



# Albemarle Corporation (ALB)

Updated November 4<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$267	<b>5 Year CAGR Estimate:</b>	-9.1%	<b>Market Cap:</b>	\$31 billion
<b>Fair Value Price:</b>	\$97	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	12/16/2021
<b>% Fair Value:</b>	276%	<b>5 Year Valuation Multiple Estimate:</b>	-18.4%	<b>Dividend Payment Date:</b>	1/3/2022
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$156	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 third quarter on 11/4/2021. Revenue grew 11.2% to \$830.6 million, beating estimates by \$66 million. Adjusted earnings-per-share of \$1.05 was a 4% decrease from the prior year, but \$0.28 above expectations.

Lithium sales grew by 35.2% to \$359.2 million due to a 30% improvement in volumes and slightly higher prices. Revenues for Bromine Specialties grew 17.1% to \$278.8 million. Pricing and favorable currency exchange were responsible for the gains as volume was flat. This segment should see strength long-term due to growth in electronics and automotive end markets. Catalysts' fell 2.2% to \$193.6 million, but this was a sequential improvement from Q2 2021 where revenue was down nearly 25%. Pricing and volume were both down 1%. Management had previously stated that the first-quarter will be the best quarter of the year for this business.

The company also offered revised guidance for the year. Albemarle reaffirmed sales expectations to be in a range of \$3.3 billion to \$3.4 billion. Adjusted earnings-per-share is now projected in a range of \$3.85 to \$4.15 for the year, up from \$3.60 to \$4.00 and \$3.25 to \$3.65 previously. At the midpoint of adjusted EPS guidance, this would represent a decline of 2.9% from the previous year.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$4.77	\$3.47	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	<b>\$4.00</b>	<b>\$10.39</b>
<b>DPS</b>	\$0.64	\$0.80	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	<b>\$1.56</b>	<b>\$2.40</b>
<b>Shares<sup>1</sup></b>	89	89	80	78	112	113	111	106	106	106	<b>117</b>	<b>117</b>

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.

<sup>1</sup> 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	41.4	15.0
Avg. Yld.	1.1%	1.3%	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.6%	1.5%

Shares of Albemarle have increased \$40, or 17.6%, since our 8/9/2021 update. We believe that 2021 will be artificially low base for the company as it works through the pandemic's aftermath. 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, the company has earnings power of \$6.45 per share. Based on the current share price and earnings power, the stock has a price-to-earnings, or P/E, ratio of 41.4. 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 reaffirming our target multiple of 15x times 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 18.4% over this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

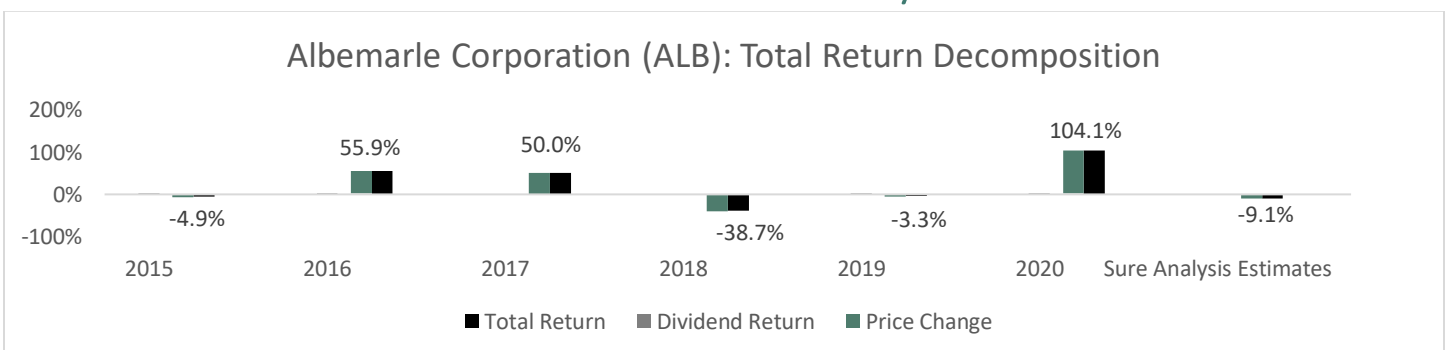
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	23%	20%	65%	38%	21%	33%	21%	24%	37%	24%	23%

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 third quarter earnings, Albemarle is now projected to produce a negative return of 9.1% annually through 2026, compared to our prior estimate of a negative return of 6.1%. 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 continue to be enthused by Albemarle's leadership position in its industry as well as several long-term growth prospects that the company possess, but the valuation remains overheated in our view. We 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
<b>Revenue</b>	2,869	2,519	2,394	2,446	2,826	2,677	3,072	3,375	3,589	3,129
<b>Gross Profit</b>	955	899	850	771	860	970	1,106	1,217	1,258	995
<b>Gross Margin</b>	33.3%	35.7%	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%
<b>SG&amp;A Exp.</b>	360	308	158	355	300	354	450	446	533	430
<b>D&amp;A Exp.</b>	97	99	107	104	260	226	197	201	213	232
<b>Operating Profit</b>	518	511	610	327	471	536	572	701	666	506
<b>Operating Margin</b>	18.0%	20.3%	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%
<b>Net Profit</b>	392	312	413	133	335	644	55	694	533	376
<b>Net Margin</b>	13.7%	12.4%	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%
<b>Free Cash Flow</b>	297	208	278	382	133	539	(14)	(154)	(132)	(52)
<b>Income Tax</b>	104	80	134	18	11	96	432	145	88	54

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	3,204	3,437	3,585	5,223	9,598	8,161	7,751	7,582	9,861	10451
<b>Cash &amp; Equivalents</b>	469	478	477	2,490	214	2,270	1,137	555	613	747
<b>Accounts Receivable</b>	355	379	447	385	398	486	534	606	613	531
<b>Inventories</b>	431	428	436	358	440	450	593	701	769	750
<b>Goodwill &amp; Int. Ass.</b>	403	371	372	287	1,844	1,895	2,032	1,953	1,933	2,015
<b>Total Liabilities</b>	1,525	1,505	1,842	3,734	6,197	4,219	3,933	3,823	5,767	5,982
<b>Accounts Payable</b>	184	173	208	232	240	282	419	523	574	483
<b>Long-Term Debt</b>	764	699	1,079	2,934	3,817	2,369	1,837	1,705	3,050	3,572
<b>Shareholder's Equity</b>	1,591	1,834	1,627	1,359	3,254	3,795	3,675	3,585	3,932	4,268
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	12.5%	9.4%	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%
<b>Return on Equity</b>	26.1%	18.2%	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%	9.2%
<b>ROIC</b>	16.4%	12.3%	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%
<b>Shares Out.</b>	89	89	80	78	112	113	111	106	106	106
<b>Revenue/Share</b>	31.35	28.03	28.39	30.92	25.34	23.64	27.34	30.83	33.76	29.29
<b>FCF/Share</b>	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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