

Friday Favorites- ALB

Albemarle (ALB)

As we discussed in last week's Friday Favorites on [FCX](#), there's a looming expansion and modernization of the power grid to accommodate increased electricity needs from AI data centers, EVs, and the push toward clean energies. Batteries are crucial to the energy transition, from powering EVs to providing storage for alternative energy sources such as solar and wind power. Furthermore, lithium is a primary component used in the manufacturing of batteries. We discussed this aspect in [part three](#) of our series exploring opportunities borne by the coming modernization of the power grid:

Assuming lithium remains a crucial component in electricity storage batteries, its miners should do well, especially given the recent decline in lithium prices and the related stocks.

North Carolina-based Albemarle (ALB) is the world's top lithium producer and the largest producer by market cap. It is the only lithium producer of size based in the US. Like the rest of the alternative energy sector, its stock has traded poorly recently. However, with a forward P/E of 16, there is value if its revenues continue upward at their recent pace.

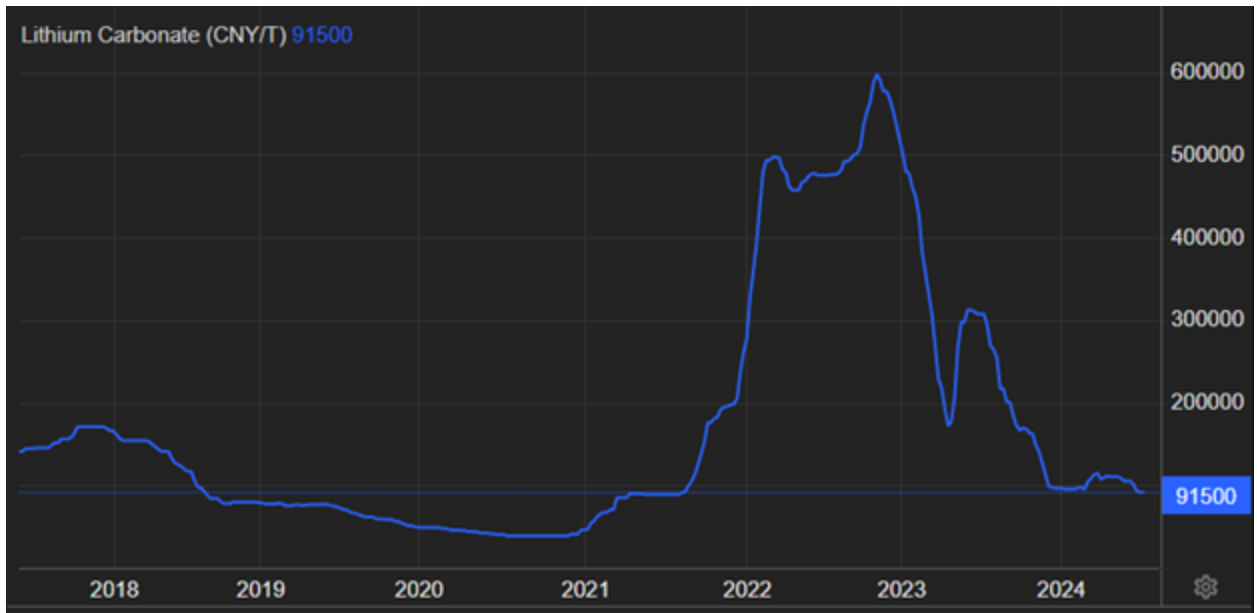
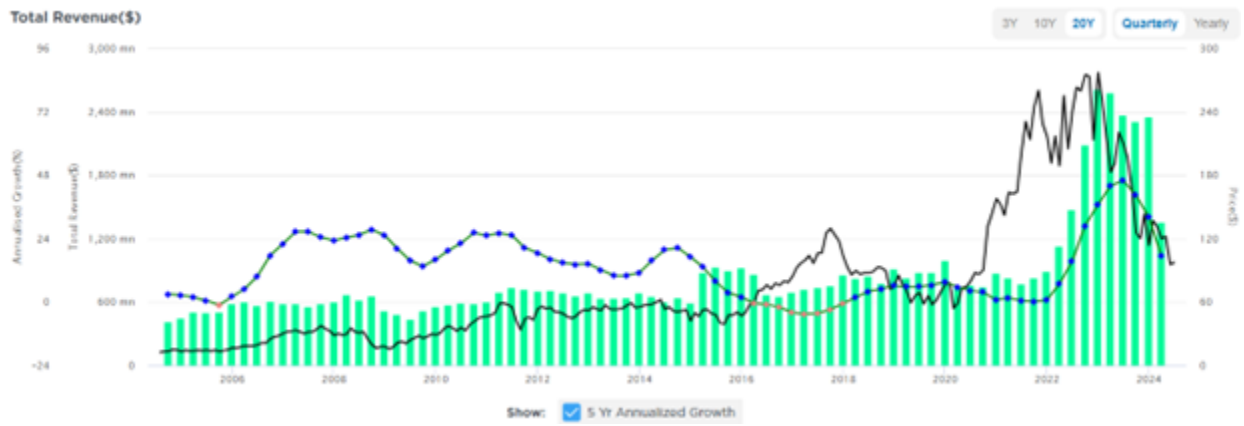
We caution you that lithium deposits are being actively explored. Assuming success, the lithium supply may limit the price appreciation of lithium. As an example from The Hill- [Researchers make massive lithium discovery in Pennsylvania](#).

This week, we look at the fundamental and technical attributes of Albemarle (ALB), the world's largest lithium producer. The outcome of the November presidential election may have a material impact on the price of ALB. Should President Biden win a second term, the result would favor energy transition efforts and, thus, ALB. However, if Trump gets re-elected, his "drill, baby, drill" orientation may represent a setback for both the energy transition initiative and ALB. Of course, the implication for lithium prices also depends on the balance in the Senate and consumer demand for EVs.

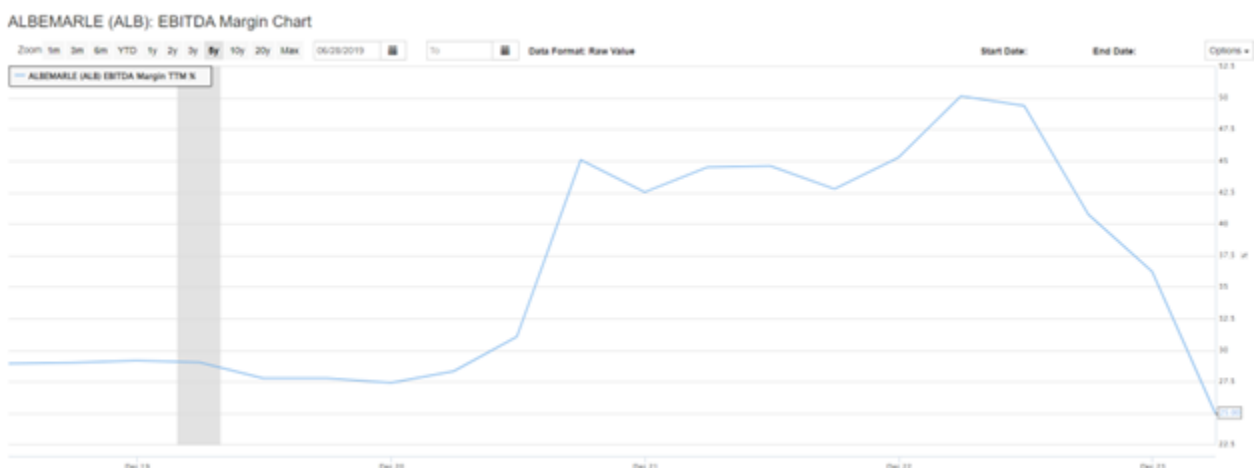
Fundamental

Revenue for ALB exhibits a high correlation with Lithium prices. As shown in the two charts below, ALB's revenue directly reflects Lithium prices over the past five years, prices courtesy of Trading Economics. Lithium prices initially spiked on expectations surrounding the energy transition and high demand for EVs in the aftermath of the pandemic as stimulus bolstered consumer wallets and governments began offering purchase incentives.

However, lithium prices have since retraced much of their advance due to a few factors. First and foremost, miners continued expanding their capacity and are searching for new reserves. Take the significant Lithium discovery made in Pennsylvania earlier this year as an example, linked above. Cratering in EV demand following years of inflation further contributed to subdued lithium prices over the past year.



A general rule can be applied to most, if not all, commodity producers - **as goes commodity prices, so goes margins**. ALB's EBITDA margins are at their lowest point since 2015. The increasing lithium supply will continue pressuring margins unless demand rises to contend with the higher supply.



ALB has a high trailing P/E, given the collapse in lithium prices (36.26) and the high interest rate environment. Its forward P/E, however, reflects optimism towards earnings growth (12.88). Given the moderate PEG of 2.25, expectations for earnings growth over the next 3-5 years is a reasonable 5.72% annual rate. The low price-to-book ratio indicates the stock is residing in value territory.

Earnings - Actual

Earnings - Estimates

Valuation

Forward P/E

12.88

Trailing P/E

36.26

PEG Ratio

2.25

Price/Book

1.27

Technical

The daily chart below shows ALB's price decline over the past year. It recently broke longstanding support, heading to a new 52-week low. It has since recovered some of the decline and will likely test the prior support around \$109 over the next few weeks. This retracement is supported by RSI turning up from a low level and MACD turning up from a moderately oversold level.



The long-term weekly chart below shows the resemblance of ALB's stock price to that of lithium, as referenced above.

ALB's price has traded in a long-term trend of higher lows. The chart below shows two alternative trendlines that could be in play. The blue line goes back to the lows of the global financial crisis in 2009 and ignores the Covid lows, treating that period as a temporary market panic. That chart suggests ALB could retrace another 17.5% before finding support at the longstanding uptrend.

Meanwhile, the red line includes Covid lows as part of the long-term trend and suggests the stock may not ultimately find support until it falls another 38%+. Either way, ALB may be in store for further correction before finding its footing.

Given the high correlation between ALB's earnings, margins, stock price, and lithium prices, the story of supply and demand will likely be much more critical than technical trends over the longer term.



Disclosure

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