1%	20.5%
Net Profit	2,180	1,384	2,441	2,024	2,400	2,367	2,695	2,166	1,785	2,300
Net Margin	12.6%	8.6%	16.1%	13.1%	15.4%	15.1%	16.4%	12.4%	9.9%	11.8%
Free Cash Flow	2,541	2,258	2,548	2,501	2,620	2,798	3,309	2,758	1,860	3,040
Income Tax	1,194	1,215	1,152	1,313	906	774	787	749	693	937

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,459	11,935	12,123	12,676	12,161	15,034	15,920	15,040	15,731	16,393
Cash & Equivalents	1,089	970	1,315	1,535	726	883	888	832	775	966
Accounts Receivable	1,552	1,427	1,411	1,480	1,400	1,440	1,264	1,297	1,504	1,586
Inventories	1,382	1,180	1,171	1,221	1,250	1,400	1,673	1,692	2,074	1,934
Goodwill & Int. Ass.	3,720	3,449	3,420	3,559	4,167	6,175	6,718	5,746	5,272	5,297
Total Liabilities	12,074	11,979	12,106	12,433	11,964	14,476	14,819	14,069	14,925	15,436
Accounts Payable	1,231	1,110	1,124	1,212	1,222	1,237	1,393	1,479	1,551	1,698
Long-Term Debt	6,148	6,548	6,533	6,577	6,366	7,847	7,601	7,245	8,766	8,549
Shareholder's Equity	1,145	(299)	(243)	(60)	(102)	117	743	609	401	609
LTD/E Ratio	5.37	(21.90)	(26.88)	(109.6)	(62.41)	67.07	10.23	11.90	21.86	14.04

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.9%	10.9%	20.3%	16.3%	19.3%	17.4%	17.4%	14.0%	11.6%	14.3%
Return on Equity	126%	327%	---	---	---	---	---	320%	354%	455%
ROIC	27.7%	19.7%	37.4%	30.3%	35.9%	31.6%	31.5%	25.6%	20.1%	24.1%
Shares Out.	907	893	907	875	867	858	858	842	839	829
Revenue/Share	18.69	17.63	16.91	17.41	17.81	18.22	19.17	20.54	21.42	23.46
FCF/Share	2.75	2.48	2.84	2.82	3.00	3.25	3.85	3.25	2.22	3.67

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

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