

Albemarle Corporation (ALB)

\$78.18 (As of 01/14/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Albemarle is focused on strengthening its lithium business. The company is witnessing strong demand for lithium in battery-grade applications. Also, it should gain from the synergies of the Rockwood acquisition. The buyout has brought together two leading specialty chemical makers with strong market positions and complimentary product portfolios. It is also committed to deliver incremental returns to shareholders. However, the Lithium unit is facing headwind from weak pricing globally. Albemarle is also facing certain challenges in its Catalysts segment. Loss of a large customer contract in the PCS business and delay in the start-up of new FCC units are likely to affect this unit's margins in 2019. Higher raw material costs are also impacting margins. It is also exposed to headwind from unfavorable currency translation.

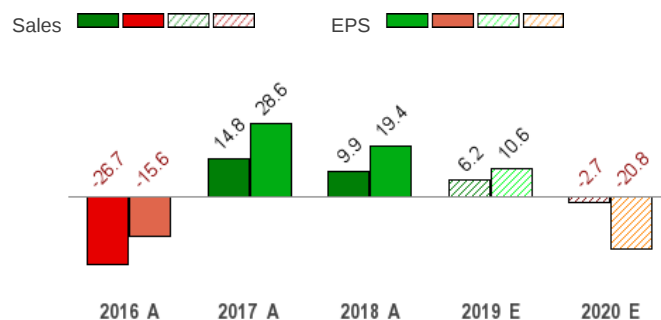
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.14 - \$58.63
20 Day Average Volume (sh)	1,447,810
Market Cap	\$8.3 B
YTD Price Change	7.0%
Beta	1.67
Dividend / Div Yld	\$1.47 / 1.9%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 9% (231 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	-2.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	13.4
P/E F1	16.3
PEG F1	1.1
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	822 E	869 E	863 E	996 E	3,487 E
2019	832 A	885 A	880 A	1,000 E	3,583 E
2018	822 A	854 A	778 A	922 A	3,375 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.08 E	\$1.15 E	\$1.17 E	\$1.46 E	\$4.80 E
2019	\$1.23 A	\$1.55 A	\$1.53 A	\$1.75 E	\$6.06 E
2018	\$1.30 A	\$1.36 A	\$1.31 A	\$1.53 A	\$5.48 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

Charlotte, NC-based Albemarle Corporation is a premier specialty chemicals company with leading positions in attractive end markets globally. It is a leading producer of highly-engineered specialty chemicals geared to meet customer requirements across a bevy of end markets including petroleum refining, consumer electronics, energy storage, construction and automotive.

Albemarle, in January 2015, completed its acquisition of Rockwood Holdings, Inc for \$5.7 billion. Rockwood became a fully-owned subsidiary of Albemarle following the deal closure.

The company's former Performance Chemicals segment was split in 2016 into two separate segments, Lithium and Advanced Materials and Bromine Specialties. This led to the creation of three reportable segments – Lithium and Advanced Materials, Bromine Specialties and Refining Solutions.

Albemarle, in April 2018, completed the sale of its polyolefin catalysts and components business to W. R. Grace & Co. (GRA). Per the terms of the deal, the curatives and organometallics portions of the Performance Catalysts Solutions (PCS) business remain with Albemarle.

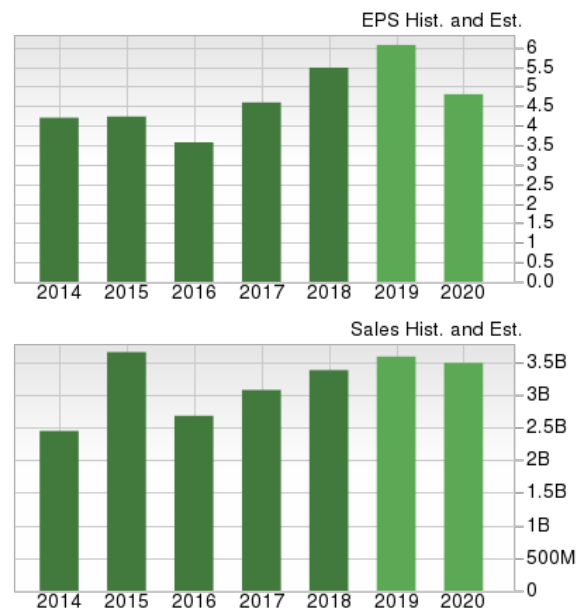
The company realigned its reportable segments following this divestment, effective first-quarter 2018. The PCS business has been merged with the Refining Solutions segment to form a new segment called Catalysts. As such, the company now has three reportable segments – Lithium, Bromine Specialties and Catalysts.

The Lithium unit is a low-cost producer of one of the most diverse portfolios of lithium derivatives in the industry. The segment develops lithium materials (including lithium carbonate and lithium hydroxide) for a vast range of end-use markets.

The company's bromine business includes products used in fire safety solutions and other specialty chemicals applications.

The Catalysts unit includes product lines such as clean fuels technologies (CFT), fluidized catalytic cracking (FCC) catalysts and additives and performance catalystsolutions (PCS).

Albemarle recorded sales of roughly \$3,375 million in 2018 with Lithium, Bromine Specialties and Catalysts segments accounting 36%, 27%, 33%, respectively. Its other businesses represented the balance 4% of sales.



Reasons To Buy:

- ▲ Albemarle's shares are up 5.8% in the past year, outperforming the industry's decline of 21.6%. Albemarle is seeing strong demand for lithium in battery-grade applications. It should gain from rising demand for lithium-ion batteries that are used to power electric cars. The market for lithium-ion batteries has a lot of untapped potential. Demand for these batteries are expected to go up with their increasing adoption in consumer electronic products as well as efforts to promote the use of electric cars by several governments to curb pollution. The company sees strong year-over-year growth in Lithium for the balance of 2019.
- ▲ Albemarle remains focused on strengthening its lithium business. The buyout of the lithium assets of Jiangxi Jiangli New Materials Science and Technology Co. Ltd. has allowed Albemarle to supply premium lithium salts to an expanded global customer base and accelerated the company's ability to meet its goal of capturing 50% of the growth in the lithium industry. The company's Talison joint venture (49%) in Australia is also expanding lithium concentrate production at its Greenbushes mine. The expansion will double the lithium carbonate equivalent capacity at Greenbushes from 80,000 metric tons per year to more than 160,000 metric tons. Albemarle is also progressing with a 20,000-metric ton lithium hydroxide expansion in China at Xinyu II and sees significant hydroxide volumes from this unit in 2019. In sync with its expansion moves, Albemarle recently completed its joint venture (JV) transaction with Mineral Resources. The move allowed the company to own 60% interest in the Wodgina hard rock lithium mine in Australia and develop an integrated lithium hydroxide operation at the resource site. The company will manage the marketing and sales of lithium hydroxide produced by the JV.
- ▲ The acquisition of Rockwood Holdings has brought together two leading specialty chemicals makers with strong market positions and complimentary product portfolios. The merged entity now has greater customer reach, enhanced diversity across end markets, technologies and geographies. The combined company is now well positioned to boost earnings by expanding the reach of lithium-based energy storage products including batteries for the automotive industry, leveraging attractive trends in refinery catalysts including rising demand for transportation fuels, expanding in the bromine markets through new applications and capitalizing on its leading position in surface treatment products.
- ▲ Albemarle also remains committed to deliver incremental returns to shareholders. The company, in February 2019, raised its quarterly dividend by 10% to 36.75 cents per share. The hike represents the 25th straight year of dividend increase by the company. The company returned around \$645 million to its shareholders through buybacks and dividends during 2018. It completed two accelerated share repurchase programs in 2018 worth \$500 million. Albemarle paid dividend worth around \$113 million to its shareholders during the first nine months of 2019.

Albemarle remains focused on strengthening its lithium business and is taking actions to grow its key businesses. It should also gain from synergies of Rockwood acquisition.

Reasons To Sell:

- ▼ Albemarle, in October, reduced its earnings guidance for 2019 factoring in certain challenges that are affecting its lithium business including weak pricing. It now sees adjusted earnings for 2019 in the band of \$6.00-\$6.20 per share (down from the prior view of \$6.25-\$6.65). The company is witnessing pricing pressure for both lithium carbonate and hydroxide, especially in China, as witnessed in the third quarter. It expects global pricing weakness to continue in the fourth quarter. The company envisions price pressure along with operational issues in La Negra, Chile, to lead to lower-than-expected performance in its Lithium unit in the fourth quarter.
- ▼ Albemarle is facing some headwinds associated with its Catalysts business. The unit faces challenges from an expected decline in the PCS business due to pricing pressures and the loss of a large customer contract in 2019. The company expects profitability in this unit to be lower in 2019 compared with 2018. It sees PCS related headwinds of \$11 million in 2019. The company also expects delay in start-up of new FCC units to hurt volumes for full-year 2019.
- ▼ Albemarle faces higher costs for raw materials (mainly oil derivatives) across its Bromine and Catalysts units as witnessed so far this year. Higher raw material costs affected margins across these businesses as well as the company's overall gross profit margins for the first three quarters of 2019 and are likely to remain a headwind over the near term.
- ▼ The company is exposed to currency headwinds. Unfavorable currency swings, stemming from a stronger dollar, impacted its sales by \$7.6 million in the last reported quarter. Unfavorable impact on sales for the Lithium unit was \$3 million in the quarter. Impact for Bromine and Catalysts units were \$1.3 million and \$3.2 million, respectively. Currency headwind will likely continue in the fourth quarter given a stronger U.S. Dollar against various currencies.
- ▼ Albemarle's capital expenditures rose significantly year over year in 2018 on account of Lithium expansion initiatives. Its capital spending more than doubled year over year to \$700 million in 2018, resulting in a negative free cash flow \$139 million. The company now expects capital spending of between \$900 million and \$950 million (up from \$800 million and \$900 million expected earlier) in 2019, reflecting a rise over the 2018 level of \$700 million. Capital spending for the first nine months of 2019 was \$608.5 million. Higher spending related to growth initiatives in the lithium business will hurt its free cash flows.

Albemarle is facing pricing pressure in its Lithium unit. It is also exposed to certain challenges in its Catalysts unit. Higher raw material costs are also affecting margins. Unfavorable currency also remains a headwind.

Last Earnings Report

Albemarle Tops Q3 Earnings Estimates, Revenues Lag

Albemarle recorded a profit of \$155.1 million or \$1.46 per share in the third quarter of 2019, up around 20% from \$129.7 million or \$1.20 per share it earned year ago.

The bottom line in the reported quarter was boosted by higher earnings across the company's businesses, reduced interest and financing expenses as well as a lower effective tax rate.

Adjusted earnings for the reported quarter were \$1.53 per share, up roughly 17% year over year. It trounced the Zacks Consensus Estimate of \$1.49.

Revenues rose around 13% year over year to \$879.7 million in the quarter. It, however, missed the Zacks Consensus Estimate of \$899 million. Revenues were aided by higher volumes across the board and favorable pricing across Lithium and Bromine Specialties units.

Segment Highlights

Sales from the Lithium unit went up around 22% year over year to \$330.4 million in the reported quarter, aided by favorable pricing and higher sales volumes, partly offset by deferred shipments due to the impact of Typhoon Tapah. Adjusted EBITDA was up 12% year over year to \$127.5 million.

The Bromine Specialties segment logged sales of \$256.3 million, up around 10% year over year, driven by favorable pricing and higher volumes. Adjusted EBITDA was \$88.8 million, up around 13% year over year.

The Catalysts unit recorded revenues of \$261.3 million in the reported quarter, up roughly 4% year over year. Adjusted EBITDA was \$66.9 million, up roughly 7% year over year. Favorable pricing in Fluid Catalytic Cracking (FCC) catalysts was offset by reduced volumes due to delays in the start-up of new FCC units.

Financial Position

Albemarle ended the quarter with cash and cash equivalents of roughly \$317.8 million, down roughly 50% year over year. Long-term debt was around \$1,382 million, down around 2% year over year.

Cash flow from operations was \$345.6 million for the first nine months of 2019, down around 8% year over year. Capital expenditures were \$608.5 million for the period, up 29% year over year.

Outlook

Albemarle backed its earnings outlook for 2019 which it had provided last month. It continues to see adjusted earnings for 2019 in the band of \$6.00-\$6.20 per share, a year-over-year increase of 10-14%.

The company expects net sales for 2019 to be between \$3.6 billion and \$3.7 billion, representing 7-10% year over year growth. Moreover, Albemarle sees adjusted EBITDA for the year in the range of \$1.02-\$1.06 billion, representing 2-6% year over year growth.

The company also initiated a cost management program which it expects to deliver more than \$100 million in savings over a two-year period.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-2.13%
EPS Surprise	2.68%
Quarterly EPS	1.53
Annual EPS (TTM)	5.84

Recent News

Albemarle Closes Lithium JV with Mineral Resources - Oct 31, 2019

Albemarle has completed its joint venture transaction with Mineral Resources Limited under an Asset Sale and Share Subscription Agreement. The company now own 60% of the JV which is named MARBL Lithium Joint Venture (MARBL).

Under the deal, Albemarle has purchased a 60% stake in Mineral Resources' Wodgina spodumene mine in Western Australia for \$1.3 billion. MARBL will manage the operation of the mine and the Kemerton lithium hydroxide conversion trains. Albemarle will market the output from the Wodgina mine and Kemerton conversion trains. The company funded the transaction by borrowing roughly \$900 million under an unsecured credit facility.

Albemarle Declares Quarterly Dividend – Oct 29, 2019

Albemarle's board has declared a quarterly dividend of 36.75 cents per share. The dividend was paid on Jan 2, 2020 to shareholders of record at the close of business as of Dec 13, 2019.

Valuation

Albemarle's shares are up 5.8% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and the Zacks Basic Materials sector are down 21.6% and up 2% over the past year, respectively.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 9.08X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.24X for the Zacks sub-industry, 9.54X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.06X and as low as 6.56X, with a 5-year median of 12.66X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82 price target reflects 16.96X forward 12-month earnings per share.

The table below shows summary valuation data for ALB:

Valuation Multiples - ALB					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.08	7.24	9.54	12.12
	5-Year High	19.06	12.41	18.35	12.86
	5-Year Low	6.56	5.08	7.33	8.48
	5-Year Median	12.66	7.24	10.55	10.67
P/E F12M	Current	16.17	12.75	13.61	19
	5-Year High	29.51	15.05	21.12	19.34
	5-Year Low	9.1	8.18	9.76	15.17
	5-Year Median	16.56	12.38	13.77	17.44
P/B TTM	Current	2.07	1.72	2.33	4.49
	5-Year High	3.98	3.51	3.54	4.49
	5-Year Low	1.41	0.88	1.34	2.85
	5-Year Median	2.62	2.53	2.18	3.61

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 254)



Top Peers

Lithium Americas Corp. (LAC)	Outperform
BASF SE (BASFY)	Neutral
FMC Corporation (FMC)	Neutral
W.R. Grace & Co. (GRA)	Neutral
Israel Chemicals Shs (ICL)	Neutral
Livent Corporation (LTHM)	Neutral
Cabot Corporation (CBT)	Underperform
Sociedad Quimica y Minera S.A. (SQM)	Underperform

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	ALB Neutral	X Industry	S&P 500	LAC Outperform	LTHM Neutral	SQM Underperform
VGM Score	B	-	-	F	C	D
Market Cap	8.29 B	3.01 B	24.31 B	370.42 M	1.23 B	8.22 B
# of Analysts	10	3	13	2	1	5
Dividend Yield	1.88%	1.74%	1.76%	0.00%	0.00%	2.10%
Value Score	C	-	-	F	C	D
Cash/Price	0.04	0.07	0.04	0.31	0.02	0.11
EV/EBITDA	8.93	6.55	14.08	-13.87	7.64	14.10
PEG Ratio	1.08	1.57	2.06	NA	4.37	2.51
Price/Book (P/B)	2.07	2.07	3.33	2.25	2.26	3.84
Price/Cash Flow (P/CF)	10.36	6.70	13.62	NA	8.15	18.71
P/E (F1)	16.63	14.36	18.86	NA	15.00	25.02
Price/Sales (P/S)	2.36	0.88	2.65	64.15	2.85	4.03
Earnings Yield	6.14%	6.88%	5.27%	-9.64%	6.67%	4.00%
Debt/Equity	0.34	0.61	0.72	0.67	0.20	0.62
Cash Flow (\$/share)	7.54	3.41	6.94	-0.25	1.03	1.67
Growth Score	B	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	7.62%	10.15%	10.56%	NA	NA	11.42%
Proj. EPS Growth (F1/F0)	-20.80%	8.14%	7.52%	-39.53%	40.00%	14.08%
Curr. Cash Flow Growth	12.42%	3.75%	14.88%	-32.51%	158.86%	2.69%
Hist. Cash Flow Growth (3-5 yrs)	12.24%	6.70%	9.00%	NA	NA	-1.22%
Current Ratio	1.39	1.83	1.23	10.09	2.82	2.76
Debt/Capital	25.64%	39.72%	42.99%	40.26%	16.32%	38.21%
Net Margin	16.27%	5.57%	11.14%	835.26%	17.75%	15.70%
Return on Equity	15.94%	11.94%	17.16%	-21.08%	16.97%	14.96%
Sales/Assets	0.44	0.85	0.55	0.03	0.61	0.45
Proj. Sales Growth (F1/F0)	-2.70%	1.97%	4.18%	105.83%	21.77%	14.76%
Momentum Score	D	-	-	A	B	F
Daily Price Chg	3.06%	0.00%	0.08%	3.75%	4.87%	3.55%
1 Week Price Chg	0.74%	-0.79%	0.39%	12.22%	-6.67%	3.78%
4 Week Price Chg	13.68%	-1.16%	1.93%	31.54%	-2.44%	11.90%
12 Week Price Chg	17.05%	3.61%	6.50%	38.80%	18.31%	13.32%
52 Week Price Chg	6.17%	2.78%	22.56%	23.15%	-37.41%	-25.77%
20 Day Average Volume	1,447,810	148,473	1,571,506	262,801	2,154,859	807,280
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.58%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	25.23%	-21.13%	-1.58%
(F1) EPS Est 12 week change	-27.77%	-2.88%	-0.52%	25.23%	-21.95%	-5.88%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	-16.13%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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