



Albemarle Corporation (ALB)

Updated November 5th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$285	5 Year CAGR Estimate:	13.9%	Market Cap:	\$33 B
Fair Value Price:	\$374	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	12/15/22
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	01/03/22
Dividend Yield:	0.6%	5 Year Price Target	\$536	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

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 \$7.5 billion.

On November 2nd, 2022, Albemarle announced third quarter results for the period ending September 30th, 2022. Revenue grew 151.6% to \$2.09 billion, but was \$120 million less than expected. Adjusted earnings-per-share of \$7.50 compared very favorably to \$1.05 in the prior year and was \$0.51 above estimates.

Revenue for Lithium were higher by 318% to \$1.5 billion, due to a 298% improvement in pricing and a 20% increase in volume due to the completion of an expansion in the company's operations in Chile and higher customer demand. The company expects volume growth to be in a range of 20% to 30% for the year. Albemarle completed its acquisition of a lithium conversion plant in China at the end of October that should add to results going forward. Revenues for Bromine Specialties increased 28% to \$354.9 million as pricing added 18% and volume improved 10% due to strong demand. Catalysts grew 21.8% to \$235.8 million, mostly due to an increase in volume. The company completed its strategic review of this segment, determining that this business will be held as a separate wholly owned entity.

Albemarle provided an updated outlook for 2022 as well, with the company expecting revenue in a range of \$7.1 billion to \$7.5 billion, compared to \$7.1 billion to \$7.5 billion, \$5.2 billion to \$5.6 billion, and \$4.2 billion to \$4.5 billion previously. Adjusted earnings-per-share are now projected to be in a range of \$19.75 to \$21.75, up from \$19.25 to \$22.25, \$12.30 to \$15.00, and \$5.65 to \$6.65 previously.

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	\$20.75	\$29.79
DPS	\$0.80	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.56	\$1.58	\$2.27
Shares¹	89	80	78	112	113	111	106	106	106	117	118	118

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%. The company's guidance for the year points towards another excellent year of growth. However, given the expected high base of earnings-per-share for 2022, we have lowered our growth outlook to 7.5% from 10%, though we note the company's 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.

¹ In millions of shares

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After increasing its dividend 1.3% for the dividend paid April 1st, 2022, 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.

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	13.7	18.0
Avg. Yld.	1.3%	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.6%	0.4%

Shares of Albemarle have increased \$4, or 1.4%, since our August 16th, 2022, report. Based on the current share price and guidance for 2022, the stock has a price-to-earnings ratio of 13.7. 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 be a 5.6% tailwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

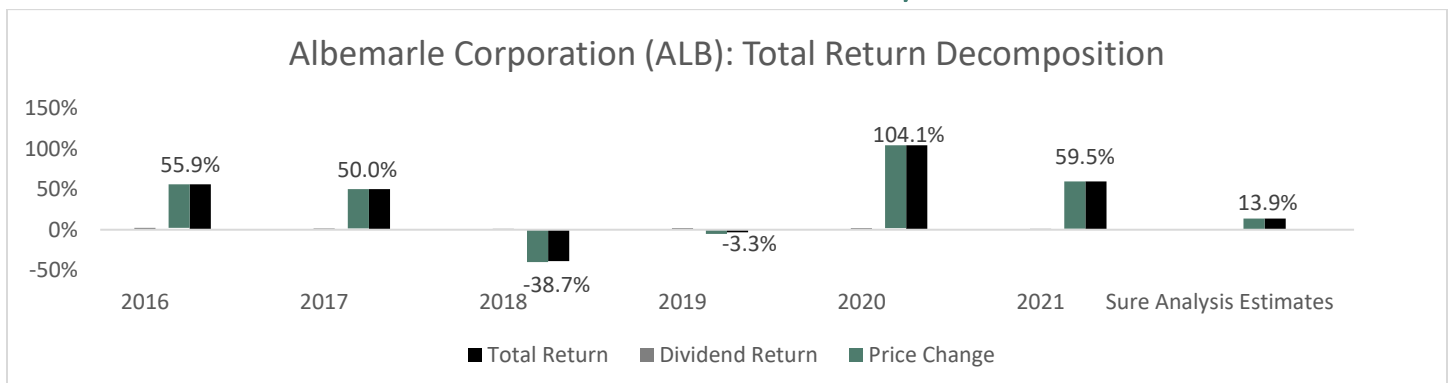
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	20%	65%	38%	21%	33%	21%	24%	37%	39%	8%	8%

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 return 13.9% annually through 2027, down slightly from our prior estimate of a 14.2%. This expected return is based on earnings growth of 7.5%, a starting yield of 0.6%, and a mid-single-digit tailwind from multiple expansion. Albemarle continues to see impressive growth throughout its business. Guidance for the remainder of the year is aggressive and shows that the company expects to see strong results for the period. We remain enthused by Albemarle's leadership position in its industry as well as several long-term growth prospects that the company possess. We maintain our five-year price target of \$536 as well as our buy rating on the stock 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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