Sensient Tech. (SXT)

Updated February 17th, 2024, by Ian Bezek

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$2.7 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/05/24
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	03/01/24
Dividend Yield:	2.5%	**5 Year Price Target**	$88	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

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.

In 2021 and 2022, Sensient enjoyed a strong operating environment 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. Like many companies which rely on consumer spending, however, Sensient's results have soured as pandemic-related buying has tapered off while inflation and supply chain issues have been a challenge to profitability.

On February 8th, 2024, Sensient delivered its fourth quarter results. Adjusted earnings per share of 51 cents declined from 64 cents per share in the same quarter of 2022, and significantly fell short of analyst expectations. Revenues of $349 million grew just 0.2% year-over-year and also missed expectations. After a relatively strong Q3, Sensient has returned to its unfavorable trend, with this Q4 report offering few reasons for immediate optimism. The GAAP earnings numbers look even worse, as the company reported an outright loss for the quarter due to restructuring charges.

However, we model the firm's earnings excluding one-time charges. On that basis, we expect the company to return to a modest level of earnings growth in 2024, with full-year EPS slated to come in at $2.98. While the company is reporting unfavorable operational trends right now, we expect a return to top-line revenue growth in the back half of 2024. Additionally, the firm's cost savings program should start to deliver some margin improvement. Regardless, Sensient remains in a tough operating environment, and near-term earnings growth will be limited. It will be at least a couple of years until Sensient gets back to the levels of profitability that it had achieved in the late 2010s.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.02	$3.05	$3.21	$3.42	$3.70	$2.96	$2.59	$3.13	$3.34	$2.86	***$2.98***	***$4.18***
DPS	$0.98	$1.04	$1.11	$1.23	$1.35	$1.47	$1.56	$1.58	$1.64	$1.64	***$1.64***	***$2.09***
Shares	50	48	45	44	43	42	42	42	42	42	***42***	***41***

Sensient has shown virtually no growth over the past decade. Earnings-per-share were around $3 per share ten years ago, and remain around that level today. The operating business has actually shrunk, but the firm's share buyback program managed to keep earnings per share stable.

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. But 2023 has challenged the idea that Sensient has turned a corner operationally. That said, 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. For now, we will give management the benefit of the doubt and forecast 7% annual earnings growth based on its ongoing cost-savings and turnaround effort.

Sensient had enjoyed decent dividend growth in recent years, with a 5.9% annualized growth rate over the past decade. However, the payout ratio has increased given the lack of earnings growth, and the company has failed to increase its dividend for more than a year now.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.1	21.3	21.5	22.8	18.7	22.5	22.0	27.7	22.0	23.4	***21.8***	***21.0***
Avg. Yld.	1.8%	1.6%	1.6%	1.6%	2.0%	2.2%	2.7%	1.8%	2.2%	2.4%	***2.5%***	***2.4%***

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 shares have now returned to around a more reasonable valuation ratio. 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 2.5% dividend yield sits toward the top end of the firm's historical range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	34%	35%	36%	36%	50%	60%	50%	49%	57%	***55%***	***50%***

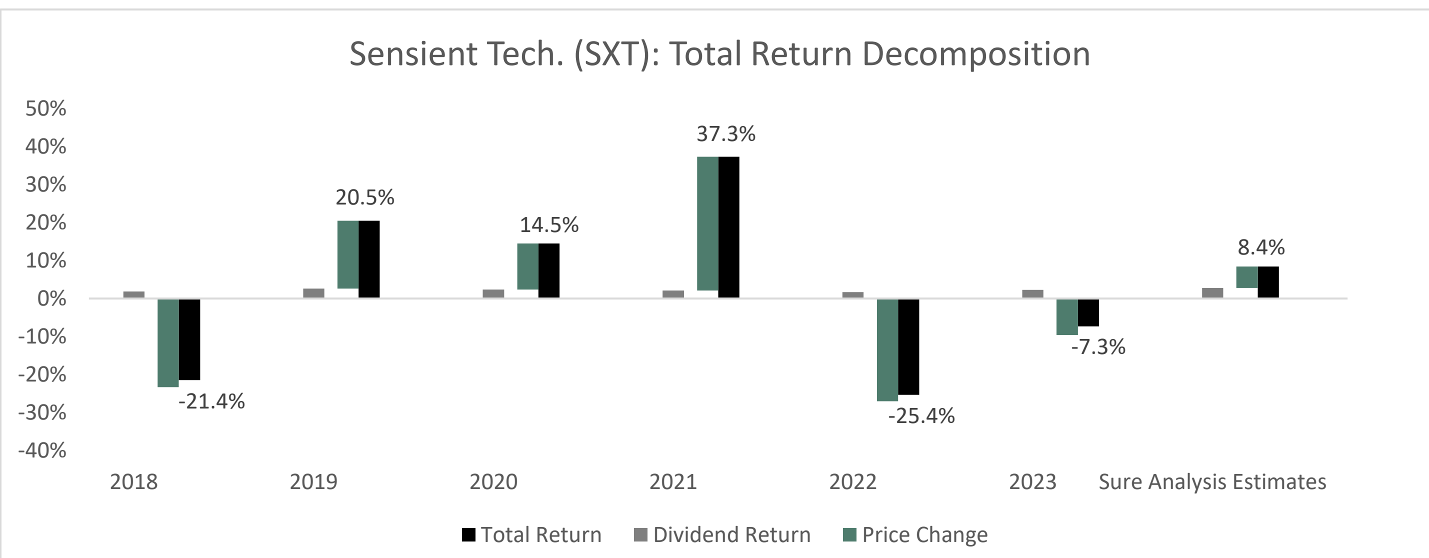
Sensient has a strong balance sheet, as it has just $645 million of long-term debt. That, plus the fact that it enjoys a history of stable earnings, should ensure that Sensient is well positioned to handle its financial obligations.

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 large and sustained rise in the firm's payout ratio. While the company is safe and generally recession-proof, the distinct lack of earnings growth makes one wonder about the underlying quality of the firm's business operations.

Final Thoughts & Recommendation

After a couple of strong years, Sensient has hit another bump in the road operationally. The last quarterly earnings report was particularly disappointing. We believe things will get better and forecast 7% annualized earnings growth. However, Sensient's share price has rallied since our last report, and that has lowered the forward outlook return to 8.4% annually. SXT stock merits a hold rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,448	1,376	1,383	1,362	1,387	1,323	1,332	1,380	1,437	1,456
Gross Profit	489	454	475	475	466	415	424	455	489	460
Gross Margin	33.7%	33.0%	34.4%	34.9%	33.6%	31.4%	31.8%	32.9%	34.0%	31.6%
SG&A Exp.	358	288	290	308	263	294	271	285	292	305
D&A Exp.	51	48	47	49	53	55	50	52	52	58
Operating Profit	131	166	186	168	203	121	153	170	197	155
Op. Margin	9.0%	12.1%	13.4%	12.3%	14.7%	9.2%	11.5%	12.3%	13.7%	10.6%
Net Profit	74	107	126	90	157	82	109	119	141	93
Net Margin	5.1%	7.8%	9.1%	6.6%	11.3%	6.2%	8.2%	8.6%	9.8%	6.4%
Free Cash Flow	110	48	102	(20)	33	138	167	84	(67)	82
Income Tax	33	42	44	59	24	19	28	39	41	36

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,765	1,704	1,668	1,724	1,825	1,740	1,741	1,745	1,982	2,015
Cash & Equivalents	20	12	26	29	32	21	25	26	21	29
Acc. Receivable	229	232	195	195	255	213	234	261	302	272
Inventories	449	409	404	464	491	423	381	412	564	598
Goodwill & Int.	433	409	392	416	435	419	434	435	434	436
Total Liabilities	718	859	832	872	965	859	807	807	982	961
Accounts Payable	99	95	92	110	132	95	107	126	142	131
Long-Term Debt	467	634	603	624	710	619	527	512	651	659
Total Equity	1,047	845	836	852	860	882	934	938	1000	1,053
LTD/E Ratio	0.45	0.75	0.72	0.73	0.83	0.70	0.56	0.55	0.65	0.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	6.2%	7.5%	5.3%	8.9%	4.6%	6.3%	6.8%	7.6%	4.7%
Return on Equity	6.4%	11.3%	15.0%	10.6%	18.4%	9.4%	12.1%	12.7%	14.5%	9.1%
ROIC	4.7%	7.1%	8.7%	6.1%	10.3%	5.3%	7.4%	8.2%	9.1%	5.6%
Shares Out.	48	45	44	43	42	42	42	42	42	42
Revenue/Share	29.66	29.78	30.85	30.94	32.63	31.28	31.46	32.66	34.04	34.48
FCF/Share	2.25	1.04	2.28	(0.46)	0.77	3.26	3.93	2.00	-1.59	1.94

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