Avient Corporation (AVNT)

Updated November 11th, 2023, by Ian Bezek

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$3.0 B
Fair Value Price:	$39	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	12/14/23
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.5%	**Dividend Payment Date:**	01/05/24
Dividend Yield:	3.1%	**5 Year Price Target**	$48	**Years Of Dividend Growth:**	13
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. Last April, the company announced an agreement to buy DSM Protective Materials for $1.485 billion. To help fund the DSM purchase, Avient recently sold off its distribution business. The company has also been paying down debt as it seeks to optimize its capital structure in the current higher interest rate environment.

Avient reported its Q3 earnings on November 2nd, 2023. Adjusted earnings-per-share of $0.57 fell from the $0.59 a year ago, but met analyst expectations. Revenues of $754 million fell 8.4% year-over-year. Avient's management continues to point to numerous headwinds and challenges within their end markets and it cut guidance for full-year 2023 earnings given these challenges. We have reduced our EPS estimate to $2.30 for this year given the ongoing weakness in the firm's end markets. However, management has made moves such as asset divestitures and cost-cutting which have stopped the firm's earnings from falling too far despite the significant decline in revenues.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.30	$1.80	$1.96	$2.13	$2.21	$2.43	$1.69	$1.46	$2.51	$2.69	***$2.30***	***$2.80***
DPS	$0.26	$0.34	$0.42	$0.50	$0.58	$0.72	$0.79	$0.82	$0.85	$0.94	***$1.03***	***$1.25***
Shares	95	89	85	83	81	78	77	91	92	91	***91***	***91***

Avient grew its earnings at a rapid pace between 2012 and 2018, with EPS tripling over that stretch. Since that period, however, growth has been much harder to come by. Earnings declined in 2019 and 2020 before posting a strong recovery in 2021. That momentum quickly faded in 2022 and Avient is now going through a moderate downturn in its fortunes.

Avient had grown its dividend at an appealing rate, managing more than 15% annualized growth since 2013 and 6.6% annually over the past five years. That said, Avient's most recent dividend hike was for a more conservative 4% increase, which it announced on Oct. 12, 2023. The company has generally maintained its payout ratio at a fairly low level, though the payout ratio has been climbing in recent years.

Going forward, we estimate 4.0% annualized earnings growth over the next five years. This is a significant deceleration from past earnings growth as industry conditions have turned less favorable. Avient has successfully used acquisitions in the past to bolster growth, but this may be more challenging going forward as higher interest rates may constrain the company's ability to finance deals on acceptable terms.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.8	21.0	18.3	15.2	17.2	16.7	18.4	19.3	19.7	16.0	***14.3***	***17.0***
Avg. Yld.	1.0%	0.9%	1.2%	1.5%	1.5%	1.8%	2.5%	2.9%	2.9%	2.2%	***3.1%***	***2.6%***

Avient has generally maintained a stable P/E ratio of around 17 to 21 times earnings. Shares have fallen to a meaningful discount to their traditional valuation range with the recent disappointing earnings report. Despite the near-term challenges, we believe Avient will return to its traditional range of about 17 P/E ratio in due course.

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. The current 3.1% dividend yield now exceeds the 2.9% mark that it had reached in 2020 and 2021.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	20%	19%	21%	23%	26%	30%	47%	56%	34%	35%	***45%***	***45%***

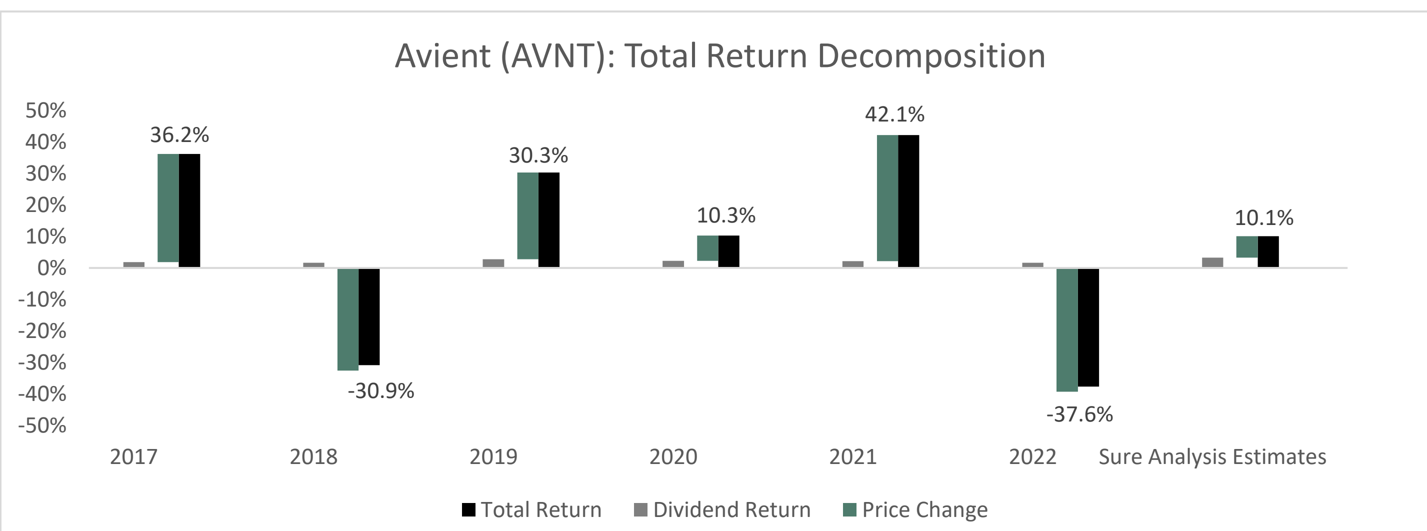
The specialty chemicals industry is known for being highly cyclical. That being the case, Avient's results have been quite strong compared to its sector. Still, as the above payout ratio shows, when earnings dip, such as they did in 2019 and 2020, the company's dividend coverage can slip a notch.

Avient issued $725 million of 2030 senior notes last year at a 7.125% interest rate to raise cash. This is a somewhat expensive interest rate, though understandable given current market conditions. Management has guided to keeping its net debt to adjusted EBITDA ratio below 3.0x, and the recent sale of its distribution business to H.I.G. Capital for $950 million went a long way toward improving its balance sheet.

Final Thoughts & Recommendation

Avient has delivered a series of mixed earnings reports in 2023. While the company is seeing a shrinking top-line, profit margins have been surprisingly resilient. This is encouraging and speaks to Avient's ability to endure a down cycle in its industry. Shares slumped since our last update, and have now fallen to a level well below our fair value estimate. We now see shares having a 10.1% annualized total return outlook and they earn a buy rating today.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,771	3,836	2,929	2,939	2,590	2,881	2,863	3,242	4,819	3,397
Gross Profit	662	708	652	676	596	625	657	784	1,100	883
Gross Margin	17.6%	18.5%	22.2%	23.0%	23.0%	21.7%	23.0%	24.2%	22.8%	26.0%
SG&A Exp.	458	553	394	409	423	446	500	595	718	639
D&A Exp.	111	134	116	106	98	92	88	115	146	163
Operating Profit	205	155	258	268	173	179	157	189	381	243
Op. Margin	5.4%	4.0%	8.8%	9.1%	6.7%	6.2%	5.5%	5.8%	7.9%	7.2%
Net Profit	244	79	145	165	(58)	160	589	132	231	703
Net Margin	6.5%	2.1%	4.9%	5.6%	-2.2%	5.5%	20.6%	4.1%	4.8%	20.7%
Free Cash Flow	33	116	149	143	123	178	219	158	133	293
Income Tax	58	11	26	60	1	14	34	5	74	(19)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,944	2,666	2,595	2,736	2,705	2,723	3,273	4,871	4,997	6,085
Cash & Equivalents	365	239	280	226	244	171	865	650	601	641
Acc. Receivable	428	397	347	326	392	347	330	517	642	441
Inventories	343	309	287	266	328	285	261	328	461	373
Goodwill & Int.	925	953	942	875	1,011	1,062	1,155	2,317	2,212	3,270
Total Liabilities	1,966	1,889	1,890	2,010	2,106	2,183	2,221	3,159	3,207	3,732
Accounts Payable	387	366	352	321	389	305	288	472	554	454
Long-Term Debt	989	1,011	1,147	1,258	1,309	1,356	1,229	1,873	1,859	2,179
Total Equity	977	776	704	725	599	540	1,052	1,697	1,775	2,335
LTD/E Ratio	1.01	1.30	1.63	1.74	2.19	2.51	1.17	1.10	1.05	0.93

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.6%	2.8%	5.5%	6.2%	-2.1%	5.9%	19.6%	3.2%	4.7%	12.7%
Return on Equity	30.4%	9.0%	19.5%	23.1%	-8.7%	28.1%	73.9%	9.6%	13.3%	34.2%
ROIC	14.8%	4.2%	7.9%	8.6%	-3.0%	8.4%	28.2%	4.5%	6.4%	17.2%
Shares Out.	95	89	85	83	81	78	77	91	92	91
Revenue/Share	39.08	41.02	33.02	34.74	31.55	35.83	36.84	35.78	52.32	36.84
FCF/Share	0.34	1.24	1.68	1.70	1.50	2.21	2.82	1.74	1.45	3.18

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