



# Compass Minerals International, Inc. (CMP)

Updated May 9<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$12.95	<b>5 Year CAGR Estimate:</b>	4.0%	<b>Market Cap:</b>	\$534.5 M
<b>Fair Value Price:</b>	\$10.00	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	06/07/2024 <sup>1</sup>
<b>% Fair Value:</b>	130%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	06/20/2024
<b>Dividend Yield:</b>	4.6%	<b>5 Year Price Target</b>	\$12.76	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## Overview & Current Events

Compass Minerals International produces and sells salt, and specialty plant nutrition, and chemical products internationally. Its various chloride and salt variants (~55% of sales), such as solar-evaporated salt, are applied as deicers for roadways, human, animal nutrition, and various other industrial uses. Its plant nutrition segment (~45% of sales) offers specialty fertilizers in various grades and other agricultural solutions. The company generates nearly \$1.2 billion in revenues annually and is based in Overland Park, Kansas.

*From FY2021 and onwards, results reflect the change in the fiscal year-end from Dec. 31<sup>st</sup> to Sept. 30<sup>th</sup>.*

On May 7<sup>th</sup>, 2024, Compass Minerals posted its fiscal Q2 results for the period ending March 31<sup>st</sup>, 2024. For the quarter, revenues fell by 11.5% to \$364.0 million. This was due to the 5% revenue growth from the plant nutrition segment not being able to offset the 14% decline in salt revenues.

Specifically, in the salt business, sales volumes declined 21% year-over-year, which was only partially offset by a 9% rise in average sales price. In the plant nutrition business, the average sales price for the quarter declined by 15% year-over-year to \$680 per ton, reflecting a rebalancing of global supply and demand for potassium-based fertilizers. However, sales volumes grew 23%, driven normalizing demand in the company's core West Coast markets.

Another quarter of underwhelming sales figures led to another quarter of losses. The company posted a loss-per-share of \$1.16 for Q1.

For fiscal 2024, the company expects adjusted EBITDA between \$200 million and \$210 million. We believe the company has an earnings-per-share power of \$1.00 under "normalized" conditions. However, this figure is likely to end up notably weaker this year or even come in negative.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$6.45	\$4.70	\$4.79	\$1.25	\$2.02	\$1.81	\$1.72	(\$5.48)	(\$0.73)	\$0.37	<b>\$0.15</b>	<b>\$1.28</b>
<b>DPS</b>	\$2.40	\$2.64	\$2.78	\$2.88	\$2.88	\$2.88	\$2.88	\$2.88	\$0.60	\$0.60	<b>\$0.60</b>	<b>\$0.60</b>
<b>Shares<sup>2</sup></b>	33.6	33.7	33.8	33.8	33.8	33.9	33.9	34.0	34.1	40.8	<b>41.2</b>	<b>44.0</b>

Compass Minerals has struggled to grow its EPS over the years. Its five-year investment plan initiated in 2014 to transition its crown-jewel Goderich salt mine in Ontario, Canada, was poorly managed, both engineering-wise and labor-relations-wise. The dividend grew annually from 2005 to 2017, was then frozen, and then cut recently as the company struggled to grow earnings. We believe the dividend should be covered for now and retain our earnings growth rate estimate to 5% as lower dividend payments should help the company to improve its financial position and potentially pursue growth initiatives. However, we remain cautious as Compass's net income is very susceptible both to the underlying price of commodities and the seasonality risk of relying on strong winter weather to generate sufficient revenues. We don't expect any growth in the dividend in the medium-term.

<sup>1</sup> Estimate dates.

<sup>2</sup> Share count is in millions.

*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	Now	2029
Avg. P/E	23.8	12.9	17.2	13.9	17.6	28.0	35.3	---	---	---	13.0	10.0
Avg. Yld.	2.8%	3.1%	4.0%	4.3%	4.3%	5.3%	5.3%	4.5%	1.7%	1.6%	4.6%	4.7%

Compass Mineral's P/E currently stands at 13.0 times our projected earnings power. We believe that the stock's P/E is too rich to justify the underwhelming growth prospects and lack of noteworthy profitability potential. The stock's valuation has a strong probability of being compressed, which could notably impact its future returns prospects. The 4.6%-yielding dividend, while decent, doesn't compensate for the lack of improving financials.

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

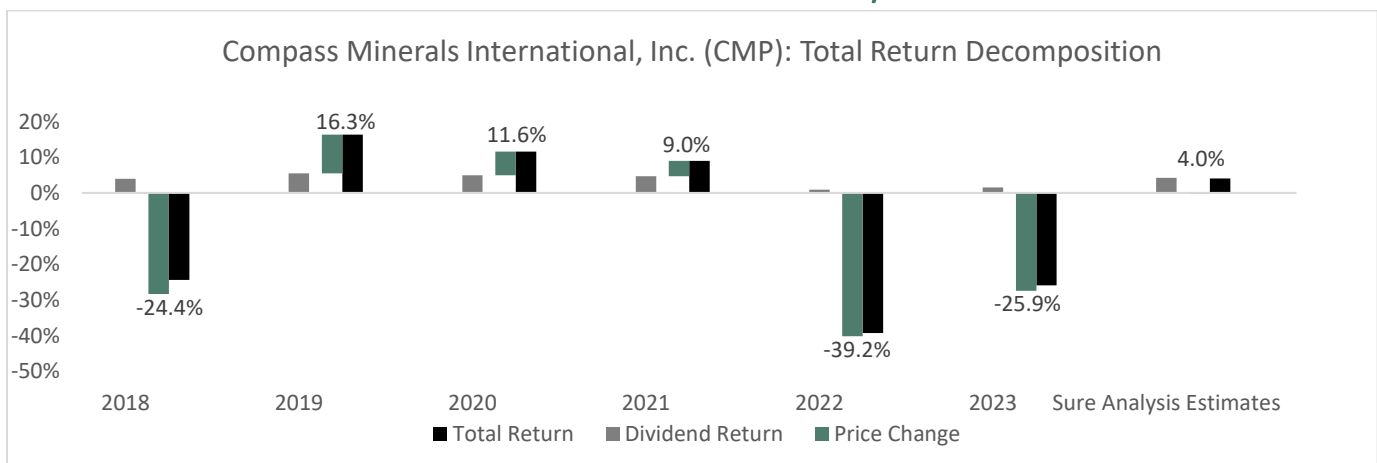
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	37%	56%	58%	230%	143%	159%	167%	---	---	162%	60%	47%

The stock's payout ratio had been unhealthy from a pure net income perspective over the years, hence the recent dividend cut. Along with Cargill and K+S, the companies hold an oligopoly in North America's salt markets, controlling over 80% of the market share. Also, in the U.K., the company captures 75% of the highway deicing market under multi-year contracts from the Winsford, Cheshire Mine - the largest in the country. Additionally, being a bulk commodity, salt has massive transportation costs, raising a strong barrier to entry for any potential competitors. As a result of these advantages and salt being recession-resistant, the company has been able to raise salt prices by a CAGR of around 4%. Prices also remained stable during the Great Financial Crisis. This showcases the company's recession-proof operations. Still, despite Compasses' moat, qualities, and recession resiliency, we can't ignore its past recklessness regarding over-distributing its operating cash flows.

## Final Thoughts & Recommendation

Over the past few years, Compass Minerals' financial performance has been lackluster, while 2021's dividend cut was certainly not a positive sign. On the one hand, the company enjoys great competitive advantages as it operates in an oligopolistic market with great pricing power. On the other hand, its financials have failed to produce an attractive investment case. Due to expected weak earnings growth ahead, additional valuation compression headwinds, and a low yield to compensate investors for the overall risks, we believe there is a possibility the company may not be able to produce attractive returns for investors in the medium-term. Consequently, we continue to rate the stock as a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,138	1,364	1,494	1,491	1,374	837	1,244	1,205
<b>Gross Profit</b>	300	327	294	337	312	172	197	234
<b>Gross Margin</b>	26.3%	23.9%	19.7%	22.6%	22.7%	20.5%	13.4%	19.4%
<b>SG&amp;A Exp.</b>	125	167	164	173	172	93	154	155
<b>Operating Profit</b>	175	159	130	164	141	79	43	79
<b>Op. Margin</b>	15.3%	11.7%	8.7%	11.0%	10.3%	9.4%	3.5%	6.6%
<b>Net Profit</b>	163	43	69	63	60	-213	-25	16
<b>Net Margin</b>	14.3%	3.1%	4.6%	4.2%	4.4%	-25%	-2.0	1.3%
<b>Free Cash Flow</b>	(15)	37	86	62	90	91	24	-48
<b>Income Tax</b>	35	60	9	22	12	14	35	17

## Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	2,467	2,571	2,368	2,443	2,262	1,631	1,644	1,818
<b>Cash &amp; Equivalents</b>	77	37	27	35	21	18	46	39
<b>Acc. Receivable</b>	321	345	312	342	297	133	167	130
<b>Inventories</b>	281	290	267	312	371	322	304	392
<b>Goodwill &amp; Int.</b>	570	549	467	446	366	107	102	217
<b>Total Liabilities</b>	1,749	1,876	1,828	1,914	1,875	1,338	1,387	1,301
<b>Accounts Payable</b>	101	124	111	126	117	90	115	117
<b>Long-Term Debt</b>	1,325	1,363	1,365	1,416	1,401	935	947	805
<b>Total Equity</b>	717	695	540	530	387	293	256	517
<b>LTD/E Ratio</b>	1.85	1.96	2.53	2.67	3.62	3.19	3.70	1.56

## Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	8.0%	1.7%	2.8%	2.6%	2.5%	-11.0%	-1.5%	0.9%
<b>Return on Equity</b>	24.0%	6.0%	11.1%	11.7%	13.0%	-63.5%	-9.1%	4.0%
<b>ROIC</b>	9.6%	2.1%	3.5%	3.2%	3.2%	-14.6%	-2.1%	1.2%
<b>Shares Out.</b>	33.8	33.8	33.8	33.9	33.9	34.1	34.1	40.8
<b>Revenue/Share</b>	33.69	40.34	44.13	43.99	40.48	24.56	36.46	29.54
<b>FCF/Share</b>	(0.44)	1.10	2.53	1.82	2.66	2.67	0.70	(1.18)

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

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