Written by

Beulah Meriam K
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BRK.A	390,359.99	-0.30%
CMG	1,406.33	-1.28%
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CTAS	337.31	-1.14%
DPZ	368.13	-1.06%

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Church & Dwight: Investing In The Next 20 Years

Mar. 30, 2021 5:45 PM ET | **Church & Dwight Co., Inc. (CHD)** | 2 Comments | 3 Likes

Summary

- The ZICAM acquisition is another stepping stone in Church & Dwight's growth trajectory.
- Extrapolating from past performance shows ample opportunity for share price growth.
- The current valuation level implies significant underlying value over the long-term investment horizon.

Photo by Jason Kempin/Getty Images Entertainment via Getty Images

In my last Church & Dwight (CHD) article back in September 2020, I wrote about why investors should wait for a better entry point in the absence of a significant acquisition. Better entry points did come as the stock declined to nearly 16% from the price at the time the article was published. The stock has nearly recovered since then but the ZICAM acquisition in December 2020, along with Q4-20 results and other factors, has changed the dynamic.

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Thesis:

I am now bullish once again on CHD at the current as-of-writing price of $88.58. Although the acquisition has not been accretive to Q4-20 earnings due to transition, amortization of intangibles, and other acquisition-related factors, it is "expected to be approximately 3% accretive to cash earnings in 2021." My thesis, however, is based on a long-term view of the company vis-a-vis the current valuation, and it looks like a worthwhile investment at this time, specifically for long-term investors.

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Although FY-20 was a good year in terms of sales growth (10% organic) and earnings growth (15%), it was an anomaly that we can't expect to be repeated. Indeed, the company's own guidance figures of 3% organic sales growth and 6% to 8% EPS growth for FY-21 reflect a stabilization at historical levels of growth.

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Symbol	Last Price	% Chg
CHD Church & Dwight Co., Inc.	87.92	-0.75%
CLX The Clorox Company	193.84	-0.70%
REYN Reynolds Cons...	30.33 Post. 30.50	-1.56% 0.56%
WDFC WD-40 Company	304.95 Post. 309.98	0.49% 1.65%
SPB Spectrum Brands Holdings, Inc.	85.24	2.35%

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However, the company is also a lot more flexible after dealing with the uncertainties of the peak pandemic period. Not only has it aligned itself to the digital needs of its consumers (13% of overall sales in FY-20) but has successfully navigated pandemic-related headwinds to its core product lines. Moreover, it has already identified key growth drivers from these product lines for FY-21, which will help support organic growth in the guided range.

The real clincher is not the guidance, though, but rather the actual performance of the company at the top and bottom over the past two decades, as we'll see.

Stable Growth Moving Forward

The elevated levels of demand during 2020 have helped CHD line-up its product portfolio to the needs of the new normal. Although there's still a long and uncertain road ahead in 2021, a few of its Power Brands will continue to perform well. As reported by the company, 12 of its 17 brands, including most of the Power Brands, helped yield an average organic growth rate of 9.8%, and the economic conditions that will prevail through the first half of 2021 aren't likely to change. In addition, the shift to digital has been perceived by many as being a permanent one that won't roll back once the air clears of the coronavirus threat.

That's one plausible reason why the company is confident about its guidance - it is realistic to the extent of being pessimistic. In a best-case scenario, we could see Q1-21 and Q2-21 numbers come in much higher. New customers have been acquired across multiple brands at an impressive rate and it represents a critical entryway for long-term customer loyalty. Per Executive Vice President & Chief Marketing Officer Britta Bomhard at the Q4-20 earnings call:

> We added 8.6 million households to ARM & HAMMER, More Power To You, 2.4 million to OXICLEAN Stain Figther *[sic]*. And in the second half alone, VITAFUSION added 3 million more households.
>
> We know that we have category-leading repeat rates. This means once these households experience our brands, they enjoy them and come back to them, laying the foundation for strong growth in 2021.

There's still significant momentum in multiple segments, including vitamin supplements, power flossers, and the FLAWLESS line, which now has Halle Berry as its brand spokesperson, among other celebrities promoting the brand. Poised and waiting on the sidelines are other brands such as Trojan and the company's dry shampoo brand, Batiste, which the company hopes will recover their growth trajectories as socializing becomes more prevalent.

Recent reports from sources such as McKinsey & Company also reveal that consumer discretionary spending is 'on the verge of a surge' as consumers plan to escalate their spending on non-essentials. That puts essentials on rock-solid ground as well, which is yet another sign that CHD's guidance is conservative.

Consumers reported expecting all-time-high spending increases in essential items (4.1%) and non-essential items (1.6%) in the coming year. The Fed tracks median expected growth in household spending three times per year—in August, December, and April.

Source

Investor's Angle

CHD is a solid company to invest in, no doubt, but your cost basis is an important consideration. Due to the slow and measured growth cadence of the stock as well as the company's revenue trajectory, it's important to maximize your returns over time. However, it is the actual figures underlying those assumptions of slow and steady growth that help make a compelling investment case for CHD.

In reality, although CHD seems locked in to the '3% organic at the top and 6%-8% at the bottom' rhythm of growth that has become a mantra for the management team, they're growing much faster than that. In combination with accretions from key acquisitions over the past two decades, TTM revenues have grown from $1.05 billion to $4.9 billion, representing a CAGR of about 8%. Similarly, trailing earnings have gone from $0.27 to $3.12 during the period - a CAGR of 13%.

Assuming a conservative straight-line earnings CAGR of 10% over the next 10 years, the current price represents a trailing P/E ratio of under 11. Hypothetical, of course, but borne out by historical growth rates and not an entirely unreasonable forward assumption.

Its ongoing M&A activities have helped it build a formidable portfolio of market-leading products, and this is supported by the defensive nature of the products themselves, the careful capital allocation and debt management practices of the company, and the overall health of the books.

> We have a very strong balance sheet. We have a lot of financial capacity. We expect to end the year at 1.3 times debt-to-EBITDA at the end of 2021. And so we have a lot of dry powder, what do we do? We have the ability to do up to a $4.2 billion deal and still maintain our credit rating. So just a lot of excess cash and debt capacity.

With a company like Church & Dwight, the best way to grow your money is to invest in the dips, the most recent one being the decline from around $83 to under $78 earlier this month. Nevertheless, even at the current as-of-writing price of $88.58, there's significant value in this stock. And when you add the 10-year dividend growth rate of nearly 17%, you're looking at a pretty handsome total return as a long-term investor.

Source: Seeking Alpha

The advantage of investing in a company like CHD comes from the 'boringly predictable' nature of the business. It's not an investment that one might shout from the rooftops about, but it's as solid as they come. The leadership team has found a strategy that works and has executed that strategy in an almost-flawless manner, if you're excuse the pun.

No doubt, there have been external disruptions, sub-par acquisitions, and periods of less-than-optimal organic or acquisition-driven growth, but those are largely absorbed into the overall strategy when you take a long-term view. If the last 20 years are anything to go by, the next 20 will be equally lucrative for anyone getting in at this time.

This article was written by

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Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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CHD has been in my family since the company was founded. My great grandfather and Dr. Church were friends. My middle name is Church as were my dad and grandad. The stock has been rock solid with a steady growth over the years. It also tends to split more often than most. CHD is the only "hands off" stock in my portfolio. I'm 67 and will be willing my shares to my kids.

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Beulah Meriam K Yesterday, 10:28 PM
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Author's Reply @hal54 Wow, that's a family heirloom of sorts! Thanks for sharing; always an honor to meet someone who's held a stock for so long.

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