

Cabot Corporation(CBT)

\$43.33 (As of 01/22/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/19/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Annual earnings estimates for Cabot have been declining over the past two months. The company anticipates first-quarter fiscal 2020 to be challenging as customers actively manage year-end inventory levels. It has been facing pricing weakness in China, which is likely to persist in the fiscal first quarter. Intense competition and weak demand are affecting prices in the country. Moreover, the company does not expect the pricing environment in China to rebound in the near term. Also, weak automotive production in Europe and China may continue to impact the company's volumes. The impact on automotive production from new emissions regulations in Europe and customer destocking may also affect margins. The company expects these challenges in business environment to persist in the near term. Its high debt level is another concern.

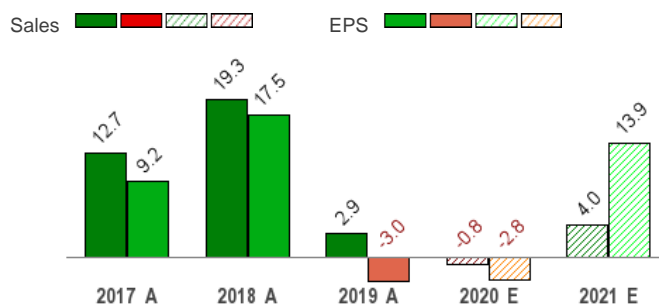
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.58 - \$37.11
20 Day Average Volume (sh)	181,890
Market Cap	\$2.5 B
YTD Price Change	-8.8%
Beta	1.56
Dividend / Div Yld	\$1.40 / 3.2%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 8% (235 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.6%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	02/03/2020
Earnings ESP	-2.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,444 E
2020	802 E	841 E	862 E	854 E	3,310 E
2019	821 A	844 A	845 A	827 A	3,337 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.33 E
2020	\$0.77 E	\$0.94 E	\$1.03 E	\$1.07 E	\$3.80 E
2019	\$0.87 A	\$0.99 A	\$1.00 A	\$1.05 A	\$3.91 A

*Quarterly figures may not add up to annual.

P/E TTM	11.1
P/E F1	11.4
PEG F1	1.1
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

Overview

Boston, MA-based Cabot Corporation is a leading global specialty chemicals and performance materials company. The company offer a broad range of products and solutions to customers in every corner of the planet, catering to major industries such as transportation, infrastructure, environment and consumer. Its major products include rubber and specialty grade carbon blacks, specialty compounds, activated carbons, fumed metal oxides, inkjet colorants, aerogel and cesium formate drilling fluids.

Cabot operates through four segments – Reinforcement Materials, Performance Chemicals, Purification Solutions and Specialty Fluids. The company generated total sales of \$3,337 million in fiscal 2019, up 2.9% year over year.

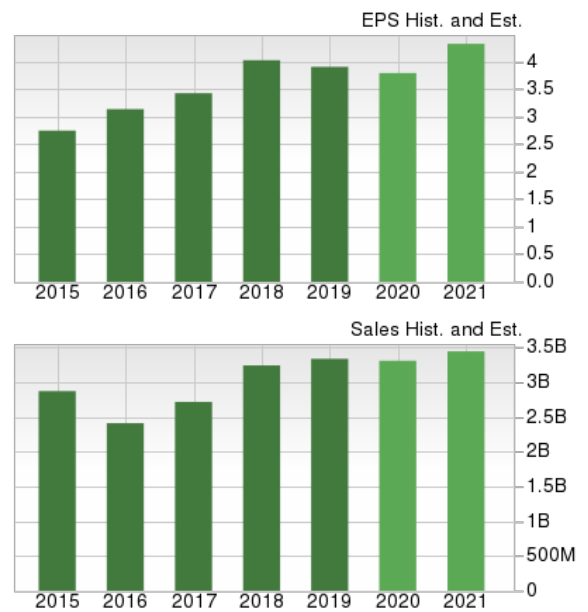
Reinforcement Materials (57% of Fiscal 2019 Sales): The segment makes rubber grade carbon blacks as well as compounds of carbon black and rubber using the company's patented elastomer composites manufacturing process.

Performance Chemicals (33%): The segment is comprised of specialty carbons and formulations business and metal oxides business. The specialty carbons and formulations business makes and markets specialty grades of carbon black, specialty compounds and inkjet colorants. The metal oxides business makes and markets fumed silica, fumed alumina and aerogel.

Purification Solutions (9%): The segment makes activated carbons that are used to remove contaminants from liquids and gases using a process called adsorption. These materials are used for the purification of water, air, food & beverages, pharmaceuticals and other liquids and gases.

Specialty Fluids (1%): The division makes a host of cesium products that include cesium formate brines and other fine cesium chemicals that are used in a range of industries and applications.

In June 2019, the company successfully closed the divestiture of its Specialty Fluids business to Sinomine (Hong Kong) Rare Metals Resources Co. Limited for \$135 million. The transaction enables the company to focus on growth opportunities in core businesses and execute the 'Advancing the Core' strategy.



Reasons To Sell:

- ▼ Cabot faces headwind from a challenging operating environment, especially in China. It saw pricing weakness in China in the last reported quarter due to intense competition and weak demand. The pricing environment in that country is not expected to recover in the near term. The company expects the business environment to remain challenging in the first quarter fiscal 2020.
- ▼ Weak automotive production in China and Europe are a concern, which may continue to impact volumes. In the recently reported quarter, automotive production was softer in Europe and China. For the calendar year 2019, the company sees a decline in Chinese automotive production. Also, the impact on automotive production from new emissions regulations in Europe and customer destocking may impact the company's performance. For the first quarter of fiscal 2020, the company expects a sequential decline in margins due to lower volumes and higher fixed costs. As such, a competitive pricing and declining automotive production remain a concern.
- ▼ Cabot's high debt level is also a concern. The company has a debt-to-equity ratio of 90.3%, which is higher than the industry average of 65.2%. Its long-term debt jumped 42.4% year over year to \$1,024 million at the end of the fiscal 2019 and is more than six-times of its cash and cash equivalents.

Cabot faces pricing weakness in China. Weak automotive production in China and Europe may also continue to impact volumes. Cabot's high debt level is also a matter of concern.

Risks

- Cabot's shares have lost 4.5% in the past year, outperforming the 22.4% decline recorded by the industry. Cabot remains committed to boost its specialty compounds business globally. The buyout of Tech Blend and commissioning of a new production line at its manufacturing facility in Belgium will help the company expand its global footprint in black masterbatch and compounds. It will also help beef up manufacturing capacity to better serve customers globally and grow in advanced polymeric materials. The company now has a complete range of black masterbatches from five manufacturing locations throughout Europe, Middle East, Asia and North America.
 - Cabot's buyout of the NSCC carbon plant in China will support growth of specialty carbons and formulations business. This acquisition will support its growth objectives and broaden capabilities as the company convert a 50,000 metric ton plant to support specialty carbons product lines. These investments will keep helping the company in meeting the growing demand for rubber and specialty carbons products.
 - The company remains focused on creating shareholder value leveraging strong cash flows. The company generated cash flows from operating activities of \$361 million during fiscal 2019, up 21.1% year over year. It also generated cash worth \$195 million from operating activities in fourth-quarter fiscal 2019, up 20.4% year over year. Cabot also announced an increase in share repurchase authorization of \$10 million, expecting to repurchase \$400 million of shares over the next three years. The company is also committed toward dividend payout. It has increased dividend by 5% in 2018 and by 43% since 2016. The company also raised its dividend by 6% during the fiscal third quarter. Cabot paid \$80 million in dividends payouts and \$173 million for share repurchases in fiscal 2019, returning \$253 million to shareholders. Notably, it used additional cash to payout dividends worth \$20 million and repurchased common stock worth \$29 million during the fiscal fourth quarter.
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Last Earnings Report

Cabot's Earnings and Sales Fall Short of Estimates in Q4

Cabot reported profits of \$33 million or 55 cents per share in the fourth quarter of fiscal 2019 (ended Sep 30, 2019), down from \$94 million or \$1.51 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share were \$1.05, up from \$1.00 in the year-ago quarter. However, earnings per share missed the Zacks Consensus Estimate of \$1.10.

Net sales fell 2.7% year over year to \$827 million in the quarter. It lagged the Zacks Consensus Estimate of \$847.8 million.

Growth in new business sales, strong commercial execution and cost-reduction actions helped the company to reduce the impact of continued weakness in the China business and global automobile production.

Segment Highlights

Reinforcement Materials' sales fell 3.2% year over year to \$452 million in the fiscal fourth quarter. Earnings before Interest and Tax (EBIT) in the segment were \$71 million, up around 11% year over year. The rise resulted from increased volume, improved product and pricing mix, and reduced costs.

Sales in the Performance Chemicals unit went up 0.8% year over year to \$259 million in the quarter. EBIT increased 2.5% year over year to \$41 million on higher volume.

Sales in the Purification Solutions declined 6.9% year over year to \$68 million in the quarter. EBIT increased \$4 million year over year on increased margins from improved product and pricing mix as well as reduced costs.

Financial Position

Cabot had cash and cash equivalents of \$169 million at the end of fiscal 2019, down 3.4% year over year. The company's long-term debt rose 42.4% year over year to \$1,024 million.

Cash flows from operating activities were \$195 million in the reported quarter. Capital expenditure was \$69 million.

Outlook

Cabot anticipates first-quarter fiscal 2020 to be challenging as customers actively manage year-end inventory levels. Gains from the new fumed silica plant in China and Reinforcement Materials' customer agreements are likely to aid the company in fiscal 2020.

Due to the International Marine Organization's (IMO) new regulation, which is affecting both Reinforcement Materials and Performance Chemicals units, the company will continue to witness fluctuations in feedstock costs.

It expects the Purification Solutions segment to witness year-over-year growth on continued benefits from its transformation plan.

In fiscal 2020, Cabot's Specialty Fluids business, which was divested in fiscal 2019, will not contribute to EBIT. The company expects adjusted earnings per share of \$3.60-\$4.10 for fiscal 2020.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-2.45%
EPS Surprise	-4.55%
Quarterly EPS	1.05
Annual EPS (TTM)	3.91

Recent News

Cabot Announces Quarterly Dividend – Jan 10, 2020

Cabot's board has declared a quarterly dividend of 35 cents per share on all outstanding shares of its common stock. The dividend is payable on Mar 13, 2020 to stockholders of record at the close of business on Feb 28, 2020.

Cabot to Purchase Shenzhen Sanshun Nano New Materials – Jan 6, 2020

Cabot's fully-owned subsidiary, Cabot China Limited, inked a deal to acquire Shenzhen Sanshun Nano New Materials ("SUSN") for roughly \$115 million in enterprise value, including liabilities and contingent payments. The transaction is slated to close in the second quarter of fiscal 2020.

The acquisition significantly bolsters the market position and formulation capabilities of Cabot in the high-growth batteries market, especially in China. Notably, with the acquisition, the company is expected to be the only supplier of carbon additives, with commercially proven carbon black, carbon nanotube, carbon nanostructure and dispersion capabilities.

Per Cabot, the acquisition provides its energy material business with a new technology platform as well as aids it in its strategy to expand in the formulations space. The buyout is also expected to create opportunities to expand its position in the rapidly growing energy storage market. Further, the acquisition will likely enable the company to deliver innovative solutions that facilitate better battery performance at an optimized price to performance ratio.

Notably, the buyout presents Cabot with a unique opportunity to create world-class formulated solutions and provides customers with an even broader product range to meet their needs.

The integration of Cabot's portfolio of energy materials and SUSN is expected to create a business with sales of \$50 million. Revenues are projected to grow 20-25% over the next five years from sustained growth in electric vehicles and other lithium-ion battery storage applications, making this a significant part of Cabot's specialty chemicals portfolio.

Cabot Inaugurates Carbon Black Expansion Project in Indonesia – Nov 21, 2019

Cabot has announced the groundbreaking of its Cilegon, Indonesia-based carbon black capacity expansion project. This phase is expected to boost annual production capacity by adding around 80,000 metric tons and is slated to be complete in 2021.

The additional capacity from the project is likely to provide local, reliable, high-quality supply to growing carbon black demand in Indonesia as well as throughout Southeast Asia. Notably, demand in the region is growing 4-5% annually.

The capacity expansion project in Cilegon is part of a broader global capacity expansion and debottlenecking project, which was announced in May 2018. The company has made substantial progress toward expanding global carbon black production capacity by 300,000 metric tons. The increase in capacity enables the company to support growth of its industrial rubber, tire and specialty carbons markets globally.

Valuation

Cabot's shares are down 4.5% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic

Materials sector are down 22.4% and up 1.6% over the past year, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 10.93X forward 12-month earnings, which compares to 12.75X for the Zacks sub-industry, 13.58X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.36X and as low as 8.42X, with a 5-year median of 13.08X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$37 price target reflects 9.33X forward 12-month earnings per share.

The table below shows summary valuation data for CBT:

Valuation Multiples - CBT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.93	12.75	13.58	19.13
	5-Year High	17.36	15.05	21.12	19.34
	5-Year Low	8.42	8.18	9.77	15.17
	5-Year Median	13.08	12.38	13.77	17.44
EV/EBITDA TTM	Current	6.88	7.39	9.67	12.38
	5-Year High	48.57	12.41	18.17	12.86
	5-Year Low	3.83	5.08	7.34	8.48
	5-Year Median	8.5	7.24	10.55	10.67
P/B TTM	Current	2.18	1.72	2.33	4.54
	5-Year High	3.22	3.51	3.54	4.55
	5-Year Low	1.3	0.88	1.33	2.85
	5-Year Median	2.25	2.52	2.18	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (235 out of 255)



Top Peers

Tronox Limited (TROX)	Outperform
Axalta Coating Systems Ltd. (AXTA)	Neutral
W.R. Grace & Co. (GRA)	Neutral
Ingevity Corporation (NGVT)	Neutral
Orion Engineered Carbons S.A (OEC)	Neutral
PolyOne Corporation (POL)	Neutral
Ashland Global Holdings Inc. (ASH)	Underperform
Ferro Corporation (FOE)	Underperform

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	CBT Underperform	X Industry	S&P 500	FOE Underperform	OEC Neutral	POL Neutral
VGM Score	A	-	-	D	A	B
Market Cap	2.47 B	2.86 B	24.65 B	1.18 B	1.03 B	2.75 B
# of Analysts	6	3	13	5	3	4
Dividend Yield	3.23%	1.80%	1.77%	0.00%	4.64%	2.27%
Value Score	A	-	-	C	A	B
Cash/Price	0.07	0.06	0.04	0.04	0.07	0.07
EV/EBITDA	7.19	6.39	13.98	10.28	5.31	11.37
PEG Ratio	1.13	1.62	2.05	3.10	0.97	1.95
Price/Book (P/B)	2.21	2.12	3.38	3.04	5.83	4.64
Price/Cash Flow (P/CF)	6.58	6.53	13.60	6.57	4.43	9.93
P/E (F1)	11.31	14.41	19.07	11.17	9.68	19.99
Price/Sales (P/S)	0.74	0.89	2.69	0.76	0.67	0.82
Earnings Yield	8.77%	6.81%	5.24%	8.92%	10.31%	5.02%
Debt/Equity	0.90	0.56	0.72	2.18	3.52	2.45
Cash Flow (\$/share)	6.58	3.41	6.94	2.18	3.89	3.59
Growth Score	A	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	10.15%	10.15%	10.60%	17.55%	40.18%	20.18%
Proj. EPS Growth (F1/F0)	-2.86%	7.23%	7.53%	9.27%	-1.84%	8.22%
Curr. Cash Flow Growth	-22.87%	3.75%	13.90%	13.37%	16.38%	2.47%
Hist. Cash Flow Growth (3-5 yrs)	-2.25%	6.70%	9.00%	15.56%	NA	3.86%
Current Ratio	2.02	1.81	1.22	2.62	1.83	1.88
Debt/Capital	47.45%	38.75%	42.99%	68.54%	77.89%	71.01%
Net Margin	4.70%	5.57%	11.21%	3.13%	5.74%	4.03%
Return on Equity	19.06%	11.94%	17.16%	27.03%	68.78%	30.57%
Sales/Assets	1.06	0.85	0.55	0.85	1.22	1.16
Proj. Sales Growth (F1/F0)	-0.81%	2.13%	4.08%	0.85%	1.44%	0.91%
Momentum Score	D	-	-	C	D	D
Daily Price Chg	-2.26%	0.00%	-0.04%	-1.85%	-2.82%	-0.34%
1 Week Price Chg	-0.07%	0.69%	2.29%	2.32%	-3.92%	4.93%
4 Week Price Chg	-8.99%	-3.99%	2.05%	-3.56%	-11.85%	-3.57%
12 Week Price Chg	-5.17%	-0.31%	6.92%	25.00%	2.68%	9.58%
52 Week Price Chg	-4.26%	-1.90%	21.50%	-9.92%	-32.97%	14.87%
20 Day Average Volume	181,890	106,720	1,518,423	598,899	332,011	514,595
(F1) EPS Est 1 week change	-0.35%	0.00%	0.00%	0.00%	0.00%	0.14%
(F1) EPS Est 4 week change	-0.65%	-0.21%	0.00%	-0.23%	0.00%	0.21%
(F1) EPS Est 12 week change	-11.08%	-3.57%	-0.23%	-8.87%	-13.01%	-1.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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