



Sensient Tech. (SXT)

Updated October 21st, 2023, by Ian Bezek

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	11.4%	Market Cap:	\$2.4 B
Fair Value Price:	\$64	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/03/23
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	12/01/23
Dividend Yield:	2.8%	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 year.

On October 20th, 2023, Sensient delivered its third quarter results. Earnings per share of 75 cents declined from 85 cents per share in the same quarter of 2022, but matched analyst expectations. Revenues of \$364 million grew less than 1% year-over-year. While foreign exchange continues to be a drag on results, this quarter was an improvement in that unlike prior reports and Sensient did not miss analyst expectations.

Sensient's outlook heading into 2024 remains mixed. The firm's Flavors & Extracts business has bounced back and is now reporting rising revenues once again after a period of sequential declines. On the other hand, Sensient's colors business has slowed down significantly. Overall, Sensient's downturn has dragged on longer than previously forecast, however conditions appear to have stabilized this quarter and we maintain our prior earnings estimates for 2023 and beyond.

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	\$0.91	\$0.98	\$1.04	\$1.11	\$1.23	\$1.35	\$1.47	\$1.56	\$1.58	\$1.64	\$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 current unfavorable 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	19.0	21.0
Avg. Yld.	2.1%	1.8%	1.6%	1.6%	1.6%	2.0%	2.2%	2.7%	1.8%	2.2%	2.8%	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 2.8% over the past decade. The current 2.8% dividend yield is at 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%

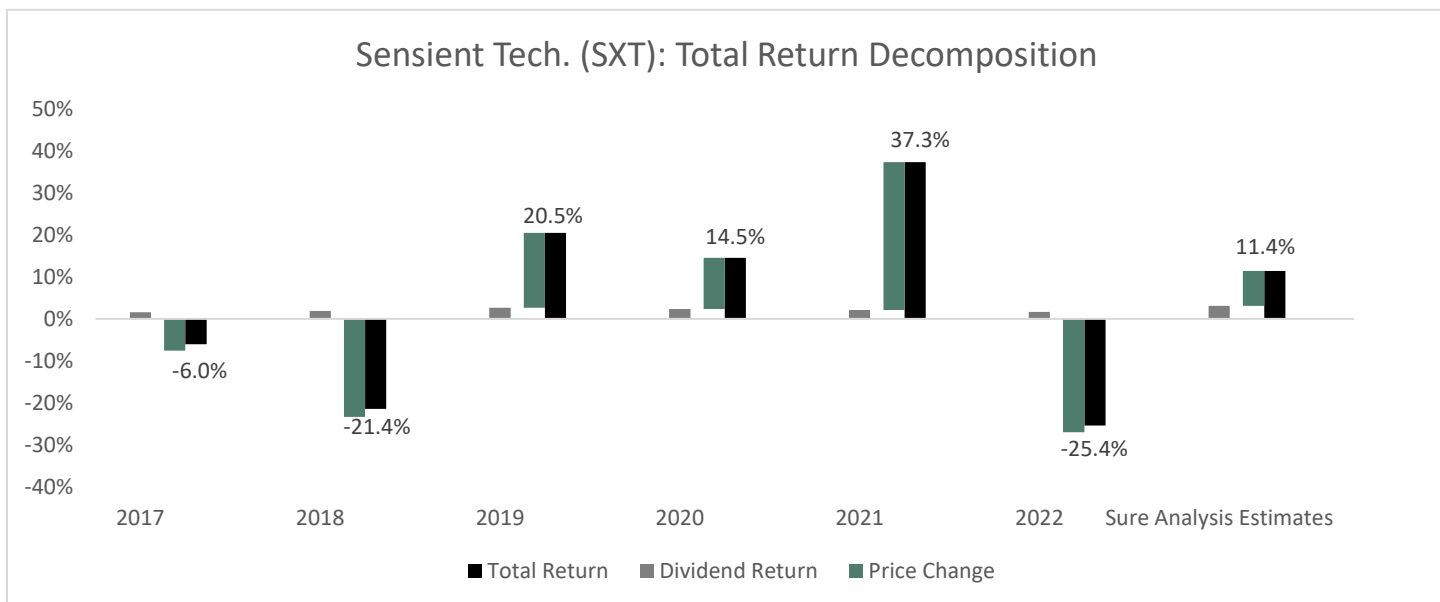
Sensient has a strong balance sheet, as it has just \$648 million of long-term debt. That, plus the fact that it enjoys a history of stable earnings, should ensure that Sensient is well-positioned to handle its financial obligations.

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 over the past year, which more than offsets the near-term weakness. We forecast 7% annualized earnings growth. That, plus the dividend and a bit of multiple expansion leads, to an expected 11.4% annualized total return through 2028. SXT stock's recent swoon has put shares at a discount to fair value; shares earn 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.

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