Albany International Corp. (AIN)

Published February 10th, 2025, by Aristofanis Papadatos

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$2.5 B
Fair Value Price:	$65	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	3/15/25
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	4/9/25
Dividend Yield:	1.4%	**5 Year Price Target**	$87	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Albany International is a leading developer and manufacturer of engineered components. It uses advanced materials processing and automation capabilities and operates in two segments: Machine Clothing and Engineered Composites. The former involves the production of consumable belts that are essential for the manufacture of all grades of paper products. The latter involves the production of advanced materials-based engineered components for demanding aerospace applications. The solutions of the company render aircraft lighter and improve the fuel efficiency of engines. Albany International operates 30 facilities in 13 countries. It was founded in 1895, it is headquartered in Rochester, New Hampshire, and trades with a market capitalization of $2.5 billion.

On October 30th, 2024, Albany International reported financial results for the third quarter of fiscal 2024. Revenue grew 6% over the prior year's quarter thanks to 10% growth of sales in Machine Clothing. However, gross profit decreased -11%, primarily due to changes in the expected profitability of long-term contracts. Given also increased research and restructuring costs at Machine Clothing, adjusted earnings-per-share declined -22%, from $1.02 to $0.80, though they exceeded the analysts' consensus by $0.23. The company has beaten the analysts' estimates in 18 of the last 20 quarters. Management provided guidance for annual revenue of $1.23-$1.25 billion, implying 8% growth at the mid-point, and adjusted earnings-per-share of $3.10-$3.30. We expect earnings-per-share of $3.25 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.30	$1.79	$1.64	$1.03	$2.57	$4.10	$3.05	$3.65	$3.89	$4.06	***$3.25***	***$4.35***
DPS	$0.63	$0.67	$0.68	$0.68	$0.69	$0.73	$0.77	$0.81	$0.88	$1.01	***$1.08***	***$1.38***
Shares[2]	32.0	32.1	32.2	32.2	32.3	32.3	32.4	32.5	31.3	31.3	***31.4***	***31.5***

As shown in the above table, Albany International has exhibited a volatile performance record. On the bright side, if it meets our earnings-per-share forecast in 2024, it will have grown its earnings-per-share at a 9.6% average annual rate over the last decade. Even better, the company still has ample room for future growth thanks to some major growth drivers. Its Machine Clothing segment is likely to greatly benefit from the secular growth in the global demand for paper packaging amid the sustained boom in e-commerce. Its segment of Engineered Composites is likely to benefit from the recovery in the production rates of aircraft 737 MAX of Boeing and A320Neo of Airbus.

Albany International invests roughly 10% of its gross profit in R&D every year to create innovative solutions for its customers. Thanks to its innovations, it has steadily enhanced its EBITDA margin, from 25% in 2014 to 35%. It also pursues growth via acquisitions, such as the takeover of Heimbach for €153 million in late 2023, which enhanced the geographic footprint of the company in Europe and Asia and created material synergies. We expect similar acquisitions in the future. Overall, we expect Albany International to grow its earnings-per-share by 6.0% per year on average over the next five years. The company may exceed our expectations but we prefer to have a margin of safety given the volatile performance record of the industrial manufacturer.

[1] Estimated date.

[2] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	27.9	20.5	24.6	50.7	26.1	19.1	19.1	22.7	22.4	22.7	***24.6***	***20.0***
Avg. Yld.	1.7%	1.8%	1.7%	1.3%	1.0%	0.9%	1.3%	1.0%	1.0%	1.1%	***1.4%***	***1.6%***

Excluding 2017, in which depressed earnings caused an abnormally high price-to-earnings ratio, Albany International has traded at an average price-to-earnings ratio of 22.8 over the last decade and 21.2 over the last five years. Given the cyclicality of this business, we assume a fair earnings multiple of 20.0. The stock is now trading at an earnings multiple of 24.6. If it trades at our assumed fair valuation level in five years, it will incur a -4.1% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48%	37%	41%	66%	27%	18%	25%	22%	23%	25%	***33%***	***32%***

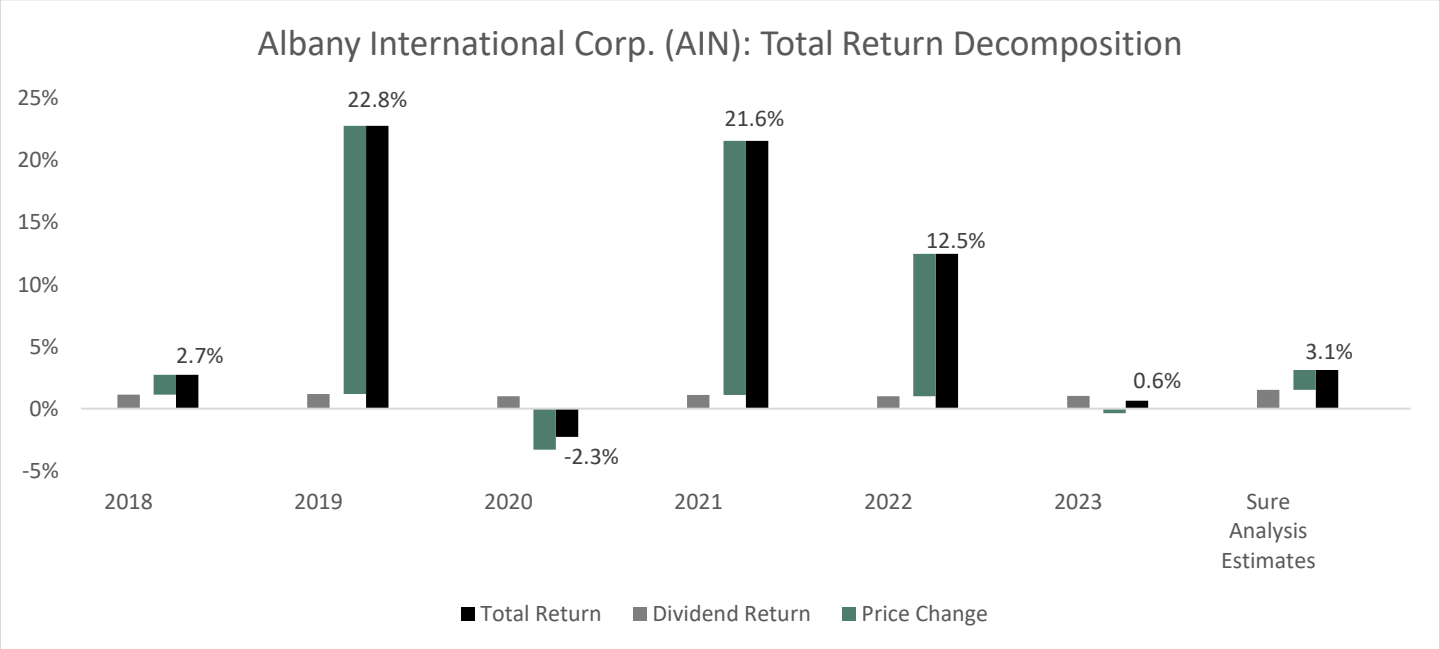
Albany International has raised its dividend for 7 consecutive years. Thanks to its healthy payout ratio of 33% and its promising growth prospects, the company can continue raising its dividend for many more years. On the other hand, the stock is offering a dividend yield of only 1.4% and hence it is not suitable for income-oriented investors.

On the bright side, Albany International has a rock-solid balance sheet. Management has repeatedly stated that it pursues a leverage ratio (Net Debt to EBITDA) below 3.0x but this metric is much better now (1.2x). The company also has a strong interest coverage ratio of 13.9 and net debt of $160 million, which is only 6% of the market cap. The rock-solid balance sheet is a testament to the strength of the business model and the quality of management. Nevertheless, investors should be aware of the cyclicality of this business and its sensitivity to recessions, mostly due to its exposure to the airline industry.

Final Thoughts & Recommendation

Albany International has dramatically underperformed the S&P 500 over the last 12 months (-9% vs. +21%) but it remains richly valued. It could offer just a 3.1% total annual return over the next five years, as 6% growth of earnings and a 1.4% dividend may be partly offset by a -4.1% valuation headwind. The stock receives a marginal hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	745	710	780	864	982	1,054	901	929	1,035	1,148
Gross Profit	292	279	301	296	350	398	371	378	390	424
Gross Margin	39.1%	39.3%	38.6%	34.3%	35.6%	37.7%	41.2%	40.7%	37.7%	36.9%
SG&A Exp.	147	146	158	163	158	164	164	160	169	215
D&A Exp.	64	60	67	72	79	71	73	74	69	77
Operating Profit	85	88	103	92	151	196	172	185	181	168
Operating Margin	11.4%	12.4%	13.2%	10.7%	15.4%	18.6%	19.1%	19.9%	17.5%	14.7%
Net Profit	42	57	53	33	83	132	99	118	96	111
Net Margin	5.6%	8.1%	6.8%	3.8%	8.4%	12.6%	10.9%	12.7%	9.3%	9.7%
Free Cash Flow	25	47	7	(23)	50	132	98	164	32	64
Income Tax	26	(6)	25	22	32	45	42	47	35	49

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,029	1,010	1,263	1,361	1,418	1,474	1,550	1,556	1,642	1,835
Cash & Equivalents	180	185	182	184	198	196	241	302	292	173
Accounts Receivable	136	123	146	152	211	201	167	168	180	272
Inventories	107	106	134	137	86	95	110	118	139	170
Goodwill & Int. Ass.	72	67	227	222	214	234	234	221	212	225
Total Liabilities	516	507	752	788	810	772	730	678	775	868
Accounts Payable	35	27	43	45	52	65	49	69	70	87
Long-Term Debt	273	266	485	516	525	424	398	350	439	457
Shareholder's Equity	510	499	508	570	605	699	816	874	863	961
LTD/E Ratio	0.54	0.53	0.96	0.91	0.87	0.61	0.49	0.40	0.51	0.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.9%	5.6%	4.6%	2.5%	6.0%	9.2%	6.5%	7.6%	6.0%	6.4%
Return on Equity	7.8%	11.3%	10.4%	6.1%	14.0%	20.2%	13.0%	14.0%	11.0%	12.1%
ROIC	5.1%	7.4%	6.0%	3.2%	7.5%	11.7%	8.4%	9.7%	7.6%	8.1%
Shares Out.	32.0	32.1	32.2	32.2	32.3	32.3	32.4	32.5	31.3	31.3
Revenue/Share	23.30	22.12	24.24	26.79	30.42	32.64	27.83	28.62	32.90	36.70
FCF/Share	0.79	1.48	0.23	(0.73)	1.54	4.10	3.02	5.05	1.01	2.03

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

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