NewMarket Corp. (NEU)

Updated April 30th, 2023, by Tiago Dias

Key Metrics

Current Price:	$400	**5 Year CAGR Estimate:**	1.2%	**Market Cap:**	$4 B
Fair Value Price:	$360	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	06/14/2023
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	07/03/2023
Dividend Yield:	2.3%	**5 Year Price Target**	$378	**Years Of Dividend Growth:**	17
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 $4 billion market cap company has come a long way from its roots.

NewMarket reported Q1 2023 earnings on the 27th of April 2023. For the quarter, earnings-per-share equaled $10.09 per share, well above the $5.75 per share reported for 2022. During quarter the company funded $11.9 million in capital expenditures and returned $48.8 million to shareholders via a combination of dividends and share buybacks.

The management team is encouraged by the sequential improvement in the petroleum additives operating profit over the last two quarters, with the company's operating margin rising to 15.2% which is at the lower end of the range of their long-term expectations. The supply chain disruptions that impacted the company's business have been progressively improving, while inflation and cost controls remain high priorities.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$19.90	$18.38	$19.45	$20.54	$19.54	$20.34	$22.73	$24.64	$17.71	$27.77	***$30.00***	***$31.53***
DPS	$3.55	$4.40	$5.60	$6.40	$6.85	$7.00	$7.15	$7.60	$7.80	$8.40	***$9.00***	***$9.46***
Shares	13	12	12	12	12	11	11	11	10	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 $31.53 per share in 2028, with a dividend per share of $9.46. This is in-line with the company's own expectations, as well as its historical norms and prospects.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	20.8	21.9	19.6	22.3	19.6	19.4	16.1	20.1	11.1	***13.3***	***12.0***
Avg. Yld.	1.3%	1.2%	1.3%	1.6%	1.6%	1.8%	1.6%	1.9%	2.2%	2.7%	***2.3%***	***2.5%***

In the past decade, NewMarket has traded hands at an average price to earnings ratio of 18.5, a significant premium compared to the company's lackluster growth and poor prospects. More recently, the company's valuation multiple has shrunk to 13.3 times earnings, and we expect that it will remain close 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	24%	29%	31%	35%	34%	31%	31%	44%	30%	***30%***	***30%***

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.

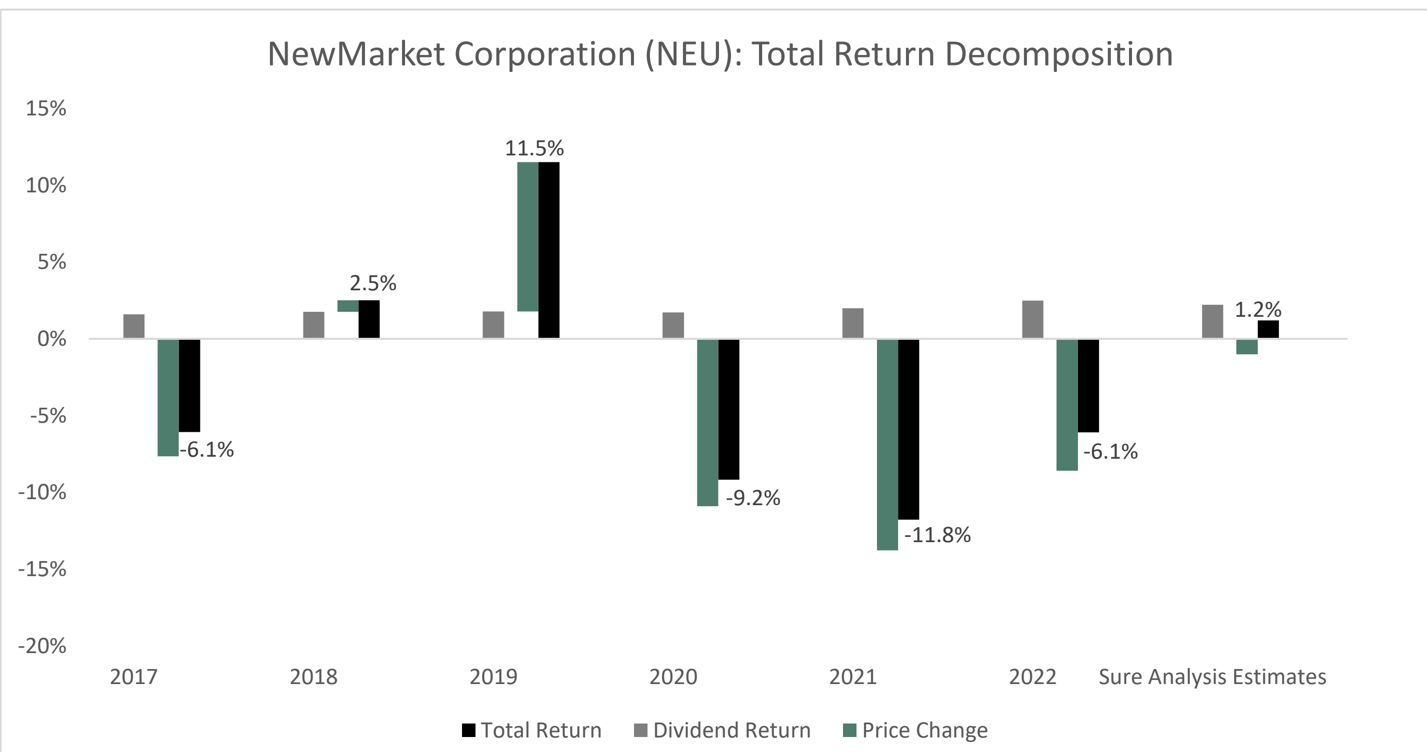
The dividend is well covered and given the stability of its earnings it's unlikely that it will be cut during a recession, though the company has already shown that they are not unwilling to freeze it when it is in the event of poor performance, like we saw in 2018.

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 2.3% dividend yield, and only 1% earnings growth over the foreseeable future, we are forecasting a total return potential of 1.2% per annum, driven by the yield and 1% growth as well as a slight re-rating downward. While ordinarily an expected return so low would merit a sell, the company's improvement in margins over the past few quarters are encouraging and worth holding on for additional improvements, rather than prematurely selling just yet. As a result, the company's shares earn a hold rating.

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	2,280	2,335	2,141	2,049	2,198	2,290	2,190	2,011	2,356	2,765
Gross Profit	653	665	679	677	636	585	630	595	548	640
Gross Margin	28.6%	28.5%	31.7%	33.0%	28.9%	25.6%	28.8%	29.6%	23.2%	23.1%
SG&A Exp.	165	164	164	162	168	152	148	143	146	145
D&A Exp.	46	42	42	45	55	72	88	84	84	82
Operating Profit	352	363	357	355	323	293	337	312	258	355
Op. Margin	15.4%	15.5%	16.7%	17.3%	14.7%	12.8%	15.4%	15.5%	10.9%	12.8%
Net Profit	265	233	239	243	191	235	254	271	191	280
Net Margin	11.6%	10.0%	11.1%	11.9%	8.7%	10.3%	11.6%	13.5%	8.1%	10.1%
Free Cash Flow	219	175	142	211	94	123	278	191	86	52
Income Tax	99	106	100	100	125	56	77	61	57	68

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,327	1,232	1,286	1,416	1,712	1,697	1,885	1,934	2,558	2,407
Cash & Equivalents	239	103	93	192	84	73	144	125	83	69
Acc. Receivable	287	275	253	266	311	277	290	285	317	385
Inventories	308	348	352	312	383	396	366	401	499	631
Goodwill & Int.	23	17	11	10	144	136	132	130	128	126
Total Liabilities	755	811	899	933	1,111	1,207	1,202	1,174	1,796	1,644
Accounts Payable	134	138	129	142	159	152	179	190	246	273
Long-Term Debt	349	364	491	503	597	766	643	599	1,139	1,004
Total Equity	572	421	388	483	602	490	683	760	762	762
LTD/E Ratio	0.61	0.86	1.27	1.04	0.99	1.56	0.94	0.79	1.49	1.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	20.4%	18.2%	19.0%	18.0%	12.2%	13.8%	14.2%	14.2%	8.5%	11.3%
Return on Equity	54.3%	47.0%	59.0%	55.9%	35.1%	43.0%	43.4%	37.5%	25.1%	36.7%
ROIC	30.3%	27.3%	28.7%	26.1%	17.4%	19.1%	19.7%	20.2%	11.7%	15.2%
Shares Out.	13	12	12	12	12	11	11	11	10	10
Revenue/Share	171.64	184.31	174.89	173.27	185.93	198.84	196.16	183.46	219.05	275.52
FCF/Share	16.52	13.83	11.56	17.80	7.96	10.71	24.88	17.41	8.03	5.23

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