

Cabot Corporation(CBT)

\$26.73 (As of 03/26/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Earnings estimates for Cabot for the second quarter of fiscal 2020 have been going down over the past month. The company is committed toward boosting its specialty compounds business globally. It is also likely to gain from the NSCC carbon plant buyout. The company is focused on boosting shareholders' value. However, intense competition and weak demand are affecting prices in China. A challenging price environment in Europe and China is expected to persist in the near term. Adding to the woes is the uncertainty surrounding the impact of coronavirus outbreak in China. Weak automotive production in Europe and China is hurting the company's volumes. A slowdown in the transportation and industrial end markets is also hurting the Performance Chemicals segment. The company's high debt level is another concern.

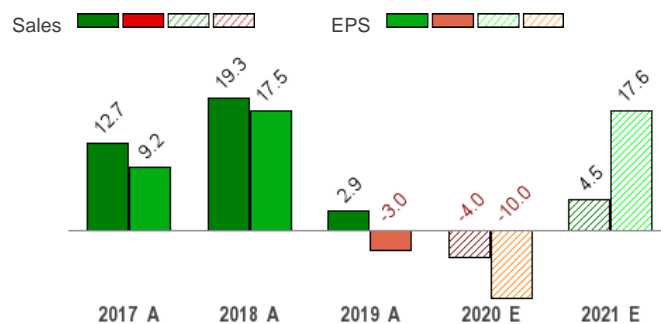
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.58 - \$20.00
20 Day Average Volume (sh)	568,398
Market Cap	\$1.5 B
YTD Price Change	-43.8%
Beta	1.49
Dividend / Div Yld	\$1.40 / 5.2%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 7% (235 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.2%
Last Sales Surprise	-8.4%
EPS F1 Est- 4 week change	-4.0%
Expected Report Date	05/04/2020
Earnings ESP	-43.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,346 E
2020	727 A	812 E	846 E	842 E	3,203 E
2019	821 A	844 A	845 A	827 A	3,337 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.14 E
2020	\$0.69 A	\$0.76 E	\$0.98 E	\$1.09 E	\$3.52 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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.

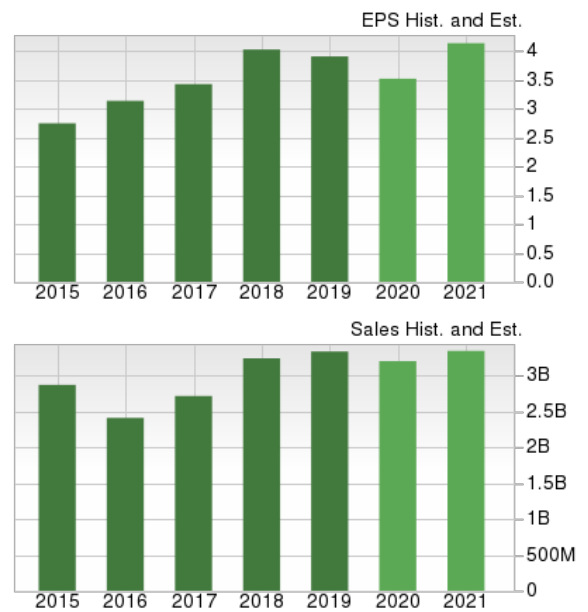
Reinforcement Materials (57% of Fiscal 2019 Sales): The segment makes rubber grade carbon blacks as well as compounds of carbon black and rubber using the company's patented elastomer composites manufacturing process.

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 Buy:

- ▲ Cabot's shares have lost 35% in the past year, outperforming the 49.9% 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. The company expects the conductive carbon additives market, which is currently valued between \$350 million and \$400 million, to grow 20% over the next five years.
- ▲ 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. Moreover, the acquisition of a newly-commissioned CNT plant in China provides additional upside. The company expects that the plant has sufficient capacity to support growth over the next several years.
- ▲ 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% year over year. It also had cash and cash equivalents worth \$173 million at the end of first-quarter fiscal 2020, up nearly 22% 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. In 2018 and 2019, the company generated a cumulative \$661 million in operating cash flow, repurchased \$315 million in shares and paid out dividends worth \$160 million. Also, it has returned \$54 million to shareholders in the recently reported quarter, including \$20 million in dividends and \$34 million of share repurchases.

Cabot remains committed to boost its specialty compounds business globally. It will also gain from the NSCC carbon plant buyout. The company also remains focused on creating shareholder value.

Reasons To Sell:

- ▼ Cabot faces headwind from a challenging operating environment, especially in China. The company saw pricing weakness in China in the last reported quarter due to intense competition and weak demand. This is partly affecting results in the Performance Chemicals unit. For the unit, the company anticipates a negative impact from challenging price environment for fumed silica in Europe and China, witnessed during the fiscal first quarter. The pricing environment in China is not expected to recover in the near term. The company expects the business environment to remain challenging in the foreseeable future. Moreover, the company witnessed lower pricing in metal oxides in the last reported quarter mainly due to a slowdown in the major transportation and industrial end markets in China along with higher competitive intensity.
- ▼ Weak automotive demand in China and Europe remain a concern, which may continue to impact the company's volumes. In the last reported quarter, automotive production was particularly soft in Europe and China. Moreover, automotive production in China had declined on a year-over-year basis for the 16 straight months. Also, the impact on automotive production from new emissions regulations in Europe and customer destocking may impact the company's performance. As such, softer demand and declining automotive production is a concern. Adding to the woes is the uncertainty surrounding the impact of coronavirus outbreak in China, which could have a cascading effect in demand globally.
- ▼ Cabot's high debt level is also a concern. The company has a debt-to-equity ratio of 95.1%, which is higher than the industry average of 66.2%. Its long-term debt jumped 73.5% year over year to \$1,024 million at the end of the fiscal first quarter and is more than six-times of its cash and cash equivalents.

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

Last Earnings Report

Cabot's Earnings and Revenues Trail Estimates in Q1

Cabot reported profits of \$41 million or 70 cents per share in the first quarter of fiscal 2020 (ended Dec 31, 2019), down from \$69 million or \$1.14 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 69 cents, down from 87 cents in the year-ago quarter. Also, the figure missed the Zacks Consensus Estimate of 76 cents.

Net sales fell 11.4% year over year to \$727 million in the quarter. It also trailed the Zacks Consensus Estimate of \$793.6 million.

Quarter Ending **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	-8.40%
EPS Surprise	-9.21%
Quarterly EPS	0.69
Annual EPS (TTM)	3.73

Segment Highlights

Reinforcement Materials' sales fell 17.1% year over year to \$379 million in the reported quarter. Earnings before Interest and Tax (EBIT) in the segment were \$47 million, down 24.2% year over year. Margins were affected by lower volumes globally, which also led to lower energy center revenues and a slower inventory turnover.

Sales in the Performance Chemicals unit went up 4.8% year over year to \$242 million in the reported quarter. EBIT rose 13.9% year over year to \$41 million on higher volume.

Sales in the Purification Solutions declined 9.2% year over year to \$59 million in the quarter. The segment generated a loss of \$2 million, which was narrower than a loss of \$3 million in the year-ago quarter.

Financial Position

Cabot had cash and cash equivalents of \$173 million at the end of fiscal first quarter, up 21.8% year over year. The company's long-term debt rose 73.5% year over year to \$1,095 million.

Cash flows from operating activities were \$105 million in the reported quarter. Capital expenditures were \$68 million.

Outlook

For the Reinforcement Materials unit, the company expects to benefit from the calendar year 2020 customer agreements. Moreover, volumes are likely to return to a normalized level starting second-quarter fiscal 2020.

In the Performance Chemicals unit, the company anticipates the challenging price environment for fumed silica in Europe and China that it witnessed during the fiscal first quarter. The trend is likely to continue in the near-term.

For the Purification Solutions unit, the company continues to expect improvement in EBIT on a year-over-year basis.

For fiscal 2020, adjusted earnings are projected in the range of \$3.60-\$3.90 per share compared with \$3.60-\$4.10 expected earlier.

Recent News

Cabot Launches Engineered Elastomer Composites Solutions - Feb 25, 2020

Cabot has announced the launch of its Engineered Elastomer Composites (E2C) solutions and DX9730, its first E2C product.

Notably, E2C solutions are pre-mixed composite solutions geared to help tire manufacturers unlock superior performance sustainably and economically, allowed by proprietary technology for mixing reinforcing agents into elastomers.

E2C solutions allow tire producers to streamline the commercialization of high-performance products by making available pre-mixed composites supplied in a ready-to-use and easy-to-handle product shape.

Without additional capital investment, E2C solutions can be incorporated into existing production methods. Compared with conventional products, E2C solutions need fewer mixing phases, lower mixing temperatures and shorter mixing cycles, substantially enabling additional production capacity and lowering operating costs.

Per management, by partnering with existing customers, Cabot demonstrated the power to allow growth by shortening development cycles, extending the performance triangle, and minimizing operational barriers to new product commercialization.

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 was paid on Mar 13, 2020 to stockholders of record at the close of business on Feb 28, 2020.

Valuation

Cabot's shares are down 35% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 49.9% and 32.8% over the past year, respectively.

The S&P 500 index is down 12.6% in the past year.

The stock is currently trading at 6.95X forward 12-month earnings, which compares to 9.6X for the Zacks sub-industry, 9.93X for the Zacks sector and 14.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.36X and as low as 5.92X, with a 5-year median of 13.02X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 7.27X 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 F 12M	Current	6.95	9.6	9.93	14.92
	5-Year High	17.36	15.18	21.12	19.34
	5-Year Low	5.92	8.25	9.83	14.92
	5-Year Median	13.02	12.28	13.51	17.42
EV/EBITDA TTM	Current	4.81	6.06	6.91	9.16
	5-Year High	50.13	13.36	18.21	12.88
	5-Year Low	3.73	5.43	6.07	8.27
	5-Year Median	8.41	7.58	10.55	10.79
P/B TTM	Current	1.32	1.18	1.38	3.33
	5-Year High	3.22	3.55	3.55	4.56
	5-Year Low	1.04	0.89	1.18	2.85
	5-Year Median	2.25	2.37	2.18	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (235 out of 253)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	CBT Neutral	X Industry	S&P 500	FOE Underperform	OEC Underperform	POL Neutral
VGM Score	C	-	-	D	A	B
Market Cap	1.52 B	1.96 B	18.50 B	819.37 M	496.85 M	1.74 B
# of Analysts	6	3.5	13	3	2	6
Dividend Yield	5.24%	2.36%	2.35%	0.00%	9.70%	4.29%
Value Score	C	-	-	C	B	B
Cash/Price	0.14	0.12	0.07	0.14	0.17	0.64
EV/EBITDA	5.27	6.38	11.16	12.43	4.28	8.32
PEG Ratio	0.73	1.49	1.74	1.32	NA	1.55
Price/Book (P/B)	1.32	1.32	2.44	2.21	2.64	1.38
Price/Cash Flow (P/CF)	4.06	4.30	9.87	6.55	2.33	6.64
P/E (F1)	7.29	11.16	15.29	12.44	5.56	11.48
Price/Sales (P/S)	0.47	0.62	1.93	0.59	0.34	0.55
Earnings Yield	13.17%	8.52%	6.47%	8.01%	18.06%	8.68%
Debt/Equity	0.95	0.54	0.70	2.20	3.39	1.19
Cash Flow (\$/share)	6.58	3.41	7.01	1.52	3.55	2.84
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	10.54%	9.85%	10.85%	14.08%	28.02%	15.74%
Proj. EPS Growth (F1/F0)	-9.89%	-4.85%	2.89%	-3.21%	-20.59%	-2.66%
Curr. Cash Flow Growth	-22.87%	-5.85%	5.93%	-31.22%	-8.95%	-23.71%
Hist. Cash Flow Growth (3-5 yrs)	-2.25%	5.70%	8.55%	6.77%	11.92%	38.26%
Current Ratio	2.08	1.85	1.23	2.31	1.78	2.15
Debt/Capital	48.73%	37.36%	42.57%	68.74%	77.21%	54.36%
Net Margin	3.98%	5.29%	11.64%	0.43%	5.89%	18.58%
Return on Equity	18.47%	12.26%	16.74%	23.70%	64.30%	24.03%
Sales/Assets	1.03	0.84	0.54	0.77	1.17	1.05
Proj. Sales Growth (F1/F0)	-4.02%	0.00%	2.37%	-26.57%	3.16%	-5.44%
Momentum Score	B	-	-	D	C	F
Daily Price Chg	2.18%	1.92%	6.21%	9.90%	10.59%	6.66%
1 Week Price Chg	-34.68%	-10.85%	-16.96%	-9.34%	-32.03%	-22.91%
4 Week Price Chg	-27.64%	-16.74%	-15.70%	-17.16%	-41.98%	-22.58%
12 Week Price Chg	-43.25%	-34.90%	-23.67%	-32.95%	-57.01%	-48.64%
52 Week Price Chg	-34.98%	-33.35%	-13.99%	-46.95%	-55.95%	-35.44%
20 Day Average Volume	568,398	192,624	4,286,768	1,423,632	930,744	1,581,393
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	-17.18%	0.00%	-8.53%
(F1) EPS Est 4 week change	-3.95%	-2.49%	-2.28%	-36.41%	-16.26%	-8.68%
(F1) EPS Est 12 week change	-7.85%	-10.95%	-3.22%	-37.48%	-16.73%	-7.45%
(Q1) EPS Est Mthly Chg	-9.69%	-4.09%	-1.60%	-59.38%	-4.55%	-2.22%

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	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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