



# Albemarle Corporation (ALB)

Updated February 20<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$262	<b>5 Year CAGR Estimate:</b>	21.3%	<b>Market Cap:</b>	\$30 B
<b>Fair Value Price:</b>	\$531	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	03/15/23 <sup>1</sup>
<b>% Fair Value:</b>	49%	<b>5 Year Valuation Multiple Estimate:</b>	15.2%	<b>Dividend Payment Date:</b>	04/03/23 <sup>2</sup>
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$678	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 billion.

On February 15<sup>th</sup>, 2023, Albemarle announced fourth quarter results for the period ending December 31<sup>st</sup> 2022. For the quarter, revenue grew 193% to \$2.62 billion and was \$10 million more than expected. Adjusted earnings-per-share of \$9.60 compared very favorably to \$1.01 in the prior year and was \$0.44 above estimates. For the year, revenue grew 120% to \$7.3 billion while adjusted earnings-per-share totaled \$22.84 compared to \$4.05 in the prior year.

For the quarter, revenue for Lithium grew 410.4% to \$2.1 billion, due to a 328% improvement in pricing and an 82% increase in volume due to renegotiated contracts, an increase in market pricing, and expansion at the company's facilities in Chile. Albemarle completed its acquisition of a lithium conversion plant in China at the end of October of 2022 that should add to results going forward. Revenues for Bromine Specialties improved 10% to \$319.4 million as pricing added 9% and volume improved 1% due to strong demand that was partially offset by higher inflationary pressures. Catalysts grew 18.3% to \$235.5 million, as pricing added 10% and volume improved 8%. The company completed its strategic review of this segment in the preceding quarter, determining that this business will be held as a separate wholly owned entity.

Albemarle provided an outlook for 2023 as well, with the company expecting revenue in a range of \$11.3 billion to \$12.9 billion. Adjusted earnings-per-share are projected to be in a range of \$26.00 to \$33.00. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$4.05	\$22.84	<b>\$29.50</b>	<b>\$37.65</b>
<b>DPS</b>	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.56	\$1.58	<b>\$1.58</b>	<b>\$2.27</b>
<b>Shares<sup>3</sup></b>	80	78	112	113	111	106	106	106	117	118	<b>118</b>	<b>118</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). Earnings-per-share are up 18.7% over the last decade, with much of that growth occurring last year. Looking at just the last five years, that growth rate reaches nearly 40%. 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 2023, we have lowered our growth outlook to 5.0%

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</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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from 7.5%, 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.

After increasing its dividend 1.3% for the dividend paid April 1<sup>st</sup>, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.1	38.0	17.8	13.0	29.5	15.6	14.4	25.1	57.7	9.5	8.9	18.0
Avg. Yld.	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.7%	0.6%	0.3%

Shares of Albemarle have decreased \$23, or 8.1%, since our November 5<sup>th</sup>, 2022, report. Based on the current share price and guidance for 2023, the stock has a price-to-earnings ratio of 8.9. Over the last decade, Albemarle has traded with an average price-to-earnings ratio of more than 23. 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 2028, then valuation would be a 15.2% tailwind to annual returns over this time period.

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

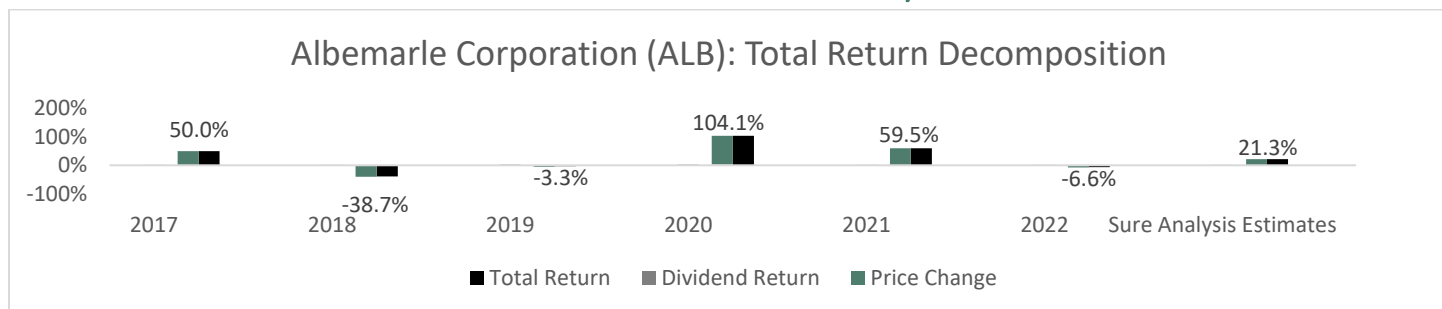
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	20%	65%	38%	21%	33%	21%	24%	37%	39%	7%	5%	6%

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 competitors will struggle to match.

## Final Thoughts & Recommendation

Following fourth quarter earnings, Albemarle is now projected to return 21.3% annually through 2028, up from our prior estimate of 13.9%. This expected return is based on earnings growth of 5.0%, a starting yield of 0.6%, and a mid-double-digit tailwind from multiple expansion. Albemarle continues to see impressive growth throughout its business. Guidance for the 2023 is aggressive and shows that the company expects to see strong results moving forward. We remain enthused by Albemarle's leadership position in its industry as well as several long-term growth prospects that the company possess. We have raised our five-year price target \$142 to \$678 due to estimates for the year. We also maintain our buy rating on the stock due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,394	2,446	2,826	2,677	3,072	3,375	3,589	3,129	3,328	7,320
Gross Profit	850	771	860	970	1,106	1,217	1,258	995	998	3,075
Gross Margin	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%	30.0%	42.0%
SG&A Exp.	158	355	300	354	450	446	533	430	441	524
D&A Exp.	107	104	260	226	197	201	213	232	254	301
Operating Profit	610	327	471	536	572	701	666	506	502	2,478
Operating Margin	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%	15.1%	33.9%
Net Profit	413	133	335	644	55	694	533	376	124	2,690
Net Margin	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%	3.7%	36.7%
Free Cash Flow	278	382	133	539	(14)	(154)	(132)	(52)	(609)	646
Income Tax	134	18	11	96	432	145	88	54	29	391

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,585	5,223	9,598	8,161	7,751	7,582	9,861	10,451	10,974	15,457
Cash & Equivalents	477	2,490	214	2,270	1,137	555	613	747	439	1,499
Accounts Receivable	447	385	398	486	534	606	613	531	557	1,191
Inventories	436	358	440	450	593	701	769	750	813	2,076
Goodwill & Int. Ass.	372	287	1,844	1,895	2,032	1,953	1,933	2,015	1,907	1,905
Total Liabilities	1,842	3,734	6,197	4,219	3,933	3,823	5,767	5,982	5,169	7,266
Accounts Payable	208	232	240	282	419	523	574	483	648	2,052
Long-Term Debt	1,079	2,934	3,817	2,369	1,837	1,705	3,050	3,572	2,394	3,217
Shareholder's Equity	1,627	1,359	3,254	3,795	3,675	3,585	3,932	4,268	5,625	7,983
LTD/E Ratio	0.66	2.16	1.17	0.62	0.50	0.48	0.78	0.84	0.43	0.40

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%	1.2%	20.4%
Return on Equity	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%	9.2%	2.5%	39.5%
ROIC	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%	1.5%	27.4%
Shares Out.	80	78	112	113	111	106	106	106	117	118
Revenue/Share	28.39	30.92	25.34	23.64	27.34	30.83	33.76	29.29	28.56	62.14
FCF/Share	3.29	4.83	1.19	4.76	(0.12)	(1.41)	(1.25)	(0.48)	(5.23)	5.49

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

## Disclaimer

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