Avient Corporation (AVNT)

Updated November 24th, 2024, by Ian Bezek

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$4.7 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	12/13/24
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	01/08/25
Dividend Yield:	2.1%	**5 Year Price Target**	$59	**Years Of Dividend Growth:**	14
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 business 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 Q3 earnings on October 31st, 2024. Adjusted earnings-per-share of $0.65 rose from $0.57 a year ago, and exceeded analyst expectations. Revenues of $815 million increased 8% year-over-year, and topped expectations. Avient continues to deal with challenging macroeconomic conditions. That said, this quarter was substantially stronger than the firm's Q2 results, and backs up management's assertion that Avient has passed through the low point of its recent cyclical downturn. We believe Avient's transformation process is delivering results and that the company can return to steady, albeit modest, earnings per share growth going forward.

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	***$2.70***	***$3.28***
DPS	$0.34	$0.42	$0.50	$0.58	$0.72	$0.79	$0.82	$0.85	$0.94	$1.00	***$1.08***	***$1.31***
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 stalled out since 2022 as the company deals with a softer demand picture. That said, Avient appears set to generate record earnings per share in 2025 as business is back on the upswing.

Avient had grown its dividend at an appealing rate, managing more than 12% annualized growth since 2014 and 6.5% annually over the past five years. Avient's most recent dividend increase was announced on Oct. 9th, 2024 and boosted the company's dividend 5% to $0.27 per quarter. 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.

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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	***19.3***	***18.0***
Avg. Yld.	0.9%	1.2%	1.5%	1.5%	1.8%	2.5%	2.9%	2.9%	2.2%	2.6%	***2.1%***	***2.2%***

Avient has generally maintained a stable P/E ratio of around 16 to 21 times earnings. Shares are in the middle of their historic range and are near fair value. We believe that the firm's P/E ratio will settle around 18 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 and today's 2.1% reading is near our long-term expectations.

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%	***40%***	***40%***

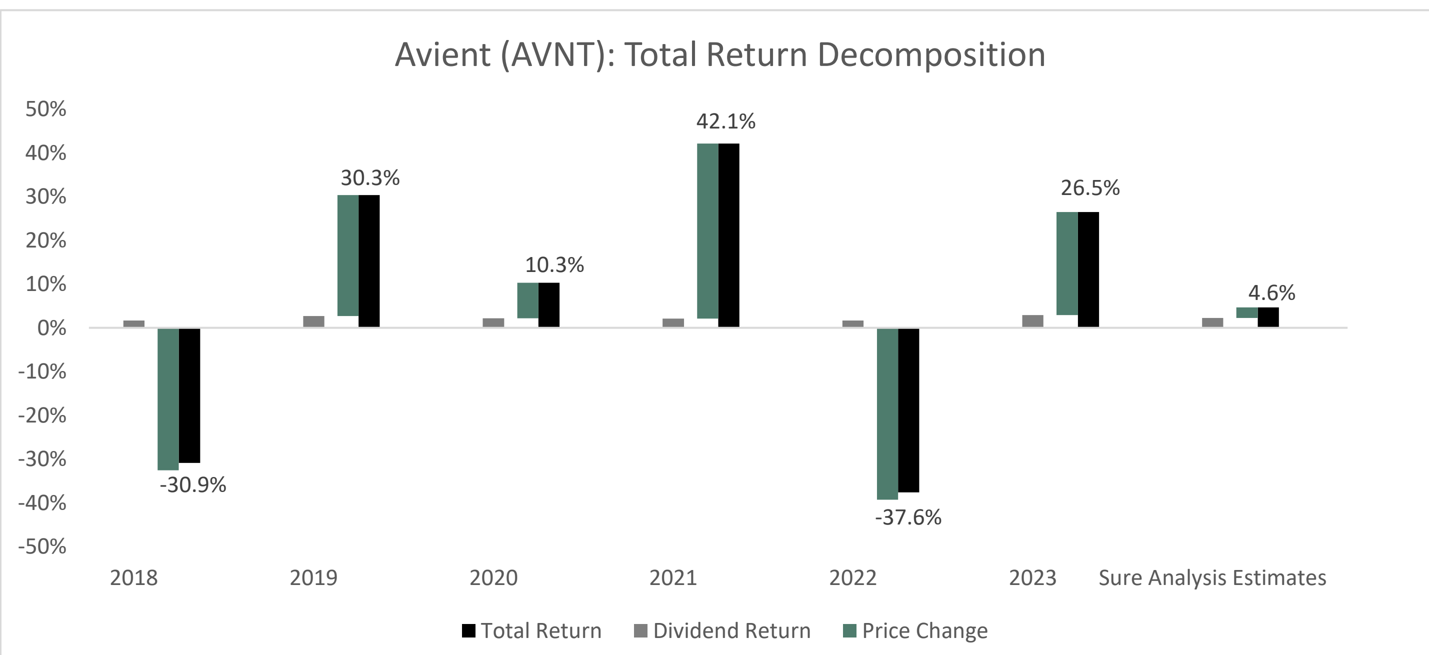
The specialty chemicals industry is known for being highly cyclical. That being the case, Avient's results have been quite strong compared to its sector. Still, as the above payout ratio shows, when earnings dip, such as they did in 2019 and 2020, the company's dividend coverage can slip a notch.

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. However, Q3 was a big step in the right direction and we are also heartened by the firm's steady profit margins during the recent industry slump. This speaks to Avient's ability to endure a down cycle in its industry. However, shares have rallied in 2024 and are no longer at a discount to fair value. We foresee 4.6% annualized returns going forward; Avient shares earn a hold rating today.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,836	2,929	2,939	2,590	2,881	2,863	3,242	4,819	3,397	3,143
Gross Profit	708	652	676	596	625	657	784	1,100	883	893
Gross Margin	18.5%	22.2%	23.0%	23.0%	21.7%	23.0%	24.2%	22.8%	26.0%	28.4%
SG&A Exp.	553	394	409	423	446	500	595	718	639	696
D&A Exp.	134	116	106	98	92	88	115	146	163	189
Operating Profit	155	258	268	173	179	157	189	381	243	197
Op. Margin	4.0%	8.8%	9.1%	6.7%	6.2%	5.5%	5.8%	7.9%	7.2%	6.3%
Net Profit	79	145	165	(58)	160	589	132	231	703	76
Net Margin	2.1%	4.9%	5.6%	-2.2%	5.5%	20.6%	4.1%	4.8%	20.7%	2.4%
Free Cash Flow	116	149	143	123	178	219	158	133	293	82
Income Tax	11	26	60	1	14	34	5	74	(19)	11

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,666	2,595	2,736	2,705	2,723	3,273	4,871	4,997	6,085	5,968
Cash & Equivalents	239	280	226	244	171	865	650	601	641	546
Acc. Receivable	397	347	326	392	347	330	517	642	441	400
Inventories	309	287	266	328	285	261	328	461	373	347
Goodwill & Int.	953	942	875	1,011	1,062	1,155	2,317	2,212	3,270	3,301
Total Liabilities	1,889	1,890	2,010	2,106	2,183	2,221	3,159	3,207	3,732	3,630
Accounts Payable	366	352	321	389	305	288	472	554	454	432
Long-Term Debt	1,011	1,147	1,258	1,309	1,356	1,229	1,873	1,859	2,179	2,080
Total Equity	776	704	725	599	540	1,052	1,697	1,775	2,335	2,319
LTD/E Ratio	1.30	1.63	1.74	2.19	2.51	1.17	1.10	1.05	0.93	0.90

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.8%	5.5%	6.2%	-2.1%	5.9%	19.6%	3.2%	4.7%	12.7%	1.3%
Return on Equity	9.0%	19.5%	23.1%	-8.7%	28.1%	73.9%	9.6%	13.3%	34.2%	3.2%
ROIC	4.2%	7.9%	8.6%	-3.0%	8.4%	28.2%	4.5%	6.4%	17.2%	1.7%
Shares Out.	89	85	83	81	78	77	91	92	91	92
Revenue/Share	41.02	33.02	34.74	31.55	35.83	36.84	35.78	52.32	36.84	34.24
FCF/Share	1.24	1.68	1.70	1.50	2.21	2.82	1.74	1.45	3.18	0.90

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