



Quaker Chemical Corporation (KWR)

Updated November 19th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$167	5 Year CAGR Estimate:	12.9%	Market Cap:	\$3.1 B
Fair Value Price:	\$232	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/16/2025 ¹
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.8%	Dividend Payment Date:	01/31/2025 ²
Dividend Yield:	1.2%	5 Year Price Target	\$296	Years Of Dividend Growth:	18
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Quaker Chemical Corporation (KWR), which operates as Quaker Houghton, was founded in 1918 as Quaker Oil Products Corporation. The company develops, produces, and markets a broad range of formulated chemical specialty products and offers chemical management services for various heavy industrial and manufacturing applications worldwide. The company's business is divided into four segments, namely the Americas, Europe, Middle East and Africa, Asia/Pacific, and Global Specialty Businesses. With over 35 locations in 21 countries, Quaker Houghton has a global presence and generates more than 50% of net sales outside the United States.

On October 31st, 2024, the company announced results for the third quarter of 2024. KWR reported Q3 non-GAAP EPS of \$1.89, missing market estimates by \$0.19.

Quaker Houghton posted Q3 2024 net sales of \$462.3 million, reflecting a 6% year-over-year decline due to a challenging macroeconomic environment and softer end-market conditions. Despite the revenue dip, the company demonstrated resilience with net income of \$32.3 million (\$1.81 per diluted share) and non-GAAP earnings of \$1.89 per diluted share. Adjusted EBITDA came in at \$78.6 million with a 17.0% margin, underscoring effective cost management and operational efficiencies. Year-to-date, Quaker Houghton has generated \$141.5 million in operating cash flow and maintained a strong balance sheet, with a net leverage ratio of 1.6x.

CEO Andy Tometich highlighted the company's robust operational execution, driven by consistent volumes from new business wins despite softer conditions in key markets. Tometich noted progress in portfolio simplification and cost discipline, which supported improved year-to-date operating margins in the Americas segment. Looking ahead, Quaker Houghton expects continued market challenges through year-end but remains confident in the long-term fundamentals of its industry. The company plans to leverage its strong cash generation capabilities to accelerate growth, execute its enterprise strategy, and enhance shareholder value. Lastly, the company has appointed Joseph Berquist as its new CEO and President, as well as a member of the Board of Directors, effective immediately, succeeding Andy Tometich.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.26	\$3.84	\$4.63	\$5.01	\$6.05	\$5.83	\$4.78	\$6.85	\$5.80	\$6.29	\$7.72	\$9.85
DPS	\$1.10	\$1.24	\$1.33	\$1.40	\$1.45	\$1.51	\$1.55	\$1.60	\$1.68	\$1.74	\$1.94	\$2.36
Shares³	13.3	13.3	13.3	13.3	13.3	17.7	17.9	17.9	18.0	17.9	18.6	22.4

Quaker Chemical Corporation is pursuing a range of strategies to realize long-term growth. It is expanding its product portfolio through R&D, focusing on developing innovative solutions. KWR also targets new markets in emerging economies such as Asia, Latin America, and the Middle East by establishing local operations and partnerships. Strategic acquisitions of complementary businesses are also a crucial part of its growth strategy, such as Coral Chemical, allowing

¹ Estimated ex-dividend date.

² Estimated dividend payment date.

³ The shares are in millions.

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for quick access to new technologies and markets. In addition, the company focuses on improving operational efficiency through lean manufacturing and automation, reducing costs, and enhancing profitability.

We have revised our EPS forecast to \$7.72 for 2024, the midpoint of analysts' estimates. Additionally, we believe that the firm can grow annually slightly faster than the Special Chemical industry's projected growth of 4%. With a 5.0% annual growth rate, KWR's EPS could reach \$9.85 by 2029. Quaker Chemical Corporation's DPS had a 10-year and five-year CAGR of 5.0% and 10.0%, respectively. However, the company's approach to managing its capital supports the payment of competitive cash dividends. Thus, we have assumed a relatively moderate annual growth of 4.0%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.1	21.6	21.0	28.6	27.9	31.3	38.6	36.1	29.4	31.4	21.6	30.0
Avg. Yld.	1.5%	1.5%	1.4%	1.0%	0.9%	0.8%	0.8%	0.7%	1.0%	0.9%	1.2%	0.8%

Quaker Chemical Corporation is trading at a forward P/E of 21.6, lower than the five-year average P/E of 28.2 and its 10-year average of 33.0. Thus, we have assumed a stable P/E of 30.0 to value the company in 2029, close to its historical averages, suggesting a target price of \$296.

Safety, Quality, Competitive Advantage, & Recession Resiliency

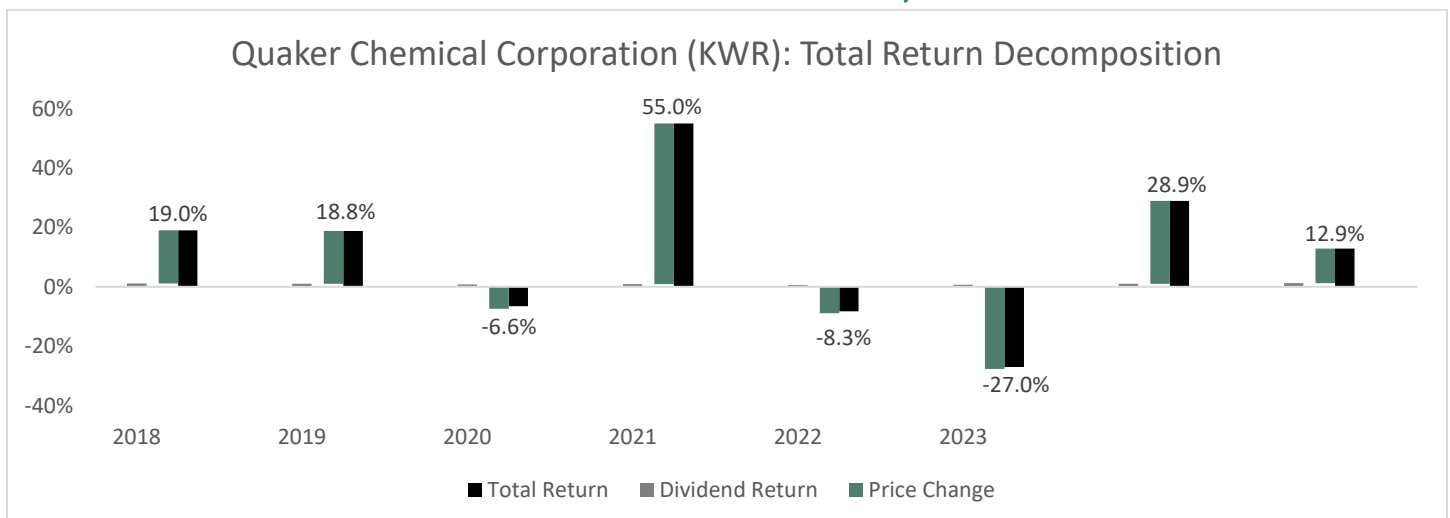
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	33%	29%	28%	24%	26%	33%	24%	29%	28%	25%	24%

For heavy industrial and manufacturing applications, Quaker Chemical Corporation enjoys a competitive edge in producing and selling a variety of Special Chemical formulations. Because of this edge over competitors, the business can increase profits and benefit its shareholders. Quaker Chemical demonstrated outstanding financial performance with a 10.0% increase in revenue during FY2022 compared to FY2021 during the most recent economic downturn. In Q3 2024, Quaker Houghton repurchased 89,088 shares for approximately \$14.6 million, reflecting its commitment to returning value to shareholders.

Final Thoughts & Recommendation

We maintain our buy rating on the stock premised upon the 12.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0%, the 1.2% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	766	738	747	820	868	1,134	1,418	1,761	1,944	1,953
Gross Profit	273	278	280	291	312	392	513	595	613	706
Gross Margin	35.7%	37.7%	37.5%	35.5%	36.0%	34.6%	36.2%	33.8%	31.5%	36.1%
SG&A Exp.	196	196	194	199	208	284	381	419	455	484
D&A Exp.	17	19	20	20	20	87	83	87	80	82
Operating Profit	78	81	87	94	105	109	136	191	156	223
Op. Margin	10.2%	11.0%	11.6%	11.4%	12.1%	9.7%	9.6%	10.8%	8.0%	11.4%
Net Profit	56	51	61	20	59	32	40	121	(16)	113
Net Margin	7.4%	6.9%	8.2%	2.5%	6.9%	2.8%	2.8%	6.9%	-0.8%	5.8%
Free Cash Flow	42	62	64	54	66	27	160	27	13	240
Income Tax	24	18	23	42	25	2	(5)	35	25	56

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	666	681	692	722	710	2,850	2,892	2,956	2,822	2,714
Cash & Equivalents	65	81	89	90	104	124	182	165	181	195
Acc. Receivable	189	188	195	208	202	376	373	431	473	445
Inventories	78	75	77	87	94	175	188	265	285	234
Goodwill & Int.	148	152	154	158	147	1,729	1,713	1,659	1,458	1,409
Total Liabilities	300	299	279	313	273	1,608	1,571	1,568	1,543	1,329
Accounts Payable	75	67	78	93	88	164	192	227	194	185
Long-Term Debt	76	82	66	67	37	921	888	893	953	754
Total Equity	357	373	403	408	435	1,241	1,320	1,387	1,278	1,384
D/E Ratio	0.21	0.22	0.17	0.16	0.08	0.74	0.67	0.64	0.75	0.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.0%	7.6%	8.9%	2.9%	8.3%	1.8%	1.4%	4.2%	-0.6%	4.1%
Return on Equity	16.3%	14.0%	15.8%	5.0%	14.1%	3.8%	3.1%	9.0%	-1.2%	8.5%
ROIC	14.0%	11.3%	13.0%	4.2%	12.5%	2.4%	1.8%	5.4%	-0.7%	5.2%
Shares Out.	13.3	13.3	13.3	13.3	13.3	17.7	17.9	17.9	18.0	17.9
Revenue/Share	58.25	55.81	56.74	61.91	65.20	74.75	79.87	98.64	108.84	109.03
FCF/Share	3.17	4.72	4.85	4.07	4.95	1.81	9.04	1.54	0.74	13.41

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

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