



NewMarket Corp. (NEU)

Updated September 3rd, 2022, by Tiago Dias

Key Metrics

Current Price:	\$281	5 Year CAGR Estimate:	2.6%	Market Cap:	\$2.8 B
Fair Value Price:	\$262	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	09/14/2022
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	10/03/2022
Dividend Yield:	3.0%	5 Year Price Target	\$276	Years Of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

NewMarket Corporation (NEU) is a holding company and is the parent company of Afton Chemical Corporation, Ethyl Corporation, NewMarket Services Corporation, and NewMarket Development Corporation. The company, through its subsidiaries, manufactures and sells petroleum additives, represents the sale of anti-knock compounds, as well as contract manufacturing and services. Founded in 1887 as a paper company, this \$2.8 billion market cap company has come a long way from its roots.

NewMarket reported Q2 2022 earnings on the 4th of August 2022. For the quarter, earnings-per-share equalled \$6.54, higher than the \$4.75 per share reported in Q2 2021. NewMarket also declared a \$2.10 dividend, with an ex-dividend date on the 14th of September. This dividend is well covered by the company's earnings.

The company expects continued strength in its petroleum additives sales and shipments, with their views on the fundamentals of the industry remaining unchanged, with the petroleum additives market growing at 1% to 2% for the foreseeable future. The company's efforts to recover margins and control costs are beginning to take hold, but they are still being challenged by the ongoing inflationary environment. Margin recovery and cost control will remain priorities throughout 2022 so that the business can return to its historical profit margin range.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$17.85	\$19.90	\$18.38	\$19.45	\$20.54	\$19.54	\$20.34	\$22.73	\$24.64	\$17.71	\$21.85	\$22.96
DPS	\$3.00	\$3.55	\$4.40	\$5.60	\$6.40	\$6.85	\$7.00	\$7.15	\$7.60	\$7.80	\$8.40	\$8.83
Shares	13	13	12	12	12	12	11	11	11	10	10.0	10.0

NewMarket is a bit of an odd company, just like many other specialty chemicals companies can be. Its revenues are stable, as you would see from any other non-cyclical business in a well-established and mature industry. Part of the reason for this is the relative commoditization of the products they manufacture and sell. While both its topline revenues, and its bottom-line earnings haven't really grown much over the past decade and aren't expected to grow much in the foreseeable future, there is still some value in the unusual stability of the industry in general, and NewMarket in particular, as long as you don't overpay for the business.

With a fully mature industry, we estimate only 1% annual growth over the next 5 years, and estimate earnings of \$22.96 per share in 2027, with a dividend per share of \$8.83. This is in-line with the companies' own expectations, as well as its historical norms and prospects.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.6	14.2	20.8	21.9	19.6	22.3	19.6	19.4	16.1	20.1	12.9	12.0
Avg. Yld.	1.3%	1.3%	1.2%	1.3%	1.6%	1.6%	1.8%	1.6%	1.9%	2.2%	3.0%	3.2%

In the past decade, NewMarket has traded hands at an average price to earnings ratio of 18.7, a significant premium compared to the company's lackluster growth and poor prospects. More recently, the company's valuation multiple has

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shrunk to 14 times earnings, and we expect that it will continue to shrink closer to a PE of 12 as the worsening macro climate, rising interest rates and poor growth prospects reduce multiples across the market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17%	18%	24%	29%	31%	35%	34%	31%	31%	44%	38%	38%

The company's stable revenues and earnings, alongside its unusually high margins for what is normally an undifferentiated commodity market means that the business is capable of withstanding difficult macro climates without too much of an impact on its bottom line.

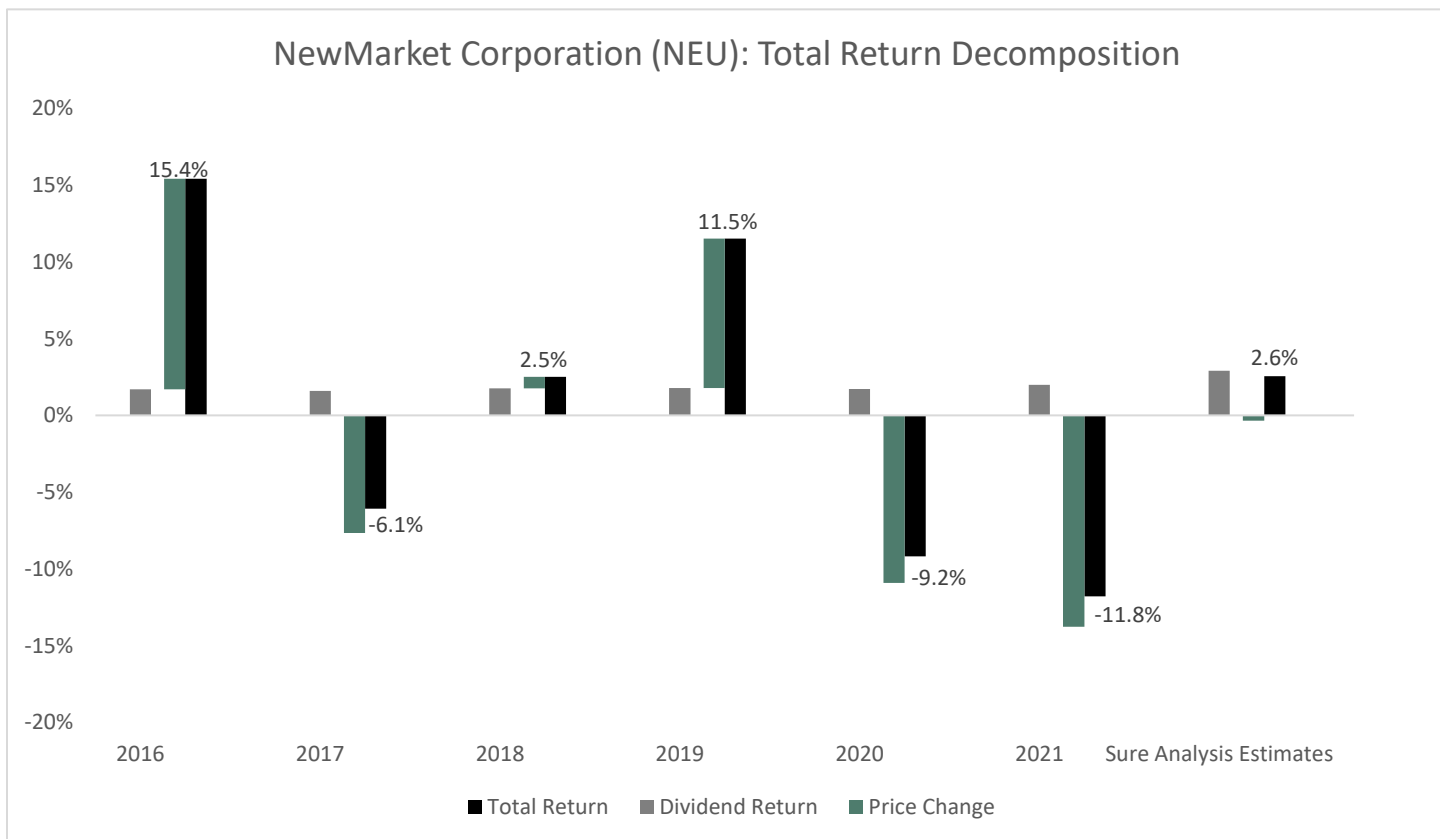
The dividend is well covered and given the stability of its earnings it's unlikely that it will be cut during a recession, though the company has already shown that they are not unwilling to freeze it when it is in the event of poor performance, like we saw in 2018.

With worldwide operations, a clear corporate identity and focus on a market niche that they can service in a cost-effective manner, NewMarket is able to provide stability to investors' portfolios, while spitting out a steady stream of dividends.

Final Thoughts & Recommendation

With a 3.0% dividend yield, and only 1% earnings growth over the foreseeable future, we are forecasting a total return potential of just 2.6% per annum, driven by the yield and 1% growth, and offset by a small valuation headwind. As a result, the company's shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,212	2,280	2,335	2,141	2,049	2,198	2,290	2,190	2,011	2,356
Gross Profit	630	653	665	679	677	636	585	630	595	548
Gross Margin	28.5%	28.6%	28.5%	31.7%	33.0%	28.9%	25.6%	28.8%	29.6%	23.2%
SG&A Exp.	154	165	164	164	162	168	152	148	143	146
D&A Exp.	43	46	42	42	45	55	72	88	84	84
Operating Profit	358	352	363	357	355	323	293	337	312	258
Op. Margin	16.2%	15.4%	15.5%	16.7%	17.3%	14.7%	12.8%	15.4%	15.5%	10.9%
Net Profit	240	265	233	239	243	191	235	254	271	191
Net Margin	10.8%	11.6%	10.0%	11.1%	11.9%	8.7%	10.3%	11.6%	13.5%	8.1%
Free Cash Flow	234	219	175	142	211	94	123	278	191	86
Income Tax	100	99	106	100	100	125	56	77	61	57

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,264	1,327	1,232	1,286	1,416	1,712	1,697	1,885	1,934	2,558
Cash & Equivalents	89	239	103	93	192	84	73	144	125	83
Acc. Receivable	261	287	275	253	266	311	277	290	285	317
Inventories	323	308	348	352	312	383	396	366	401	499
Goodwill & Int.	31	23	17	11	10	144	136	132	130	128
Total Liabilities	862	755	811	899	933	1,111	1,207	1,202	1,174	1,796
Accounts Payable	119	134	138	129	142	159	152	179	190	246
Long-Term Debt	424	349	364	491	503	597	766	643	599	1,139
Total Equity	402	572	421	388	483	602	490	683	760	762
LTD/E Ratio	1.06	0.61	0.86	1.27	1.04	0.99	1.56	0.94	0.79	1.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.5%	20.4%	18.2%	19.0%	18.0%	12.2%	13.8%	14.2%	14.2%	8.5%
Return on Equity	50.3%	54.3%	47.0%	59.0%	55.9%	35.1%	43.0%	43.4%	37.5%	25.1%
ROIC	29.6%	30.3%	27.3%	28.7%	26.1%	17.4%	19.1%	19.7%	20.2%	11.7%
Shares Out.	13	13	12	12	12	12	11	11	11	10
Revenue/Share	165.00	171.64	184.31	174.89	173.27	185.93	198.84	196.16	183.46	219.05
FCF/Share	17.46	16.52	13.83	11.56	17.80	7.96	10.71	24.88	17.41	8.03

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

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