



Stepan Co. (SCL)

Updated February 22nd, 2025, by Josh Arnold

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	18.2%	Market Cap:	\$1.4 B
Fair Value Price:	\$67	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	03/03/2025
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	03/14/2025
Dividend Yield:	2.4%	5 Year Price Target	\$136	Years Of Dividend Growth:	57
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Stepan Co. was founded in 1932 and at the outset, it sold only one product: a chemical to keep dust down on Illinois' country roads. Since that time, it has grown to manufacture basic and intermediate chemicals, with surfactants making up most of its revenue. It has a market capitalization of \$1.4 billion and should do about \$2.3 billion in revenue this year. Stepan is also a Dividend King, having increased its payout for 57 consecutive years.

Stepan posted fourth quarter and full-year earnings on February 19th, 2025, and results were mixed once again. Revenue was down 1.2% year-on-year to \$526 million, but did beat estimates by almost \$5 million. Adjusted earnings-per-share came to 12 cents, which missed estimates by a massive 21 cents.

Global sales volume was off 1% year-over-year as double-digit growth in surfactants was offset and then some by demand weakness in polymers. Surfactants were up 3% year-over-year in Q4 to \$379 million. Polymer net sales fell 12% to \$130 million. The company managed to generate about \$13 million in pre-tax cost savings during the quarter, and about \$48 million for the full year.

Cash from operations came to \$68 million during the quarter, while free cash flow was \$32 million. EBITDA for the year was \$187 million on an adjusted basis.

We start 2025 with an estimate of \$3.55 in adjusted earnings-per-share, which would represent enormous growth over 2024, if achieved. However, 2023/2024 earnings were massively below historical norms, and 2025 would be as well, even with 50%+ growth from last year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.32	\$3.73	\$3.92	\$4.88	\$5.12	\$5.68	\$6.16	\$6.65	\$2.21	\$2.20	\$3.55	\$7.14
DPS	\$0.73	\$0.78	\$0.86	\$0.93	\$1.03	\$1.13	\$1.27	\$1.37	\$1.47	\$1.51	\$1.54	\$2.26
Shares¹	22	22	23	23	23	23	23	23	22	23	23	25

Stepan's earnings have been somewhat inconsistent, but over time have grown at decent rates. The company is beholden to the world's manufacturers, so any sort of economic weakness can have severe consequences on earnings. It does boast a wide and deep array of customers, so concentration is not a problem, but as we've seen in the past, weakness in just one business line can cause Stepan's results to vary widely from one year to another. Stepan was in the right place at the right time with its surfactant business, capturing additional demand for 2020 and into 2021, although that tailwind dissipated in 2022. Global sales volumes have been weak continuously since 2022 and we see no reason that should improve so far in 2025.

We are forecasting a five-year average earnings-per-share growth rate of 15%, consisting of highly volatile sales growth and margins. The company's cost-saving program has been in place for some time and has yielded operating margin gains. Margins were volatile on a year-over-year basis in 2023 given supply chain issues, which also caused margin

¹ Share count in millions

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problems in 2021 and 2022. So long as this condition persists, Stepan's margins are at risk. We have a high estimate of growth because of the low base for 2025, not necessarily because we think Stepan is better positioned than it was.

The company's dividend has grown steadily in the past decade, and the stock now yields 2.4%. We expect the payout will rise by ~8% annually as the company has used its extra cash to fund dividend increases.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.0	16.3	19.1	16.5	18.0	18.4	20.0	16.1	42.8	29.4	17.7	19.0
Avg. Yld.	1.6%	1.3%	1.2%	1.1%	1.1%	1.1%	1.0%	1.3%	1.6%	2.3%	2.4%	1.7%

Stepan's price-to-earnings multiple has come well off its highs. The stock is much lower than our estimate of fair value, which we peg at 19 times earnings. We think the company is going to see easing of supply chain disruptions this year, but it has become clear the market isn't willing to pay the same multiples for growth stocks, and sales volumes remain weak. Cost savings should help support earnings, but we don't see cause to raise the fair value multiple.

We see the yield declining over time as the share price should grow more quickly than the dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	21%	21%	22%	19%	20%	20%	20%	21%	67%	69%	43%	32%

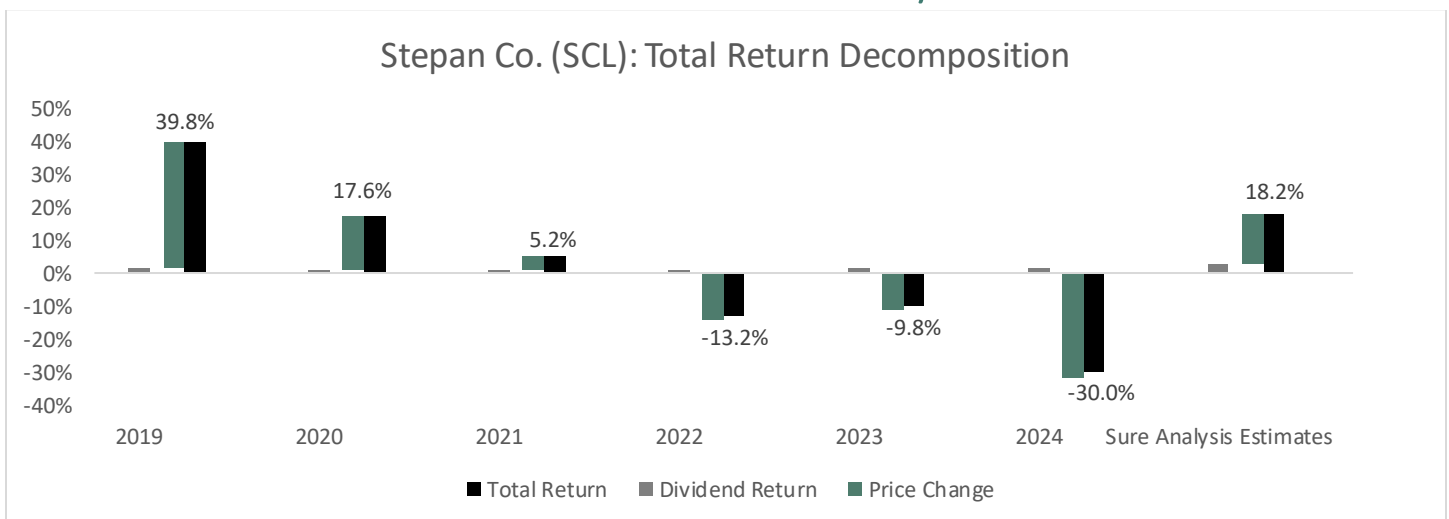
Stepan's payout ratio is about 43% of earnings, and we don't see it moving materially higher given the company's focus on investing in future growth. Struggles with earnings growth is likely to keep management slightly more cautious in the near term in raising the dividend.

The company's competitive advantage is in its diverse, global customer base and many decades of engineering experience. Stepan's competitors cannot easily supplant its position with existing customers given the often-custom nature of what Stepan engineers for them. However, Stepan is certainly not immune to economic weakness and as we've seen, its earnings-per-share history shows that results can bounce around from one year to another.

Final Thoughts & Recommendation

We are forecasting total annual returns for the next five years of 18.2%, comprised of the 2.4% current yield, 15% earnings-per-share growth and a 1.4% tailwind from the valuation. Given this, we're boosting the stock from hold to buy heading into 2025.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,776	1,766	1,925	1,994	1,859	1,870	2,346	2,773	2,326	2,180
Gross Profit	308	339	346	339	340	384	396	427	278	272
Gross Margin	17.4%	19.2%	18.0%	17.0%	18.3%	20.5%	16.9%	15.4%	12.0%	12.5%
SG&A Exp.	138	149	135	133	155	143	159	152	146	144
D&A Exp.	67	75	79	81	79	82	91	95	105	---
Operating Profit	120	135	158	152	129	173	175	209	73	70
Operating Margin	6.8%	7.6%	8.2%	7.6%	7.0%	9.2%	7.5%	7.5%	3.1%	3.2%
Net Profit	76	86	101	111	103	127	138	147	40	50
Net Margin	4.3%	4.9%	5.2%	5.6%	5.5%	6.8%	5.9%	5.3%	1.7%	2.3%
Free Cash Flow	64	109	120	84	113	109	(122)	(141)	(85)	---
Income Tax	27	28	46	27	23	43	35	42	8	10

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,238	1,354	1,471	1,515	1,579	1,752	2,066	2,433	2,363	2,305
Cash & Equivalents	176	226	299	300	315	350	159	174	130	---
Accounts Receivable	250	263	294	280	277	301	420	437	422	---
Inventories	170	174	173	232	204	219	306	403	266	---
Goodwill & Int. Ass.	29	48	44	37	41	52	158	154	150	---
Total Liabilities	680	718	730	706	687	764	991	1,267	1,147	1,135
Accounts Payable	129	158	205	206	194	237	323	376	233	---
Long-Term Debt	331	317	291	276	222	199	364	455	654	333
Shareholder's Equity	557	635	740	807	892	987	1,074	1,166	1,216	1,170
LTD/E Ratio	0.59	0.50	0.39	0.34	0.25	0.20	0.34	0.39	0.54	0.28

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	6.3%	6.6%	7.1%	7.4%	6.7%	7.6%	7.2%	6.5%	1.7%	2.2%
Return on Equity	13.9%	14.5%	14.7%	14.4%	12.1%	13.5%	13.4%	13.1%	3.4%	4.2%
ROIC	8.9%	9.4%	10.2%	10.5%	9.4%	11.2%	10.5%	9.6%	2.2%	3.0%
Shares Out.	22	22	23	23	23	23	23	23	23	22.931
Revenue/Share	77.70	76.48	82.35	85.48	79.72	80.40	100.74	120.24	101.36	95.08
FCF/Share	2.82	4.72	5.14	3.62	4.84	4.71	(5.25)	(6.10)	(3.72)	---

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

Disclaimer

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