



Albemarle Corporation (ALB)

Updated May 6th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$242	5 Year CAGR Estimate:	5.9%	Market Cap:	\$28 B
Fair Value Price:	\$194	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/06/22
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Dividend Payment Date:	07/01/22
Dividend Yield:	0.7%	5 Year Price Target	\$312	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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 more than \$5 billion.

On May 4th, 2022, Albemarle released first quarter results for the period ending March 31st, 2022. Revenue grew 36.3% to \$1.13 billion, \$100 million better than expected. Adjusted earnings-per-share of \$2.38 compared very favorably to \$1.10 in the prior year and was \$0.75 above estimates.

Revenue for Lithium surged 97% to \$550.3 million, due to a 66% improvement in pricing and a 31% increase in volume due to higher customer demand. The company expects volume growth to be 20% to 30% for the year. Revenues for Bromine Specialties grew 28.2% to \$359.6 million as pricing added 25% and volume improved 3%. Catalysts fell by 1.1% to \$217.9 million. This was a sequential improvement from the prior three quarters, where revenue fell 1.7%, 2.2%, and 25%, respectively. The company is conducting a strategic review of this segment and should provide an update in the next quarter.

Albemarle provided an outlook for 2022 as well, with the company expecting revenue of \$5.2 billion to \$5.6 billion, up from \$4.2 billion to \$4.5 billion previously. Adjusted earnings-per-share are now projected to be in a range of \$9.25 to \$12.25, up significantly from \$5.65 to \$6.65 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.47	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$4.05	\$10.75	\$17.31
DPS	\$0.80	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.56	\$1.58	\$2.43
Shares¹	89	80	78	112	113	111	106	106	106	117	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). Earnings-per-share are up less than 2% over the last decade. Looking at just the last five years, that growth rate reaches nearly 10%. We believe that the company can continue to grow earnings-per-share at a rate of 10% annually through 2027 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 as well.

After increasing its dividend 1.3% for the dividend paid April 1st, 2021, Albemarle has now increased its dividend for 27 consecutive years. Dividends have grown by an average rate of 4.2% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.2	13.1	38.0	17.8	13.0	29.5	15.6	14.4	25.1	57.7	22.5	18.0
Avg. Yld.	1.3%	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.7%	0.8%

Shares of Albemarle have increased \$51, or 26.7%, since our February 18th, 2022, report. Based on the current share price and updated guidance for 2022, the stock has a price-to-earnings ratio of 22.5. Over the last decade, Albemarle has traded with an average price-to-earnings ratio of 24.1. We feel a valuation of 18 times earnings is a fair starting point given the quality of the company and its leadership position in its industry. If the stock were to trade with this target by 2027, then valuation would reduce annual returns by 4.4% over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

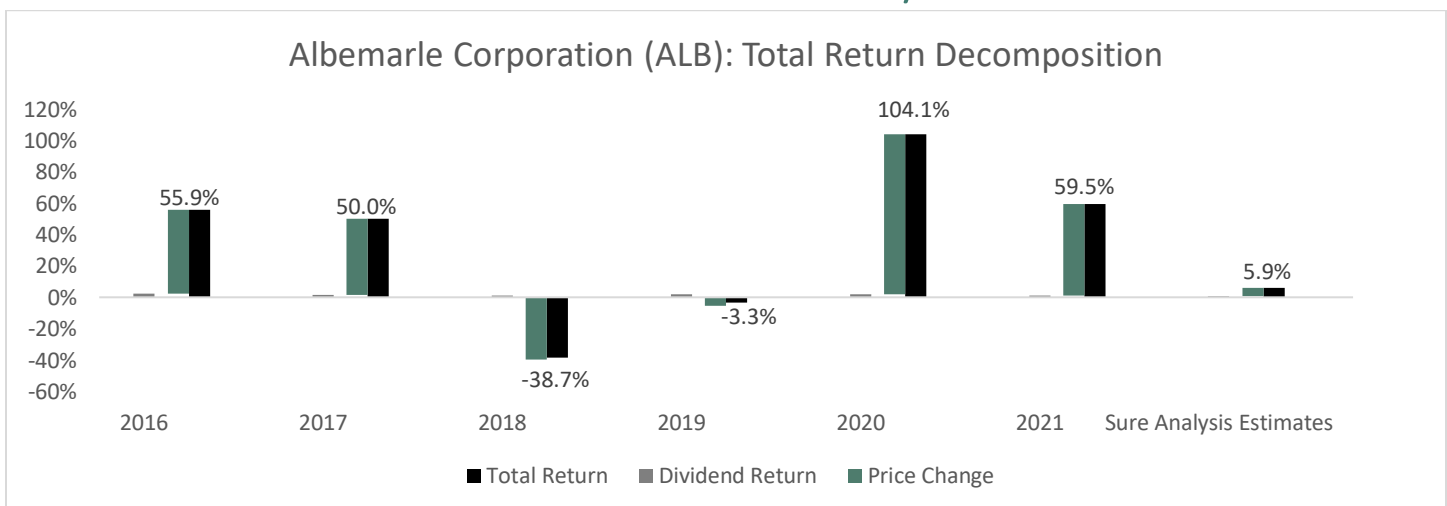
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	20%	65%	38%	21%	33%	21%	24%	37%	39%	15%	14%

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

After first quarter earnings, Albemarle is now projected to return 5.9% annually through 2027, compared to our prior estimate of a negative return of 0.3%. This expected return is based on earnings growth of 10% and a small dividend yield that are partially offset by a mid-single-digit headwind from multiple contraction. 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 still remains elevated. We have raised our five-year price target \$134 to \$312 due to revised guidance and now rate Albemarle as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,519	2,394	2,446	2,826	2,677	3,072	3,375	3,589	3,129	3,328
Gross Profit	899	850	771	860	970	1,106	1,217	1,258	995	998
Gross Margin	35.7%	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%	30.0%
SG&A Exp.	308	158	355	300	354	450	446	533	430	441
D&A Exp.	99	107	104	260	226	197	201	213	232	254
Operating Profit	511	610	327	471	536	572	701	666	506	502
Operating Margin	20.3%	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%	15.1%
Net Profit	312	413	133	335	644	55	694	533	376	124
Net Margin	12.4%	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%	3.7%
Free Cash Flow	208	278	382	133	539	(14)	(154)	(132)	(52)	(609)
Income Tax	80	134	18	11	96	432	145	88	54	29

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,437	3,585	5,223	9,598	8,161	7,751	7,582	9,861	10,451	10,974
Cash & Equivalents	478	477	2,490	214	2,270	1,137	555	613	747	439
Accounts Receivable	379	447	385	398	486	534	606	613	531	557
Inventories	428	436	358	440	450	593	701	769	750	813
Goodwill & Int. Ass.	371	372	287	1,844	1,895	2,032	1,953	1,933	2,015	1,907
Total Liabilities	1,505	1,842	3,734	6,197	4,219	3,933	3,823	5,767	5,982	5,169
Accounts Payable	173	208	232	240	282	419	523	574	483	648
Long-Term Debt	699	1,079	2,934	3,817	2,369	1,837	1,705	3,050	3,572	2,394
Shareholder's Equity	1,834	1,627	1,359	3,254	3,795	3,675	3,585	3,932	4,268	5,625
LTD/E Ratio	0.38	0.66	2.16	1.17	0.62	0.50	0.48	0.78	0.84	0.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.4%	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%	1.2%
Return on Equity	18.2%	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%	9.2%	2.5%
ROIC	12.3%	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%	1.5%
Shares Out.	89	80	78	112	113	111	106	106	106	117
Revenue/Share	28.03	28.39	30.92	25.34	23.64	27.34	30.83	33.76	29.29	28.56
FCF/Share	2.31	3.29	4.83	1.19	4.76	(0.12)	(1.41)	(1.25)	(0.48)	(5.23)

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

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