



NewMarket Corp. (NEU)

Updated August 3rd, 2024, by Tiago Dias

Key Metrics

Current Price:	\$550	5 Year CAGR Estimate:	-2.2%	Market Cap:	\$5.5 B
Fair Value Price:	\$420	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	09/14/2024
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	10/02/2024
Dividend Yield:	1.8%	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 \$5.5 billion market cap company has come a long way from its roots.

NewMarket reported Q2 2024 earnings on July 30th, 2024. For the quarter, earnings-per-share equaled \$11.63 per share, slightly above the \$10.36 per share reported for the same period in 2023.

Petroleum additives sales for the second quarter of 2024 were \$669 million, compared to the \$684 million earned during the same period in the prior year. The company completed the acquisition of American Pacific Corporation (AMPAC) on January 16th, 2024, with the results from this acquisition included in the company's specialty materials segment.

The company generated solid cash flows from operations during the first half of 2024. It used those cash flows to fund \$28.5 million of capital expenditures and \$48 million in dividends. Since the AMPAC acquisition, the business made payments of \$171 million on its revolving credit facility. This puts the company's net debt-to-EBITDA ratio at 1.6, well within management's target range of 1.5 to 2.0x.

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	\$10.00	\$10.51
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.

Within this 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 \$10.51. 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's 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	15.7	12.0
Avg. Yld.	1.2%	1.3%	1.6%	1.6%	1.8%	1.6%	1.9%	2.2%	2.2%	2.2%	1.8%	2.4%

Over the past decade, NewMarket has traded hands at an average price to earnings ratio of 18. That’s a significant premium considering the company’s lackluster growth and prospects. More recently, the company’s valuation multiple has shrunk to around 16 times earnings, and we expect that it will fall to a P/E 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%	29%	29%

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.

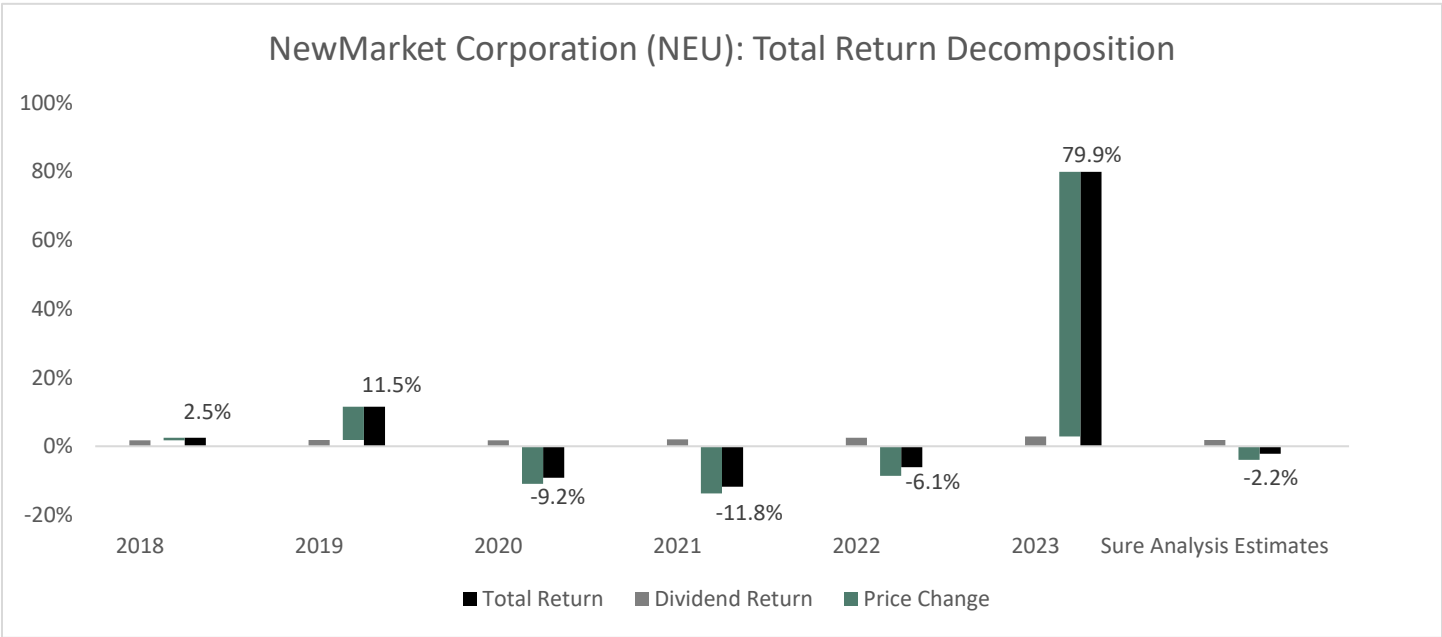
The dividend is well covered and given the stability of its earnings it’s unlikely that it will be cut during a recession, though the company has already shown that they are willing to freeze it when it is in the event of poor performance, like we saw in 2018.

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 1.8% 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 -2.2% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,335	2,141	2,049	2,198	2,290	2,190	2,011	2,356	2,765	2,698
Gross Profit	665	679	677	636	585	630	595	548	640	773
Gross Margin	28.5%	31.7%	33.0%	28.9%	25.6%	28.8%	29.6%	23.2%	23.1%	
SG&A Exp.	164	164	162	168	152	148	143	146	145	151
D&A Exp.	42	42	45	55	72	88	84	84	82	78
Operating Profit	363	357	355	323	293	337	312	258	355	483
Op. Margin	15.5%	16.7%	17.3%	14.7%	12.8%	15.4%	15.5%	10.9%	12.8%	
Net Profit	233	239	243	191	235	254	271	191	280	389
Net Margin	10.0%	11.1%	11.9%	8.7%	10.3%	11.6%	13.5%	8.1%	10.1%	
Free Cash Flow	175	142	211	94	123	278	191	86	52	529
Income Tax	106	100	100	125	56	77	61	57	68	100

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,232	1,286	1,416	1,712	1,697	1,885	1,934	2,558	2,407	2,309
Cash & Equivalents	103	93	192	84	73	144	125	83	69	112
Acc. Receivable	275	253	266	311	277	290	285	317	385	368
Inventories	348	352	312	383	396	366	401	499	631	456
Goodwill & Int.	17	11	10	144	136	132	130	128	126	124
Total Liabilities	811	899	933	1,111	1,207	1,202	1,174	1,796	1,644	1,232
Accounts Payable	138	129	142	159	152	179	190	246	273	231
Long-Term Debt	364	491	503	597	766	643	599	1,139	1,004	644
Total Equity	421	388	483	602	490	683	760	762	762	1077
LTD/E Ratio	0.86	1.27	1.04	0.99	1.56	0.94	0.79	1.49	1.32	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	18.2%	19.0%	18.0%	12.2%	13.8%	14.2%	14.2%	8.5%	11.3%	16.4%
Return on Equity	47.0%	59.0%	55.9%	35.1%	43.0%	43.4%	37.5%	25.1%	36.7%	42.3%
ROIC	27.3%	28.7%	26.1%	17.4%	19.1%	19.7%	20.2%	11.7%	15.2%	22.3%
Shares Out.	12	12	12	12	11	11	11	10	10	10
Revenue/Share	184.31	174.89	173.27	185.93	198.84	196.16	183.46	219.05	275.52	281.58
FCF/Share	13.83	11.56	17.80	7.96	10.71	24.88	17.41	8.03	5.23	55.15

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

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