



Albemarle Corporation (ALB)

Updated November 5th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$104	5 Year CAGR Estimate:	-4.4%	Market Cap:	\$11.1 billion
Fair Value Price:	\$48	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	12/10/2020
% Fair Value:	218%	5 Year Valuation Multiple Estimate:	-14.4%	Dividend Payment Date:	1/4/2021
Dividend Yield:	1.4%	5 Year Price Target	\$73	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	9.7%

Albemarle is the largest producer of lithium and second largest producer of bromine in the world. The two products account for nearly two-thirds of annual sales. Albemarle produces lithium from its salt brine deposits in the U.S. and Chile. The company has two joint ventures in Australia that also produce lithium. Albemarle's Chile assets offer a very low-cost source of lithium. The company operates in nearly 100 countries and is composed of four segments: Lithium & Advanced Materials (49% of sales), Bromine Specialties (21% of sales), Catalysts (21% of sales) and Other (9% of sales). Albemarle produces annual sales of \$3 billion.

On 11/5/2020, Albemarle announced earnings results for the third quarter. Revenue decreased 15.1% to \$746.9 million, but was \$12.2 million higher than expected. Adjusted earnings-per-share of \$1.09 was a decline of 29% year-over-year, but topped estimates by \$0.33.

Revenue for the Lithium segment fell 19.6% to \$265.6 million due to a decline in market pricing. The COVID-19 pandemic has pushed out demand for Lithium by at least a year according to the company. Demand for battery-grade lithium hydroxide remains solid in the long-term. Bromine Specialties declined 7.4% to \$237.2 million. The COVID-19 pandemic has reduced demand leading to a decline in volumes. Building and construction continues to stabilize. Catalysts' sales were lower by 24.3% as travel restrictions has led to lower transportation fuel consumption. Fluid Catalytic Cracking improved sequentially, but continues to feel the impact of travel restrictions. Albemarle expects adjusted EPS of \$3.80 to \$4.15 for 2020, above consensus estimates of \$3.52 of earnings-per-share in 2020, down from \$4.31 previously.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.51	\$4.77	\$3.47	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$3.98	\$6.12
DPS	\$0.55	\$0.64	\$0.80	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.47	\$2.26
Shares¹	92	89	89	80	78	112	113	111	106	106	106	106

Albemarle has experienced somewhat erratic earnings-per-share performance over the last decade. The company also saw a 19% decrease in earnings-per-share during the last recession, before making a new high in 2010. Albemarle has experienced steep drops in profitability in several other years (2012, 2014 and 2017). Despite this, earnings-per-share have compounded at a rate of 5.5% from 2010 through 2019. In an attempt to account for the likely continued swings in performance, we believe that the company can grow earnings-per-share at a rate of 9%, up from 8%, annually through 2025 due to its leadership positions in the areas of lithium and bromine and also because of higher demand following a recovery from the COVID-19 pandemic.

After increasing its dividend for the dividend paid 3/11/2020, Albemarle has now increased its dividend for 26 consecutive years. Dividends have grown by an average rate of more than 10% over the last ten years.

¹ In millions of shares

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.6	12.0	17.2	13.1	38.0	17.8	13.0	29.5	15.6	12.1	26.1	12.0
Avg. Yld.	1.2%	1.1%	1.3%	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.4%	3.1%

Shares of Albemarle have increased \$15, or 16.9%, since our 8/5/2020 update. Based on the current share price and revised estimates for earnings-per-share for 2020, Albemarle’s stock has a price-to-earnings, or P/E, ratio of 26.1. Over the last decade, Albemarle has traded with an average price-to-earnings ratio of 18.3. Excluding the two years where the valuation was very high (2014 and 2017), the stock has traded with an average P/E ratio of 14.5. We have a multiple target of 12x earnings to account for the volatility of earnings. If the stock were to trade with this target by 2025, then valuation would reduce annual returns by 14.4% over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

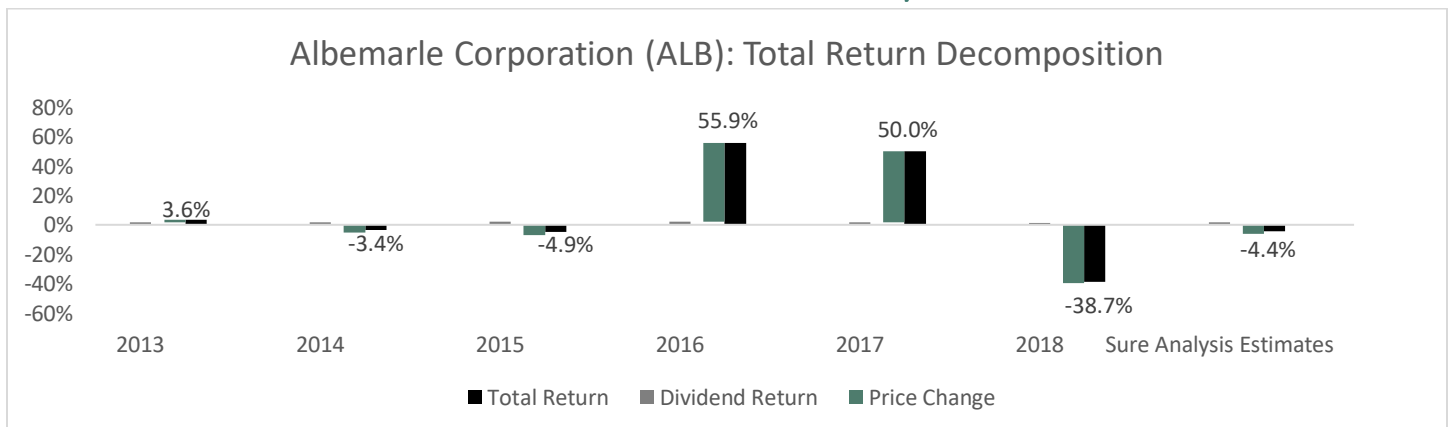
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	16%	13%	23%	20%	65%	38%	21%	33%	21%	24%	37%	37%

Albemarle’s earnings-per-share declined almost 20% from 2008 to 2009. The company has also had wild swings in profitability in recent years. Therefore, the company cannot be considered recession-proof. We would expect a similar performance during this recession. We should note that despite the decreases in earnings, Albemarle’s dividend payout ratio has only exceeded 50% once over the last ten years. A key competitive advantage of Albemarle is that it ranks as the largest producer of lithium in the world. The metal is used in batteries for electric cars, pharmaceuticals, airplanes, mining and other applications. Albemarle is also a top producer of Bromine, which is used in the electronics, construction and automotive industries. The company possesses a size and scale that others cannot match.

Final Thoughts & Recommendation

Following third quarter earnings, Albemarle is now projected to produce a negative return of 4.4% annually through 2025, down from our prior estimate of a negative return of 3.8%. This return is based on earnings growth of 9% and a small dividend yield that are more than offset by a double-digit multiple reversion. COVID-19 continues to impact the company’s business results, though results were generally better than the prior quarter. Albemarle also issued guidance for the remainder of the year that is in excess of analysts’ estimates. We have increased our 2025 price target \$9 to \$73 due to EPS guidance. However, the stock trades at more than 200% of our fair value price. As such, Albemarle continues to receive a sell rating from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,363	2,869	2,519	2,394	2,446	2,826	2,677	3,072	3,375	3,589
Gross Profit	742	955	899	850	771	860	970	1,106	1,217	1,258
Gross Margin	31.4%	33.3%	35.7%	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%
SG&A Exp.	275	360	308	158	355	300	354	450	446	533
D&A Exp.	96	97	99	107	104	260	226	197	201	213
Operating Profit	409	518	511	610	327	471	536	572	701	666
Operating Margin	17.3%	18.0%	20.3%	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%
Net Profit	316	392	312	413	133	335	644	55	694	533
Net Margin	13.4%	13.7%	12.4%	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%
Free Cash Flow	256	297	208	278	382	133	539	(14)	(154)	(132)
Income Tax	88	104	80	134	18	11	96	432	145	88

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,068	3,204	3,437	3,585	5,223	9,598	8,161	7,751	7,582	9,861
Cash & Equivalents	530	469	478	477	2,490	214	2,270	1,137	555	613
Accounts Receivable	375	355	379	447	385	398	486	534	606	613
Inventories	389	431	428	436	358	440	450	593	701	769
Goodwill & Int. Ass.	407	403	371	372	287	1,844	1,895	2,032	1,953	1,933
Total Liabilities	1,592	1,525	1,505	1,842	3,734	6,197	4,219	3,933	3,823	5,767
Accounts Payable	175	184	173	208	232	240	282	419	523	574
Long-Term Debt	861	764	699	1,079	2,934	3,817	2,369	1,837	1,705	3,050
Shareholder's Equity	1,416	1,591	1,834	1,627	1,359	3,254	3,795	3,675	3,585	3,932
D/E Ratio	0.61	0.48	0.38	0.66	2.16	1.17	0.62	0.50	0.48	0.78

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.8%	12.5%	9.4%	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%
Return on Equity	24.1%	26.1%	18.2%	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%
ROIC	14.3%	16.4%	12.3%	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%
Shares Out.	92	89	89	80	78	112	113	111	106	106
Revenue/Share	25.63	31.35	28.03	28.39	30.92	25.34	23.64	27.34	30.83	33.76
FCF/Share	2.78	3.24	2.31	3.29	4.83	1.19	4.76	(0.12)	(1.41)	(1.25)

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

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