



Albemarle Corporation (ALB)

Updated August 9th, 2021 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|--------|----------------------------------|----------------|
| Current Price: | \$227 | 5 Year CAGR Estimate: | -6.1% | Market Cap: | \$25.6 billion |
| Fair Value Price: | \$97 | 5 Year Growth Estimate: | 10.0% | Ex-Dividend Date: | 9/16/2021 |
| % Fair Value: | 235% | 5 Year Valuation Multiple Estimate: | -15.7% | Dividend Payment Date: | 10/1/2021 |
| Dividend Yield: | 0.7% | 5 Year Price Target | \$156 | Years Of Dividend Growth: | 27 |
| Dividend Risk Score: | B | Retirement Suitability Score: | D | Last Dividend Increase: | 1.3% |

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.

Albemarle reported earnings results for the second quarter on 8/4/2021. Revenue grew 1.3% to \$774 million, but fell \$13.8 million short of estimates. Adjusted earnings-per-share of \$0.89 was a 3.5% increase from the prior year and \$0.06 better than expected.

Lithium sales were higher by 12.9% to \$320.3 million due to a 17% improvement in volumes offset by lower prices. Revenues for Bromine Specialties grew 20.2% to \$279.77 million. Volumes increased 11% with prices contributing the remainder of the growth. This segment should see strength long-term due to growth in electronics and automotive end markets. Catalysts' fell 24.7% to \$148.3 million. Pricing was flat, but volumes were lower by 25% due to timing of some shipments and a change in order patterns from a major North American customer. Management had previously stated that the first-quarter will be the best quarter of the year for this business.

The company offered revised guidance of for the year. Albemarle now expects sales in a range of \$3.3 billion to \$3.4 billion, up from \$3.2 billion to \$3.3 billion previously. Adjusted earnings-per-share is projected in a range of \$3.60 to \$4.00, up from \$3.25 to \$3.65 previously. At the midpoint of adjusted EPS guidance, this would represent a decline of 8% 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 | \$3.80 | \$10.39 |
| DPS | \$0.64 | \$0.80 | \$0.96 | \$1.10 | \$1.15 | \$1.22 | \$1.27 | \$1.33 | \$1.47 | \$1.54 | \$1.56 | \$2.40 |
| Shares¹ | 89 | 89 | 80 | 78 | 112 | 113 | 111 | 106 | 106 | 106 | 117 | 117 |

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 10% 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.

After increasing its dividend 1.3% for the dividend paid 4/1/2021, Albemarle has now increased its dividend for 27 consecutive years. Dividends have grown by an average rate of more than 9% over the last ten years.

¹ 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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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 | 14.4 | 25.1 | 35.2 | 15.0 |
| Avg. Yld. | 1.1% | 1.3% | 1.5% | 1.7% | 2.1% | 1.7% | 1.1% | 1.3% | 2.0% | 1.7% | 0.7% | 1.5% |

Shares of Albemarle have increased \$63, or 39%, since our 5/9/2021 update. We believe that 2021 will be artificially low base for the company as it works through the pandemic. Therefore, we have chosen to use earnings power to determine fair value and total returns. Albemarle has current assets of \$10.8 billion, an average return on assets of 7% and based on the current share count, Albemarle has earnings power of \$6.45. Based on the current share price and earnings power, the stock has a price-to-earnings, or P/E, ratio of 35.2. Over the last decade, Albemarle has traded with an average price-to-earnings ratio of 19.6. 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 are raising our target multiple to 15x times earnings from 12x earnings to account for the quality of the firm and the demand in products. If the stock were to trade with this target by 2026, then valuation would reduce annual returns by 15.7% over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

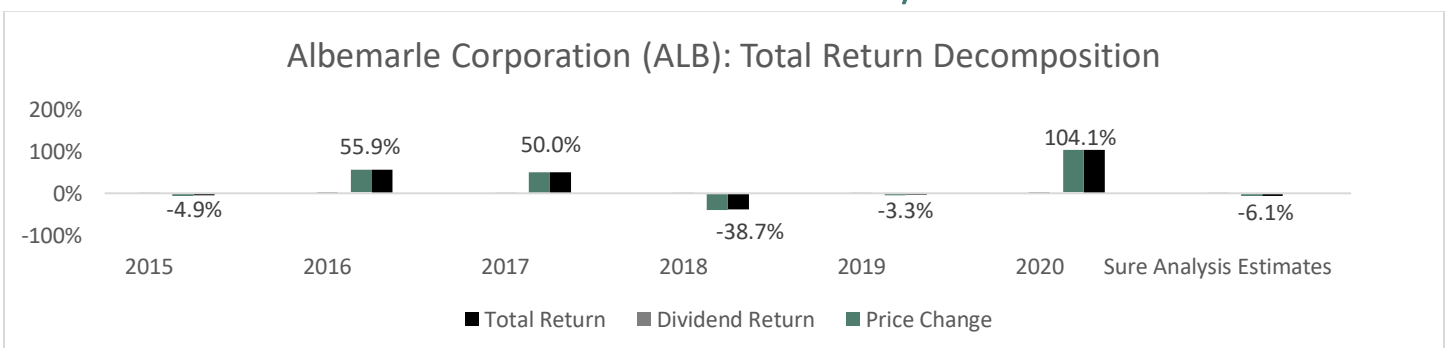
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 13% | 23% | 20% | 65% | 38% | 21% | 33% | 21% | 24% | 37% | 24% | 23% |

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 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 second quarter earnings, Albemarle is now projected to produce a negative return of 6.1% annually through 2026, an improvement from our prior estimate of a negative return of 14.6%. This expected return is based on earnings growth of 10% and a small dividend yield that are more than offset by a significant valuation headwind. We remain enthused by Albemarle's leadership position in its industry as well as several long-term growth prospects that the company possess, but the valuation continues to leave a lot to be desired. We have raised our 2026 price target \$92 to \$156 to reflect our change in target valuation, but maintain our sell rating on Albemarle due to projected returns.

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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