

Albemarle Corporation (ALB)

\$94.31 (As of 02/20/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Albemarle's adjusted earnings and sales for the fourth quarter missed the respective Zacks Consensus Estimate. The company is expected to gain from its actions to boost its global lithium derivative capacity. Also, it should gain from the synergies of the Rockwood acquisition. The company also remains committed to deliver incremental returns to shareholders. However, the Lithium unit is facing headwind from weak pricing globally. The coronavirus outbreak is also expected to hurt lithium demand over the near term. The company's Bromine Specialties segment also faces headwind from weakness in the automotive market and weak expected orders in China in the first quarter. Disruptions due to coronavirus is also likely to impact the supply of raw materials from China. Albemarle also faces headwind from unfavorable currency translation.

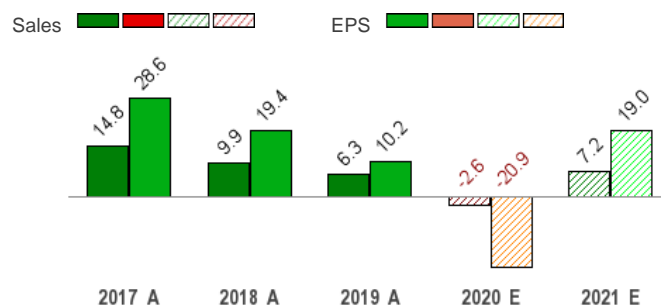
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.40 - \$58.63
20 Day Average Volume (sh)	2,186,486
Market Cap	\$10.0 B
YTD Price Change	29.1%
Beta	1.57
Dividend / Div Yld	\$1.47 / 1.6%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 21% (202 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.1%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	4.1%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	19.7
PEG F1	1.3
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,749 E
2020	822 E	869 E	863 E	996 E	3,496 E
2019	832 A	885 A	880 A	993 A	3,589 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$5.69 E
2020	\$1.08 E	\$1.15 E	\$1.17 E	\$1.46 E	\$4.78 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 02/20/2020. The reports text is as of 02/21/2020.

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.

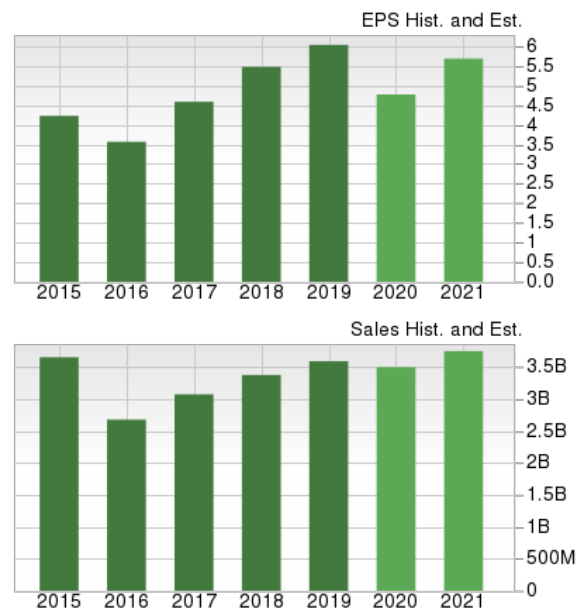
The company realigned its reportable segments following this divestment, effective first-quarter 2018. The PCS business has been merged with the Refining Solutions segment to form a new segment called Catalysts. As such, the company now has three reportable segments – Lithium, Bromine Specialties and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

- ▲ Albemarle's shares are up 5.8% in the past year, outperforming the industry's decline of 29.1%. 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 remains optimistic about long-term lithium market demand.
- ▲ 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. 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. Albemarle also paid dividend worth around \$152 million to its shareholders in 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 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. Moreover, the coronavirus outbreak is expected to hurt demand in the automotive market in China. The company envisions lower results from the Lithium segment in 2020. It expects profits for the unit to be down around 20% this year on lower pricing. The company also expects lower year-over-year overall sales and adjusted earnings for 2020 factoring in weakness in lithium.
- ▼ Albemarle is facing some headwinds associated with its Bromine Specialties business. The unit faces challenges in 2020 from weakness in the automotive market. The company expects Chinese demand to remain flat this year. Due to coronavirus, it expects some orders to shift into second-quarter 2020, resulting in weakness in the first quarter.
- ▼ Albemarle's capital expenditures rose significantly year over year in 2019 on account of Lithium expansion initiatives. Its capital spending jumped around 22% year over year to \$851.8 million in 2019, resulting in a negative free cash flow of \$117 million. The company expects capital spending of between \$1 billion and \$1.1 billion in 2020, reflecting a rise over the 2019 level. Higher spending related to growth initiatives in the lithium business will hurt its free cash flows.
- ▼ The company is exposed to currency headwinds. Unfavorable currency swings, stemming from a stronger dollar, impacted sales across all of its segments in the last reported quarter. The company saw unfavorable currency impact of \$27 million on its adjusted EBITDA for full-year 2019. Currency headwind will likely continue in the first quarter of 2020 given a stronger U.S. Dollar against various currencies.
- ▼ Albemarle is seeing higher costs for raw materials (mainly oil derivatives) across its Bromine and Catalysts units as witnessed in 2019. Higher raw material costs affected margins across these businesses as well as the company's overall gross profit margins in 2019 and are likely to remain a headwind over the short haul. The coronavirus epidemic is likely to impact the supply of raw materials from China over the near term, thereby increasing the prices of key inputs. The outbreak is likely to affect the delivery of raw materials to the company's facilities.

Albemarle is facing pricing pressure in its Lithium unit. It is also exposed to certain challenges in its Bromine unit. Coronavirus may also impact raw material supply and costs. Unfavorable currency also remains a headwind.

Last Earnings Report

Albemarle's Q4 Earnings & Sales Miss, View Disappoints

Albemarle recorded a profit of \$90.4 million or 85 cents per share in the fourth quarter of 2019, down around 30% from \$129.6 million or \$1.21 per share it earned year ago.

Adjusted earnings for the reported quarter were \$1.73 per share, up roughly 13% year over year. It lagged the Zacks Consensus Estimate of \$1.75.

Revenues rose around 8% year over year to \$992.6 million in the quarter. It, however, missed the Zacks Consensus Estimate of \$1,001 million. Revenues were aided by higher volumes in the Lithium unit and favorable pricing in Bromine Specialties and Catalysts segments.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	-0.84%
EPS Surprise	-1.14%
Quarterly EPS	1.73
Annual EPS (TTM)	6.04

Segment Highlights

Sales from the Lithium unit climbed around 20% year over year to \$411.1 million in the reported quarter, aided by favorable sales volumes. Pricing was flat in the quarter. Adjusted EBITDA was down roughly 3% year over year to \$140.1 million.

The Bromine Specialties segment recorded sales of \$243.5 million, up around 2% year over year, supported by favorable pricing and product mix. Adjusted EBITDA was \$79.7 million, up around 14% year over year.

The Catalysts unit recorded revenues of \$282.5 million in the reported quarter, down roughly 7% year over year. Adjusted EBITDA was \$76.7 million, down roughly 3% year over year. The company saw lower sales in Clean Fuel Technology as well as Fluid Catalytic Cracking ("FCC") due to delays in the start-up of new FCC units.

Full-Year Results

Earnings for 2019 were \$5.02 per share, down from \$6.34 per share a year ago.

Revenues were \$3.6 billion for the full year, up around 6% year over year.

Financial Position

Albemarle ended 2019 with cash and cash equivalents of roughly \$613.1 million, up roughly 10% year over year. Long-term debt doubled year over year to around \$2,862.9 million.

Cash flow from operations was \$719.4 million for 2019, up around 32% year over year. Capital expenditures were \$851.8 million for the year, up 22% year over year.

Outlook

Albemarle envisions its results in 2020 to be lower on a year-over-year basis factoring in lower expected results from the Lithium segment and flat-to-modestly lower results from the Bromine Specialties unit, partly offset by flat-to-slightly higher results from the Catalysts division.

The company expects net sales for 2020 to be between \$3.48 billion and \$3.53 billion, representing 2-3% year over year decline. Moreover, Albemarle sees adjusted earnings for 2020 in the band of \$4.80-\$5.10 per share, a year-over-year drop of 16-21%.

Adjusted EBITDA for the year has been forecast in the range of \$880-\$930 million, representing 10-15% year over year decline.

The company also expects its cost-reduction program to deliver run-rate savings of more than \$100 million by the end of 2021.

Recent News

Albemarle Joins S&P 500 Dividend Aristocrats Index – Jan 28, 2020

Albemarle has been named to the S&P 500 Dividend Aristocrats Index effective Feb 3, 2020. The index measures the performance of S&P 500 companies that have raised dividends every year for the last 25 straight years. Albemarle, on Feb 26, 2019, raised its quarterly dividend by 10% to 36.75 cents per share, marking 25 consecutive years of dividend hike.

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 29.1% and 9% over the past year, respectively.

The S&P 500 index is up 20.5% in the past year.

The stock is currently trading at 11.73X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.2X for the Zacks sub-industry, 9.3X for the Zacks sector and 12.31X 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 12.82X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 20.41X 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	11.73	7.2	9.3	12.31
	5-Year High	19.06	12.51	18.38	12.85
	5-Year Low	6.56	5.13	7.36	8.47
	5-Year Median	12.82	7.28	10.57	10.72
P/E F 12M	Current	19.23	13.22	13.33	19.39
	5-Year High	29.51	15.18	21.14	19.39
	5-Year Low	9.1	8.25	9.81	15.18
	5-Year Median	16.72	12.44	13.62	17.47
P/B TTM	Current	2.5	1.68	2.25	4.68
	5-Year High	3.98	3.55	3.55	4.68
	5-Year Low	1.41	0.89	1.34	2.85
	5-Year Median	2.59	2.48	2.2	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (202 out of 255)



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	F	F
Market Cap	10.00 B	2.97 B	24.34 B	504.92 M	1.73 B	8.68 B
# of Analysts	10	3.5	13	1	3	5
Dividend Yield	1.56%	1.70%	1.78%	0.00%	0.00%	1.99%
Value Score	D	-	-	F	D	D
Cash/Price	0.03	0.07	0.04	0.22	0.01	0.10
EV/EBITDA	11.97	7.74	14.18	-18.87	10.59	14.85
PEG Ratio	1.26	1.56	2.09	NA	7.73	2.66
Price/Book (P/B)	2.44	2.11	3.30	3.05	3.19	4.06
Price/Cash Flow (P/CF)	11.68	6.57	13.49	NA	11.51	19.77
P/E (F1)	19.33	14.11	19.28	NA	26.55	26.43
Price/Sales (P/S)	2.79	0.91	2.68	87.45	4.46	4.26
Earnings Yield	5.07%	6.88%	5.17%	-7.12%	3.79%	3.79%
Debt/Equity	0.70	0.55	0.70	0.67	0.20	0.62
Cash Flow (\$/share)	8.07	3.41	7.03	-0.25	1.03	1.67
Growth Score	B	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	7.62%	9.85%	10.84%	NA	NA	11.42%
Proj. EPS Growth (F1/F0)	-20.93%	5.15%	7.09%	-39.53%	6.35%	14.08%
Curr. Cash Flow Growth	6.86%	-5.85%	6.72%	-32.51%	158.86%	2.69%
Hist. Cash Flow Growth (3-5 yrs)	12.24%	5.39%	8.25%	NA	NA	-1.22%
Current Ratio	1.58	1.83	1.22	10.09	2.82	2.76
Debt/Capital	41.15%	37.78%	42.37%	40.26%	16.32%	38.21%
Net Margin	14.86%	5.48%	11.56%	835.26%	12.93%	15.70%
Return on Equity	16.12%	12.26%	16.80%	-21.08%	11.64%	14.96%
Sales/Assets	0.42	0.85	0.55	0.03	0.55	0.45
Proj. Sales Growth (F1/F0)	-2.62%	1.60%	3.90%	41.71%	18.14%	14.76%
Momentum Score	A	-	-	C	B	B
Daily Price Chg	5.56%	0.38%	0.01%	-3.93%	3.85%	7.01%
1 Week Price Chg	8.60%	0.83%	1.65%	31.16%	16.53%	3.73%
4 Week Price Chg	15.15%	-1.24%	0.36%	34.45%	28.63%	10.70%
12 Week Price Chg	43.99%	-5.91%	4.39%	95.82%	50.89%	36.55%
52 Week Price Chg	5.66%	-11.15%	15.29%	53.55%	-11.43%	-24.25%
20 Day Average Volume	2,186,486	114,846	1,992,841	824,917	3,405,707	978,759
(F1) EPS Est 1 week change	4.15%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	4.15%	0.00%	-0.02%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	3.08%	-2.51%	-0.17%	25.23%	-33.33%	-1.58%
(Q1) EPS Est Mthly Chg	0.00%	-0.46%	-0.48%	NA	0.00%	0.00%

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	B
Momentum Score	A
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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