

Kimberly-Clark's Products are a Global Consumer Staple

Price \$130.00

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June 7, 2021

- Compelling Valuation and 3.5% Dividend Yield
- The top seller in 80 countries, with products sold in over 175.
- Global manufacturing and distribution capacity.
- ESG initiatives to improve the lives of 1 billion people.
- A long history of innovation in a traditionally low R&D sector.
- Weakness post COVID demand surge is opportunity.

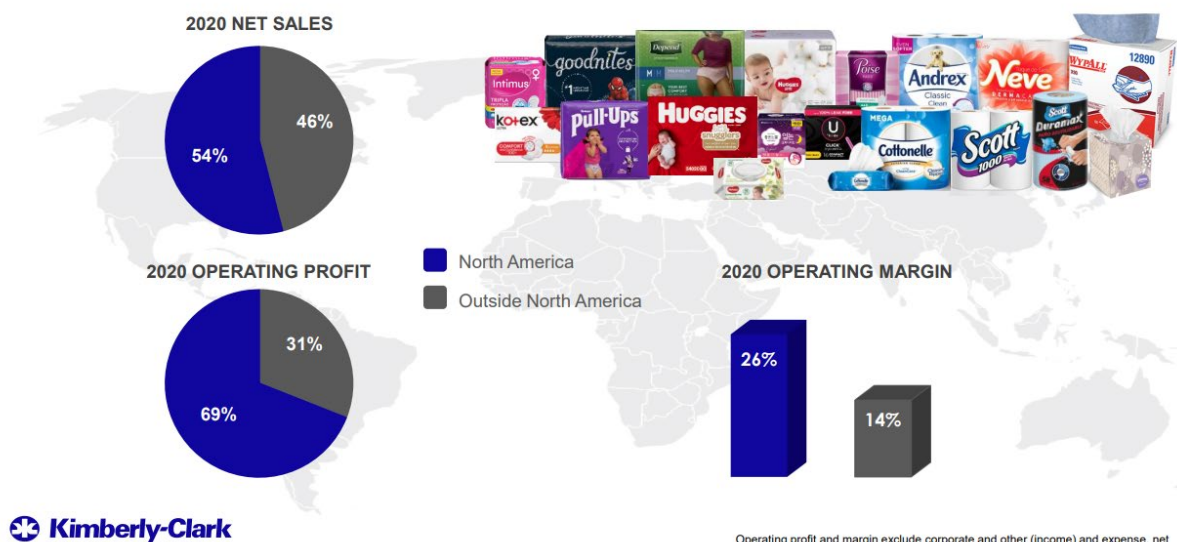
Investment Thesis

Kimberly-Clark Corporation (KMB) is a global household products manufacturer. Its products are used by a quarter of the world's population, sold in more than 175 countries. Additionally, it holds the #1 or #2 spot in 80 countries.

While there is not much room for block-busting R&D budgets in household products, KMB has an extensive history with innovations. Additionally, KMB has experienced consistent sales growth and dividend payouts. While KMB might not be the largest in the household goods sector, they certainly offer competitive valuation, high dividend payouts, and stable, albeit modest, growth.

What is Kimberly-Clark?

Kimberly-Clark Corporation (KMB) is a global consumer goods manufacturer. It is organized into three segments, that operate globally. Its products are used by a quarter of the world's population, sold in more than 175 countries. Additionally, it holds the #1 or #2 spot in 80 countries. KMB was founded 150 years ago, and since then, several of its brands have become household names. As previously stated, there are not massive R&D budgets for household products. However, KMB invented 5 of the 8 major product categories they compete in.



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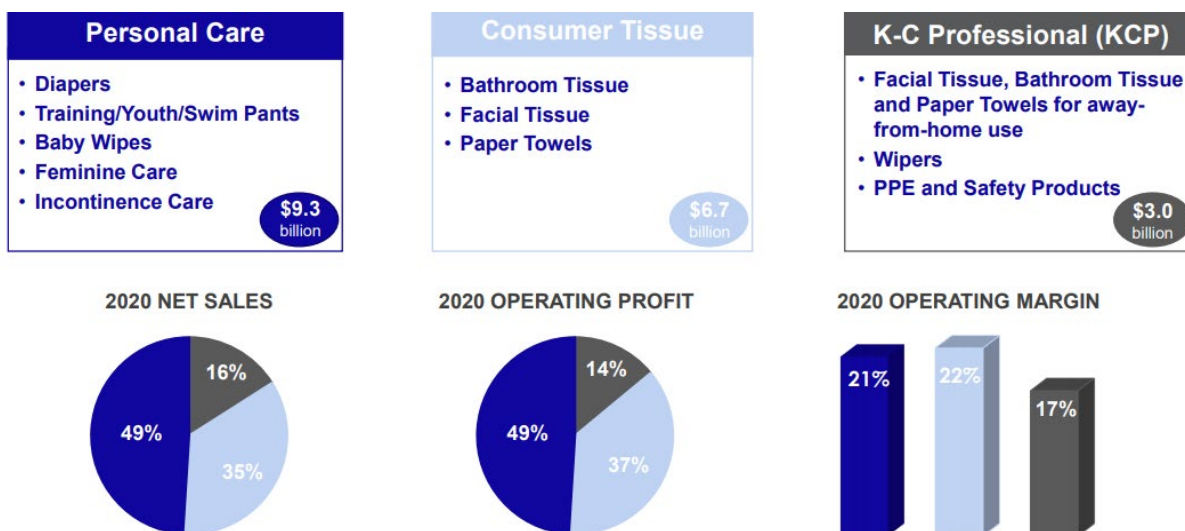
Important Products

KMB has five >\$1 billion brands: Huggies, Kleenex, Kotex, Cottonelle, and Scott. While the majority of KMB's sales come from North America, this is quickly changing as they gain a foothold globally.

The "Personal Care" brands include diapers, feminine hygiene products, baby wipes, and other care products. These products include Huggies, Pull-ups, and Kotex. These are sold all over, both online and in stores across the globe.

"Consumer Tissue" offers a wide breadth of brands for everyday use, which include bathroom tissue, facial tissue, paper towels, and related products. These include brands such as Kleenex, Scott, and Cottonelle. These are primarily sold in department stores but are available online and across the globe too.

"K-C Professional" partners with businesses to provide services and products ranging from towels, apparel, sanitizers, and soaps. This segment sells to wholesalers or directly to facilities that use them.



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Expansion Strategy and ESG

In the short-term investment horizon, KMB hopes to grow its portfolio of iconic brands. On the back end, they want to allocate capital more efficiently, to further grow their cash flow and reduce costs. In the longer term, KMB wants to grow sales in each category, by 3%.

Late in 2020, KMB acquired a fast-growing firm Softex in the personal care market in Indonesia. In this all-cash transaction, KMB hoped to expand its presence in an important developing market by way of acquiring existing infrastructure.

By 2030, KMB wants to have reduced its environmental impact by half across all points. Much of the products KMB manufactures use recycled paper or biodegradable synthetics as the base. KMB wants to make sure this stays the default and by 2025, they want to reduce their reliance on wood pulp by 50%. Many of KMB's products are packaged with plastics and are water-heavy in manufacturing. As part of this environmental initiative, they will reduce the usage of water and plastics by 50% by 2030.

On top of environmental improvements, KMB wants to advance the well-being of 1 billion people. In a single year, KMB donates around 12 million products to assist families in need. To extend its outreach, KMB will expand its sanitation program, to assist developing countries with access to sanitation products.

Risk

The primary product consumed in manufacturing is pulp or fiber, which can be sourced from recycled paper or lumber, so there is some risk of a supply shortage or price increases being the cause of the increased cost of goods sold.

As with any international firm, KMB has foreign market risks and regulatory risks associated with each market. KMB operates in a sector that is vital to individuals, and thus, its facilities were exempt from COVID-19 closure orders.

Metrics

Despite the pandemic demand spike for household goods, KMB was still impacted. KMB chose to close some of its facilities temporarily as demand went down throughout the pandemic. Net sales went down from Q1 2020, but KMB is well-positioned for long-term growth. One of management's priorities is increasing their earnings-per-share (EPS) over the long-term. We expect 3-4% revenue growth, 1-2% share count reduction, and 1-2% margin improvement; this would result in 6-8% EPS growth.

	EV/EBITDA	Forecasted Price-to-Earnings		
		E2021	E2022	E2023
Kimberly-Clark (KMB)	12.7	18.4	17.1	16.3

Source: Bloomberg

Compared to its competitors, KMB has a much more attractive valuation and dividend yield.

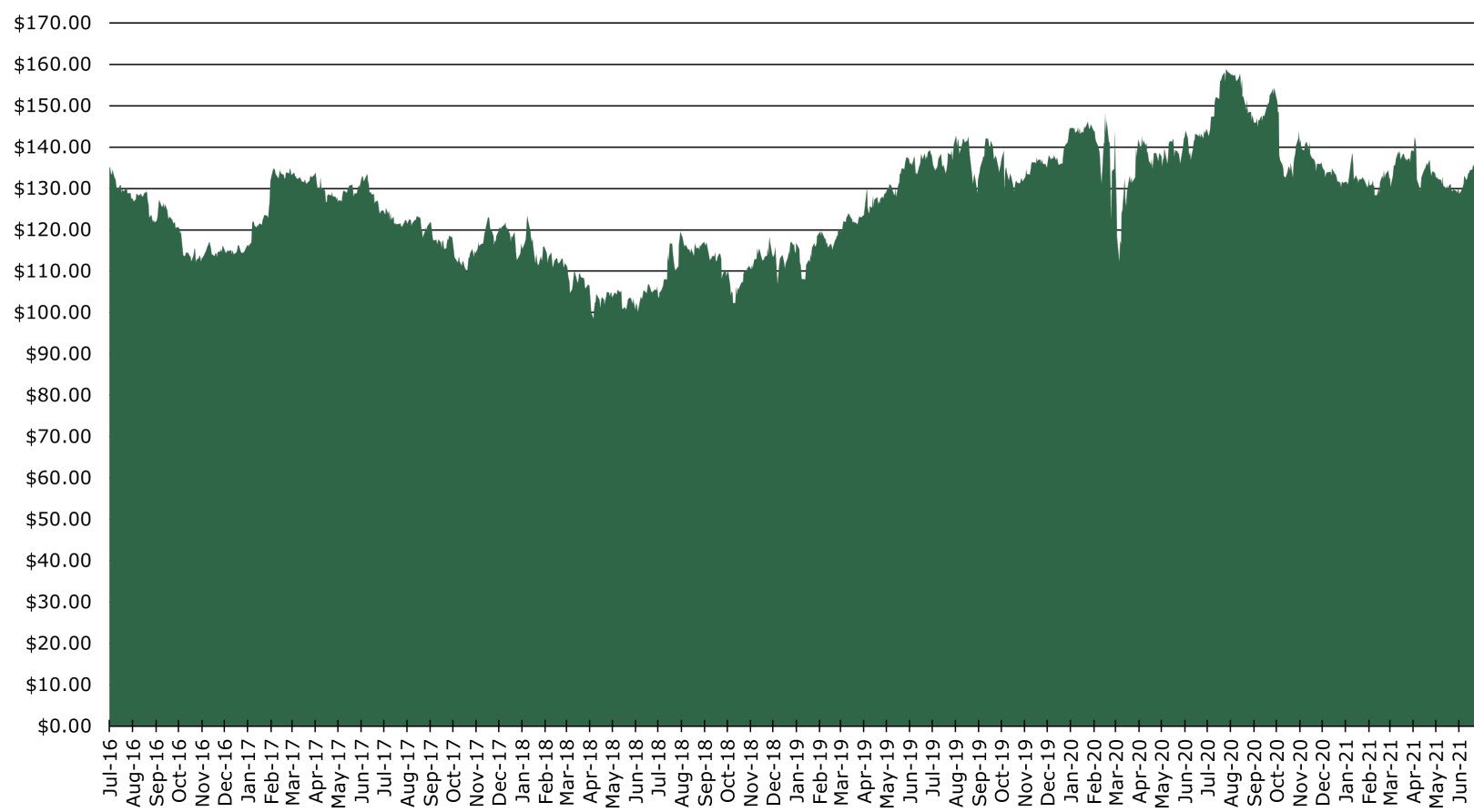
Estimated 2021	Dividend Yield	Market Cap (Billions \$)	Price-to-Earnings	Price-to-Sales
Kimberly-Clark (KMB)	3.3%	45.4	18.4	2.3
Procter & Gamble (PG)	2.4%	335.8	24.1	4.3
Colgate-Palmolive (CL)	2.2%	70.2	25.4	4.0
Unilever (UL)	3.3%	155.9	20.5	2.6

Source: Bloomberg



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Kimberly-Clark (KMB)



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