The January 2015 acquisition of Rockwood Holdings’ assets permanently changed the complexion of Albemarle’s operations. In that deal, Albemarle acquired Rockwood’s lithium and bromine assets, which now power its sales and earnings. Indeed, after the good west of nine months, during which time the Rockwood assets were folded into the infrastructure, Albemarle’s earnings took off. Share net increased to $5.68 in 2016, from $3.00 in 2015. The stock price followed suit, rising from $54 at the start of 2016, to $145 at the end of 2017. In the first quarter of 2018, this battery business accounted for 27% of sales and 28% of operating income. Lithium items accounted for 34% of sales and 33% of operating income. We look for these two product segments to drive the top and bottom lines over the next three to five years.

Given the aforementioned, we think Albemarle stock is very fairly valued. The fundamentals regarding the reason that lithium demand has grown haven’t changed. Demand for lithium, which is the critical element in the fabrication of electric car and cellphone batteries, should continue to rise. The reason the stock price has fallen this year is because there is an industrywide fear of lithium overcapacity. Large Chinese conglomerates are buying up lithium-rich lands in South America and Africa. Albemarle and its peers are also buying up lithium deposits (in western Australia, Argentina, and North Carolina). These deposits are being left unmined until they are needed in greater quantities. It appears that investors have been loath to buy large-cap lithium stocks like Albemarle because they have become concerned that keen consumers are to buy electric cars and more smartphones.

We would be buyers of this stock. The company is spending heavily on procuring lithium-rich lands around the world to compete with the Chinese when it comes to supplying lithium to the battery industry (see this year’s capital spending hike). In addition, the bromine assets, although lower margin, should be sold in higher quantities for the production of a great many industrial products. This equity has above-average capital gains potential to 2021–2023.

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August 3, 2018

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