



Stepan Co. (SCL)

Updated August 1st, 2025, by Josh Arnold

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	22.5%	Market Cap:	\$1.2 B
Fair Value Price:	\$64	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	08/29/2025
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	09/15/2025
Dividend Yield:	3.1%	5 Year Price Target	\$129	Years Of Dividend Growth:	57
Dividend Risk Score:	A	Sector:	Materials	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 \$1.2 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 second quarter earnings on July 30th, 2025, and results were much worse than expected on both the top and bottom lines. Adjusted earnings-per-share came to 52 cents, which was nowhere close to estimates for 90 cents. Revenue was up 7% year-over-year to \$595 million, missing estimates by \$3.6 million.

Surfactant sales were \$412 million, with selling prices soaring 11% on pass-through of raw material costs, primarily. Sales volumes were down 1%. Polymers net sales were up 2% to \$163 million. Volumes were up 7% but selling prices declined 7%. Specialty Product sales were \$20.5 million, up 22%, but margins worsened.

Adjusted EBITDA was \$51.4 million, up 8% year-over-year. Adjusted net income was \$12 million. Cash from operations came to \$11.2 million, and free cash flow was negative \$14.4 million on higher working capital requirements, as well as raw material builds.

We have left our estimate of earnings unchanged at \$3.20, but note this is still less than half of earnings from three years ago.

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	\$3.20	\$6.44
DPS	\$0.73	\$0.78	\$0.86	\$0.93	\$1.03	\$1.13	\$1.27	\$1.37	\$1.47	\$1.51	\$1.54	\$2.06
Shares¹	22	22	23	23	23	23	23	23	22	23	23	24

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. Volume is showing signs of weakness, and one wonders how long raw material pass-throughs can persist.

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

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.



Stepan Co. (SCL)

Updated August 1st, 2025, by Josh Arnold

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 3.1%. We expect the payout will rise by ~6% 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	15.6	20.0
Avg. Yld.	1.6%	1.3%	1.2%	1.1%	1.1%	1.1%	1.0%	1.3%	1.6%	2.3%	3.1%	1.6%

Stepan's price-to-earnings multiple has come well off its highs. The stock is lower than our estimate of fair value, which we peg at 20 times earnings. We think the company is going to see easing of supply chain disruptions this year, and sales volumes picked up in Q1. Cost savings should help support earnings, but we don't see cause to raise the fair value multiple without big improvements in volume and margins. There was no indication of this in Q2.

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%	48%	32%

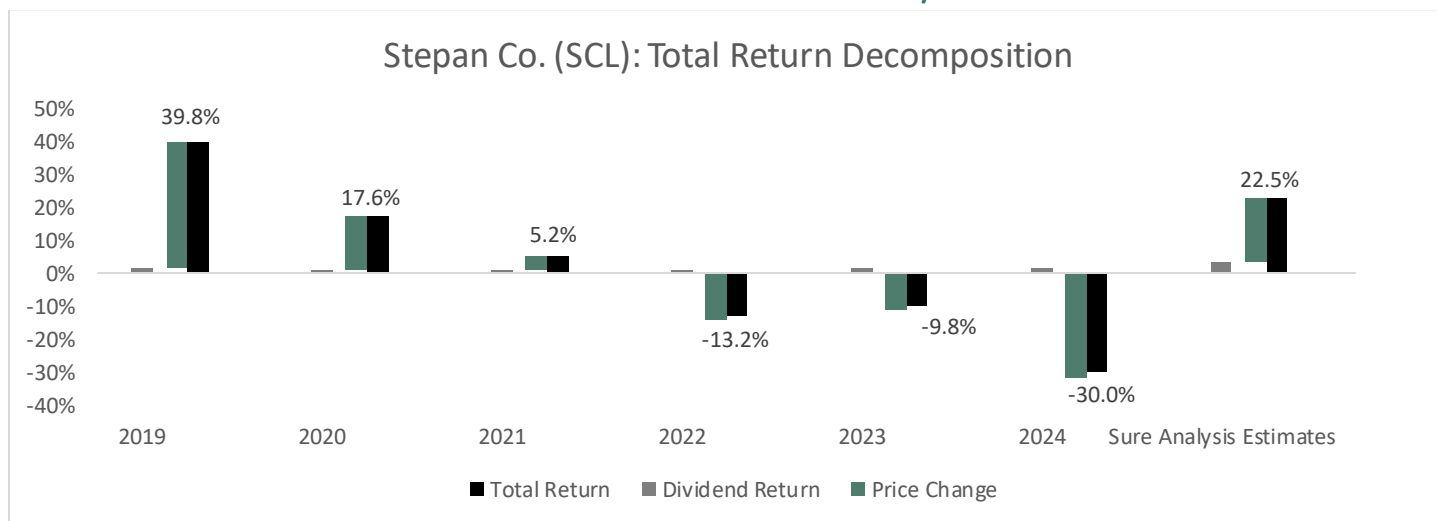
Stepan's payout ratio is about 48% of earnings, and we don't see it moving materially higher given the company's focus on investing in future growth. Recent struggles with earnings growth is likely to keep management slightly more cautious in the near term in raising the dividend.

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 22.5%, comprised of the 3.1% current yield, 15% earnings-per-share growth and a 5.1% tailwind from the valuation. Given this, we're reiterating the stock at a buy rating following Q2 earnings, but note there's a fair amount of uncertainty surrounding Stepan's outlook.

Total Return Breakdown by Year



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.



Stepan Co. (SCL)

Updated August 1st, 2025, by Josh Arnold

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	112
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)	39
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	100
Accounts Receivable	250	263	294	280	277	301	420	437	422	388
Inventories	170	174	173	232	204	219	306	403	266	289
Goodwill & Int. Ass.	29	48	44	37	41	52	158	154	150	134
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	259
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	23
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)	1.71

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.