Avient Corporation (AVNT)

Updated June 15th, 2022, by Ian Bezek

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$4.0 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	06/16/22
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Dividend Payment Date:**	07/07/22
Dividend Yield:	2.2%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Avient is a company in the specialty chemicals industry. It primarily produces resins and other plastic additives. The company's PVCs, polymer colorings and other products go into end products such as plastic bottles, flooring, and electronic equipment. Avient emerged in 2020 when its predecessor company, Polyone, acquired Clariant Masterbatch. Polyone itself came about from a merger in 2000 and historically has acquired numerous other chemicals companies to build out its operations.

Following its transformation into Avient, the company's acquisitive streak has continued. In April, the company announced plans to buy DSM Protective Materials for $1.485 billion. This is a large acquisition in the context of Avient's overall size, as the company currently has an enterprise value of approximately $5 billion. To fund the DSM purchase, Avient is looking to sell its Avient Distribution business.

Polyone, and now Avient, has historically had volatile earnings. Earnings grew dramatically throughout much of the 2010s. However, the company saw a considerable decline in earnings between 2018 and 2020. Now, Avient is reporting record numbers thanks to the combination of its recent acquisitions and a strong uplift in pricing for various chemical products amid the current inflationary wave.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.80	$1.30	$1.80	$1.96	$2.13	$2.21	$2.43	$1.69	$1.46	$2.51	***$3.50***	***$4.26***
DPS	$0.20	$0.26	$0.34	$0.43	$0.50	$0.58	$0.72	$0.79	$0.82	$0.85	***$0.95***	***$1.21***
Shares	89	95	89	85	83	81	78	77	91	92	***92***	***92***

Since 2012, Avient has grown its earnings at a compound rate of 13.5% per year. Over the past five years, earnings have grown at a 9.6% rate as well. These are strong figures, powered by a series of acquisitions and the recent favorable pricing environment seen in the specialty chemicals industry.

Avient has also grown its dividend at an appealing rate, managing more than 17% annualized growth since 2012 and 10.4% annually over the past five years. The company has generally maintained its payout ratio in the 20-30% range, although the payout ratio climbed considerably when earnings dipped in 2019 and 2020.

Going forward, we estimate 4.0% annualized earnings growth over the next five years. This is a significant deceleration from past earnings growth. We project this because Avient is currently benefitting from elevated pricing levels in the industry and will likely see more challenging industry conditions in the future. Much of the company's past growth has also been tied to acquisitions, and management will need to continue its skillful dealmaking to repeat prior earnings growth. As such, it makes sense to model for a more conservative outlook over the next five years while waiting to see how management handles future capital allocation decisions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	20.8	21.0	18.3	15.2	17.2	16.7	18.4	19.3	19.7	***12.6***	***17.0***
Avg. Yld.	1.3%	1.0%	0.9%	1.2%	1.5%	1.5%	1.8%	2.5%	2.9%	1.7%	***2.2%***	***1.7%***

Avient has generally maintained a stable P/E ratio of around 17 to 21 times earnings. However, the company's P/E ratio has now fallen to below 13 amid the market sell-off. This is a significant discount to Avient's historical valuation metrics. This reflects some skepticism that Avient will be able to maintain its currently elevated profit margins.

Avient's dividend yield started off the in 2010s in the low 1% range. From 2016 and on, the dividend yield started to move up consistently, topping 2% in 2019 and even reaching 2.9% in 2020. At present, the dividend yield has moved back to 2.2%. However, this is still a considerably higher number than Avient stock generally offered in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	24%	17%	18%	21%	22%	24%	29%	46%	54%	34%	***27%***	***28%***

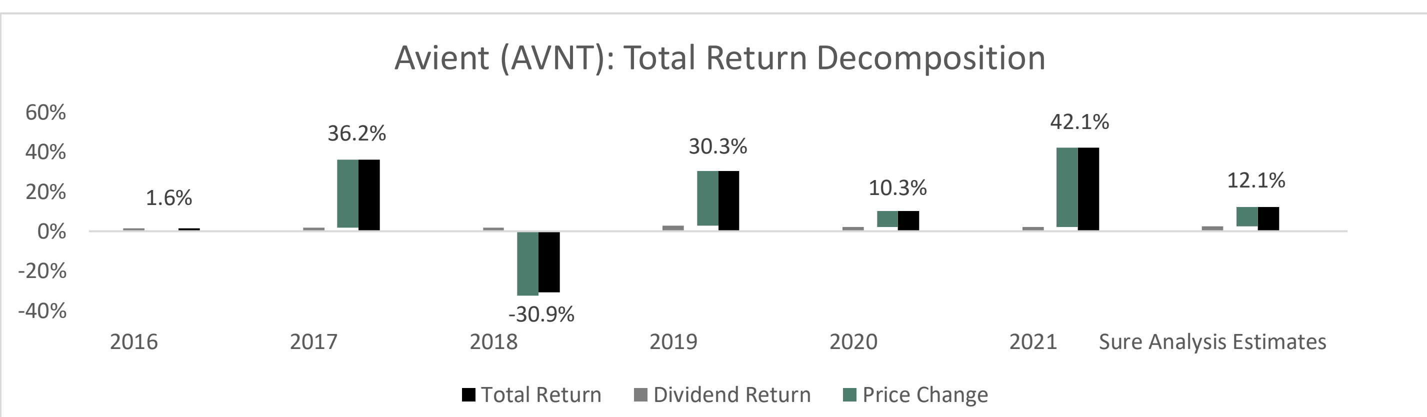
The specialty chemicals industry is known for being highly cyclical. That being the case, Avient's results have been quite strong compared to its sector. Still, as the above payout ratio shows, when earnings dip, such as they did in 2019 and 2020, the company's dividend coverage can slip a notch. There tends to be limited moats and competitive advantage in specialty chemicals, making it important to rely on low prices and operating scale to maintain a leading market position.

Avient's balance sheet is in reasonable condition now, however, it may have to stretch its financial capacity to a degree to execute the planned DSM Materials purchase. Management has guided to keeping its net debt to adjusted EBITDA ratio below 3.0x, however it will need to sell the Avient Distribution business at a fair price to achieve that goal. Investors should keep an eye on Avient's balance sheet throughout 2022 as it manages its business transformation.

Final Thoughts & Recommendation

Avient has done an excellent job of operating and expanding its business. That said, some uncertainty lies ahead. The company needs to fund the sizable DSM Materials purchase, and the company's earnings picture could shift considerably once this latest round of M&A activity is completed. Additionally, it seems unlikely that Avient will be able to continue increasing its prices and profit margins as quickly as it has done in recent times. Even with moderating earnings growth, however, a rising valuation multiple could lead to double-digit returns. Shares are a buy rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,861	3,771	3,836	2,929	2,939	2,590	2,881	2,863	3,242	4,819
Gross Profit	531	662	708	652	676	596	625	657	784	1,100
Gross Margin	18.6%	17.6%	18.5%	22.2%	23.0%	23.0%	21.7%	23.0%	24.2%	22.8%
SG&A Exp.	417	458	553	394	409	423	446	500	595	718
D&A Exp.	70	111	134	116	106	98	92	88	115	146
Operating Profit	114	205	155	258	268	173	179	157	189	381
Op. Margin	4.0%	5.4%	4.0%	8.8%	9.1%	6.7%	6.2%	5.5%	5.8%	7.9%
Net Profit	72	244	79	145	165	(58)	160	589	132	231
Net Margin	2.5%	6.5%	2.1%	4.9%	5.6%	-2.2%	5.5%	20.6%	4.1%	4.8%
Free Cash Flow	50	33	116	149	143	123	178	219	158	133
Income Tax	30	58	11	26	60	1	14	34	5	74

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,128	2,944	2,666	2,595	2,736	2,705	2,723	3,273	4,871	4,997
Cash & Equivalents	210	365	239	280	226	244	171	865	650	601
Acc. Receivable	314	428	397	347	326	392	347	330	517	642
Inventories	244	343	309	287	266	328	285	261	328	461
Goodwill & Int.	746	925	953	942	875	1,011	1,062	1,155	2,317	2,212
Total Liabilities	1,497	1,966	1,889	1,890	2,010	2,106	2,183	2,221	3,159	3,207
Accounts Payable	296	387	366	352	321	389	305	288	472	554
Long-Term Debt	707	989	1,011	1,147	1,258	1,309	1,356	1,229	1,873	1,859
Total Equity	629	977	776	704	725	599	540	1,052	1,697	1,775
LTD/E Ratio	1.12	1.01	1.30	1.63	1.74	2.19	2.51	1.17	1.10	1.05

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.4%	9.6%	2.8%	5.5%	6.2%	-2.1%	5.9%	19.6%	3.2%	4.7%
Return on Equity	11.8%	30.4%	9.0%	19.5%	23.1%	-8.7%	28.1%	73.9%	9.6%	13.3%
ROIC	5.5%	14.8%	4.2%	7.9%	8.6%	-3.0%	8.4%	28.2%	4.5%	6.4%
Shares Out.	89	95	89	85	83	81	78	77	91	92
Revenue/Share	31.86	39.08	41.02	33.02	34.74	31.55	35.83	36.84	35.78	52.32
FCF/Share	0.55	0.34	1.24	1.68	1.70	1.50	2.21	2.82	1.74	1.45

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