



# Albemarle Corporation (ALB)

Updated November 7<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$119	<b>5 Year CAGR Estimate:</b>	24.4%	<b>Market Cap:</b>	\$14 B
<b>Fair Value Price:</b>	\$270	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	12/14/23
<b>% Fair Value:</b>	44%	<b>5 Year Valuation Multiple Estimate:</b>	17.8%	<b>Dividend Payment Date:</b>	01/02/24
<b>Dividend Yield:</b>	1.3%	<b>5 Year Price Target</b>	\$345	<b>Years Of Dividend Growth:</b>	28
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<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. Beginning January 1<sup>st</sup>, 2023, the company reorganized into the following segments: Energy Storage, Specialties, and Ketjen. Albemarle produces annual sales of more than \$7 billion.

On November 1<sup>st</sup>, 2023, Albemarle reported third quarter results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue grew 10.5% to \$2.31 billion, but missed estimates by \$220 million. Adjusted earnings-per-share of \$2.74 compared very unfavorably to \$7.50 in the prior year and was \$1.00 below estimates.

Results were negatively impacted by lower prices for lithium. For the quarter, revenue for Energy Storage grew 20% to \$1.7 billion. A 40% increase in volume was offset by lower prices. Revenues for Specialties fell 20.2% to \$352.7 million as volumes were down 7% and realized prices declined 13%. Ketjen sales of \$260.7 million were a 10.6% increase from the prior year, again due to higher prices.

Albemarle provided an updated outlook for 2023 as well, with the company now expecting revenue in a range of \$9.5 billion to \$9.8 billion, compared to prior ranges of \$10.4 billion to \$11.5 billion, \$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 \$21.50 to \$23.50 for the year, compared to \$25.00 to \$29.50, \$20.75 to \$25.75, and \$26.00 to \$33.00 previously. 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
<b>EPS</b>	\$4.90	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$4.05	\$22.84	<b>\$22.50</b>	<b>\$28.72</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>\$1.60</b>	<b>\$2.04</b>
<b>Shares<sup>1</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% 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 3<sup>rd</sup>, 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.

<sup>1</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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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	13.1	38.0	17.8	13.0	29.5	15.6	14.4	25.1	57.7	9.5	<b>5.3</b>	<b>12.0</b>
<b>Avg. Yld.</b>	1.5%	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.7%	<b>1.3%</b>	<b>0.6%</b>

Shares of Albemarle have decreased \$81, or 40.5%, since our August 7<sup>th</sup>, 2023, report. Based on the current share price and guidance for 2023, the stock has a price-to-earnings ratio of 5.3. Albemarle has traded with an average price-to-earnings ratio of more than 23.0 over the last decade. We have lowered our target valuation to 12 times earnings from 18 times earnings as we balance the quality of the company and its leadership position in its industry with the volatile nature of the business. If the stock were to trade with this target by 2028, then valuation would be a 17.8% tailwind to annual returns over this period.

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

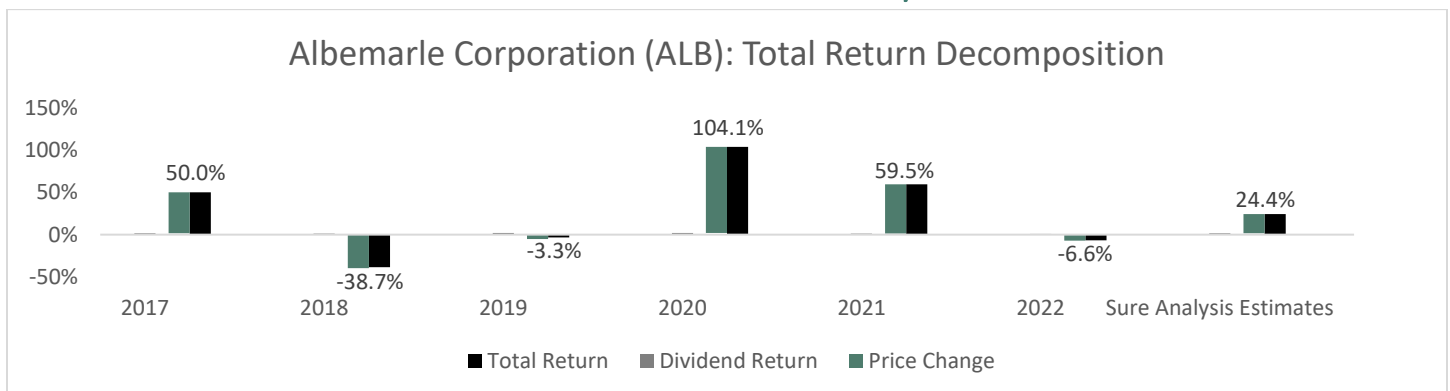
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	20%	65%	38%	21%	33%	21%	24%	37%	39%	7%	<b>7%</b>	<b>7%</b>

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

After third quarter earnings, Albemarle is now projected to return 24.4% annually through 2028, down from our prior estimate of 26.0%. This expected return is based on earnings growth of 5.0%, a starting yield of 1.3%, 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 growth in its most important business in the most recent quarter. We remain enthused by Albemarle's leadership position in its industry as well as several long-term growth prospects that the company possess. That said, we have lowered our five-year price target \$281 to \$345 due to revised estimates for the year. 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
<b>Revenue</b>	2,394	2,446	2,826	2,677	3,072	3,375	3,589	3,129	3,328	7,320
<b>Gross Profit</b>	850	771	860	970	1,106	1,217	1,258	995	998	3,075
<b>Gross Margin</b>	35.5%	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%	30.0%	42.0%
<b>SG&amp;A Exp.</b>	158	355	300	354	450	446	533	430	441	524
<b>D&amp;A Exp.</b>	107	104	260	226	197	201	213	232	254	301
<b>Operating Profit</b>	610	327	471	536	572	701	666	506	502	2,478
<b>Operating Margin</b>	25.5%	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%	15.1%	33.9%
<b>Net Profit</b>	413	133	335	644	55	694	533	376	124	2,690
<b>Net Margin</b>	17.3%	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%	3.7%	36.7%
<b>Free Cash Flow</b>	278	382	133	539	(14)	(154)	(132)	(52)	(609)	646
<b>Income Tax</b>	134	18	11	96	432	145	88	54	29	391

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,585	5,223	9,598	8,161	7,751	7,582	9,861	10,451	10,974	15,457
<b>Cash &amp; Equivalents</b>	477	2,490	214	2,270	1,137	555	613	747	439	1,499
<b>Accounts Receivable</b>	447	385	398	486	534	606	613	531	557	1,191
<b>Inventories</b>	436	358	440	450	593	701	769	750	813	2,076
<b>Goodwill &amp; Int. Ass.</b>	372	287	1,844	1,895	2,032	1,953	1,933	2,015	1,907	1,905
<b>Total Liabilities</b>	1,842	3,734	6,197	4,219	3,933	3,823	5,767	5,982	5,169	7,266
<b>Accounts Payable</b>	208	232	240	282	419	523	574	483	648	2,052
<b>Long-Term Debt</b>	1,079	2,934	3,817	2,369	1,837	1,705	3,050	3,572	2,394	3,217
<b>Shareholder's Equity</b>	1,627	1,359	3,254	3,795	3,675	3,585	3,932	4,268	5,625	7,983
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	11.8%	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%	1.2%	20.4%
<b>Return on Equity</b>	23.9%	8.9%	14.5%	18.3%	1.5%	19.1%	14.2%	9.2%	2.5%	39.5%
<b>ROIC</b>	15.2%	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%	1.5%	27.4%
<b>Shares Out.</b>	80	78	112	113	111	106	106	106	117	118
<b>Revenue/Share</b>	28.39	30.92	25.34	23.64	27.34	30.83	33.76	29.29	28.56	62.14
<b>FCF/Share</b>	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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