

The Consumer Health Titan Rises - Strategic M&A Unlocks Massive Value

Kimberly-Clark's acquisition of Kenvue creates a new global powerhouse in FMCG. By combining KMB's global distribution network with Kenvue's high-margin portfolio, the company breaks free from the commodity trap. We identify an asymmetric risk/reward scenario where the market has fundamentally mispriced the structural margin expansion. With a valuation of only 12.9x P/E, we see an upside of 47% towards a target price of \$146, driven by a fundamental re-rating and significant synergies.

Strategic Pivot & Escaping the Commodity Trap This transaction follows a decisive structural reset where KMB purified its portfolio by divesting volatile, low-margin legacy businesses just prior to the deal. The market has myopically punished the stock for the resulting headline revenue contraction, overlooking that the remaining revenue base is of significantly higher quality and margin density. By replacing these commoditised volumes with Kenvue's IP-protected Consumer Health assets (Tylenol, Neutrogena), the company completes its transformation towards premium categories. The strategic key remains The Nursery Bundle: dominating the baby aisle by pairing Huggies with Johnson's to secure unrivalled bargaining power.

Margin Accretion & Financial Engineering The deal is immediately earnings-accretive. Kenvue's gross margin of ~58% significantly dilutes KMB's historically lower cost base, instantly lifting the group's profitability profile upon closing. We model conservative cost synergies of \$750m annually through the consolidation of logistics and warehousing. The new entity becomes a cash flow machine with estimated Free Cash Flow exceeding \$5bn annually, enabling an aggressive de-leveraging programme to <2.0-2.5x EBITDA within 24 months without risk for being punished by the market regarding earnings distribution via dividends, a scenario the market has yet to price in.

The Alpha Play on the Valuation Anomaly The share currently trades at an unjustifiably low 12.9x P/E, compared to the sector average of ~24x. The market continues to price KMB as a paper manufacturer rather than the Consumer Health giant it is becoming. To capitalise on this anomaly, we propose a market-neutral Pairs Trade: Long KMB / Short L'Oréal. This positions the portfolio to capture the valuation gap (13x vs 33x) whilst hedging out market risk (Beta). We view this as one of the market's most attractive Risk-Arb opportunities with a projected ROI approaching 50%.

Market Data

Ticker / ISIN	KMB / US4943681035
Exchange	XNAS US Large Cap
Trading Currency	USD
Equity Class	Ordinary Common
Shares OS	332m
Sector	Consumer Staples
Industry	Household
CEO	Michael D. Hsu
CFO	Nelson Urdaneta
Chairman	Michael D. Hsu

Metrics & Drivers

	2024A	2025E	2026E
P/S	1.7	2.0	1.2
P/E	12.9	16.0	19.2
P/FCF	12.0	16.0	18.2
Div yield %	3.4	5.1	5.1

Forecast, bUSD

	2024A	2025E	2026E
Revenue	21.1	16.5	23.9
Earnings	2.6	2.1	4.2
FCF	2.8	2.1	3.8

KMB stock vs. KVUE since latter's IPO



Free Float	331m (99.83%)
30D Avg Daily Volume	5 545 960 shares
Market Cap	\$33.0b
Enterprise Value	\$39.7b

Major Shareholders

Vanguard Group Inc	12.21%
Blackrock Inc	8.47%
State Street Corporatio	6.28%
Charles Schwab IM Inc	3.50%
Geode Capital Mgmt	2.49%
Others	67.05%
Insiders	0.66%

Shorts

Not Disclosed	Total: -26.73 m shares
Total: -8.70% / 6.0 days to cover	