Sensient Tech. (SXT)

Updated October 22nd, 2022, by Ian Bezek

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	8.2%	**Market Cap:**	$2.8 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/04/22
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	12/01/22
Dividend Yield:	2.4%	**5 Year Price Target**	$93	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Sensient Technologies is a basic materials company focused on product additives for foods, beverages, and cosmetics. The company's largest line of business is in making flavors and extracts. Key products on the flavor side include dehydrated onion and garlic products. Coloring additives make up most of the rest of the firm's revenues.

Sensient has seen a strong operating environment over the past year, both in terms of unit demand and pricing. In fact, in some categories, such as onion products, it has struggled to keep up with the high levels of consumer demand. Regardless, Sensient has been able to manage through supply chain and inflationary issues well and its business is showing newfound success. This positive inflection has continued into 2022.

On October 21st, 2022, Sensient delivered mixed third quarter results. Earnings per share of 85 cents advanced from 80 cents per share in the same quarter of 2021 and topped analyst expectations comfortably. Revenues were softer, growing 5 percent year-over-year from $344 million to $361 million. This figure missed expectations and was a significant slowdown versus Sensient's growth in previous quarters of this year.

The silver lining is that this slowdown is being driven by foreign exchange rather than underlying business fundamentals. Sensient disclosed that unfavorable foreign exchange movements decreased revenues by 4% and earnings by 6% this quarter. The company is still posting 10% year-to-date growth in local currency, but the strong dollar is disguising that strength. Aside from currency, the company has a favorable outlook heading into 2023. In October, Sensient announced an acquisition of Turkish firm Endemix, which will boost the company's natural colors and extracts business.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.49	$2.27	$3.02	$3.05	$3.21	$3.42	$3.70	$2.96	$2.59	$3.13	***$3.31***	***$4.43***
DPS	$0.87	$0.91	$0.98	$1.04	$1.11	$1.23	$1.35	$1.47	$1.56	$1.58	***$1.64***	***$2.09***
Shares	50	50	48	45	44	43	42	42	42	42	***41***	***41***

Sensient has been a slow grower over the past decade. Earnings per share rose from $2.49 to $3.13 between 2012 and 2021. The underlying business grew even less than that. Revenues declined outright, and gross profit and operating profit also failed to show any improvement. However, Sensient has bought back a sizable number of shares over the past decade, allowing the company to post some earnings-per-share growth despite the lack of top-line momentum.

Things may be changing for the better now, however. Sensient has enjoyed a robust pricing environment over the past year and posted some of its best growth metrics in ages. It's also worth noting that Sensient has consolidated its business in recent years. It sold off its ink business and its yogurt fruit products operations in 2020, while making new acquisitions that add directly onto the company's core product lines.

Sensient has enjoyed decent dividend growth in recent years, with a 5.9% annualized growth rate over the past five years. However, that dividend growth has been significantly faster than underlying earnings growth, causing the payout ratio to rise.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.8	18.9	18.1	21.3	21.5	22.8	18.7	22.5	22.0	27.7	***20.8***	***21.0***
Avg. Yld.	2.4%	2.1%	1.8%	1.6%	1.6%	1.6%	2.0%	2.2%	2.7%	1.8%	***2.4%***	***2.3%***

Sensient started off the early 2010s with a P/E ratio around 15 and spent several years below 20. The P/E ratio has climbed over time, however, hitting a peak of 27.7 in 2021. The company's earnings haven't historically grown quickly enough to support that sort of premium valuation multiple, and in 2022, Sensient's P/E has returned to a more typical level. We anticipate its P/E settling in the low 20s over the long-term.

On a dividend yield basis, Sensient stock has offered between 1.6% and 2.7% over the past decade. The current 2.4% dividend yield is on the high side of that range and could mark an attractive entry point for Sensient shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	40%	32%	34%	35%	36%	36%	50%	60%	50%	***50%***	***47%***

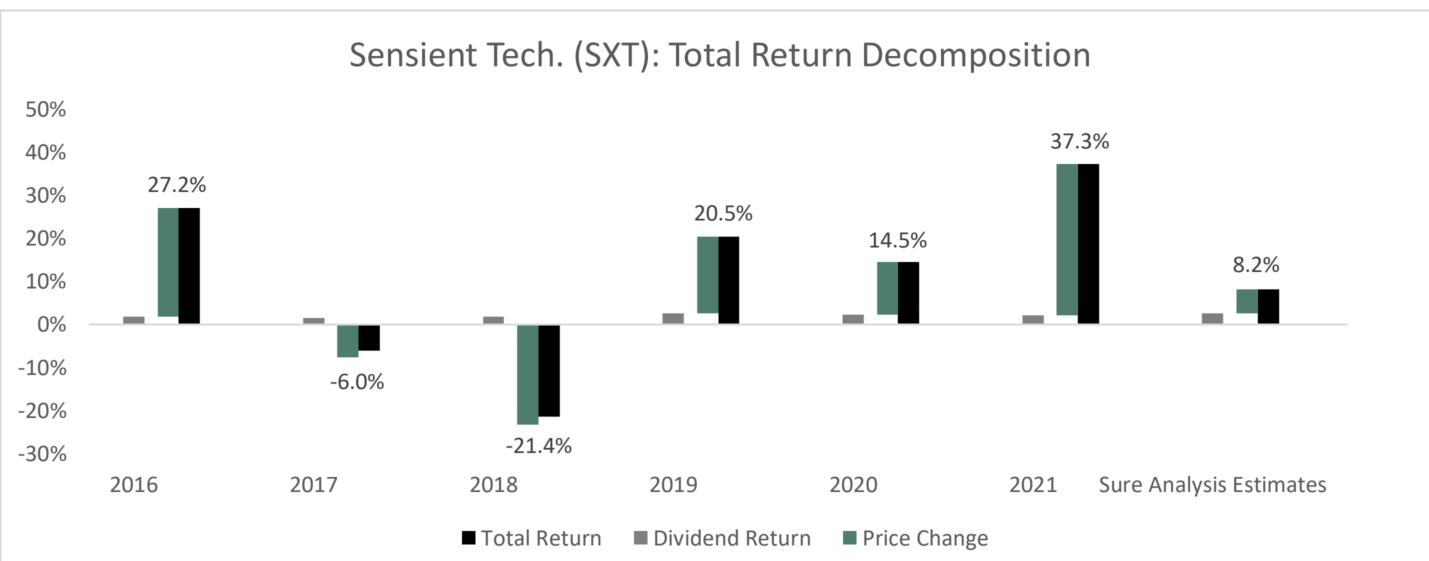
Sensient has a fairly strong balance sheet, as it has just $547 million of long-term debt. The company currently has more than 8x interest coverage on its debt. That, plus the fact that it enjoys a history of stable earnings, should ensure that Sensient is well-positioned to handle its financial obligations.

Sensient operates in a competitive industry with limited competitive moats. This is reflected in the company's sluggish growth metrics over the past decade. Past dividend growth exceeded earnings increases, leading to a rise in the payout ratio from 35% to 60% from 2012 to 2020. However, dividend coverage has improved over the past two years.

Final Thoughts & Recommendation

Sensient has shown some promising operating results recently, even with present currency headwinds. This improvement could support a higher P/E ratio in the future. For now, however, a wait and see approach remains prudent. We forecast 6% annualized earnings growth. That, when added to the dividend yield, leads to an expected 8.2% annualized total return through 2027. Shares are fairly valued, and Sensient stock earns 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	1,454	1,462	1,448	1,376	1,383	1,362	1,387	1,323	1,332	1,380
Gross Profit	463	475	489	454	475	475	466	415	424	455
Gross Margin	31.8%	32.5%	33.7%	33.0%	34.4%	34.9%	33.6%	31.4%	31.8%	32.9%
SG&A Exp.	270	301	358	288	290	308	263	294	271	285
D&A Exp.	48	52	51	48	47	49	53	55	50	52
Operating Profit	193	174	131	166	186	168	203	121	153	170
Op. Margin	13.3%	11.9%	9.0%	12.1%	13.4%	12.3%	14.7%	9.2%	11.5%	12.3%
Net Profit	124	113	74	107	126	90	157	82	109	119
Net Margin	8.5%	7.7%	5.1%	7.8%	9.1%	6.6%	11.3%	6.2%	8.2%	8.6%
Free Cash Flow	36	49	110	48	102	(20)	33	138	167	84
Income Tax	51	43	33	42	44	59	24	19	28	39

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,777	1,871	1,765	1,704	1,668	1,724	1,825	1,740	1,741	1,745
Cash & Equivalents	15	20	20	12	26	29	32	21	25	26
Acc. Receivable	238	234	229	232	195	195	255	213	234	261
Inventories	443	474	449	409	404	464	491	423	381	412
Goodwill & Int.	463	468	433	409	392	416	435	419	434	435
Total Liabilities	623	628	718	859	832	872	965	859	807	807
Accounts Payable	96	99	99	95	92	110	132	95	107	126
Long-Term Debt	354	355	467	634	603	624	710	619	527	512
Total Equity	1,154	1,243	1,047	845	836	852	860	882	934	938
LTD/E Ratio	0.31	0.29	0.45	0.75	0.72	0.73	0.83	0.70	0.56	0.55

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.2%	6.2%	4.1%	6.2%	7.5%	5.3%	8.9%	4.6%	6.3%	6.8%
Return on Equity	11.2%	9.5%	6.4%	11.3%	15.0%	10.6%	18.4%	9.4%	12.1%	12.7%
ROIC	8.6%	7.3%	4.7%	7.1%	8.7%	6.1%	10.3%	5.3%	7.4%	8.2%
Shares Out.	50	50	48	45	44	43	42	42	42	42
Revenue/Share	29.18	29.28	29.66	29.78	30.85	30.94	32.63	31.28	31.46	32.66
FCF/Share	0.71	0.99	2.25	1.04	2.28	(0.46)	0.77	3.26	3.93	2.00

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