Hawkins (HWKN)

Updated May 28th, 2023 by Prakash Kolli

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$966.4M
Fair Value Price:	$39	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/02/23
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	06/17/23
Dividend Yield:	1.3%	**5 Year Price Target**	$57	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Hawkins is a diversified chemical company founded in 1938 and went public in 1972. It specializes in manufacturing and selling value-added and bulk ingredients, chemicals, and services to industrial, manufacturer, and municipal customers. The company operates in three segments: Industrial (~50% of revenue), Water Treatment (~29% of revenue), and Health and Nutrition (~21% of revenue). Almost all revenue is from the United States with 51 facilities in 25 states. Key brands are Stevia, Hereditium, Fermentalg, Lipfoods, Epax, Aquamin, Covico, Panmol, pomma, nippi, and the Enzymology Research Center. The CEO is Patrick Hawkins, a member of the founding family. He owns about 1.5% of the company. Total revenue was $774.54M in fiscal year 2022.

Hawkins reported Q4 FY 2023 and full-year results on May 17th, 2023. For the quarter, companywide revenue increased 2% to $228.1M from $223.0M, while earnings per share rose 10% to $0.55 from $0.50 on a year-over-year basis. The top line grew from higher selling prices and acquisitions in the water treatment segment. The Industrial segment revenue rose 22% to $470.8M from $386.9M in comparable periods on higher prices. Water Treatment segment revenue surged 34% to $304.9M from $228.1M on higher sales and prices, and acquisitions. However, Health and Nutrition segment revenue declined (-1%) to $159.4M from $159.5M in the prior year. The firm expects this segment to face continued softness in fiscal year 2023.

For the year, Hawkins reached record annual sales of $935.1M and record diluted EPS of $2.86.

Growth on a Per-Share Basis

Year[1]	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.81	$0.85	$0.91	$0.86	$1.06	($0.43)	$1.14	$1.33	$1.93	$2.44	***$2.57***	***$3.78***
DPS	$0.35	$0.37	$0.39	$0.41	$0.43	$0.45	$0.46	$0.47	$0.51	$0.56	***$0.60***	***$0.77***
Shares[2]	21.1	21.1	21.0	21.2	21.3	21.2	21.0	21.0	20.9	20.8	***20.8***	***20.5***

Hawkins' revenue has trended up in the past decade driven by organic growth and many acquisitions. The company typically acquires one to two smaller firms per year incrementally adding to revenue and earnings per share. Since 2011, Hawkins has acquired ten companies with seven of those in water treatment. The strategy has proven successful over time, and operating income has grown for 19 consecutive years. The company likely has many more years of growth ahead of it. Bulk and value-added chemicals, ingredients, and services continue to grow. In addition, many small chemical companies exist throughout the United States as acquisition targets, especially in municipal water treatment. We are expecting revenue and earnings per share to grow at ~8% annually on average, less than the past decade, because of inflationary headwinds causing rising input costs.

Hawkins has a 38-year history of paying a dividend and 19-year streak of increasing it. The payout ratio is conservative at approximately 21%, leaving much room for future increases. It also provides confidence about the dividend safety in a cyclical industry. We anticipate a ~5% growth rate per year, near the average for the past decade.

[1] All data is in fiscal year, which ends at the end of March or early April depending on the year.
[2] Share count in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.1	20.7	22.1	21.2	26.6	16.8	15.4	12.9	15.1	17.3	***17.9***	***15.0***
Avg. Yld.	1.9%	2.0%	2.1%	1.9%	2.2%	1.8%	2.2%	1.9%	1.4%	1.3%	***1.3%***	***1.7%***

Hawkins' stock price is up since our last report on good results and beating estimates. We set our fiscal year 2023 estimate at the updated but lower consensus value. Our fair value multiple is 15X, slightly below the 5-year average. Our fair value estimate is now $39. Our 5-year price target is now $57.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	43%	44%	43%	48%	41%	--	40%	35%	26%	23%	***23%***	***20%***

Hawkins' competitive advantage is its strong supplier and customer relationships. Additionally, the firm emphasizes its people and culture. The average tenure is 7 years, and the median salary is ~$95k, seemingly on the higher end for a chemical company. Long tenure ensures Hawkins' customers and suppliers deal with the same employee over time.

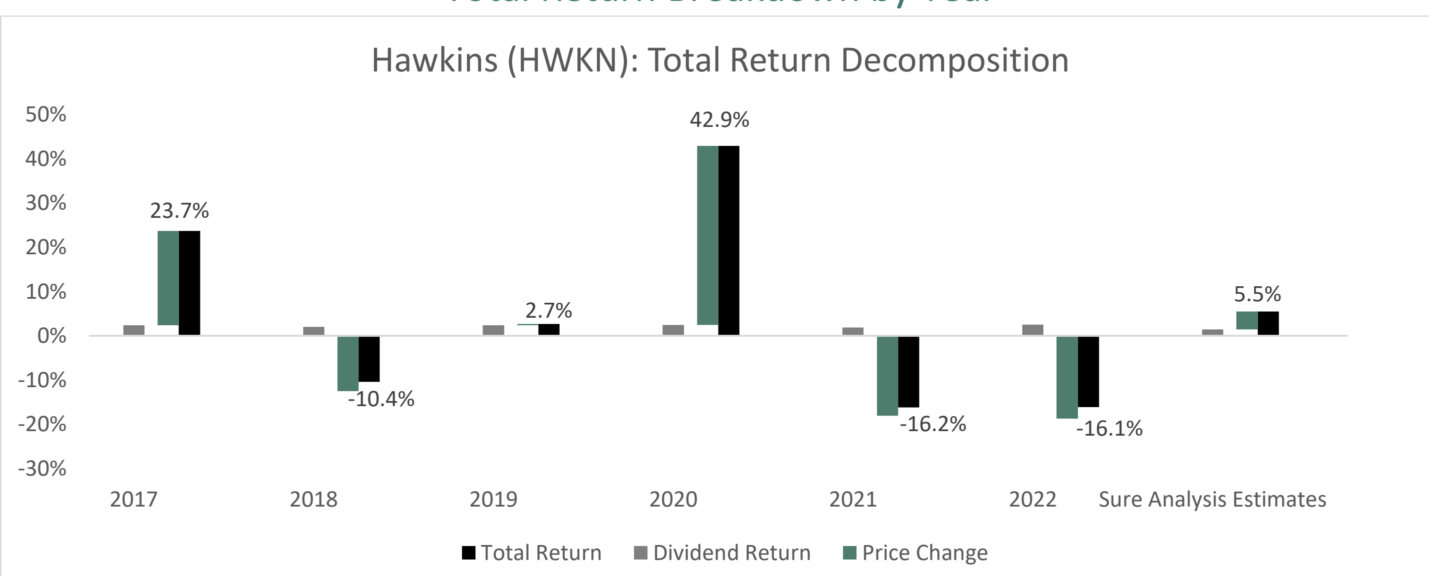
The chemical industry is not recession resistant. Hawkins Industrial and Health and Nutrition segments face challenges during recessions. The Water Treatment segment revenue and profits are less cyclical. The company's earnings have declined in the past before recovering.

The company makes conservative use of debt with only $9.9M in current long-term debt, $101.7M of long-term debt that is offset by $7.6M of cash and equivalents. Interest coverage is about 16X, and the leverage ratio is about 1.0X.

Final Thoughts & Recommendation

At present we are forecasting 5.5% annualized total return over the next five years from a dividend yield of 1.3%, 8% EPS growth, and (-3.5%) P/E multiple contraction. Hawkins focuses on growth by investing in the businesses and tuck-in acquisitions. It is also returning cash to shareholders by dividends. However, the dividend yield is currently lower than the historical average, but the safety is high. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	348	364	414	484	504	556	540	597	775	935
Gross Profit	62	66	80	98	87	96	101	124	147	165
Gross Margin	17.7%	18.1%	19.4%	20.3%	17.2%	17.2%	18.7%	20.7%	18.9%	17.6%
SG&A Exp.	34	35	49	59	59	59	59	68	75	77
D&A Exp.	13	13	16	21	22	22	22	23	24	27
Operating Profit	28	30	31	39	27	37	42	56	71	88
Operating Margin	8.1%	8.4%	7.5%	8.0%	5.4%	6.6%	7.7%	9.4%	9.2%	9.4%
Net Profit	18	19	18	23	(9)	24	28	41	52	60
Net Margin	5.2%	5.3%	4.4%	4.7%	-1.8%	4.4%	5.3%	6.9%	6.7%	6.4%
Free Cash Flow	22	6	12	23	8	35	34	23	14	29
Income Tax	10	11	12	13	(6)	9	11	15	18	23

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	237	248	436	419	391	386	389	473	567	591
Cash & Equivalents	33	19	20	7	5	9	4	3	3	8
Accounts Receivable	38	40	59	57	64	64	67	91	123	129
Total Liabilities	26	37	48	51	60	60	54	64	95	241
Accounts Payable	16	23	181	174	130	124	119	147	158	54
Long-Term Debt	55	54	236	201	189	168	156	207	265	112
Shareholder's Equity	18	20	30	30	33	29	34	37	67	350
LTD/E Ratio	-	-	129	103	101	85	60	99	126	0.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.9%	7.9%	5.3%	5.3%	-2.3%	6.3%	7.3%	9.5%	9.9%	10.4%
Return on Equity	10.3%	10.2%	9.2%	10.8%	-4.4%	11.6%	12.6%	16.4%	18.2%	18.4%
ROIC	10.3%	10.2%	6.9%	6.9%	-2.9%	8.1%	9.5%	12.5%	13.0%	13.5%
Shares Out.	21.1	21.0	21.2	21.3	21.2	21.0	21.0	20.9	20.8	21.0
Revenue/Share	16.43	17.12	19.57	22.82	23.68	25.93	25.35	28.07	36.65	44.50
FCF/Share	1.05	0.29	0.57	1.10	0.36	1.65	1.61	1.08	0.68	1.38

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