

Company: Procter & Gamble Co	Ticker: PG Current Price: \$ 77.86	Industry: Household Products	
Target Price: \$90.00 (10%) Stop Loss: \$67.78(15%) 52 Week High/ Low: \$77.90/ \$94.67 Value line price range est. for 2020-22: L-\$95 H-\$115	TTM P/E: 21.47 Forward P/E: 17.59 EPS: \$3.83	Beta: 0.62 Credit Rating: A++ (VL) Rating Outlook: Stable Safety: 1 Timeliness:2	Market Cap: \$202.4b Avg. Vol 9.33 mil Dividend Yield: 3.37% Indicative Yield: 3.13% Predictability of earnings: High 100 (VL)

Company Background:

"The Procter & Gamble Company makes branded consumer packaged goods, which are marketed and sold in more than 180 countries around the world. Has five reportable segments: Beauty/Hair/Personal care (18% of fiscal 2017 sales); Grooming (10%); Health Care (12%); Fabric Care & Home Care (32%); Baby, Feminine & Family Care (28%). International sales accounted for 55% of fiscal 2017 sales and Wal-Mart Stores accounted for 16%. Div. battery business in 2/16. Has 95,000 employees. Off. & dir. own less than 1% of common stock; BlackRock, 5.8%; Vanguard, 6.6% (8/17 proxy). Chairman/President/CEO: David S. Taylor. Inc "Value Line

Industry Outlook:

"The Household Products Industry has continued to face some ups and downs over the past few months. Indeed, the consumer goods manufacturers have faced headwinds from elevated operating costs, rising raw material expenses, and unfavorable currency effects. Nevertheless, these companies' ongoing efforts (including restructuring campaigns), and strategic growth moves, should help negate these pressures and better position the industry for the near and long hauls. Operating Pressures The household products makers have faced rising input costs over the past couple of years. The rebounding energy market has led to increased raw materials expenses and higher distribution costs. Several companies here have turned to streamlining efforts (discussed below) to offset higher operating costs. Others have tried passing along the increased expense to consumers with incremental price hikes across their product lines." Value Line

Investment Thesis:

"Over the summer, activist investor Nelson Peltz of Trian Fund Management sought a seat on the board of directors. He led the charge that the consumer goods maker was not doing enough to boost sagging sales or support shareholder value. P&G encouraged its stockholders to vote against Mr. Peltz's board appointment at the October meeting, and originally claimed that the company won the proxy fight. The following month, however, it announced that the hedge fund manager won by a small margin. The company is reviewing the preliminary results of the vote. These shares offer limited long-term capital appreciation potential. The stock is ranked to outperform the broader market averages for relative price performance in the year ahead. And PG appears to be well valued at this juncture. Even though the aforementioned proxy fight may add some turbulence in the near term, this blue chip still holds plenty of conservative appeal. Plus, the equity offers attractive risk-adjusted income. Orly Seidman." Value line

Investment Risks:

"Restructuring Campaigns Internal improvements have become a key priority for several herein. Many have launched wide scale restructuring efforts, and cost-reduction measures, which should counter aforementioned headwinds in the near term, and better position their businesses for the long haul. Some have relied on the integration of acquisitions to jump start reorganization campaigns. Even though several manufacturers moved some of their operation to lower-cost areas overseas, some may consider returning their production to our shores, as the current Presidential Administration may create more favorable business policies. Likewise, a few have been consolidating some of their manufacturing facilities or implementing other streamlining efforts to improve margins. Too, others have been realigning their portfolios, shedding less-profitable entities. Overall, there has been a recent push to improve productivity and operating efficiencies. Supply-chain improvements and stronger distribution networks should also aid the companies' profitability moving forward. Market Expansion Meanwhile, the members herein have long histories of acquisitions. And we would not be surprised if several of these conglomerates sought tuck-in additions or mergers to expand their businesses. Indeed, acquisitions often lead to significant cost and revenue synergies. And we figure the acquirers will also look for assets which will help complement their holdings, or will diversify their rosters, helping them move into new product lines or categories." Value line

Most recent quarter financial highlights (Jul - Dec 2017):

"Indeed, share earnings advanced 6%, while revenues inched up 1% during the September period, The company should continue to rebound nicely. The top line has been pretty stagnant over the past couple of years, owing to unfavorable currency effects and the impact of recent divestitures. Even though we expect management's efforts (discussed below) will add some wind to its sails, P&G make out only a 2% revenue advance for the full year. Core earnings, on the other hand, should benefit further from ongoing business improvements, and we believe will climb another 5%-10% in fiscal 2018. Restructuring efforts and strategic improvements have begun to take hold. Productivity enhancements, including the redesign of its supply chain, and cost controls have helped widen margins. These moves should offset rising input expenses. The company will probably try to capture additional market share, and invest in innovation and product development, and widen its e-commerce business to support revenue growth." Value Line

Financial Performance:

In Millions of USD	2012	2013	2014	2015	2016	2017	2018 Est
Revenue	82,006	80,116	74,401	70,749	65,299	65,058	66,534
Operating Profit	13,037	13,874	13,910	11,049	13,441	13,955	14,050
Net Income	10,756	11,312	11,643	7,036	10,508	15,326	10,228
Revenue Growth %	1.1%	-2.3%	-7.1%	-4.9%	-7.7%	-0.4%	2.27%
EBITDA%	23%	22%	23%	20%	26%	25%	26%
Operating Profit %	16%	17%	19%	16%	21%	22%	23%
Net Income Margin	13%	14%	16%	10%	16%	24%	25%
D/E	9.56%	9.91%	9.16%	9.47%	9.02%	9.56%	9.45%
EPS	3.66	3.86	4.01	2.44	3.69	5.59	5.4
PE Ratio	13	17	17	29	28	22	21
Current Ratio	80%	94%	100%	110%	88%	80%	80%
ROE	16%	17%	17%	10%	17%	27%	23%
ROA	8%	8%	8%	5%	8%	12%	9%
Dividend Per share	2.14	2.29	2.45	2.59	2.66	2.7	2.7
FCF Per Share	3.11	3.66	3.31	3.96	4.19	3.5	3.6

Discounted Cash Flow

	2012-16	2017-21
Avg Revenue growth	-3.6%	2.1%
Avg EBITDA Margin	22%	24%
Avg Net Income Margin	16%	18%
Avg Debt/Equity	9.5%	10%
Avg FCF / Margin	14%	
Cost of Debt		3.43%
Tax Rate		23%
Cost of Equity		6.00%
WACC		5.75%
Perpetuity growth rate		3%

Analyst Opinion

Buy:9	Hold: 12	Sell:1
Target Price Range	\$95	

Source: Ally Invest

Relative Valuation

Total Return

	PG	Colgate-CL	KMB	clorox	Industry Avg.*
P/E	19.93	27.45	18.27	24.1	24.44
P/B	3.79	3.52	2.92	22.19	8.68
Dividend Yield(12mo)	3.45%	2.02%	2.48%	2.55%	2.4%
Revn Grth	-37%	0.77%	5.8%	3.68%	3.23%
NI Grth	45.85%	-7.15%	-18.61%	8.18%	5.17%
Operating Margin	22.06%	23%	18%	19.25%	18.07%
Debt / Equity	56.64%	11%	16%	404.98%	107.05%
Market Cap	201.33B	62.22 B	39.65 B	16.87 B	12.34B
Revenue	65.06B	15.454 B	18.259 B	5.97 B	5.72B
Net Income TTM	10.8B	2.040 B	2.202 B	798M	742.4 M
FCF TTM	10.19B	20.911 B	3.889 B	171M	636.5M

	PG	SPDR	S&P 500
YTD	-11.1%	17.44%	17.44%
2017	6.56%	16.14%	16.14%
Last 3 Years	-4.87%	30.57%	30.57%
Last 5 Years	3.89%	73.40%	73.40%

CSR Characteristics

	PG	Industry
Governance Disclosure Score	62.5	57.14
ESG Disclosure:	44.21	36.78
Social Disclosure Score	22.81	28.07
Environmental Disclosure Score	45.74	39.92

Data: Bloomberg