NewMarket Corp. (NEU)

Updated February 4th, 2024, by Tiago Dias

Key Metrics

Current Price:	$587	**5 Year CAGR Estimate:**	-3.6%	**Market Cap:**	$5.8 B
Fair Value Price:	$420	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	03/14/2024
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Dividend Payment Date:**	04/01/2024
Dividend Yield:	1.5%	**5 Year Price Target**	$441	**Years Of Dividend Growth:**	18
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $5.8 billion market cap company has come a long way from its roots.

NewMarket reported Q4 and full year 2023 earnings on February 1st, 2024. For the quarter, earnings-per-share equaled $8.38 per share, slightly below the $9.26 per share reported for the same period in 2022. For the full year, earnings per share stood at $40.44, compared to the $27.77 reported in 2022.

During the year the company returned $127.9 million to shareholders via a combination of dividends and share buybacks. Additionally, the company made payments of $361 million on its revolving credit facility, thereby further deleveraging the business, and improved working capital by $134 million. As of December 31st, 2023, the company's net debt to EBITDA stood at 0.9, a significant improvement over the 2.0 reported in December 2022.

On January 16th, 2024 the company completed the acquisition of AMPAC, for approximately $700 million. AMPAC is a leading North American manufacturer of critical performance additives used in solid rocket motors for space launch and military defense applications. This acquisition was funded by cash on hand and borrowings under the revolving credit facility. The management team expects that AMPAC will be accretive to net income in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$18.38	$19.45	$20.54	$19.54	$20.34	$22.73	$24.64	$17.71	$27.77	$40.44	***$35.00***	***$36.79***
DPS	$4.40	$5.60	$6.40	$6.85	$7.00	$7.15	$7.60	$7.80	$8.40	$8.85	***$9.00***	***$9.46***
Shares	12	12	12	12	11	11	11	10	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 $36.79 per share in 2029, 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. The market is currently valuing NewMarket at a much higher future growth rate than its past history or management projections would suggest. The stock's valuation could compress dramatically in future years.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	20.8	21.9	19.6	22.3	19.6	19.4	16.1	20.1	10.8	9.9	***16.8***	***12.0***
Avg. Yld.	1.2%	1.3%	1.6%	1.6%	1.8%	1.6%	1.9%	2.2%	2.2%	2.2%	***1.5%***	***2.1%***

Over the past decade, NewMarket has traded hands at an average price to earnings ratio of 18, a significant premium compared to the company's lackluster growth and poor prospects. More recently, the company's valuation multiple has shrunk to 16 times earnings, and we expect that it will fall 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	29%	31%	35%	34%	31%	31%	44%	30%	22%	***26%***	***26%***

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.

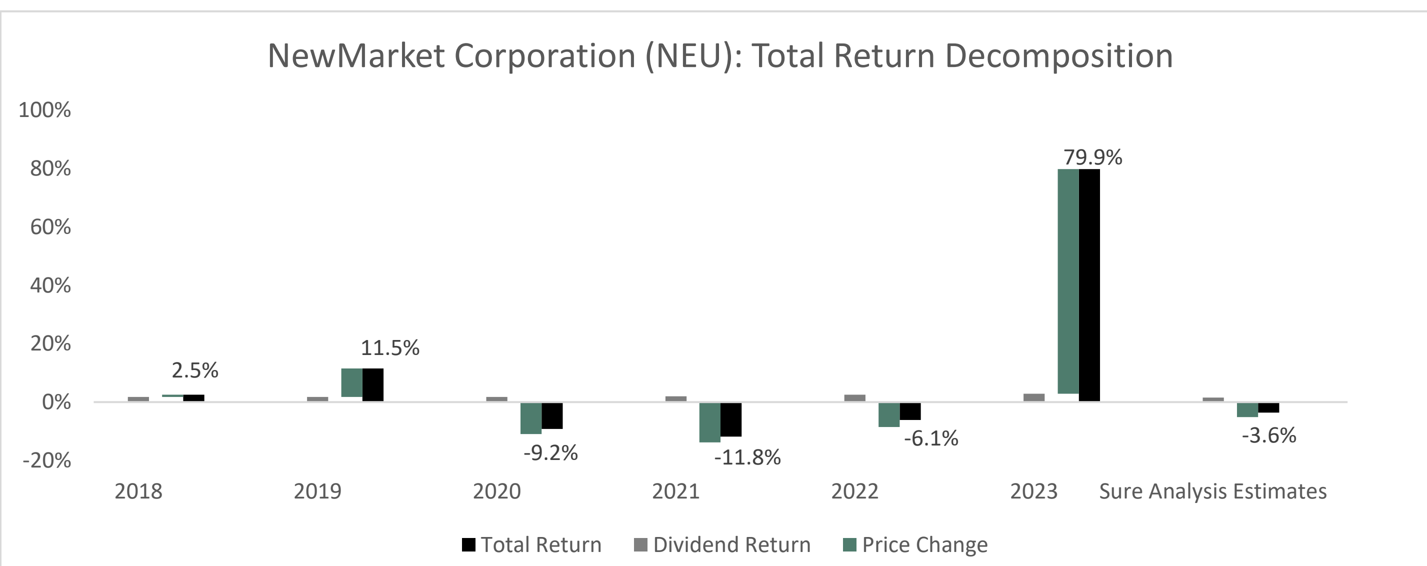
The dividend is well covered and given the stability of its earnings it's unlikely that it will be cut during a recession, though the company has already shown that they are willing to freeze it when it is in the event of poor performance, like we saw in 2018.

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 1.5% dividend yield, only 1% earnings growth over the foreseeable future, as well as a re-rating downward we are forecasting a total return potential of -3.6% per annum. As a result, the company's shares earn a sell rating.

Total Return Breakdown by Year



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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.