Albemarle Corporation (ALB)

$84.15 (As of 07/14/20)

Price Target (6-12 Months): **$72.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/23/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: F	

Summary

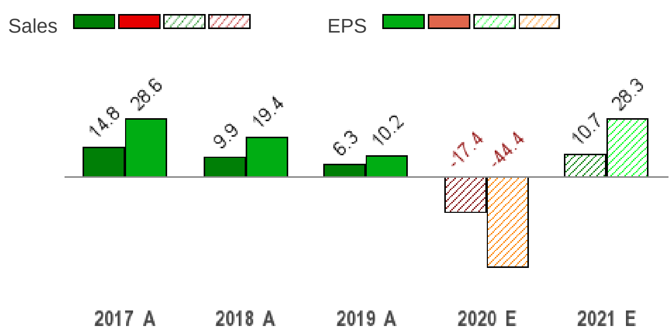
Earnings estimates for Albemarle for the second quarter have been moving down over the past two months. The company's Lithium unit is facing headwinds from weak pricing and volumes. Lithium prices remain under pressure amid oversupply in the market. The coronavirus outbreak is also expected to hurt lithium demand over the near term. The company's Bromine Specialties unit also faces headwind from weakness in certain markets and weak expected orders in the second quarter. The unit faces challenges from softer demand across automotive, consumer electronics, appliances and construction markets. Lower FCC volumes resulting from reduced transportation fuel consumption and travel restrictions are also hurting the Catalysts unit. Albemarle also faces headwind from unfavorable currency translation. High debt level is another concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$99.40 - $48.89
20 Day Average Volume (sh)	1,055,429
Market Cap	$8.9 B
YTD Price Change	15.2%
Beta	1.46
Dividend / Div Yld	$1.54 / 1.8%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 42% (105 out of 251)
Last EPS Surprise	17.7%
Last Sales Surprise	-5.0%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	08/05/2020
Earnings ESP	2.6%
P/E TTM	14.5
P/E F1	25.0
PEG F1	1.6
P/S TTM	2.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	780 E	806 E	803 E	902 E	3,282 E
2020	739 A	701 E	705 E	831 E	2,964 E
2019	832 A	885 A	880 A	993 A	3,589 A

EPS Estimates

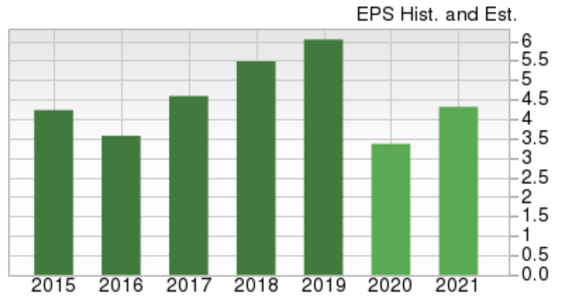
	Q1	Q2	Q3	Q4	Annual*
2021	$0.94 E	$1.05 E	$1.09 E	$1.36 E	$4.31 E
2020	$1.00 A	$0.74 E	$0.67 E	$0.87 E	$3.36 E
2019	$1.23 A	$1.55 A	$1.53 A	$1.73 A	$6.04 A

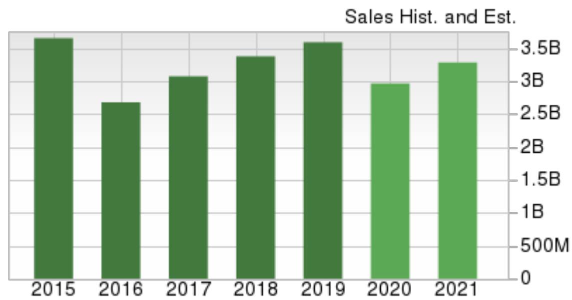
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/14/2020. The reports text is as of 07/15/2020.

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 $3.6 billion in 2019 with Lithium, Bromine Specialties and Catalysts segments accounting 38%, 28%, 30%, respectively. Its other businesses represented the balance 4% of sales.

Reasons To Sell:

Albemarle is facing pricing and demand headwinds in its Lithium unit. It is also exposed to volume pressure in its Bromine and Catalysts units. Unfavorable currency swings and a high debt level also remain concerns.

- Albemarle is witnessing pricing pressure for both lithium carbonate and hydroxide, especially in China. Global pricing weakness continued in the most recent quarter. Lithium prices remain under pressure amid oversupply of the white metal in the market. Lithium supply capacity grew faster than demand in 2019, leading to oversupply in the market. This has caused a sharp decline in lithium prices. Pricing weakness is expected to continue moving ahead. Moreover, the coronavirus outbreak is hurting demand in the automotive market in China and Europe due to automotive OEM shutdowns resulting from the pandemic. The company envisions the impact of the shutdowns to continue in the second quarter of 2020 and beyond.

- Albemarle's Bromine Specialties unit faces challenges in 2020 from weakness in the automotive market. Sales in this unit was hurt by lower volumes resulting from logistics challenges. Due to coronavirus, the company expects some orders to shift into third-quarter 2020, resulting in weakness in the second quarter. It sees weaker demand across automotive, consumer electronics, appliances, and construction markets due to the pandemic in the second quarter and expects this to continue into the second half of 2020.

- The company's Catalysts unit is facing headwind from lower Fluid Catalytic Cracking (FCC) volumes resulting from reduced transportation fuel consumption and travel restrictions in Asia due to the pandemic. Lower FCC volumes hurt sales in this segment in the last reported quarter and is expected to remain a headwind in the second quarter. The company expects to see a full-quarter impact from travel restrictions and stay-at-home orders across the globe in the second quarter. It also expects orders for Hydroprocessing Catalysts (HPC) to shift from second-half 2020 to 2021 based on oil price reductions.

- The company is exposed to currency headwinds. It saw unfavorable currency impact of $27 million on its adjusted EBITDA for full-year 2019. Moreover, unfavorable currency swings, stemming from a stronger dollar, impacted sales across all of its segments in the last reported quarter. Currency headwind will likely continue in the second quarter of 2020 given a stronger U.S. dollar against various currencies.

- The company's high debt level is another concern. Its long-term debt was $3,105.2 million at the end of the first quarter of 2020, up from $2,863 million at the end of the sequentially prior quarter. It also more than doubled on a year-over-year basis. Further, its time-interest-earned ratio of 9.5 at the end of first-quarter 2020 fell from 10.8 in the prior quarter and has also deteriorated over the last few quarters. As such, the company appears to have a higher default risk.

Risks

- Albemarle remains focused on strengthening its lithium business. The company's Talison joint venture (49%) in Australia is expanding lithium concentrate production at its Greenbushes mine. The joint venture completed the phase II of the expansion in the fourth quarter of 2019, bringing the lithium carbonate equivalent capacity at Greenbushes to around 60,000 metric tons per year. Albemarle, in 2019, also completed a 20,000-metric ton lithium hydroxide expansion in China at the Xinyu II facility. It also increased lithium carbonate production in La Negra I and II by roughly 5%. Expansions at La Negra III and IV are scheduled for commissioning by first-quarter 2021. The company has also commenced work at its lithium hydroxide conversion plant in Kemerton, Western Australia with commissioning expected in 2021. In sync with its expansion moves, Albemarle in 2019 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 remains committed to deliver incremental returns to shareholders. It paid dividend worth around $152 million to its shareholders in 2019. The company, in February 2020, raised its quarterly dividend by 5% to 38.5 cents per share. The hike represents the 26th straight year of dividend increase by the company. Albemarle, earlier this year, was also named to the S&P 500 Dividend Aristocrats Index. The company remains focused on maintaining its dividend payout.

- The company is also accelerating its $100 million cost savings program. It expects to realize $50-$70 million of savings this year. The company is also implementing short-term cash management actions which is expected to deliver $25-$40 million of savings per quarter. Its cost actions are expected to support margins in 2020.

Last Earnings Report

Albemarle's Q1 Earnings Top Estimates, Revenues Lag

Quarter Ending	03/2020
Report Date	May 06, 2020
Sales Surprise	-5.02%
EPS Surprise	17.65%
Quarterly EPS	1.00
Annual EPS (TTM)	5.81

Albemarle recorded a profit of $107.2 million or $1.01 per share in the first quarter of 2020, down around 20% from $133.6 million or $1.26 per share it earned a year ago.

Adjusted earnings for the reported quarter were $1.00 per share, down from $1.23 a year ago. It topped the Zacks Consensus Estimate of 85 cents.

Revenues fell roughly 11% year over year to $738.8 million in the quarter. It missed the Zacks Consensus Estimate of $777.9 million. The company saw lower sales across its segments in the quarter.

Segment Highlights

Sales from the Lithium unit dropped around 19% year over year to $236.8 million in the reported quarter, hurt by lower sales volumes and pricing. Adjusted EBITDA was down roughly 32% year over year to $78.6 million.

The Bromine Specialties segment recorded sales of $231.6 million, down 7% year over year. Reduced volumes due to logistics challenges more than offset higher pricing. Adjusted EBITDA was $83.3 million, up around 6% year over year.

The Catalysts unit recorded revenues of $207.2 million in the reported quarter, down roughly 18% year over year, hurt by lower volumes. Adjusted EBITDA was $47.5 million, down roughly 21% year over year. The company saw lower volumes in FCC due to reduced transportation fuel consumption.

Financial Position

Albemarle ended the quarter with cash and cash equivalents of roughly $553.2 million, up roughly 19% year over year. Long-term debt more than doubled year over year to around $3,105.2 million.

Cash flow from operations was $155 million for the quarter, up nearly three fold year over year. Capital expenditures were $214.5 million for the quarter.

Outlook

Albemarle has withdrawn its guidance for full-year 2020 due to uncertainties around the duration and economic impacts of the coronavirus pandemic. For the second quarter of 2020, the company expects its performance to be lower year-over-year based on lower global economic activities resulting from the pandemic.

The company expects net sales for the second quarter to be between $700 million and $775 million. Moreover, adjusted EBITDA for the quarter has been forecast in the range of $140-$190 million.

The company is also accelerating its $100 million cost savings program and expects to realize $50-$70 million of savings this year.

Recent News

Albemarle Announces Quarterly Dividend - May 5, 2020

Albemarle announced that its board has declared a quarterly dividend of 38.5 cents per share. The dividend was paid on Jul 1, 2020, to shareholders of record as of Jun 12, 2020.

Valuation

Albemarle's shares are up 15.6% in the year-to-date period and up 15.2% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 13.7% and 5.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11.9% and 4.4%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period and up 5.7% in the past year.

The stock is currently trading at 11.38X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.74X for the Zacks sub-industry, 9.51X for the Zacks sector and 11.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.02X and as low as 6.43X, with a 5-year median of 11.63X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our $72 price target reflects 18.53X 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	11.38	7.74	9.51	11.72
	5-Year High	19.02	13.21	18.38	12.86
	5-Year Low	6.43	5.27	6.56	8.25
	5-Year Median	11.63	7.46	10.4	10.87
P/E F12M	Current	21.66	18.64	15.49	22.45
	5-Year High	29.51	18.64	21.05	22.45
	5-Year Low	9.1	8.95	9.86	15.25
	5-Year Median	17.06	13.04	13.53	17.52
P/B TTM	Current	2.21	1.71	2.88	4.32
	5-Year High	3.98	2.97	3.07	4.56
	5-Year Low	1.32	0.89	1.22	2.84
	5-Year Median	2.5	1.76	2.21	3.7

As of 07/14/2020

Industry Analysis **Zacks Industry Rank:** Top 42% (105 out of 251)

Top Peers

Company (Ticker)	Rec	Rank
BASF SE **(BASFY)**	Neutral	3
Cabot Corporation **(CBT)**	Neutral	3
FMC Corporation **(FMC)**	Neutral	3
W.R. GraceCo. **(GRA)**	Neutral	3
Israel Chemicals Shs **(ICL)**	Neutral	3
Lithium Americas Corp. **(LAC)**	Neutral	3
Livent Corporation **(LTHM)**	Neutral	4
Sociedad Quimica y Minera S.A. **(SQM)**	Neutral	3

Industry Comparison Industry: Chemical - Diversified

Industry Peers

	ALB	X Industry	S&P 500	LAC	LTHM	SQM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	D	-	-	F	F	D
Market Cap	8.95 B	2.67 B	21.89 B	458.10 M	923.84 M	7.92 B
# of Analysts	10	3	14	2	3	5
Dividend Yield	1.83%	1.87%	1.86%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	D	D
Cash/Price	0.07	0.11	0.07	0.17	0.01	0.10
EV/EBITDA	13.79	7.48	12.84	8.87	14.45	22.80
PEG Ratio	1.67	3.01	2.92	NA	5.17	2.97
Price/Book (P/B)	2.21	1.76	3.06	3.04	1.71	3.75
Price/Cash Flow (P/CF)	10.42	6.66	11.89	NA	11.25	28.48
P/E (F1)	25.72	19.74	21.54	NA	51.24	29.39
Price/Sales (P/S)	2.56	0.78	2.27	79.34	2.58	4.32
Earnings Yield	3.99%	4.70%	4.38%	-6.48%	1.90%	3.39%
Debt/Equity	0.77	0.62	0.76	1.00	0.42	0.81
Cash Flow ($/share)	8.07	3.41	6.94	-0.22	0.56	1.06
Growth Score	C	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	9.92%	9.93%	10.85%	NA	NA	6.87%
Proj. EPS Growth (F1/F0)	-44.30%	-30.33%	-9.64%	-50.00%	-70.64%	-3.40%
Curr. Cash Flow Growth	6.86%	-8.41%	5.51%	-10.25%	-45.48%	-36.68%
Hist. Cash Flow Growth (3-5 yrs)	14.46%	6.01%	8.55%	NA	NA	-1.27%
Current Ratio	1.81	1.88	1.30	5.46	3.04	3.24
Debt/Capital	43.45%	39.57%	44.46%	49.88%	29.37%	44.79%
Net Margin	14.50%	4.85%	10.54%	NA	8.76%	13.25%
Return on Equity	15.34%	12.72%	15.75%	-23.27%	8.52%	11.39%
Sales/Assets	0.39	0.78	0.54	NA	0.45	0.38
Proj. Sales Growth (F1/F0)	-17.42%	-7.36%	-2.52%	1.11%	-23.88%	1.58%
Momentum Score	F	-	-	C	F	B
Daily Price Chg	3.18%	1.82%	1.60%	0.39%	2.27%	3.62%
1 Week Price Chg	0.42%	0.00%	-0.41%	2.34%	1.14%	0.22%
4 Week Price Chg	6.21%	-0.30%	-0.71%	16.48%	-20.10%	10.42%
12 Week Price Chg	45.44%	23.62%	15.18%	77.97%	15.33%	44.39%
52 Week Price Chg	15.19%	-16.25%	-6.45%	26.30%	-10.99%	-0.46%
20 Day Average Volume	1,055,429	102,485	2,246,780	793,000	3,646,005	757,551
(F1) EPS Est 1 week change	-0.24%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.53%	0.00%	0.00%	0.00%	-7.50%	1.19%
(F1) EPS Est 12 week change	-26.37%	-11.65%	-6.22%	0.00%	-35.09%	-4.30%
(Q1) EPS Est Mthly Chg	-0.19%	0.00%	0.00%	0.00%	0.00%	0.00%

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	D
Growth Score	C
Momentum Score	F
VGM Score	D

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.

Disclosures