Quaker Chemical Corporation (KWR)

Updated May 18th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$204	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$3.8B
Fair Value Price:	$195	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	07/14/2023
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	07/31/2023
Dividend Yield:	0.9%	**5 Year Price Target**	$249	**Years Of Dividend Growth:**	15
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Quaker Chemical Corporation, now operating as Quaker Houghton, was founded in 1918 as Quaker Oil Products Corporation. The company develops, produces, and markets a broad range of formulated chemical specialty products and offers chemical management services for various heavy industrial and manufacturing applications worldwide. The company's business is divided into four segments, namely the Americas, Europe, Middle East and Africa, Asia/Pacific, and Global Specialty Businesses. With over 35 locations in 21 countries, Quaker Houghton has a global presence and generates more than 50% of net sales outside the United States.

On May 4th, 2023, the company announced results for the first quarter in 2023. KWR reported Q1 Non-GAAP EPS of $1.89, beating market estimates by $0.56. The company reported revenues of $500.1 million for the quarter, up 5.5% year-over-year.

The growth in the first quarter was primarily the result of an increase in selling price and product mix of about 19%, which was partially offset by a decline in sales volumes of 11% and an unfavorable impact from currency exchange of 3%. To counteract the severe inflationary pressures on the business, double-digit increases in selling prices across all categories were principally responsible for the increase in selling price and product mix. The continuing soft market circumstances, particularly in Asia/Pacific and EMEA, and the effects of the Ukrainian conflict were the main causes of the fall in sales volumes.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.27	$4.26	$3.84	$4.63	$5.01	$6.05	$5.83	$4.78	$6.85	$5.80	***$6.50***	***$8.30***
DPS	$1.00	$1.15	$1.26	$1.36	$1.41	$1.47	$1.53	$1.56	$1.62	$1.68	***$1.74***	***$2.12***
Shares	13.2	13.3	13.3	13.3	13.3	13.3	17.7	17.9	17.9	18.0	***18.7***	***22.7***

Quaker Chemical Corporation is pursuing a range of strategies to realize long-term growth. It is expanding its product portfolio through R&D, focusing on developing innovative solutions. KWR also targets new markets in emerging economies such as Asia, Latin America, and the Middle East by establishing local operations and partnerships. Strategic acquisitions of complementary businesses are also a crucial part of its growth strategy, such as Coral Chemical, allowing for quick access to new technologies and markets. In addition, it focuses on improving operational efficiency through lean manufacturing and automation, reducing costs, and enhancing profitability.

We forest an EPS of $6.50 in 2023, but the firm can grow annually slightly faster than the Special Chemical industry's projected growth of 4%, and with a 5.0% annual growth, KWR's EPS can reach $8.30 by 2028. Quaker Chemical Corporation's DPS had a nine-year and five-year CAGR of 5.9% and 9.2%, respectively. The credit facility imposes certain dividend restrictions, including a maximum limit of $75.0 million, or 25.0% of consolidated EBITDA. However, the company's approach to managing its capital supports the payment of competitive cash dividends. Thus, we have assumed a relatively moderate annual growth of 4.0%.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	15.6	18.0	21.7	20.4	28.3	27.8	31.2	38.7	36.3	29.7	***31.3***	***30.0***
Avg. Yld.	1.5%	1.5%	1.5%	1.4%	1.0%	0.9%	0.8%	0.8%	0.7%	1.0%	***0.9%***	***0.9%***

Quaker Chemical Corporation is trading at a forward P/E of 31.3, slightly lower than the five-year average P/E of 32.7, but higher than its nine-year average of 26.8. However, considering the limited growth prospects we have assumed a stable P/E of 30.0 to value the company in 2028 close to its historical averages, suggesting a target price of $249, and a 22% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

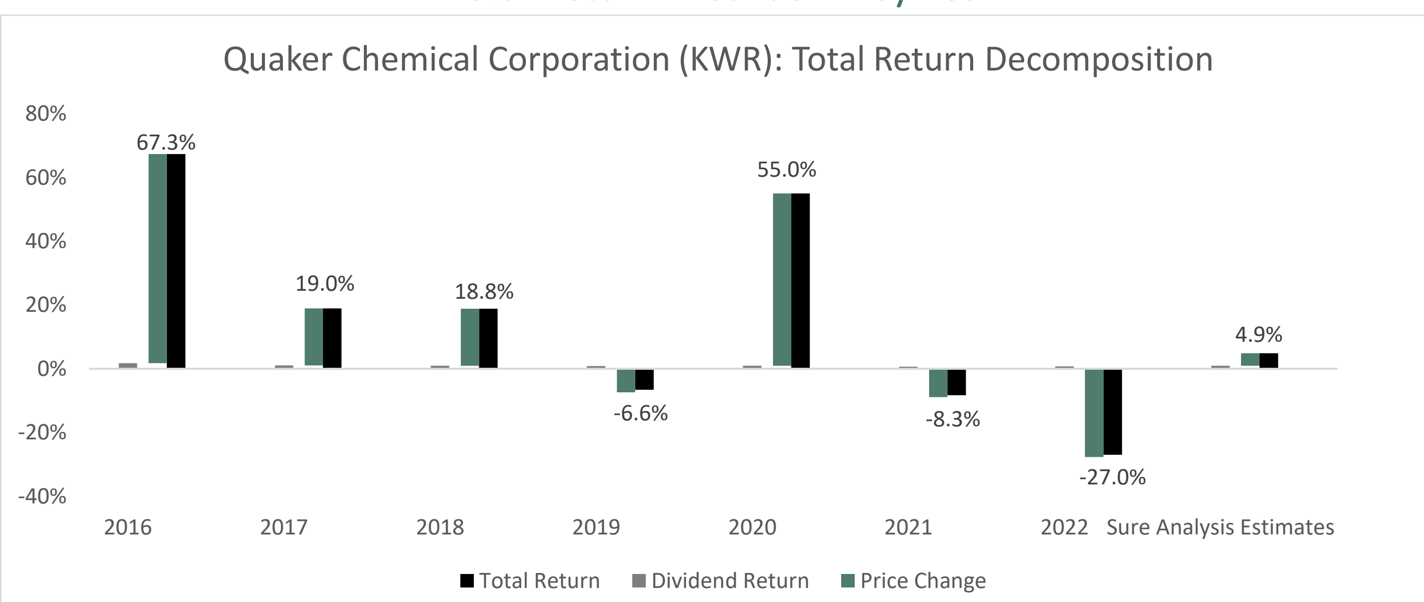
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	27%	33%	29%	28%	24%	26%	33%	24%	29%	***27%***	***27%***

For heavy industrial and manufacturing applications, Quaker Chemical Corporation enjoys a competitive edge in producing and selling a variety of Special Chemical formulations. Because of this edge over competitors, the business can increase profits and benefit its shareholders. Quaker Chemical demonstrated outstanding financial performance with a 10.0% increase in revenue during FY2022 compared to FY2021 during the most recent economic downturn. The company has a sustainable level of debt with a debt-to-equity ratio of 0.78, but its operating cash flow does not adequately cover the debt.

Final Thoughts & Recommendation

The outlook for Quaker Chemical Corporation is still uncertain, and there is limited visibility for growth. Even though management remains focused on streamlining operations, it remains to be seen whether it can deliver on its promises with higher margins and better cost management, leading to higher profitability and unlocking EPS growth. Thus, the hold rating is premised upon the 4.9% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 5.0%, the 0.9% dividend yield, and a valuation headwind.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	729	766	738	747	820	868	1,134	1,418	1,761	1,944
Gross Profit	261	273	278	280	291	312	392	513	595	613
Gross Margin	35.8%	35.7%	37.7%	37.5%	35.5%	36.0%	34.6%	36.2%	33.8%	31.5%
SG&A Exp.	190	196	196	194	199	208	284	381	419	455
D&A Exp.	16	17	19	20	20	20	87	83	87	80
Operating Profit	74	78	81	87	94	105	109	136	191	156
Op. Margin	10.2%	10.2%	11.0%	11.6%	11.4%	12.1%	9.7%	9.6%	10.8%	8.0%
Net Profit	56	56	51	61	20	59	32	40	121	(16)
Net Margin	7.7%	7.4%	6.9%	8.2%	2.5%	6.9%	2.8%	2.8%	6.9%	-0.8%
Free Cash Flow	62	42	62	64	54	66	27	160	27	13
Income Tax	20	24	18	23	42	25	2	(5)	35	25

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	584	666	681	692	722	710	2,850	2,892	2,956	2,822
Cash & Equivalents	68	65	81	89	90	104	124	182	165	181
Acc. Receivable	166	189	188	195	208	202	376	373	431	473
Inventories	72	78	75	77	87	94	175	188	265	285
Goodwill & Int.	89	148	152	154	158	147	1,729	1,713	1,659	1,458
Total Liabilities	239	300	299	279	313	273	1,608	1,571	1,568	1,543
Accounts Payable	72	75	67	78	93	88	164	192	227	194
Long-Term Debt	19	76	82	66	67	37	921	888	893	953
Total Equity	336	357	373	403	408	435	1,241	1,320	1,387	1,278
D/E Ratio	0.06	0.21	0.22	0.17	0.16	0.08	0.74	0.67	0.64	0.75

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.1%	9.0%	7.6%	8.9%	2.9%	8.3%	1.8%	1.4%	4.2%	-0.6%
Return on Equity	18.3%	16.3%	14.0%	15.8%	5.0%	14.1%	3.8%	3.1%	9.0%	-1.2%
ROIC	16.5%	14.0%	11.3%	13.0%	4.2%	12.5%	2.4%	1.8%	5.4%	-0.7%
Shares Out.	13.2	13.3	13.3	13.3	13.3	13.3	17.7	17.9	17.9	18.0
Revenue/Share	55.81	58.25	55.81	56.74	61.91	65.20	74.75	79.87	98.64	108.84
FCF/Share	4.77	3.17	4.72	4.85	4.07	4.95	1.81	9.04	1.54	0.74

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