



Balchem Corporation (BCPC)

Updated May 7th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	12.4%	Market Cap:	\$4.14 B
Fair Value Price:	\$140	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/22/2023 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	01/20/2024
Dividend Yield:	0.6%	5 Year Price Target	\$225	Years Of Dividend Growth:	13
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Established in 1967 and with its headquarters in New York, Balchem Corporation is a publicly traded specialty chemicals firm. Human nutrition and health, animal nutrition and health, specialty products, and industrial products are its four business segments through which it conducts its operations. Agriculture, the food and beverage industry, pharmaceuticals, and other sectors all use the company's products. While also serving people worldwide, Balchem Corporation primarily caters to American consumers. The company has been able to set itself apart from rivals and has established a strong competitive position in the market thanks to a strong focus on research and development. Balchem Corporation is one of the top companies in its sector in terms of market share.

On April 28th, 2023, the company announced results for the first quarter of 2023. BCPC reported Q1 Non-GAAP EPS of \$0.94, beating market estimates by \$0.12. In addition, the company reported revenues of \$232.5 million for the quarter, up 1.6% year-over-year.

Sales for the Human Nutrition & Health division were \$132.7 million for the quarter, up \$10.2 million or 8.3% from the same period last year. Recent acquisitions contributed significantly to the growth, which was only slightly offset by decreasing sales in the food and beverage and minerals and nutrients industries. Sales for the Animal Nutrition & Health sector were \$64.9 million for the quarter, down \$4.5 million or 6.4% from the same period last year. Lower sales of both monogastric and ruminant species in Europe and a negative impact from changes in currency exchange rates were the main causes of the decline, which was largely offset by greater sales of both species in North America. Lastly, sales of \$32.2 million were generated by the Specialty Products segment in the most recent quarter, a decrease of \$1.1 million or 3.3% from the same period last year. This decline was primarily attributable to lower sales of plant nutrition products and an unfavorable impact from fluctuations in foreign exchange rates, which were only partially offset by higher sales of products used in the performance gases industry.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.45	\$1.69	\$1.89	\$1.75	\$2.79	\$2.42	\$2.45	\$2.60	\$2.94	\$3.35	\$4.00	\$6.44
DPS	\$0.26	\$0.30	\$0.34	\$0.38	\$0.42	\$0.47	\$0.52	\$0.58	\$0.64	\$0.71	\$0.71	\$1.25
Shares	30.2	30.9	31.5	31.8	32.0	32.3	32.2	32.4	32.3	32.0	32.2	33.2

Despite the adverse macroeconomic situation, the company managed to maintain a good performance in 2022 due to its robust market dominance and attractive product offerings. In addition, the timing of an insurance settlement connected to a flash flood occurrence in the prior year, higher manufacturing input costs, and higher amortization and operational expenditures associated with the recent acquisitions offset greater sales and average selling prices.

The specialty food ingredients market is expected to witness a CAGR of 5.4% during the forecast period from 2021 to 2026. The market was valued at \$97.38 billion in 2020 and is projected to reach \$127.43 billion by 2026. Balchem Corporation has grown its EPS at a CAGR of 9.8% over the past nine years, and we believe it will continue on this track, leading to our EPS estimate of \$6.44 by 2028. Moreover, the company has consistently increased its dividend

¹ Estimated date

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distributions to shareholders in the past 13 years, reporting a nine-year and five-year growth of 11.8% and 30.0%, respectively.

Despite the minor pullback in gross profit margins in 2022, which dropped to 29.7% due to higher input cost inflation, we remain confident that the company can normalize inflationary pressures soon and expand in the next two years. As a result, the company can sustain dividend increases at around 12.0%, which is faster than the EPS growth but much in-line the historical DPS nine-year CAGR of 11.8%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	32.9	33.7	31.4	37.9	29.0	37.8	38.8	38.6	46.5	46.5	32.1	35.0
Avg. Yld.	0.5%	0.5%	0.6%	0.6%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.6%	0.6%

Balchem Corporation remains a significant player in the sector, justifiably attracting an expensive valuation. Specifically, BCPC trades at a forward P/E of 32.1, way higher than the sector's median of around 12.0 but lower than the stock's five-year average and a nine-year average of 41.6 and 37.3, respectively. However, we believe a P/E of 35.0 better reflects the BCPC's risk/reward profile, suggesting a target of \$225 and a 76% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

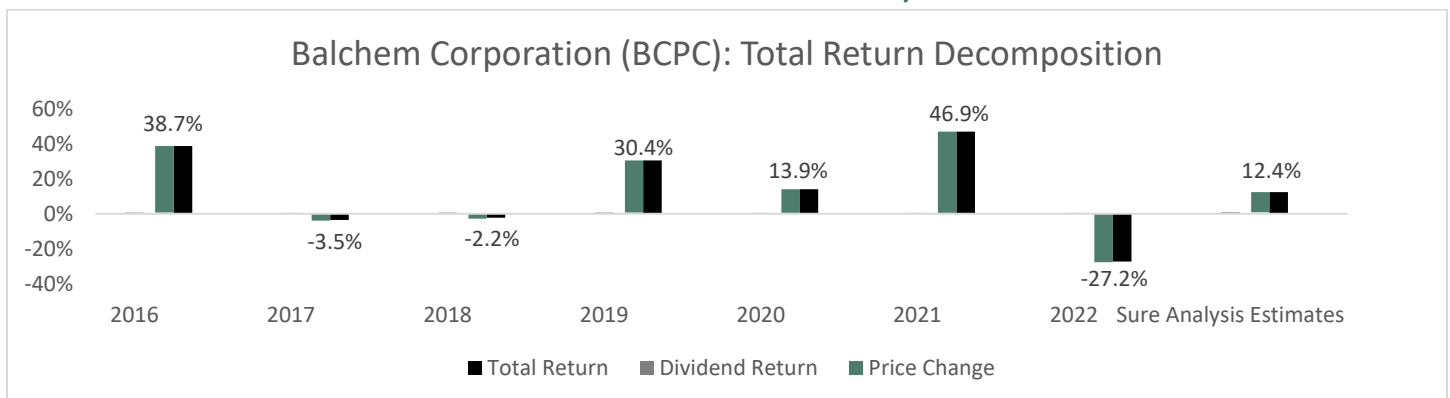
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	18%	18%	18%	22%	15%	19%	21%	22%	22%	21%	18%	20%

By concentrating on research and development and being able to set itself apart from rivals, Balchem Company has developed a significant competitive edge. Due to this, the business has increased margins and produced value for its shareholders. With constant revenue growth and sustained profitability even during recessions, the corporation has shown great performance amid economic downturns. In addition, the company's capital structure is healthy as its debt-to-equity ratio stands at 0.49, its total debt is at \$460.6 million, and its strong operating cash flow generation makes its debt manageable. Therefore, Balchem Corporation has a solid financial position, a strong competitive position, and resilient performance amid economic downturns.

Final Thoughts & Recommendation

Despite the inflationary pressure that suppressed the company's margins in 2022, we consider that the major headwinds are nearly over, and the company will improve its profitability in the foreseeable future. Thus, we maintain our buy rating for the stock, premised upon the 12.4% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 10.0%, the 0.6% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	337	541	552	553	595	644	644	704	799	942
Gross Profit	97	144	168	181	189	204	211	224	243	280
Gross Margin	28.9%	26.6%	30.4%	32.7%	31.8%	31.7%	32.8%	31.8%	30.4%	29.8%
SG&A Exp.	28	57	68	83	83	86	97	102	102	123
D&A Exp.	10	31	40	46	44	45	46	51	49	52
Operating Profit	66	82	94	91	97	107	103	111	128	145
Op. Margin	19.5%	15.2%	17.0%	16.4%	16.3%	16.6%	15.9%	15.8%	16.0%	15.4%
Net Profit	45	53	60	56	90	79	80	85	96	105
Net Margin	13.3%	9.8%	10.8%	10.1%	15.1%	12.2%	12.4%	12.0%	12.0%	11.2%
Free Cash Flow	47	72	62	84	83	99	96	117	123	88
Income Tax	21	24	27	27	(2)	20	17	22	29	28

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	377	862	880	949	964	981	1,156	1,166	1,199	1,625
Cash & Equivalents	209	50	85	39	40	54	66	85	103	67
Acc. Receivable	39	72	60	83	91	100	93	98	117	132
Inventories	25	50	46	57	61	67	84	71	91	120
Goodwill & Int.	44	544	519	587	569	557	668	651	619	983
Total Liabilities	46	470	416	428	347	290	412	338	322	686
Accounts Payable	12	24	15	33	28	33	37	24	56	57
Long-Term Debt	-	333	296	280	219	156	249	164	109	441
Total Equity	331	392	464	521	617	692	744	828	877	938
D/E Ratio	-	0.85	0.64	0.54	0.36	0.23	0.33	0.20	0.12	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	13.0%	8.5%	6.9%	6.1%	9.4%	8.1%	7.5%	7.3%	8.1%	7.5%
Return on Equity	14.8%	14.6%	14.0%	11.4%	15.8%	12.0%	11.1%	10.8%	11.3%	11.6%
ROIC	14.8%	10.0%	8.0%	7.2%	11.0%	9.3%	8.7%	8.5%	9.7%	8.9%
Shares Out.	30.2	30.9	31.5	31.8	32.0	32.3	32.2	32.4	32.3	32.0
Revenue/Share	10.93	17.37	17.46	17.33	18.45	19.84	19.80	21.65	24.46	29.09
FCF/Share	1.53	2.31	1.94	2.62	2.56	3.05	2.95	3.59	3.77	2.72

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

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