Sensient Tech. (SXT)

Updated August 17th, 2024, by Ian Bezek

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$3.1 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/05/24
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	09/03/24
Dividend Yield:	2.2%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 soured as pandemic-related buying has tapered off while inflation and supply chain issues have been a challenge to profitability.

On July 26th, 2024, Sensient delivered its second quarter results. Adjusted earnings per share of 73 cents declined from 82 cents in the prior year. Revenues of $404 million grew 8% year-over-year and strongly topped expectations. While the earnings figure fell short of expectations, that was driven in large part by restructuring costs. The key takeaway from this earnings report is that Sensient has returned to meaningful organic growth across its product portfolio, setting up a favorable backdrop for the back half of this year excluding one-off costs.

The company reported 11% growth in Flavors & Extracts, and both the Colorings and Asia Pacific divisions returned to positive growth as well after a down period for both of those segments. Given the restructuring charges, we are not lifting our overall outlook for 2024 earnings per share just yet, but this was an encouraging report, and we are incrementally more upbeat on Sensient given the improving sales trajectory at the company over the past two quarters.

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	***$3.05***	***$4.28***
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[1]	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. 2023 was not a great year for Sensient, but the business appears to be back on track now. Part of the improvement in results comes from the fact that 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's quarterly dividend has been fixed at 41 cents per share since 2022, however we believe dividend growth will restart at a 5% annualized rate as earnings increase.

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[1] 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	18.1	21.3	21.5	22.8	18.7	22.5	22.0	27.7	22.0	23.4	***23.9***	***21.0***
Avg. Yld.	1.8%	1.6%	1.6%	1.6%	2.0%	2.2%	2.7%	1.8%	2.2%	2.4%	***2.2%***	***2.3%***

Sensient started off the early 2010s with an average 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 ratio 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 2.2% dividend yield is right in the middle of its 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%	***54%***	***49%***

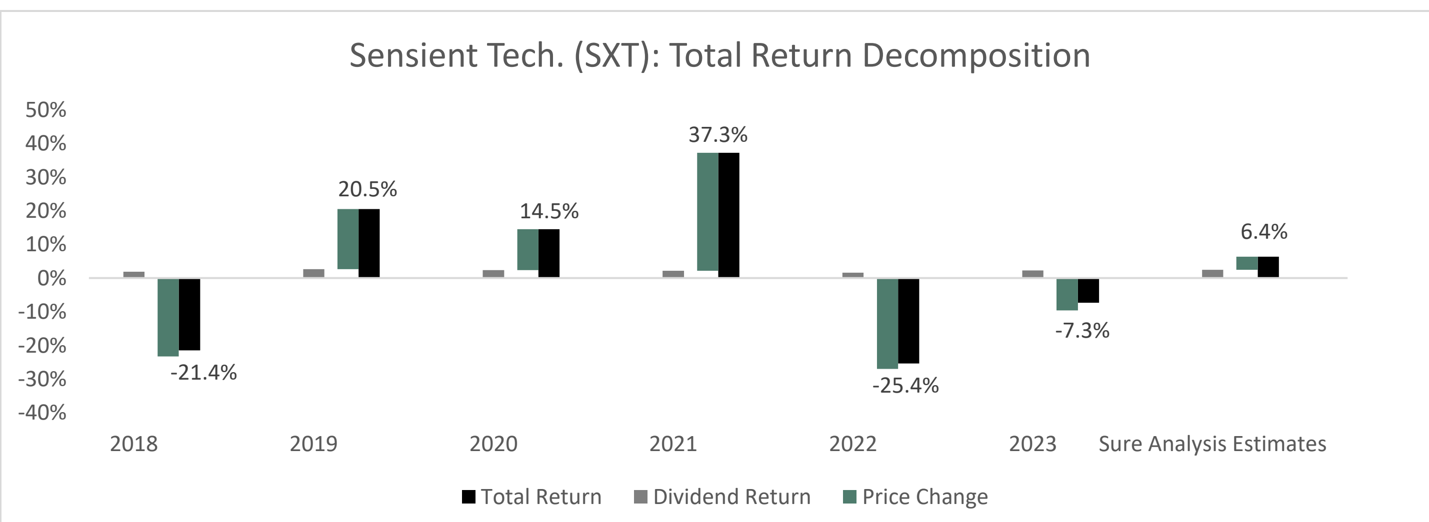
Sensient has a strong balance sheet, as it has just $635 million of long-term debt. That, plus the fact that it enjoys a history of stable earnings, should ensure that Sensient is well positioned to handle its financial obligations.

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's results tailed off in 2023. Sensient has righted the ship this year though, and earnings should jump once its restructuring program is complete. We forecast 7% annualized earnings growth, which accounts for improving organic growth and profit margins. However, Sensient's share price is moderately above our fair value estimate, lowering our total return estimate to 6.4% annually. SXT's 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.