



Albemarle Corporation (ALB)

Updated February 20th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$156	5 Year CAGR Estimate:	-13.9%	Market Cap:	\$18.2 billion
Fair Value Price:	\$41	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	3/12/2021 ¹
% Fair Value:	377%	5 Year Valuation Multiple Estimate:	-23.3%	Dividend Payment Date:	4/1/2021 ²
Dividend Yield:	1.0%	5 Year Price Target	\$64	Years Of Dividend Growth:	26
Dividend Risk Score:	A	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 2/17/2021, Albemarle reported earnings results for the fourth quarter and full year. For the quarter, revenue decreased 11.4% to \$879 million, but beat estimates by \$10.3 million. Adjusted net income of \$84.6 million, or \$1.17 per share, compared unfavorably to adjusted net income of \$90.4 million, or \$1.73 per share, in the previous year, but beat estimates by \$0.05. For 2020, revenue declined 12.8% to \$3,129M. Adjusted net income of \$375.8 million, or \$4.12 per share, compared unfavorably to adjusted net income of \$533.2 million, or \$6.04 per share, in the prior year.

Lithium sales were lower by 12.8% to \$358.6 million due to lower contracts and prices. Volumes are expected to be higher in 2021 as project expansions are completed. Revenues for Bromine Specialties grew 8.2% to \$263.4 million due to higher demand following a slowdown in previous quarters related to the COVID-19 pandemic. This segment should see strength long-term due to growth in electronics and automotive end markets. Catalysts' sales were down almost 41% to \$195.7 million due to significant declines in volumes due to lower transportation fuel consumption related to restrictions on travel. Orders are higher thus far in the first quarter, though management cautioned Q1 2021 is projected to be the best quarter of the year for this segment. The company expects adjusted EPS of \$3.25 to \$3.65 on net sales of \$3.2 billion to \$3.3 billion for 2021. At the midpoint of adjusted EPS guidance, this would represent a decline of 16% from the previous year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.77	\$3.47	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$3.45	\$5.31
DPS	\$0.64	\$0.80	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.54	\$2.37
Shares³	89	89	80	78	112	113	111	106	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, 2017 and 2020). Due to the COVID-19 pandemic, earnings-per-share have actually declined over the last decade. However, using the 2010-2019 periods, EPS compounded at a rate of 5.5%. We believe that the company can grow earnings-per-share at a rate of 9% annually through 2026 due to its leadership positions in the areas of lithium and bromine. Higher demand following a recovery from the COVID-19 pandemic should allow for outsized growth from a low base in 2021.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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.



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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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.0	17.2	13.1	38.0	17.8	13.0	29.5	15.6	12.1	35.8	45.2	12.0
Avg. Yld.	1.1%	1.3%	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.0%	1.0%	3.7%

Shares of Albemarle have increased \$52, or 50%, since our 11/5/2020 update. Based on the current share price and estimates for earnings-per-share for 2021, Albemarle's stock has a price-to-earnings, or P/E, ratio of 45.2. Over the last decade, Albemarle has traded with an average price-to-earnings ratio of 20.4. Excluding the three years where the valuation was very high (2014, 2017 and 2020), the stock has traded with an average P/E ratio of 14.4. 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 2026, then valuation would reduce annual returns by 23.3% over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

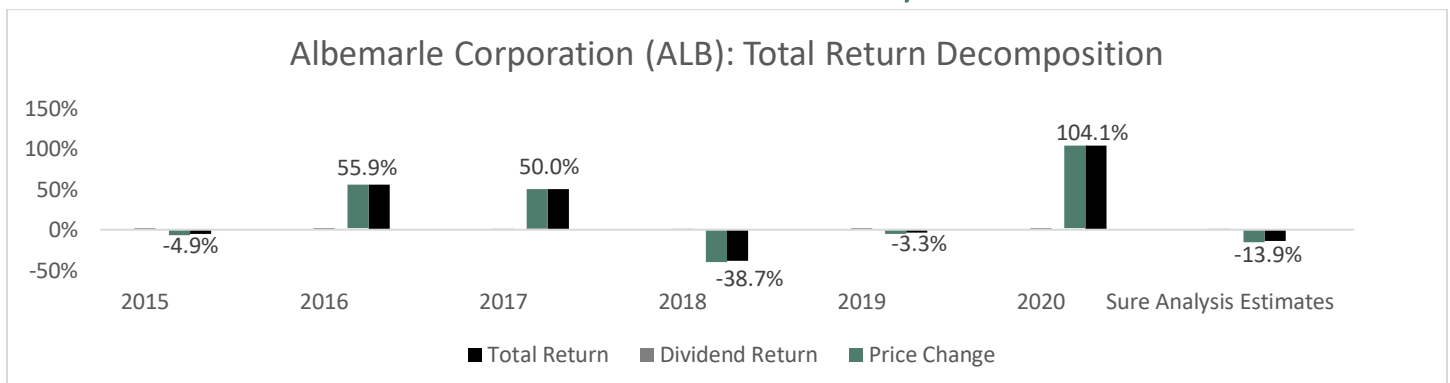
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	23%	20%	65%	38%	21%	33%	21%	24%	37%	45%	45%

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 fourth quarter earnings, Albemarle is now projected to produce a negative return of 13.9% annually through 2026, down from our prior estimate of a negative return of 4.4%. This expected return is based on earnings growth of 9% and a small dividend yield that are more than offset by a significant valuation headwind. We find the company's market leadership and dividend growth history appealing, but earnings growth and valuations have been volatile over the last decade. We have lowered our five-year price target \$9 to \$64 due to EPS estimates for 2021 and note that shares trade at almost 380% of our fair value estimate. We continue to rate shares of Albemarle as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,869	2,519	2,394	2,446	2,826	2,677	3,072	3,375	3,589	3,129
Gross Profit	955	899	850	771	860	970	1,106	1,217	1,258	995
Gross Margin	33.3%	35.7%	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%
SG&A Exp.	360	308	158	355	300	354	450	446	533	430
D&A Exp.	97	99	107	104	260	226	197	201	213	232
Operating Profit	518	511	610	327	471	536	572	701	666	506
Operating Margin	18.0%	20.3%	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%
Net Profit	392	312	413	133	335	644	55	694	533	376
Net Margin	13.7%	12.4%	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%
Free Cash Flow	297	208	278	382	133	539	(14)	(154)	(132)	(52)
Income Tax	104	80	134	18	11	96	432	145	88	54

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,204	3,437	3,585	5,223	9,598	8,161	7,751	7,582	9,861	10451
Cash & Equivalents	469	478	477	2,490	214	2,270	1,137	555	613	747
Accounts Receivable	355	379	447	385	398	486	534	606	613	531
Inventories	431	428	436	358	440	450	593	701	769	750
Goodwill & Int. Ass.	403	371	372	287	1,844	1,895	2,032	1,953	1,933	2,015
Total Liabilities	1,525	1,505	1,842	3,734	6,197	4,219	3,933	3,823	5,767	5,982
Accounts Payable	184	173	208	232	240	282	419	523	574	483
Long-Term Debt	764	699	1,079	2,934	3,817	2,369	1,837	1,705	3,050	3,572
Shareholder's Equity	1,591	1,834	1,627	1,359	3,254	3,795	3,675	3,585	3,932	4,268
D/E Ratio	0.48	0.38	0.66	2.16	1.17	0.62	0.50	0.48	0.78	0.84

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.5%	9.4%	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%
Return on Equity	26.1%	18.2%	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%	9.2%
ROIC	16.4%	12.3%	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%
Shares Out.	89	89	80	78	112	113	111	106	106	106
Revenue/Share	31.35	28.03	28.39	30.92	25.34	23.64	27.34	30.83	33.76	29.29
FCF/Share	3.24	2.31	3.29	4.83	1.19	4.76	(0.12)	(1.41)	(1.25)	(0.48)

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

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