



Stock Pick of the Week: Kimberly-Clark (KMB)

Our stock pick this week provides products you probably use daily. Many traders and speculators focus on daily trading volume or even momentum points to buy and sell a stock. When a company's earnings "disappoint," these traders tend to overreact, dumping their shares and causing the stock price to drop. For value investors like ourselves, this overreaction creates a great entry point if the company is still financially sound. It gives us the opportunity to buy at a discount and hold for the long term. Our stock pick of the week is just that kind of company and receives our Attractive rating. Our pick this week is Kimberly Clark (KMB).

Currency Problems Obscure Strong Quarter

Kimberly Clark is a provider of personal care and consumer tissue products: think Huggies, Kleenex, Scott, and Kotex. Unfortunately, this quarter Kimberly Clark fell victim to a strengthening dollar and foreign currency volatility. Despite organic sales growth of 3% year over year, overall quarterly sales were down 1% on the back of a 4% downward adjustment from foreign currency issues. In addition, selling prices actually rose 2%. Not accounting for the currency headwinds, Kimberly Clark had a much stronger quarter than at first glance.

On the same note, the company took a \$462 million charge due to the Venezuelan bolivar's continued currency problems. This is an issue [we've highlighted before](#) that has affected many companies. We remove this type of currency loss when determining operating profits because it reflects a one-time non-operating charge that distorts the true profits of a company. When we remove this large one time item, we find that on a trailing 12-month basis, Kimberly Clark's after-tax profit ([NOPAT](#)) is actually up 6% over 2013.

One of the Most Shareholder-Friendly Companies Out There

Even though 4Q14 results were not what analysts had expected, the quarter was by no means a turning of the tide moment for Kimberly Clark. Rather, this quarter is just a blip on the very impressive radar of this company.

Despite the Venezuelan issues, Kimberly Clark is seeing great growth in China and Russia, despite the latter also providing currency problems. Sensing a trend? With less volatile exchange rates, market pundits would be noting how great of a quarter Kimberly Clark had. We believe that Kimberly Clark's strong historical performance will continue.

Kimberly Clark has grown NOPAT by 3% compounded annually over the last five years. Kimberly Clark is not a high growth stock; instead, investors in this company can look forward to steady, consistent growth for many years. The company currently has a return on invested capital ([ROIC](#)) of 13%, over \$3 billion in free cash flow ([FCF](#)) on a trailing 12 months basis, and positive [economic earnings](#) for each of the past 15 years.

To top it off, as a member of the "Dividend Aristocrats," Kimberly Clark has raised its dividend every year for the past four decades. Kimberly Clark also aggressively buys back shares when management feels they are undervalued. With such healthy free cash flow, Kimberly Clark can continue these shareholder friendly actions and well as explore other growth opportunities while keeping its balance sheet looking good.

8% Drop Means Buy Now

KMB dropped 8% after the earnings report was released. When this strong of a company drops 8%, smart investors are essentially given a free 8% return by buying after the drop. A company like Kimberly Clark has proven over time that it can continue growing and building its business, and the stock should easily surpass the expectations implied by its now lowered stock price.

At its current price of ~\$109/share, Kimberly Clark has a price to economic book value ([PEBV](#)) ratio of 1.1. This ratio implies the market expects Kimberly Clark to only grow NOPAT by 10% over the life of the company.

Even if Kimberly Clark can only grow NOPAT by 3% compounded annually for the next 10 years, the stock is worth \$127/share today — a 17% upside. Throw in the dividend yield, and any upside from currency changes, and it could be worth even more.

Kyle Guske II contributed to this report.

Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.



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