



Albemarle Corporation (ALB)

Updated August 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$200	5 Year CAGR Estimate:	26.0%	Market Cap:	\$23.5 B
Fair Value Price:	\$491	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	09/14/23
% Fair Value:	41%	5 Year Valuation Multiple Estimate:	19.7%	Dividend Payment Date:	10/02/23
Dividend Yield:	0.8%	5 Year Price Target	\$626	Years Of Dividend Growth:	28
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. Beginning January 1st, 2023, the company reorganized into the following segments: Energy Storage, Specialties, and Ketjen. Albemarle produces annual sales of more than \$7 billion.

On August 2nd, 2023, Albemarle announced second quarter results for the period ending June 30th, 2023. For the quarter, revenue grew 60.1% to \$2.37 billion, but missed estimates by \$20 million. Adjusted earnings-per-share of \$7.33 compared very favorably to \$3.45 in the prior year and was \$2.81 above estimates.

For the quarter, revenue for Energy Storage grew 119.7% to \$1.76 billion, due to higher prices and a 36% improvement in volumes from the company's expansion in Chile and a new processing plant in China. Revenues for Specialties fell 20.5% to \$371.3 million as volumes were down 15% and realized prices declined 5%. Ketjen sales of \$235.8 million was a 12.1% increase from the prior year, largely due to higher prices.

Albemarle provided an updated outlook for 2023 as well, with the company now expecting revenue in a range of \$10.4 billion to \$11.5 billion, compared to \$9.8 billion to \$11.5 billion and \$11.3 billion to \$12.9 billion previously. Adjusted earnings-per-share are now projected to be in a range of \$25.00 to \$29.50 for the year, compared to prior guidance of \$20.75 to \$25.75 and \$26.00 to \$33.00. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$4.05	\$22.84	\$27.25	\$34.78
DPS	\$0.96	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.56	\$1.58	\$1.60	\$2.30
Shares¹	80	78	112	113	111	106	106	106	117	118	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 18.7% on average 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% 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 has allowed for outsized growth from a low base in 2021 as well.

After increasing its dividend 1.3% for the dividend paid April 3rd, 2023, Albemarle has now increased its dividend for 28 consecutive years. Dividends have grown by an average rate of 5.7% 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	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	7.3	18.0
Avg. Yld.	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.7%	0.8%	0.4%

Shares of Albemarle have decreased \$9, or 4.3%, since our May 17th, 2023, report. Based on the current share price and guidance for 2023, the stock has a price-to-earnings ratio of 7.3. Albemarle has traded with an average price-to-earnings ratio of more than 23.0 over the last decade. We feel a valuation of 18.0 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 19.7% tailwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

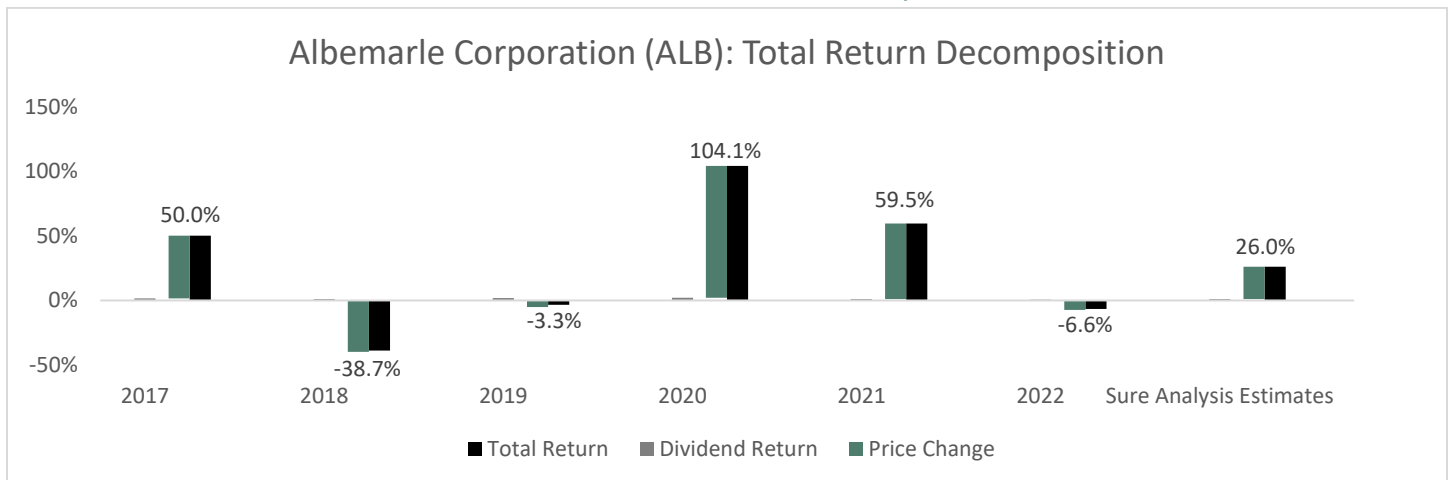
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	20%	65%	38%	21%	33%	21%	24%	37%	39%	7%	6%	7%

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 second quarter earnings, Albemarle is now projected to return 26.0% annually through 2028, up from our prior estimate of 21.1%. This expected return is based on earnings growth of 5.0%, a starting yield of 0.8%, and a high double-digit tailwind from multiple expansion. Albemarle can be a volatile name as seen by results over the last decade and the swings in guidance from quarter-to-quarter. Still, the company is a leader in its industry and saw high growth rates in its most important business. 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 \$92 to \$626 due to revised estimates for the year, but we 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.

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