# Sensient Tech. (SXT)

*Updated August 5th, 2023, by Ian Bezek*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $62 | **5 Year CAGR Estimate:** | 10.0% | **Market Cap:** | $2.5 B |
| **Fair Value Price:** | $64 | **5 Year Growth Estimate:** | 7.0% | **Ex-Dividend Date:** | 08/04/23 |
| **% Fair Value:** | 96% | **5 Year Valuation Multiple Estimate:** | 0.7% | **Dividend Payment Date:** | 09/01/23 |
| **Dividend Yield:** | 2.6% | **5 Year Price Target** | $90 | **Years Of Dividend Growth:** | 16 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Rating:** | Buy |

## 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 had enjoyed a strong operating environment since 2020, both in terms of unit demand and pricing. In fact, in some categories, such as onion products, it had struggled to keep up with the high levels of consumer demand. Regardless, Sensient was able to manage supply chain and inflationary issues well and its business is showing newfound success. However, this momentum has abruptly reversed over the past couple of quarters.

On July 21st, 2023, Sensient delivered downbeat second quarter results. Earnings per share of 81 cents declined from 92 cents per share in the same quarter of 2022 and badly missed analyst expectations. Revenues of $374 million also missed expectations and grew just 0.7% year-over-year. This was another lackluster result following Sensient's disappointing results in Q1. Foreign exchange continues to be a drag on results.

Sensient's 2023 outlook is uneven and seemingly getting worse. The firm's Flavors & Extracts business is seeing falling revenues as customers have been destocking and reducing inventories. Even price increases weren't enough to offset falling unit sales. On the other hand, Sensient's colors business is still growing, albeit at a decelerating rate. Overall, the firm's downturn has dragged on longer than previously forecast; Sensient cut its full-year guidance and we've lowered our estimates accordingly.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.27 | $3.02 | $3.05 | $3.21 | $3.42 | $3.70 | $2.96 | $2.59 | $3.13 | $3.34 | ***$3.06*** | ***$4.29*** |
| **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 $2.27 to $3.34 between 2013 and 2022. 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 appeared to be changing for the better. Sensient had enjoyed a robust pricing environment in 2021 and 2022, posting some of its best growth metrics in quite a while, though 2023 has reversed that recent trend. 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. We are forecasting 7% annual growth in the longer term once it gets past the unfavorable 2023 operating environment.

Sensient has enjoyed decent dividend growth in recent years, with a 6.8% annualized growth rate over the past decade. 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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 18.9 | 18.1 | 21.3 | 21.5 | 22.8 | 18.7 | 22.5 | 22.0 | 27.7 | 22.0 | ***20.3*** | ***21.0*** |
| Avg. Yld. | 2.1% | 1.8% | 1.6% | 1.6% | 1.6% | 2.0% | 2.2% | 2.7% | 1.8% | 2.2% | ***2.6%*** | ***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 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, and over the past year Sensient's P/E has returned to a more typical level. We anticipate its P/E remaining 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 2.6% dividend yield is near the top end of the firm's historical range.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 40% | 32% | 34% | 35% | 36% | 36% | 50% | 60% | 50% | 49% | ***54%*** | ***49%*** |

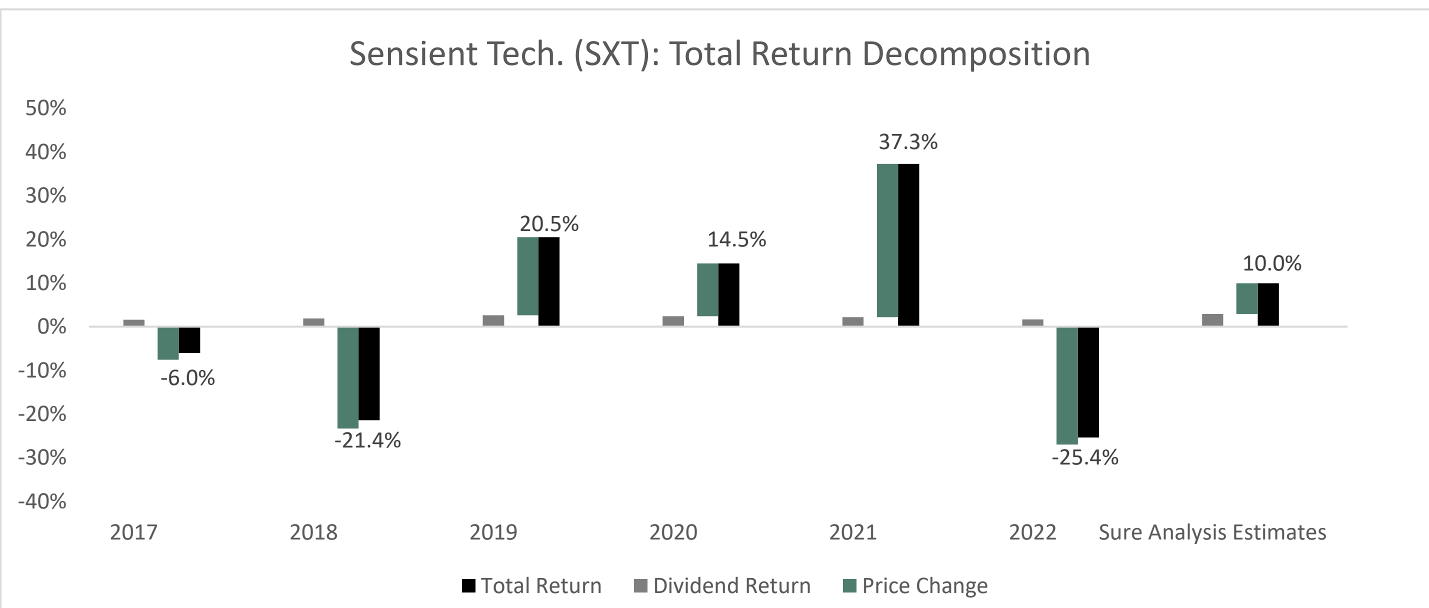
Sensient has a strong balance sheet, as it has just $687 million of long-term debt. That, plus the fact that it enjoys a history of stable earnings, should ensure that Sensient is well-positioned to handle its financial obligations.

Sensient operates in a commoditized 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 32% to 60% from 2014 to 2020. However, dividend coverage has improved over the past few years.

## Final Thoughts & Recommendation

After a couple of strong years, Sensient has hit another bump in the road operationally. However, shares have dropped sharply since our prior update, which more than offsets the near-term earnings weakness. We forecast 7% annualized earnings growth. That, when added to the dividend yield, leads to an expected 10.0% annualized total return through 2028. After previous overvaluation, SXT stock has moved to a more attractive entry point and earns a buy rating today.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,462 | 1,448 | 1,376 | 1,383 | 1,362 | 1,387 | 1,323 | 1,332 | 1,380 | 1,437 |
| Gross Profit | 475 | 489 | 454 | 475 | 475 | 466 | 415 | 424 | 455 | 489 |
| Gross Margin | 32.5% | 33.7% | 33.0% | 34.4% | 34.9% | 33.6% | 31.4% | 31.8% | 32.9% | 34.0% |
| SG&A Exp. | 301 | 358 | 288 | 290 | 308 | 263 | 294 | 271 | 285 | 292 |
| D&A Exp. | 52 | 51 | 48 | 47 | 49 | 53 | 55 | 50 | 52 | 52 |
| Operating Profit | 174 | 131 | 166 | 186 | 168 | 203 | 121 | 153 | 170 | 197 |
| Op. Margin | 11.9% | 9.0% | 12.1% | 13.4% | 12.3% | 14.7% | 9.2% | 11.5% | 12.3% | 13.7% |
| Net Profit | 113 | 74 | 107 | 126 | 90 | 157 | 82 | 109 | 119 | 141 |
| Net Margin | 7.7% | 5.1% | 7.8% | 9.1% | 6.6% | 11.3% | 6.2% | 8.2% | 8.6% | 9.8% |
| Free Cash Flow | 49 | 110 | 48 | 102 | (20) | 33 | 138 | 167 | 84 | (67) |
| Income Tax | 43 | 33 | 42 | 44 | 59 | 24 | 19 | 28 | 39 | 41 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 1,871 | 1,765 | 1,704 | 1,668 | 1,724 | 1,825 | 1,740 | 1,741 | 1,745 | 1,982 |
| Cash & Equivalents | 20 | 20 | 12 | 26 | 29 | 32 | 21 | 25 | 26 | 21 |
| Acc. Receivable | 234 | 229 | 232 | 195 | 195 | 255 | 213 | 234 | 261 | 302 |
| Inventories | 474 | 449 | 409 | 404 | 464 | 491 | 423 | 381 | 412 | 564 |
| Goodwill & Int. | 468 | 433 | 409 | 392 | 416 | 435 | 419 | 434 | 435 | 434 |
| Total Liabilities | 628 | 718 | 859 | 832 | 872 | 965 | 859 | 807 | 807 | 982 |
| Accounts Payable | 99 | 99 | 95 | 92 | 110 | 132 | 95 | 107 | 126 | 142 |
| Long-Term Debt | 355 | 467 | 634 | 603 | 624 | 710 | 619 | 527 | 512 | 651 |
| Total Equity | 1,243 | 1,047 | 845 | 836 | 852 | 860 | 882 | 934 | 938 | 1000 |
| LTD/E Ratio | 0.29 | 0.45 | 0.75 | 0.72 | 0.73 | 0.83 | 0.70 | 0.56 | 0.55 | 0.65 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 6.2% | 4.1% | 6.2% | 7.5% | 5.3% | 8.9% | 4.6% | 6.3% | 6.8% | 7.6% |
| Return on Equity | 9.5% | 6.4% | 11.3% | 15.0% | 10.6% | 18.4% | 9.4% | 12.1% | 12.7% | 14.5% |
| ROIC | 7.3% | 4.7% | 7.1% | 8.7% | 6.1% | 10.3% | 5.3% | 7.4% | 8.2% | 9.1% |
| Shares Out. | 50 | 48 | 45 | 44 | 43 | 42 | 42 | 42 | 42 | 42 |
| Revenue/Share | 29.28 | 29.66 | 29.78 | 30.85 | 30.94 | 32.63 | 31.28 | 31.46 | 32.66 | 34.04 |
| FCF/Share | 0.99 | 2.25 | 1.04 | 2.28 | (0.46) | 0.77 | 3.26 | 3.93 | 2.00 | -1.59 |

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