CSW Industrials, Inc. (CSWI)

Published February 25th, 2025 by Josh Arnold

Key Metrics

Current Price:	$299	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$5 B
Fair Value Price:	$304	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	04/30/25[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	05/15/25[2]
Dividend Yield:	0.3%	**5 Year Price Target**	$490	**Years Of Dividend Growth:**	6
Dividend Risk Score:	X	**Retirement Suitability Score:**	X	**Rating:**	Buy

Overview & Current Events

CSW Industrials is a diversified industrial company that is headquartered in Dallas, Texas. It has three segments: Contractor Solutions, Engineered Building Solutions, and Specialized Reliability Solutions. The Contractor Solutions segment provides condensate pads, pans, pumps, switches, sealants, vents, electrical products, and many more related products. The Engineered Building Solutions segment offers fire and smoke protection devices, pre-engineered and custom-made architectural building components, and related services. The Specialized Reliability Solutions segment provides compounds, lubricants, sealants, filtration products, and more. CSW traces its roots back to 1969, employs about 2,600 people, and generates nearly $900 million in annual revenue.

CSW posted third quarter earnings on January 30th, 2025, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to $1.48, which was a nickel ahead of estimates. Revenue was up almost 11% year-over-year to $194 million, beating estimates by $1.6 million. Revenue grew due to $15 million from recent acquisitions and $3 million in organic growth. The Contractor Solutions segment was about two-thirds of total revenue in the fourth quarter.

Gross profit was up 8% to $80 million, while gross margin was off 90 basis points to 41.4% of revenue. The decline was attributable to higher freight expenses, primarily.

Adjusted EBITDA was up 14.2% to a record for the third quarter of $42 million, as adjusted EBITDA margin expanded to 21.7% of revenue from 21%.

Adjusted net income was $25 million, or $1.48 per share. That was 49% higher year-on-year. Free cash flow was $8.5 million, down from $43 million a year ago. The decline was attributable to a $17 million tax payment, as well as increased inventory levels to mitigate potential supply chain disruptions.

Management guided for continued mergers and acquisitions for the foreseeable future as organic growth has been weak. Management noted also that ocean freight rates are expected to stabilize in the coming quarters, and that pricing increases the company has employed should help offset those headwinds. We start the year with an estimate of $8.45 in adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.94	$1.52	$1.17	$2.09	$2.96	$2.99	$2.65	$4.20	$6.20	$6.52	***$8.45***	***$13.61***
DPS	---	---	---	---	$0.41	$0.54	$0.59	$0.66	$0.74	$0.85	***$0.96***	***$1.41***
Shares[3]	15.6	15.7	15.8	15.8	15	14.7	15.7	15.7	15.5	15.5	***17***	***19***

CSW's earnings growth has been outstanding, if a bit uneven over time. From 2015 to 2024, annual earnings-per-share growth was more than 14% on average. We see something a bit lower than that over the longer-term given the high

[1] Estimated date
[2] Estimated date
[3] 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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base of earnings for 2025, but still project 10% growth going forward. We see M&A as a primary driver of this growth, but also note that margins could have some upside if freight rates decline. CSW's margins are generally quite volatile, so that's something for investors to monitor.

Management is focusing on M&A rather than share repurchases or more meaningful dividend payments. The acquisition of PF WaterWorks in Q3 expands a segment of Contractor Solutions that is adjacent to existing businesses.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	17.0	23.3	39.6	23.9	25.0	38.2	41.3	31.9	34.0	50.5	***35.4***	***36.0***
Avg. Yld.	0.0%	0.0%	0.0%	0.0%	0.6%	0.5%	0.5%	0.5%	0.4%	0.3%	***0.3%***	***0.3%***

Shares have been valued quite highly for the past several years. The 10-year average P/E ratio is about 32, but for the past five years, it's closer to 39. We've settled on 36 times earnings for now as fair value, meaning shares are very slightly under fair value for now.

The yield is just 0.3%, and we don't see a lot of movement on that going forward given the company's preferred capital allocation strategy of M&A.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	---	---	14%	18%	22%	16%	12%	13%	***11%***	***10%***

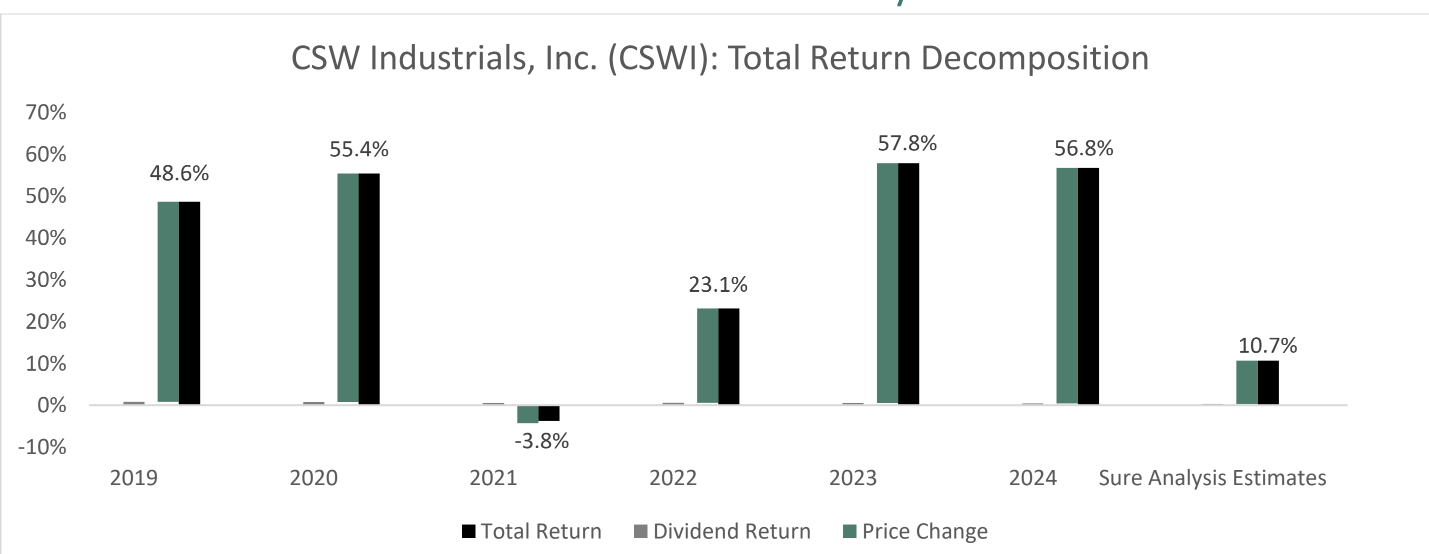
The payout ratio is very low today, and we don't see that changing anytime soon. The company has raised its dividend each year since it began paying it, and we expect that to continue indefinitely. We also see no risk of a dividend cut, even in a recession.

The company's balance sheet is quite clean with $214 million in cash and no outstanding debt.

Final Thoughts & Recommendation

Overall, we see CSW as a fairly valued, high-growth industrial name that is buy-rated. Total returns could accrue from the fractional yield, small tailwind from the valuation, and primarily the 10% projected earnings growth rate. CSW has had a tough 2025 thus far, but we think it should be considered a buying opportunity.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	262	267	287	326	350	386	419	626	758	793
Gross Profit	126	135	129	148	161	177	185	256	318	351
Gross Margin	48.3%	50.5%	44.9%	45.3%	46.1%	45.8%	44.0%	40.9%	42.0%	44.2%
SG&A Exp.	82	88	96	98	101	110	125	159	179	192
D&A Exp.	11	12	14	15	14	15	23	37	36	38
Operating Profit	45	46	33	50	60	67	59	97	139	159
Operating Margin	17.1%	17.3%	11.6%	15.2%	17.3%	17.3%	14.1%	15.5%	18.3%	20.1%
Net Profit	30	25	11	(12)	46	46	40	66	96	102
Net Margin	11.3%	9.5%	3.9%	-3.6%	13.0%	11.8%	9.6%	10.6%	12.7%	12.8%
Free Cash Flow	27	32	32	38	52	58	57	53	108	148
Income Tax	15	19	14	16	15	13	11	24	29	38

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	287	392	398	341	353	369	880	995	1,043	1,043
Cash & Equivalents	20	26	23	12	27	18	10	17	18	22
Accounts Receivable	50	53	59	62	65	73	93	121	121	138
Inventories	47	52	44	43	51	54	103	150	162	151
Goodwill & Intang.	82	156	140	135	137	138	502	525	562	566
Total Liabilities	82	134	126	75	89	93	464	511	499	408
Accounts Payable	9	10	10	17	19	22	32	48	41	48
Long-Term Debt	27	90	73	24	31	11	242	253	253	166
Shareholder's Equity	204	258	272	266	264	277	415	469	526	616
LTD/E Ratio	0.13	0.35	0.27	0.09	0.12	0.04	0.58	0.54	0.48	0.27

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	10.5%	7.5%	2.8%	-3.2%	13.1%	12.7%	6.4%	7.1%	9.5%	9.7%
Return on Equity	14.8%	11.0%	4.2%	-4.4%	17.2%	16.9%	11.6%	14.8%	18.8%	17.2%
ROIC	12.6%	8.8%	3.2%	-3.7%	15.6%	15.7%	8.5%	9.5%	12.6%	12.7%
Shares Out.	15.6	15.7	15.8	15.8	15	14.7	15.7	15.7	15.5	15.5
Revenue/Share	16.80	17.03	18.15	20.82	22.54	25.38	27.71	39.63	48.75	50.89
FCF/Share	1.72	2.06	2.03	2.40	3.36	3.84	3.80	3.38	6.92	9.48

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