# Cabot Corporation (CBT)

*Updated September 10th, 2024, by Yiannis Zourmpanos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $101 | **5 Year CAGR Estimate:** | 10.4% | **Market Cap:** | $5.63 B |
| **Fair Value Price:** | $106 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 08/30/2024 |
| **% Fair Value:** | 96% | **5 Year Valuation Multiple Estimate:** | 0.9% | **Dividend Payment Date:** | 09/13/2024 |
| **Dividend Yield:** | 1.7% | **5 Year Price Target** | $155 | **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 August 5th, 2024, the company announced results for the third quarter of 2024. Cabot reported Q3 non-GAAP EPS of $1.92, beating estimates by $0.21.

Net income for the company increased to $109 million, buoyed by ongoing strength in its Reinforcement Materials segment, which had EBIT of $136 million, up 3% year-over-year. In comparison, the Performance Chemicals segment had a sharper increase of 72% in EBIT to $55 million. Strong demand in strategic markets like automotive, infrastructure, and semiconductors underpinned the more robust performance, reflecting rebounding volumes and improving product mix.

Cabot generated $207 million of cash flow from operations during the quarter and returned $73 million to shareholders through $24 million of dividends and $49 million of share repurchases. With a solid balance sheet at net debt to EBITDA at 1.2x, Cabot remains well-positioned for the future. It also raised its full-year adjusted EPS guidance to $7.00 to $7.10, against expectations of a strong performance from both segments and reflecting adjusted EPS year-over-year growth above 30%.

## 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 | ***$7.05*** | ***$10.36*** |
| **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*** |
| **Shares[1]** | 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 $7.05 in 2024. Additionally, we estimate an EPS growth of 8.0% over the next five years, slightly lower than the company's 10-year average of 10.9%, leading to our estimated EPS of $10.36 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] Shares in million.

*Disclosure: This analyst has a long position in the security discussed in this research report.*

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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 | ***14.3*** | ***15.0*** |
| **Avg. Yld.** | 1.6% | 2.2% | 2.2% | 2.2% | 2.2% | 3.0% | 3.8% | 2.6% | 2.2% | 2.1% | ***1.7%*** | ***1.4%*** |

The company currently trades at a forward P/E of 14.3, 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 $10.36 by 2029 and a 15.0 multiple, our target stock price is $155.

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

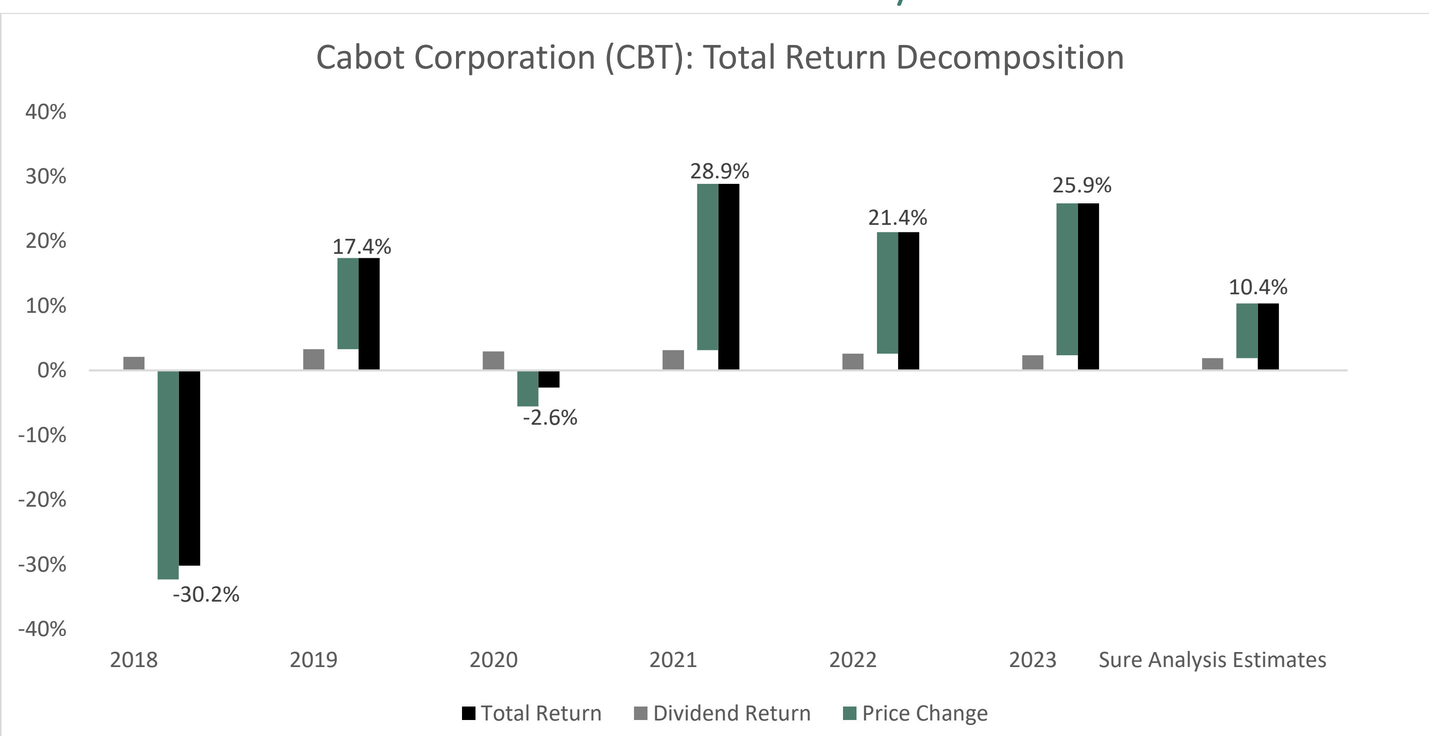
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 28% | -17% | 45% | 31% | -70% | 52% | -33% | 32% | 41% | 20% | ***24%*** | ***21%*** |

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. During the third quarter of fiscal 2024, Cabot Corporation returned $49 million to shareholders through its ongoing share repurchase program, reinforcing its commitment to shareholder value.

## 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, we maintain our buy rating premised upon the 10.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 1.7% 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.*