



Stepan Co. (SCL)

Updated May 28th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$112	5 Year CAGR Estimate:	6.9%	Market Cap:	\$2.4 B
Fair Value Price:	\$116	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/27/22
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	06/15/22
Dividend Yield:	1.2%	5 Year Price Target	\$148	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Stepan Co. was founded in 1932 and at the outset, it sold only one product; a chemical to keep dust down on Illinois' country roads. Since that time, it has grown to manufacture basic and intermediate chemicals, with surfactants making up most of its revenue. It has a market capitalization of \$2.4 billion and should do about \$2.7 billion in revenue. Stepan is also a Dividend King, having increased its payout for 54 consecutive years.

Stepan reported first quarter earnings on April 26th, 2022, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.76, which was an outstanding 45 cents ahead of estimates. Revenue soared 26% year-over-year to \$675 million, and was \$55 million ahead of expectations. Sales volume was flat in Q1.

Surfactant operating income was \$54 million, a record for the segment. Sales volume declined 1% but saw improved product and customer mix, offset by global supply chain issues.

Polymer operating income was \$14 million, down from \$18 million year-over-year. The decline was due to a power outage at one of the company's plants, partially offset by higher sales volumes.

Adjusted net income on a dollar basis was \$40.7 million, down from \$42.4 million. On a per-share basis, earnings were down from \$1.82 to \$1.76.

We've boosted our estimate of earnings-per-share to \$6.80 for this year after Q1 results, but note that there are potential headwinds to earnings for the rest of the year, given supply chain challenges and potential demand from customers that are facing recession fears.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.49	\$3.18	\$2.49	\$3.32	\$3.73	\$3.92	\$4.88	\$5.12	\$5.68	\$6.16	\$6.80	\$8.68
DPS	\$0.58	\$0.65	\$0.69	\$0.73	\$0.78	\$0.86	\$0.93	\$1.03	\$1.13	\$1.27	\$1.34	\$1.97
Shares¹	22	22	22	22	22	23	23	23	23	23	23	23

Stepan's earnings have been somewhat inconsistent, but over time have grown at decent rates. The company is beholden to the world's manufacturers, so any sort of economic weakness can have severe consequences on earnings. It does boast a wide and deep array of customers, so concentration is not a problem, but as we've seen in the past, weakness in just one business line can cause Stepan's results to vary widely from one year to another. Stepan was in the right place at the right time with its surfactant business, capturing additional demand for 2020 and into 2021, although it appears some of that additional demand is unwinding into 2022.

We are forecasting a five-year average earnings-per-share growth rate of 5%, consisting of mid-single-digit sales growth and slightly weaker margins over time. The company's cost-saving program has been in place for some time and has yielded operating margin gains and worked nicely in 2020. Margins are likely to be volatile on a year-over-year basis in

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Stepan Co. (SCL)

Updated May 28th, 2022, by Josh Arnold

2022 given supply chain issues, which also caused margin problems in 2021. So long as this condition persists, Stepan's margins are at risk.

The company's dividend has grown steadily in the past decade; however, the stock has a current yield of just 1.2%. We expect the payout will rise by ~8% annually as the company has used its extra cash to fund dividend increases.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.2	18.6	21.0	14.0	16.3	19.1	16.5	18.0	18.4	20.0	16.5	17.0
Avg. Yld.	1.3%	1.1%	1.3%	1.6%	1.3%	1.2%	1.1%	1.1%	1.1%	1.0%	1.2%	1.3%

Stepan's price-to-earnings multiple has come well off its highs in recent weeks. The stock is under our estimate of fair value, which we peg at 17 times earnings. We think the company is going to see easing of supply chain disruptions this year, but it has become clear the market isn't willing to pay the same multiples for growth stocks.

We see the yield remaining about where it is today for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16%	20%	27%	21%	21%	22%	19%	20%	20%	20%	20%	23%

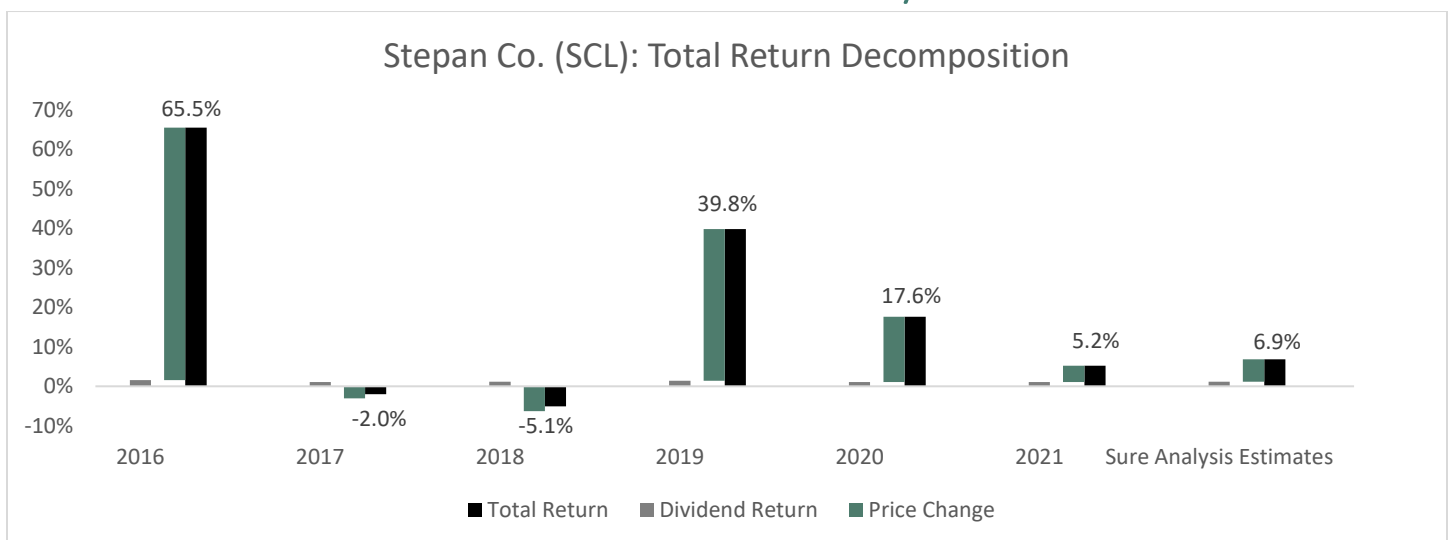
Stepan's payout ratio is just one-fifth of earnings, and we don't see it moving materially higher given the company's focus on investing in future growth.

The company's competitive advantage is in its diverse, global customer base and many decades of engineering experience. Stepan's competitors cannot easily supplant its position with existing customers given the often-custom nature of what Stepan engineers for them. However, Stepan is certainly not immune to economic weakness and as we've seen, its earnings-per-share history shows that results can bounce around from one year to another.

Final Thoughts & Recommendation

We are forecasting total annual returns for the next five years of 6.9%, comprised of the 1.2% current yield, 5% earnings-per-share growth and a small tailwind from the valuation. The valuation has moved lower since our last update due to higher earnings estimates, but mid-single-digit total returns have us reiterating our hold rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Stepan Co. (SCL)

Updated May 28th, 2022, by Josh Arnold

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,804	1,881	1,927	1,776	1,766	1,925	1,994	1,859	1,870	2,346
Gross Profit	292	282	250	308	339	346	339	340	384	396
Gross Margin	16.2%	15.0%	12.9%	17.4%	19.2%	18.0%	17.0%	18.3%	20.5%	16.9%
SG&A Exp.	117	125	109	138	149	135	133	155	143	159
D&A Exp.	51	56	64	67	75	79	81	79	82	91
Operating Profit	129	110	95	120	135	158	152	129	173	175
Operating Margin	7.1%	5.9%	4.9%	6.8%	7.6%	8.2%	7.6%	7.0%	9.2%	7.5%
Net Profit	79	73	57	76	86	101	111	103	127	138
Net Margin	4.4%	3.9%	3.0%	4.3%	4.9%	5.2%	5.6%	5.5%	6.8%	5.9%
Free Cash Flow	26	57	(19)	64	109	120	84	113	109	(122)
Income Tax	36	23	18	27	28	46	27	23	43	35

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	985	1,167	1,162	1,238	1,354	1,471	1,515	1,579	1,752	2,066
Cash & Equivalents	77	133	85	176	226	299	300	315	350	159
Accounts Receivable	256	266	270	250	263	294	280	277	301	420
Inventories	162	172	183	170	174	173	232	204	219	306
Goodwill & Int. Ass.	16	35	32	29	48	44	37	41	52	158
Total Liabilities	505	613	625	680	718	730	706	687	764	991
Accounts Payable	142	157	157	129	158	205	206	194	237	323
Long-Term Debt	182	271	274	331	317	291	276	222	199	364
Shareholder's Equity	477	552	536	557	635	740	807	892	987	1,074
D/E Ratio	0.38	0.49	0.51	0.59	0.50	0.39	0.34	0.25	0.20	0.34

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.4%	6.8%	4.9%	6.3%	6.6%	7.1%	7.4%	6.7%	7.6%	7.2%
Return on Equity	18.3%	14.1%	10.5%	13.9%	14.5%	14.7%	14.4%	12.1%	13.5%	13.4%
ROIC	12.5%	9.8%	7.0%	8.9%	9.4%	10.2%	10.5%	9.4%	11.2%	10.5%
Shares Out.	22	22	22	22	22	23	23	23	23	23
Revenue/Share	79.35	82.04	84.10	77.70	76.48	82.35	85.48	79.72	80.40	100.74
FCF/Share	1.14	2.51	(0.84)	2.82	4.72	5.14	3.62	4.84	4.71	(5.25)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.