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Stock Highlight for the Quarter to 31 December 2021

This quarter we would like to focus on Albemarle Corporation, a century-old American chemical company headquartered in Charlotte, North Carolina. Albemarle is a leading global developer and marketer of specialty chemicals across several end markets including energy storage, petroleum refining, consumer electronics, construction, automotive, and general industrial uses.

It is a truly global company as it serves approximately 2,300 customers (none of which individually represents more than 10% of company sales) in 75 countries and about 75% of the company's revenue is generated outside of the United States. Albemarle has been part of the materials sector of the Millennium portfolio since February 2017.



Historical performance (total return in %) Source: Bloomberg Finance L.P.

We always had strong conviction in Albemarle because it is a well-managed company with a diversified source of revenue. Albemarle manages and reports its business across three core operating segments namely lithium (40% of its revenue), bromine specialties (35% of its revenue), and catalysts (25% of its revenue). Each segment has a dedicated team of sales, R&D, process engineering, manufacturing and procurement, and business strategy staff with full segment accountability.

For instance, Albemarle's first segment of operation is lithium and is classified as the world's largest producer of lithium. It sources lithium through its own salt brine assets at Salar de Atacama, in Chile, in Silver Peak, in the US, and by purchasing lithium concentrate from its two joint ventures in Australia.

The Chilean operation is among the world's lowest-cost sources of lithium and the Australian asset is one of the best spodumene resources in the world, which allows Albemarle to be one of the lowest-cost lithium hydroxide producers. Albemarle then develops lithium-based products for an array of end-use markets such as energy storage (automotive, grid storage, and electronic), industrial (specialty glass, lubricants, and health), and specialties (tires, pharma, and agriculture). Its primary strategic focus is on battery-grade product for energy storage applications (lithium-ion batteries) used in electric vehicle and consumer electronics applications. The increase in electric vehicle adoption should trigger a double-digit annual growth in global lithium demand.

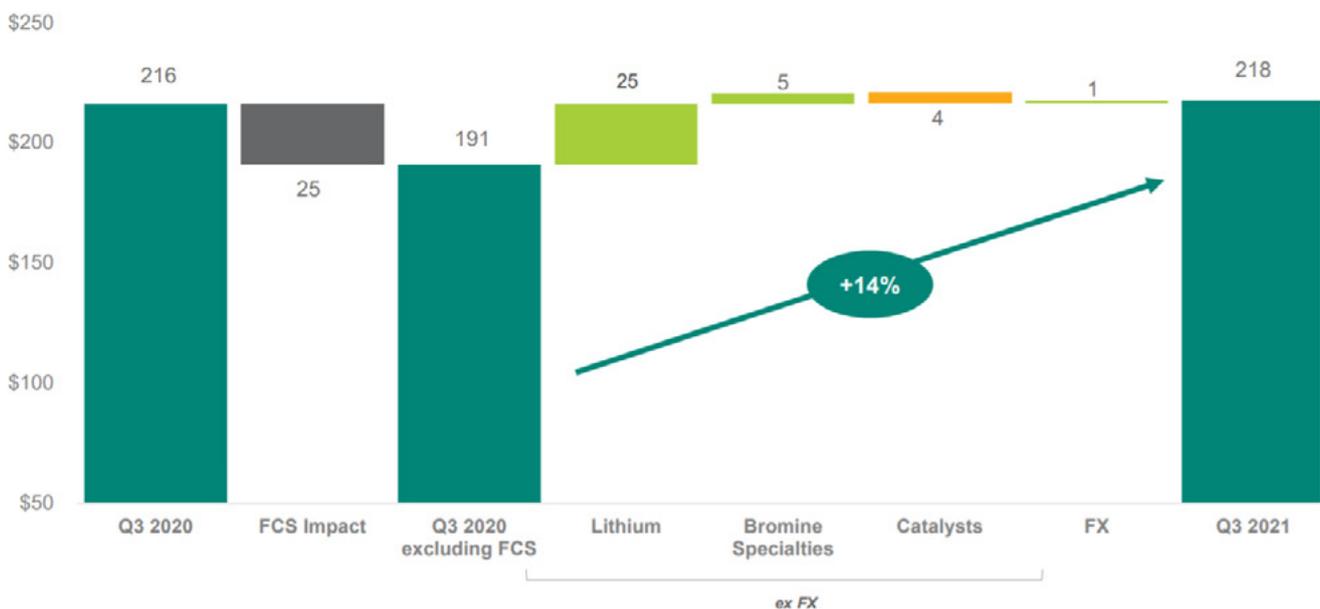
Albemarle’s second segment of operation is bromine and ranks number two worldwide. It sources bromine from Arkansas in the United States and the Dead Sea in Jordan in which both assets are among the lowest cost globally with high bromine concentrations. Albemarle develops bromine-based products for end-use applications such as fire safety solutions (appliances, automotive, buildings, and Telecom/5G) and oilfield (completion fluid).

Demand for these products is more cyclical and is driven by GDP, industrial production, and offshore oil & gas drilling activity but over the long term, we expect Albemarle to generate healthy bromine profits due to its low-cost position in the Dead Sea. In addition, Albemarle is also a top producer of catalysts used in oil refining and petrochemical production.

These chemicals are highly tailored to specific refineries providing the company with a steady cash flow stream.

Year-to-date, Albemarle is up 59.76% (as of December 31, 2021) and is part of our top 3 contributors to return of the Millennium portfolio. Despite the significant outperformance this year, we believe Albemarle still has upside potential. Albemarle reported strong quarterly results in the third quarter of 2021, well ahead of expectations, and more importantly, with an improved outlook for the full-year 2021. In Q3 2021, Albemarle reported EBITDA of \$218 million and net sales of \$831 million (up from \$216 million and \$747 million a year earlier respectively) with especially strong positive contributions from the lithium and bromine business due to stronger pricing resulting from tight market conditions.

Q3 2021 Adjusted EBITDA Bridge



Source: Albemarle Corporation

N.B. FCS stands for Fine Chemistry Services, a business Albemarle sold to W. R. Grace & Co in June 2021

Overall, we believe Albemarle is well positioned on markets that display longevity which should benefit its lithium segment. For example, Albemarle enjoys a bullish demand backdrop driven by global de-carbonization initiatives rooted in public policy and regulatory frameworks. We expect higher electric vehicles penetration rates to drive demand at an accelerating pace this decade and to boost Albemarle’s lithium segment through strong demand.

Electric vehicle demand is robust and many suppliers are currently building capacity. There is also ample demand to justify bringing Albemarle’s lithium rock production up to speed once additional conversion capacity becomes available. Besides, Albemarle has the most flexible platform in the lithium market in terms of end-products, geographies, and potential global expansion opportunities.

We also like the fact that Albemarle is positioning itself for the future by integrating climate issues into its business strategy. It aims to play an important role in driving sustainable growth and it already committed to several long-term environmental targets. Indeed, Albemarle plans to reduce the carbon-intensity of its catalysts and bromine business segments by 35% by 2030. It also wants to cut freshwater usage by 25% by 2030 in Chile and in Jordan. Eventually, Albemarle aims to grow lithium volumes without adding emissions in a carbon-neutral manner by 2030 and reach net carbon neutrality by 2050. Albemarle committed to an independent review of its sites via the Initiative of Responsible Mining Assurance (IRMA) which is a voluntary certification system meant to independently verify compliance with environmental, human rights, and social standards for mining operations. These actions should further solidify Albemarle as a market leader and supplier of choice due to increasing scrutiny of materials sourcing in the battery supply chain, though such developments are not in the spotlight yet.

Of course, Albemarle is exposed to downside risks through potential weaker than expected global economic conditions due to the ongoing uncertainty and challenges related to the Covid-19 crisis. Changes in competitor investment patterns (meaningful supply additions), political developments, and macroeconomic circumstances could all materially impact market-wide lithium pricing and create volatility in lithium prices.

Albemarle's inability to expand capacity in lithium (Australia) or Bromine (Dead Sea/Arkansas) could lead to worse fixed cost absorption, muted growth, and margin degradation. Albemarle's failure to address changing customer needs and to gauge the direction of technological progress in all markets it serves could also materially impact its future revenue streams (failure to develop products for next-generation battery technologies).

As a conclusion, we remain confident Albemarle can perform well in the current volatile environment as the company's source of revenue is well diversified. Albemarle's resource diversity, incumbency, and best-in-class cash flow place it in a strong position to grow its already strong position in global lithium markets. Albemarle is arguably the best-positioned company to keep pace with accelerating demand growth given its superior resource base and relative size versus its competitors. Albemarle's focus on lithium, and to a slightly lesser extent bromine, should position the company as a top-tier, low-cost producer of two of the world's most valuable resources supplying the growing areas of battery materials and energy storage. In addition, Albemarle is differentiated by its large high-quality rock reserves in Australia and its low-cost brine operations in Chile giving the company a strong competitive advantage.

In subsequent quarterly reports we will bring you further case studies in our "Highlights" series.

As always, please do not hesitate to contact us if you have any questions or comments, about the contents of this report or your portfolio in general.

Portfolio Management Team ISGAM AG

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