# Avient Corporation (AVNT)

*Updated February 22nd, 2024, by Ian Bezek*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $39 | **5 Year CAGR Estimate:** | 8.3% | **Market Cap:** | $3.5 B |
| **Fair Value Price:** | $43 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 03/18/24 |
| **% Fair Value:** | 91% | **5 Year Valuation Multiple Estimate:** | 2.0% | **Dividend Payment Date:** | 04/05/24 |
| **Dividend Yield:** | 2.6% | **5 Year Price Target** | $52 | **Years Of Dividend Growth:** | 13 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## 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. In 2022, Avient purchased DSM Protective Materials for $1.49 billion. Avient sold off a distribution to help fund that deal. And since then, Avient has been focusing on paying down debt and managing its interest expenses amid the higher interest rate environment.

Avient reported its Q4 earnings on February 14th, 2024. Adjusted earnings-per-share of $0.52 rose from $0.39 a year ago, and topped analyst expectations. Revenues of $719 million fell 9% year-over-year but exceeded expectations. Avient's business is continuing to go through a cyclical trough, but it appears that the company has turned the corner. Q4 results easily topped expectations on both the top- and bottom line and Avient's management offered 2024 guidance well above the prior benchmark. We believe Avient's transformation process is going well and that the company will return to steady, if modest, growth over the longer-term.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.80 | $1.96 | $2.13 | $2.21 | $2.43 | $1.69 | $1.46 | $2.51 | $2.69 | $2.36 | ***$2.53*** | ***$3.08*** |
| **DPS** | $0.34 | $0.42 | $0.50 | $0.58 | $0.72 | $0.79 | $0.82 | $0.85 | $0.94 | $1.00 | ***$1.03*** | ***$1.25*** |
| **Shares** | 89 | 85 | 83 | 81 | 78 | 77 | 91 | 92 | 91 | 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. However, earnings per share peaked in 2022 and it is taking Avient several years to get back to its prior levels of profitability.

Avient had grown its dividend at an appealing rate, managing more than 12% annualized growth since 2014 and 5.4% 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, and it should be well-covered out of earnings even in a cyclical downturn.

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.

*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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 21.0 | 18.3 | 15.2 | 17.2 | 16.7 | 18.4 | 19.3 | 19.7 | 16.0 | 16.1 | ***15.4*** | ***17.0*** |
| **Avg. Yld.** | 0.9% | 1.2% | 1.5% | 1.5% | 1.8% | 2.5% | 2.9% | 2.9% | 2.2% | 2.6% | ***2.6%*** | ***2.4%*** |

Avient has generally maintained a stable P/E ratio of around 16 to 21 times earnings. Shares are now at the bottom of their historic range and appear to be moderately undervalued. We believe that the firm's P/E ratio will settle around 17 over the next five years.

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 2.6% is above the firm's long-term average.

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

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 19% | 21% | 23% | 26% | 30% | 47% | 56% | 34% | 35% | 42% | ***41%*** | ***41%*** |

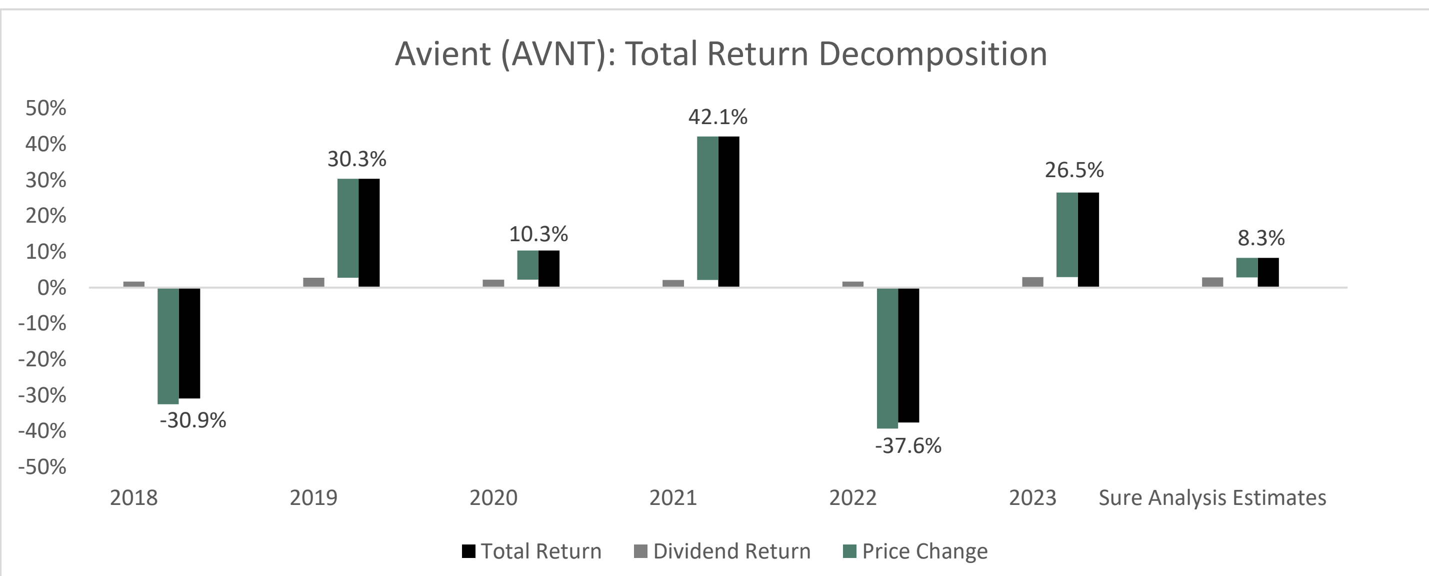
The specialty chemicals industry is known for being highly cyclical. That being the case, Avient's results have been quite strong compared to its sector. Still, as the above payout ratio shows, when earnings dip, such as they did in 2019 and 2020, the company's dividend coverage can slip a notch.

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. While Avient would see its prospects slip during a recession, we believe the firm's dividend is sustainable at current levels.

## Final Thoughts & Recommendation

Avient has delivered a series of mixed earnings reports over the past year. While the company saw its revenues dip, profit margins have been surprisingly resilient. This is encouraging and speaks to Avient's ability to endure a down cycle in its industry. Shares have rallied a bit since our last report, but remain at a modest discount to fair value. We foresee 8.3% annualized returns going forward; Avient shares earn a hold rating today.

## Total Return Breakdown by Year

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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.*


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