

Colgate-Palmolive Company

Price: 71.84 12/6/2007

Sector: Consumer Non-Cyclical
Industry: Personal & Household Products

Market Cap (Large): \$33365.8 million
Recommended Price: \$71.84

Analyst: Kristin Murphy



Business Description

Colgate-Palmolive manufactures and markets consumer products such as toothpastes, toothbrushes, detergents, shower gels, conditioners, shampoos, cleansers, bleaches, and pet foods. The oral, personal, and home care division makes up 86.4% of the total revenues. Pet nutrition makes up 13.6% of the total revenues.

Business Story and Recent Developments

Colgate-Palmolive is one of the largest consumer product companies in the world. It has a strong presence in more than 200 countries. In the third quarter, Colgate's profit rose 22%, helped by gains in all regions, strength in its toothbrush and toothpaste businesses, and a weak U.S. dollar. Sales rose 12% to \$3.53 billion and unit volumes rose 5.5%. Third-quarter net income increased 22% on 12% higher net sales. High commodity costs are prompting Colgate to raise prices on certain products which will be evaluated on a category by category basis.

Industry Outlook

The household products market grew by 1.9% in 2006. The market is slowing down currently but is expected to grow steadily through to 2011. Even though there is not significant growth in the industry, analysts believe that Colgate will be able to achieve its target of 60% gross margin. Colgate has posted high sales growth during the last five years and the analysts expect to see the same results in 2007.

Financial Highlights

ROA is 17.3%, compared to Industry ROA of 2.6%
ROE is 120.8%, compared to Industry ROE of 9.7%
Quick ratio is 0.7, compared to Industry quick ratio of 0.9
Total debt to equity is 84.6, compared to the Industry ratio of 63.

Valuation

Colgate has much higher business efficiencies as demonstrated by the ROA and ROE. It also has a stable financial position as demonstrated by the Quick Ratio and the Debt-to-Equity Ratio. Colgate is currently valued by a P/E of 21.8 which is higher than the industry P/E.

Investment Thesis

Update- Colgate-Palmolive is still in a strong competitive position with strong financial performance.