



Cabot Corporation (CBT)

Updated July 3rd, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$89	5 Year CAGR Estimate:	12.3%	Market Cap:	\$4.96 B
Fair Value Price:	\$101	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/23/2024 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	09/09/2024 ²
Dividend Yield:	1.9%	5 Year Price Target	\$149	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Cabot Corp (CBT) manufactures and sells a variety of chemicals, materials, and chemical-based products. The company organizes itself into two segments based on the product type. The reinforcement materials segment, which generates more revenue than any other segment, sells rubber-grade carbon black products used in hoses and belts in automobiles. The performance chemicals segment sells ink-jet colorants and metal oxides used in the automotive and construction industries.

On May 6th, 2024, the company announced results for the second quarter of 2024. Cabot reported Q2 non-GAAP EPS of \$1.78, beating estimates by \$0.12.

The company's reinforcement Materials segment achieved an EBIT of \$149 million, up 22% year-over-year, driven by improved pricing, product mix, and higher volumes in Asia and Europe. Performance Chemicals segment reported an EBIT of \$31 million, an 11% increase, primarily due to a 6% volume rise. The company generated \$176 million in operating cash flows, supporting \$47 million returned to shareholders, and increased its quarterly dividend by 8% to \$0.43 per share.

With a solid cash flow outlook, Cabot plans to continue investing in strategic growth projects and returning cash to shareholders. The company also raised its adjusted EPS guidance range for fiscal year 2024 to \$6.65-\$6.85, reflecting confidence in its long-term growth prospects and strong financial position.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.04	-\$5.27	\$2.32	\$3.91	-\$1.85	\$2.63	-\$4.21	\$4.34	\$3.62	\$7.73	\$6.75	\$9.92
DPS	\$0.84	\$0.88	\$1.04	\$1.23	\$1.29	\$1.36	\$1.40	\$1.40	\$1.48	\$1.54	\$1.72	\$2.20
Shares³	65.1	63.4	62.9	62.7	61.7	58.8	56.6	56.8	56.9	56.5	55.8	52.3

Cabot's growth was propelled by strategic enhancements in its product offerings and geographical expansion. The Reinforcement Materials segment benefited from favorable customer agreements and increased demand in key regions, particularly Asia and Europe, which saw volume increases of 21% and 4%, respectively. Despite an 8% volume decline in the Americas, the segment's overall performance remained strong due to higher pricing and an improved product mix. The Performance Chemicals segment's growth was driven by increased volumes in specialty carbons and specialty compounds.

We have set our EPS estimate for 2024 in line with the management's estimates. Thus, we expect the company to post an EPS of \$6.75 in 2024. Additionally, we estimate an EPS growth of 8.0% over the next five years, slightly lower than the company's 9-year average of 10.9%, leading to our estimated EPS of \$9.92 by 2029. Moreover, the company has a solid record of paying dividends and has paid an increasing dividend for the past 11 years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 5.0%, leading to a dividend of \$2.20 in 2029.

¹ The ex-dividend date is estimated based on historical data.

² The dividend payment date is estimated based on historical data.

³ Shares in million.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.1	-7.5	20.8	14.6	-31.4	17.0	-8.8	12.3	19.0	9.5	13.2	15.0
Avg. Yld.	1.6%	2.2%	2.2%	2.2%	2.2%	3.0%	3.8%	2.6%	2.2%	2.1%	1.9%	1.5%

The company currently trades at a forward P/E of 13.2, but we believe a P/E of 15.0 to the stock, which is closer to the sector’s median, is a fair reflection of its value. Thus, combined with the forecasted EPS of \$9.92 by 2029 and a 15.0 multiple, our target stock price is \$149.

Safety, Quality, Competitive Advantage, & Recession Resiliency

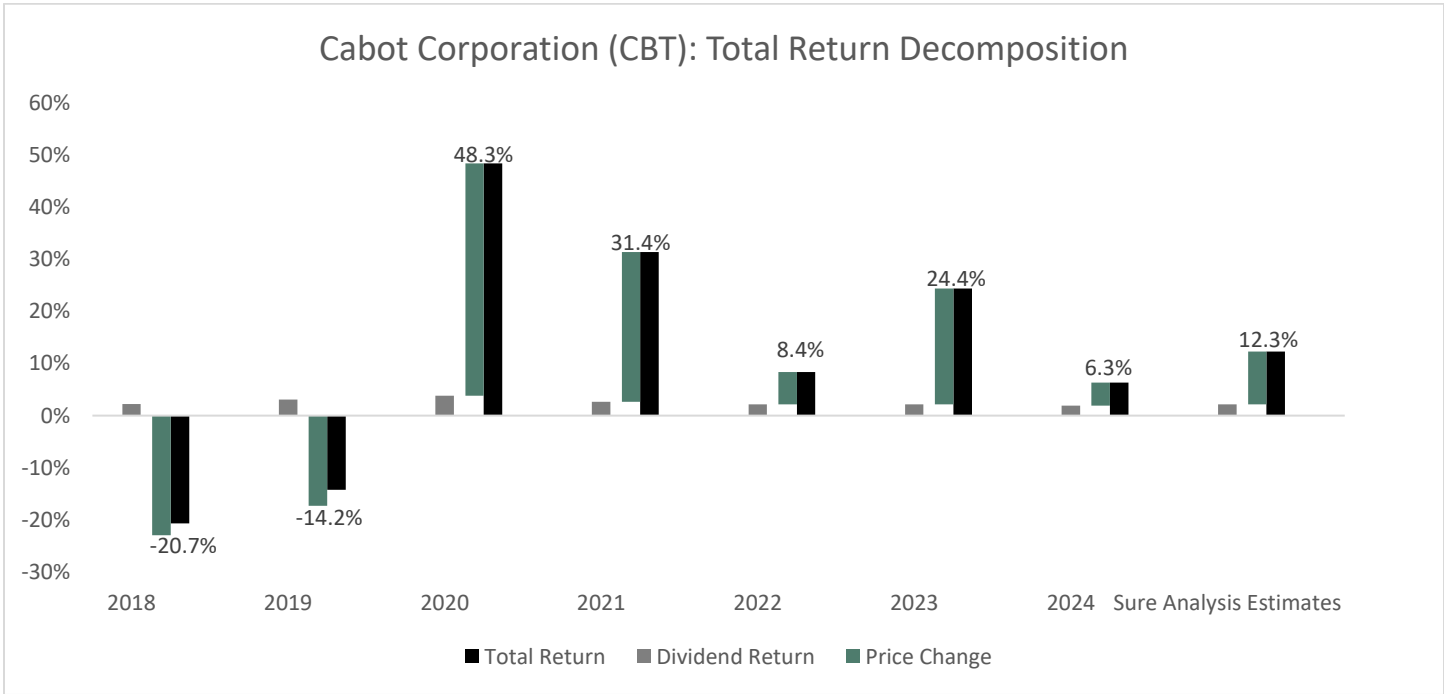
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	-17%	45%	31%	-70%	52%	-33%	32%	41%	20%	25%	22%

Cabot Corporation's competitive advantage lies in its advanced material solutions and strong customer relationships, driving sustained growth. Its robust performance during economic downturns showcases resilience, supported by diversified product lines and geographic presence. With a disciplined approach to debt management, Cabot maintains a solid balance sheet, evidenced by approximately \$1.3 billion in liquidity, ensuring financial stability and capacity for strategic investments and shareholder returns. In the second quarter of fiscal year 2024, Cabot Corporation repurchased \$24 million worth of shares. This repurchase was part of the company's broader strategy to return value to shareholders, which also included paying out \$23 million in dividends, totaling \$47 million returned to shareholders during the quarter.

Final Thoughts & Recommendation

Cabot Corporation demonstrates strong financial health, strategic growth, and resilience, making it a solid investment. With robust EPS growth, prudent debt management, and shareholder-friendly policies, CBT is well-positioned for continued success. Thus, our buy rating is premised upon the 12.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 1.9% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,647	2,871	2,411	2,717	3,242	3,337	2,614	3,409	4,321	3,931
Gross Profit	721	585	575	657	772	685	500	799	885	839
Gross Margin	19.8%	20.4%	23.8%	24.2%	23.8%	20.5%	19.1%	23.4%	20.5%	21.3%
SG&A Exp.	326	282	275	262	308	290	292	289	258	253
D&A Exp.	201	183	161	155	149	148	158	160	146	144
Operating Profit	335	245	247	338	398	335	151	454	572	529
Op. Margin	9.2%	8.5%	10.2%	12.4%	12.3%	10.0%	5.8%	13.3%	13.2%	13.5%
Net Profit	199	(334)	147	248	(113)	157	(238)	250	209	445
Net Margin	5.5%	-11.6%	6.1%	9.1%	-3.5%	4.7%	-9.1%	7.3%	4.8%	11.3%
Free Cash Flow	144	358	280	201	69	139	177	62	(111)	351
Income Tax	92	(45)	33	33	193	70	191	123	102	(28)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,084	3,075	3,035	3,338	3,244	3,004	2,781	3,306	3,525	3,604
Cash and Equiv.	67	77	200	280	175	169	151	168	206	238
Accts Receivable	688	477	456	527	637	530	418	645	836	695
Inventories	498	397	342	433	511	466	359	523	664	585
Goodwill	883	307	292	291	191	186	237	240	192	194
Total Liabilities	2,020	1,737	1,663	1,713	1,965	1,870	1,967	2,216	2,493	2,197
Accounts Payable	351	274	259	339	446	390	316	480	533	438
Long Term Debt	1,072	993	922	924	1,003	1,064	1,115	1,162	1,443	1,276
Book Value	1,942	1,234	1,274	1,504	1,154	998	691	947	898	1,264
LTD to Equity Ratio	0.55	0.80	0.72	0.61	0.87	1.07	1.61	1.23	1.61	1.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.8%	-9.3%	4.8%	7.8%	-3.4%	5.0%	-8.2%	8.2%	6.1%	12.5%
Return on Equity	9.6%	-19.6%	10.8%	16.5%	-7.8%	13.0%	-24.4%	26.3%	19.7%	36.5%
ROIC	6.1%	-12.2%	6.4%	10.2%	-4.7%	7.0%	-11.5%	12.0%	8.8%	17.3%
Shares Out.	65.1	63.4	62.9	62.7	61.7	58.8	56.6	56.8	56.9	56.5
Revenue/Share	56.02	45.28	38.33	43.33	52.54	56.75	46.18	60.02	75.94	69.58
FCF/Share	2.21	5.65	4.45	3.21	1.12	2.36	3.13	1.09	(1.95)	6.21

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

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