# Cabot Corporation (CBT)

*Updated November 18th, 2024, by Yiannis Zourmpanos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $108 | **5 Year CAGR Estimate:** | 10.4% | **Market Cap:** | $5.92 B |
| **Fair Value Price:** | $114 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 11/29/2024 |
| **% Fair Value:** | 95% | **5 Year Valuation Multiple Estimate:** | 1.1% | **Dividend Payment Date:** | 12/13/2024 |
| **Dividend Yield:** | 1.6% | **5 Year Price Target** | $168 | **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 November 4th, 2024, the company announced results for the fourth quarter of 2024. Cabot reported Q4 non-GAAP EPS of $1.80, beating estimates by $0.01.

The growth was driven by an 11% EBIT rise in the Reinforcement Materials segment and a 31% increase in Performance Chemicals EBIT. Operational cash flow reached $692 million, enabling $241 million in capital investments and $265 million returned to shareholders via dividends and share repurchases. CEO Sean Keohane emphasized the company's strong execution amidst a challenging environment and highlighted progress in its sustainability and growth initiatives, including the development of a U.S.-based commercial-scale facility for battery-grade carbon nanotubes, supported by a $50 million Department of Energy award.

In Q4 FY2024, Cabot achieved adjusted EPS of $1.80, up 9% year-over-year, supported by a favorable tax rate. Performance Chemicals showed strength with EBIT growth driven by improved product mix and higher volumes in the automotive and electronics sectors. Reinforcement Materials faced volume challenges in the Americas but benefited from improved pricing and product mix. Looking ahead to FY2025, Cabot projects Adjusted EPS growth of 5% to 10%, underpinned by continued momentum in Reinforcement Materials and recovery in Performance Chemicals. The company plans to unveil its next long-term strategy and financial targets at its upcoming Investor Day in December 2024.

## Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | -$5.27 | $2.32 | $3.91 | -$1.85 | $2.63 | -$4.21 | $4.34 | $3.62 | $7.73 | $6.82 | ***$7.60*** | ***$11.17*** |
| **DPS** | $0.88 | $1.04 | $1.23 | $1.29 | $1.36 | $1.40 | $1.40 | $1.48 | $1.54 | $1.66 | ***$1.72*** | ***$2.20*** |
| **Shares[1]** | 63.4 | 62.9 | 62.7 | 61.7 | 58.8 | 56.6 | 56.8 | 56.9 | 56.5 | 55.7 | ***54.8*** | ***50.5*** |

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 2025 in-line with the management's estimates. Thus, we expect the company to post an EPS of $7.60 in 2025. Additionally, we estimate an EPS growth of 8.0% over the next five years, leading to our estimated EPS of $11.17 by 2030. Moreover, the company has a solid record of paying dividends and has paid an

[1] Shares in million.

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

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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 2030.

## Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | -7.5 | 20.8 | 14.6 | -31.4 | 17.0 | -8.8 | 12.3 | 19.0 | 9.5 | 13.1 | ***14.2*** | ***15.0*** |
| Avg. Yld. | 2.2% | 2.2% | 2.2% | 2.2% | 3.0% | 3.8% | 2.6% | 2.2% | 2.1% | 1.9% | ***1.6%*** | ***1.3%*** |

The company currently trades at a forward P/E of 14.2, but we believe a target P/E of 15.0, which is closer to the sector's median, is a fair reflection of its value. Thus, with the forecasted EPS of $11.17 by 2030 and a 15.0 multiple, our target stock price is $168.

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

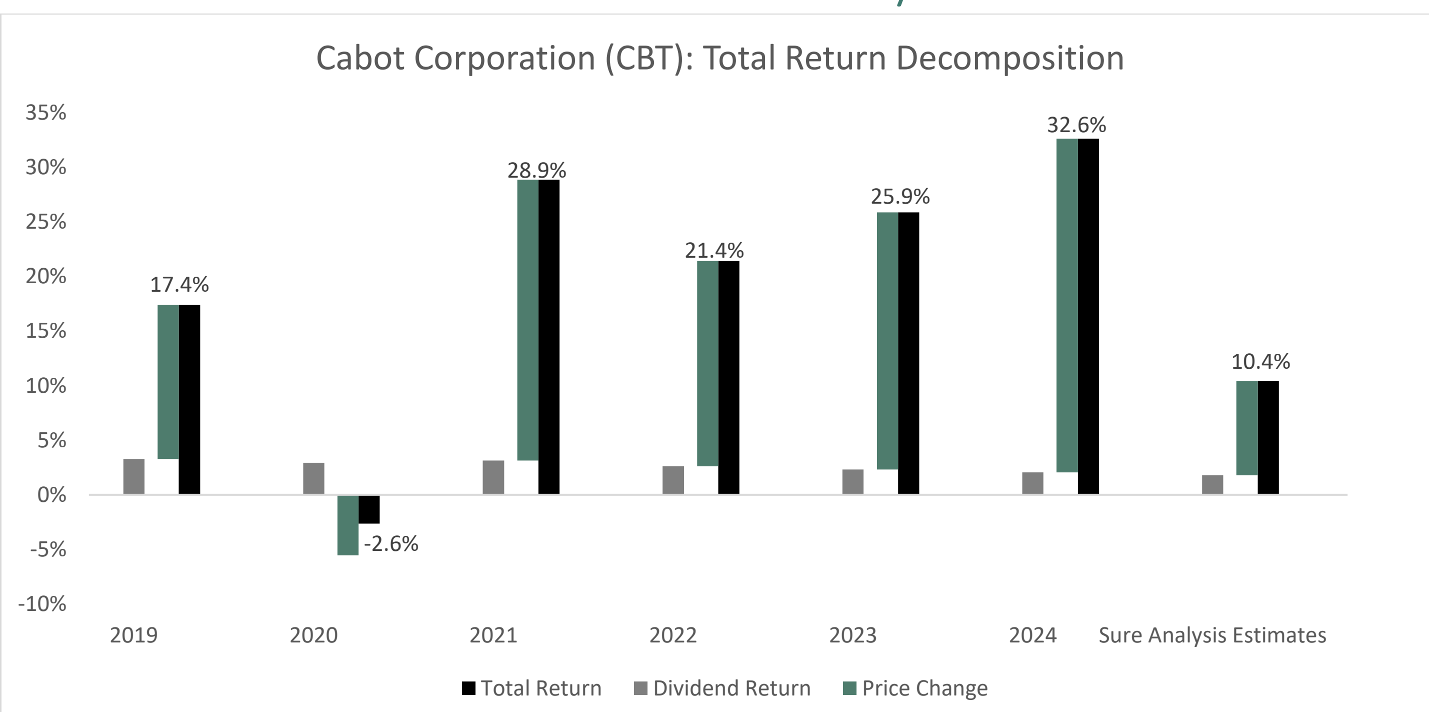
| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | -17% | 45% | 31% | -70% | 52% | -33% | 32% | 41% | 20% | 24% | ***23%*** | ***20%*** |

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. Cabot Corporation demonstrated strong liquidity with a year-end cash balance of $223 million and returned $172 million to shareholders in fiscal 2024 through share repurchases, reflecting its commitment to balanced capital allocation.

## 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 1.6% dividend yield, and a valuation tailwind.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 2,871 | 2,411 | 2,717 | 3,242 | 3,337 | 2,614 | 3,409 | 4,321 | 3,931 | 3,994 |
| Gross Profit | 585 | 575 | 657 | 772 | 685 | 500 | 799 | 885 | 839 | 960 |
| Gross Margin | 20.4% | 23.8% | 24.2% | 23.8% | 20.5% | 19.1% | 23.4% | 20.5% | 21.3% | 24.0% |
| SG&A Exp. | 282 | 275 | 262 | 308 | 290 | 292 | 289 | 258 | 253 | 283 |
| D&A Exp. | 183 | 161 | 155 | 149 | 148 | 158 | 160 | 146 | 144 | 151 |
| Operating Profit | 245 | 247 | 338 | 398 | 335 | 151 | 454 | 572 | 529 | 614 |
| Op. Margin | 8.5% | 10.2% | 12.4% | 12.3% | 10.0% | 5.8% | 13.3% | 13.2% | 13.5% | 15.4% |
| Net Profit | (334) | 147 | 248 | (113) | 157 | (238) | 250 | 209 | 445 | 380 |
| Net Margin | -11.6% | 6.1% | 9.1% | -3.5% | 4.7% | -9.1% | 7.3% | 4.8% | 11.3% | 9.5% |
| Free Cash Flow | 358 | 280 | 201 | 69 | 139 | 177 | 62 | (111) | 351 | 451 |
| Income Tax | (45) | 33 | 33 | 193 | 70 | 191 | 123 | 102 | (28) | 111 |

## Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3,075 | 3,035 | 3,338 | 3,244 | 3,004 | 2,781 | 3,306 | 3,525 | 3,604 | 3,736 |
| Cash and Equiv. | 77 | 200 | 280 | 175 | 169 | 151 | 168 | 206 | 238 | 223 |
| Accts Receivable | 477 | 456 | 527 | 637 | 530 | 418 | 645 | 836 | 695 | 733 |
| Inventories | 397 | 342 | 433 | 511 | 466 | 359 | 523 | 664 | 585 | 552 |
| Goodwill | 307 | 292 | 291 | 191 | 186 | 237 | 240 | 192 | 194 | 186 |
| Total Liabilities | 1,737 | 1,663 | 1,713 | 1,965 | 1,870 | 1,967 | 2,216 | 2,493 | 2,197 | 2,146 |
| Accounts Payable | 274 | 259 | 339 | 446 | 390 | 316 | 480 | 533 | 438 | 676 |
| Long Term Debt | 993 | 922 | 924 | 1,003 | 1,064 | 1,115 | 1,162 | 1,443 | 1,276 | 1,140 |
| Book Value | 1,234 | 1,274 | 1,504 | 1,154 | 998 | 691 | 947 | 898 | 1,264 | 1,425 |
| LTD to Equity Ratio | 0.80 | 0.72 | 0.61 | 0.87 | 1.07 | 1.61 | 1.23 | 1.61 | 1.01 | 0.80 |

## Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | -9.3% | 4.8% | 7.8% | -3.4% | 5.0% | -8.2% | 8.2% | 6.1% | 12.5% | 10.4% |
| Return on Equity | -19.6% | 10.8% | 16.5% | -7.8% | 13.0% | -24.4% | 26.3% | 19.7% | 36.5% | 25.4% |
| ROIC | -12.2% | 6.4% | 10.2% | -4.7% | 7.0% | -11.5% | 12.0% | 8.8% | 17.3% | 14.0% |
| Shares Out. | 63.4 | 62.9 | 62.7 | 61.7 | 58.8 | 56.6 | 56.8 | 56.9 | 56.5 | 55.7 |
| Revenue/Share | 45.28 | 38.33 | 43.33 | 52.54 | 56.75 | 46.18 | 60.02 | 75.94 | 69.58 | 71.71 |
| FCF/Share | 5.65 | 4.45 | 3.21 | 1.12 | 2.36 | 3.13 | 1.09 | (1.95) | 6.21 | 8.10 |

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