Household & Personal Care

2024 Household, Personal Care & Beauty Primer Picks

Industry Overview

19 January 2024

Equity
United States
Consumer Staples

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US HPC Primer Picks; continue to see upside for ELF

On January 19, 2024 we published an update to our Household & Personal Care (HPC) primer. We see further upside potential for Buy-rated ELF Beauty amid continued market share gains, raising our price objective to $190 from $160 prior (see ELF report here). Elsewhere, we are Buy-rated on: Colgate (CL, $90 PO), Coty (COTY, $15 PO), Kenvue (KVUE $26 PO), and Procter & Gamble (PG, Buy $175 PO). We are Neutral-rated on Church & Dwight (CHD, $100 PO), Clorox (CLX, $150 PO), and Estee Lauder (EL, $150 PO). We are Underperform-rated on Kimberly-Clark (KMB, $115 PO).

Key themes into 2024: volume recovery, M&A potential

While organic sales growth was driven by pricing increases in recent years, we expect HPC companies to revert to volume growth as incremental pricing slows. We look for HPC companies to return to long-term growth targets and we see the landscape generally favoring multi-nationals with exposure to emerging markets growth and with mix benefits in 2024. We see potential for slower sales growth to be offset by M&A to increase growth, with CHD and KVUE most likely to execute, in our view. Meanwhile, we expect greater investment spend on marketing to continue in 2024 across the space as brands face threats from trade-down and private label gaining share.

Category expands in Consumer Health, Beauty sub-sectors

Global consumer health sales grew +8% in 2022 and +5% over the last 5 years. We see a variety of factors driving growth in consumer health, including: 1) increasing consumer focus on health/wellbeing, 2) an aging global population, 3) expanding middle classes in emerging markets, and 4) innovation and marketing in developed markets. Global beauty and personal care grew +7% y/y in 2022, in-line with 2021, and at a +5% CAGR over the last 5 years. Consumers continue to spend on higher-quality premium products which has bolstered fragrance and makeup growth, continuing to prioritize self-care while placing a high value on clean beauty.

Risks to growth: China sales, Red Sea conflict on margins

HPC companies' China sales have rebounded more slowly than expected, with multi-nationals PG and KVUE more notably impacted by Chinese consumers personally eschewing Japanese skin health & beauty brands. Meanwhile, EL has seen a more tepid recovery due to challenges in its Hainan travel retail business, which had a steep rise, peaking in 2021, before a sharp fall. Elsewhere, we see broader shipping risk due to the Red Sea conflict most affecting multi-nationals with greater geographic risk, while this may also impact product for companies with manufacturing primarily in China (ELF). Higher oil prices may impact domestic-focused companies' raw material inputs if the issue persists, although higher costs will take time to work through the P&L.

2024 Household, Personal Care & Beauty Primer

e.l.f. Beauty: ELF continues to shine; raising estimates and PO on anticipated outperformance

EL: Just Asking: What are sales and margin for Travel Retail and Hainan?

PG: Shaving Organic Sales Estimates

CL: Ride the Whitening: sales, margin inflections reassure on EPS delivery

CHD: Give it the Hammer: upgrading to Neutral as value portfolio resonates

CLX: Upgrading to Neutral as recovery from cybersecurity attack takes hold

KMB: Downgrading to Underperform and Lowering PO to $115

US Consumer Staples: Year Ahead 2024: Running in Place

Timestamp: 19 January 2024 05:00AM EST

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CHD	CHD US	Church & Dwight	US$ 97.83	B-2-7
CLX	CLX US	Clorox	US$ 143.35	B-2-7
CL	CL US	Colgate-Palmolive	US$ 80.83	A-1-7
COTY	COTY US	Coty Inc.	US$ 12.1	C-1-9
ELF	ELF US	e.l.f. Beauty	US$ 156.38	C-1-9
EL	EL US	Estee Lauder	US$ 127.66	B-2-7
KVUE	KVUE US	Kenvue	US$ 20.94	C-1-7
KMB	KMB US	Kimberly-Clark	US$ 123.04	B-3-7
PG	PG US	Procter & Gamble	US$ 148.14	A-1-7

Source: BofA Global Research

Price objective basis & risk

Church & Dwight (CHD)

Our $100 PO for CHD shares is based on a CY25e P/E ratio of 26x, a premium to the company's 10-year average P/E multiple of 24x. We believe this multiple appropriately balances organic sales growth, partially offset by investment spending to aid distribution growth and volume recovery.

Upside risks to our price objective are: 1) greater capture of value sales supported by investment spend, 2) little or no market share gains by private label exposure (only 5 of CHD's 18 categories), 3) e-commerce as a percent of sales continues to grow, helping to diversify distribution outlets, 4) strong free cash flow conversion, enabling CHD to return capital to shareholders or pursue M&A.

Downside risks to our price objective are: 1) a weakening consumer environment leading to lower volume demand elasticities, 2) increased cost inflation and limited pricing power near-term, 3) supply chain issues leading to lower fill rates and an inability to change mix/packaging sizes, 4) retailer inventory reductions amid a shift in demand to lower cost products, 5) a pullback in marketing spend leading to market share declines.

Clorox (CLX)

Our $150 PO for CLX is based on 21x our CY25e EPS. We believe a 21x multiple reflects a balanced risk/reward of volume/margin recovery, and inflation more in-line with the historical average, amid a potentially challenging consumer environment.

Upside risks to our price objective are: 1) success of the IGNITE strategy lifts volumes and sales, 2) a better than expected consumer environment leads to healthy pricing implementation, 3) strong innovation leads to better than expected sales of more premium products, 4) the international portfolio stabilizes with consistent sales growth and expansion, 5) robust demand in CLX's portfolio of products due to a resurgence in COVID-19 or other global health conditions.

Downside risks to our price objective are: 1) demand falling with higher pricing amid an uncertain economic outlook, 2) persistent cost inflation and inability to take further pricing, 3) shifting retailer inventory to private label and lower cost products, and 4) low visibility into margin recovery which is farther out than F24.

Colgate-Palmolive Company (CL)

Our $90 price objective is based on a CY25e P/E of 24.5x, up 4x from prior CY25 valuation basis and rolled forward one year from our prior 22x CY24e basis. Our higher multiple factors in US sales inflection, stability in margin and earnings delivery that has taken hold over the last 4-5yrs, and strong volume/pricing power in emerging markets. This target now implies a 15% premium to relative HPC peer average (prior basis implied a +5% premium), still more than a standard deviation above CL's 2yr average relative multiple but within a standard deviation above relative multiple to peers like PG and CHD. This premium reflects CL's defensive portfolio and strong, improving US and international market share, with top and bottom line support from pricing and new cost savings initiatives as unfavorable commodity costs abate and turnaround in developed markets Oral Care share takes hold.

Risks to the downside are increased price competition, particularly from private label, a stronger US$ in light of hyperinflationary currency pressure in Latam, Asia, and Africa, and macro volatility, particularly in emerging markets. Risks to the upside are stronger EM performance, significantly lower commodity costs, and growth ahead of category.

Coty Inc. (COTY)

Our PO of $15 is based on a SOTP valuation for the Prestige and Consumer Beauty segments. We value the Prestige segment at 15x our CY25e EBITDA (down from 17x prior) and Consumer Beauty at 9x our CY25e EBITDA down from 10x prior), given the superior growth profile and margins for Prestige, compared to more limited expansion for Consumer Beauty. Overall, this implies a blended 13x multiple on our CY25e EBITDA, given expected outperformance in multiple growing categories.

Downside risks to our price objective are: 1) Coty relies on exclusive license agreements to provide the majority of revenues, 2) the beauty industry is highly competitive, with significant brand and reputational risk, 3) leverage remains high and limits strategic M&A, 4) COTY is a "controlled" company, with JAB Cosmetics owning more than 50% of total voting power.

e.l.f. Beauty (ELF)

Our PO of $190 is based on a DCF analysis and implies a 30x CY25e EV/EBITDA multiple. Our DCF is predicated on a WACC of 9.9% and terminal growth rate of 4%. This is a premium to publicly traded beauty and HPC peers given stronger volume growth, price/mix gains, and market share momentum. We believe this multiple is warranted as the company is still in a high growth phase and continues to diversify its portfolio and customer base.

Downside risks to our price objective are: 1) changing consumer preferences, particularly among younger consumers, 2) difficulty diversifying sales into older demographic groups, 3) operational and geopolitical risk from third-party manufacturing in China. ELF uses several third party suppliers and manufacturers in China to source and manufacture nearly all of its products. Any disruption to their relationships may be detrimental to the company's sales.

Estee Lauder Companies Inc. (EL)

Our $150 PO is based on a target P/E multiple of 25x our CY25e EPS. Our multiple implies a +5% relative premium vs. a group of EL's beauty peers, up from a -7% implied discount previously but still below below EL's 3yr average premium of 14% as they retool their cost structure and channel exposure in light of what now appears to be a more muted Chinese consumption environment.

Downside risks to our price objective are persistent weakness in developed markets over the long term, a slowdown in EL's faster-growth channels and geographies, higher brand investment needs, recession, prolonged impact of the COVID-19 pandemic, a deceleration in organic sales, subsequent erosion of EL's valuation premium and acquisition of TOM FORD does not materialize. Risks to the upside are faster-then-expected recovery in Makeup, particularly in the US, an accelerated return to global international travel, and middle-class consumption in burgeoning developing markets.

Kenvue Inc. (KVUE)

Our price objective of $26 for Kenvue (KVUE) shares is based on a CY25e EV/EBITDA multiple of 13.5x. This is a slight discount to the average of publicly traded household and personal care peers. In our view, this multiple is warranted as the company has best-in-class assets and we expect to see steady growth in sales and margin expansion, while taking into account separation and execution risk as a standalone entity.

Downside risks to our price objective are: 1) separation risk as KVUE has no history of operating as a standalone publicly traded company, 2) brand reputation risk and related litigation, 3) challenges associated with distribution and volume recovery, 4) geographic exposure with 50% of sales outside of North America.

Kimberly-Clark (KMB)

Our $115 price objective is based on a CY25e P/E ratio of 16x, a discount to the company's 10-year average P/E multiple, due to a longer-term recovery in volumes and market share. On an absolute and relative basis vs. HPC peers, KMB trades below its 2-year forward P/E average of appx. 18x. We see a potentially difficult setup ahead, with current valuation justified by limited organic sales growth on weak volumes as pricing benefits wane, and tempered expectations on gross margin expansion ahead due to input volatility, partially offset by cost savings.

Upside risks to our price objective are: 1) global rising birth rates, 2) continued elevation of brands with accelerated market share gains in developing and D&E markets, 3) a better than expected consumer environment leading to higher mix of premium products, 4) pricing actions and cost savings more than offset cost inflation, 5) key commodity costs abate.

Downside risks to our price objective are: 1) global declines in birth rates accelerate, 2) erosion in market share due to a challenging consumer environment, 3) difficulty implementing pricing and cost savings initiatives, 4) cost inflation continues to rise in key commodity costs, hampering gross margins.

The Procter & Gamble Company (PG)

Our $175 PO is based on a P/E ratio of 24x our CY25e EPS, unchanged on a 2025 basis but shifted one year out from our 26x CY24e basis previously. Our target multiple still implies a 25% premium compared to HPC (Household and Personal Care) peers, above PG's 2yr historical average multiple in line with the index on a fwd 2yr basis. We think this relative valuation vs historical valuation is reasonable given PG's recent multi-year efforts to reaccelerate the business as the company sheds non-core categories and brands, and successfully drove balanced top- and bottom-line growth which has led to resilient market share gains that have held throughout the pandemic.

Risks to our price objective are a slowing in recent sales momentum, adverse competitive responses namely from private label in the coming months, and a return to "risk-on" which would make PG's defensive qualities less attractive

Analyst Certification

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US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
RSTR				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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