MARKETSCOPE ADVISOR

FOCUS STOCK OF THE WEEK

Church & Dwight [CHD]

Stock Detail | Symbol: CHD | CHD is in the S&P 500

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RECOMMENDATION:	PRICE:	12-MO. TARGET PRICE:
STRONG BUY ★★★★★	$49.65 (as of 01:51 PM) 0.22%	$60.00
GICS SECTOR:	**SUB-INDUSTRY:**	**INVESTMENT STYLE:**
Consumer Staples	Household Products	LARGE-CAP GROWTH

This week's Focus Stock of the Week is Church & Dwight Co. Inc. (CHD: $50) which carries CFRA's highest investment recommendation of 5-STARS, or Strong Buy. The company is one of the largest household products manufacturers in the U.S., best known for its Arm & Hammer brand.

The Consumer Domestic segment offers a broad range of household and personal care products. The household products unit (46% of total sales in 2016) makes and sells baking soda, laundry detergents, carpet and room deodorizers, cat litter, and other pet products. Major brand names include Arm & Hammer, Delicare, Oxiclean and Orange Glo. The personal care unit (31%) markets toothpaste, toothbrushes, deodorants & antiperspirants, condoms, depilatories and pregnancy/ovulation test kits, among other products. Major brand names include Arm & Hammer, Spinbrush, Mentadent, Aim, Pepsodent, Close-Up, Arrid, Trojan, First Response and Nair.

The Consumer International segment sells a variety of personal care products, over-the-counter, and household products in international markets, including Canada, France, Australia, the United Kingdom, Mexico, Brazil and China.

The Specialty Products segment has three product areas: specialty chemicals; animal nutrition; and specialty cleaners. The animal nutrition products are oriented toward dairy cows.

We think sales gains will be supported by new product development, international expansion, and added distribution. We project revenue growth of 2.4% in 2017. We estimate organic sales will grow 3.0% in 2017 on benefits from new product innovation and increased marketing spending, despite slowing category growth in the U.S. (where CHD generates about 84% of total revenues). We see organic sales growth driven by higher volumes as we expect pricing to remain pressured due to competitive promotions. On recent increases in commodity milk prices, we see growth improving in specialty product sales. We also view CHD as a consolidator (12 acquisitions completed in past 13 years) and view recent acquisitions as supportive of future sales growth and margin expansion. Partly offsetting in 2017, are net divestitures.

EBITDA margins will likely expand, in our view, to about 24.2% in 2017, from 24.0% in 2016, on improved sales leverage, productivity improvements and tight overhead management, as high levels of marketing spending are maintained in 2017 in support of core and new products, despite adverse foreign currency exchange impacts.

CHD can achieve cost savings from acquisitions and more efficient manufacturing and logistics, in our view. In January 2017, CHD acquired the VIVISCAL non-drug hair supplement brand ($44 million in annual sales) from Lifes2Good Holdings Limited for $160 million. Adding scale to its international business, the company acquired in December 2016 the ANUSOL and RECTINOL brands (the #1 and #2 hemorrhoid care brands with $24 million in annual sales) from Johnson & Johnson for $130 million. In

January 2016, the company acquired Spencer Forrest, producer of the leading brand of hair building fibers for people with thinning hair (TOPPIK), for about $175 million. Toppik produces annual sales of about $30 million and will be included in the Consumer Domestic and Consumer International segments.

In 2016, the company purchased 9.0 million shares for $400 million. There was $300 million remaining under a Board authorized share repurchase authorization, as of December 2016. After share repurchases, we see 2017 operating EPS of $1.89, up 6.8% from operating EPS of $1.77 reported in 2016, excluding one-time items from both periods.

Our 12-month target price of $60 reflects our application of a P/E of 31.5X, 10% above the midpoint of CHD's three-year trading range (23.5X-33.7X), to our 2017 EPS estimate. We see a premium valuation supported by strong demand for new products and consolidation benefits we see.

Risks to our recommendation and target price include increased competitive activity, acquisition integration difficulties, negative foreign currency translation, and the possibility of poor acceptance of new products by consumers. Near-term risks have risen, in our view, with organic sales growth dependent on the success of an increased marketing budget and consumer adoption of new product launches as competitive promotional activity is intense.

CFRA's views on stocks are constantly re-evaluated. Please refer to our most recent publication on this stock to see our current view.

J. Agnese, - CFRA
