

SQM

Much weaker 4Q23 as focus on lithium volumes hurt margins – reiterate U/p

Reiterate Rating: UNDERPERFORM | PO: 46.00 USD | Price: 46.02 USD

Adj. EBITDA 30% below ours, 25% below consensus

SQM reported much weaker than expected 4Q23 results. Adj. EBITDA of US\$428mn was 30% below BofAe and 25% below Visible Alpha consensus, and down 75%YoY. Results were weaker across the board (expect on specialty nutrition), with a big contraction of lithium margins. SQM sold more lithium in Q4 than in Q3, unlike the company's initial expectations, but on the other hand, prices collapsed more than expected and pressured profitability. Finally, EPADR of US\$0.71 was 45% below our estimate and dropped 82%YoY. We reiterate our Underperform rating and US\$46/ADR PO.

Lithium: shift to volume strategy hurts margins in Q4

Lithium volumes were record in Q4 at 51.3k tons, versus ours at 38k tons, and 43k tons posted in the 3Q23. This was unexpected as SQM guided for volumes to be flattish to down in Q4 vs. Q3. The company mentioned they focused on operational efficiency during the quarter, but ultimately the volume-centered strategy had a negative impact on margins since prices declined much faster than expected. Realized prices were US\$15.4/kg, a 48% decline QoQ and 33% below our estimate. As a result, gross margin dropped from 42% in 3Q23 to 30% in the quarter.

Lower margins on SPN and iodine, better potash

Aside from lithium, results were overall weak too. Margins of SPN and iodine came in weaker than expected, on much higher unitary costs, despite solid top line, mainly for iodine. Potash performance was better than expected, with revenues 3% above our estimate, as higher prices offset weaker volumes and were supportive to margins.

2024: higher overall sales volumes, higher capex

In 2024, SQM is guiding for: 1) lithium volumes to grow 5%-10%YoY from 170k tons posted in 2023, but still short of our estimate of 208k tons for the year, and stable prices vs. Q4; 2) a 10% increase in SPN (specialty nutrition) demand, which could translate into higher volumes for the company, while prices should be less volatile, in line with our views; 3) flattish iodine volume sales with stable prices, while we expect higher volumes and lower prices; 4) 600k tons of potash sales, much higher than our 360k tons estimate. Capex should be US\$2.4bn in 2024-25, versus consensus at US\$1.9bn.

Reiterate Underperform and US\$46/ADR PO

We reiterate our Underperform on SQM. As we stated in our [recent report](#), we are bearish lithium prices in the short-term, and SQM's recent focus on volumes might implicate lower than expected margins. Also, we acknowledge reduced regulatory risk post the MOU with Codelco but we see mid-term risks related to SQM's potential future capital allocation, payout, and lithium margins.

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Stock Data

Price	46.02 USD
Price Objective	46.00 USD
Date Established	30-Jan-2024
Investment Opinion	C-3-8
52-Week Range	38.50 USD - 90.82 USD
Mrkt Val (mn) / Shares Out (mn)	13,145 USD / 285.6
Free Float	0%
Average Daily Value (mn)	75.28 USD
BofA Ticker / Exchange	SQM / NYS
Bloomberg / Reuters	SQM US / SQM.N
ROE (2023E)	42.0%
Net Dbt to Eqty (Dec-2022A)	5.3%

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SQM 4Q23 results

Exhibit 1: SQM 4Q23 results

Much weaker than expected 4Q23 results, Adj. EBITDA 30% below our estimate

US\$m	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
Net Revenues	1,312	1,416	-7.4%	1,840	-28.7%	3,134	-58.1%
Gross Profit	401	570	-29.7%	754	-46.8%	1,642	-75.6%
Gross margin	30.6%	40.3%	-9.7 pp	40.9%	-10.4 pp	52.4%	-21.8 pp
Adj EBITDA	428	614	-30.4%	788	-45.7%	1,667	-74.4%
Adj EBITDA margin	32.6%	43.4%	-10.8 pp	42.8%	-10.2 pp	53.2%	-20.6 pp
Net Income	203	371	-45.2%	479	-57.6%	1,151	-82.3%
EPS (US\$/share)	0.71	1.30	-45.2%	1.68	-57.6%	4.03	-82.3%
# shares	285.64	285.64		285.64		285.64	
Revenues by product (US\$m)	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
SPN	223.7	211.4	5.8%	221.7	0.9%	274.2	-18.4%
Iodine	218.1	227.5	-4.1%	213.0	2.4%	212.6	2.6%
Lithium	791.4	874.0	-9.5%	1,277.9	-38.1%	2,525.1	-68.7%
Potash	50.8	49.4	2.8%	75.2	-32.4%	80.5	-36.9%
Ind. Chemicals	18.8	44.2	-57.4%	43.4	-56.7%	34.0	-44.7%
Others	8.8	9.2	-4.7%	9.1	-3.3%	7.2	22.2%
Total	1,311.6	1,415.7	-7.4%	1,840.3	-28.7%	3,133.6	-58.1%
Volumes by product (k tons)	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
SPN	226.0	215.8	4.8%	224.4	0.7%	199.2	13.5%
Iodine	3.3	3.5	-5.7%	3.2	3.1%	3.1	6.5%
Lithium	51.3	38.0	35.0%	43.3	18.5%	43.0	19.3%
Potash	112.5	130.0	-13.5%	168.7	-33.3%	98.6	14.1%
Ind. Chemicals	12.4	48.5	-74.4%	48.5	-74.4%	27.5	-54.9%
Average price (US\$/ton)	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
SPN	990	980	1.0%	988	0.2%	1,377	-28.1%
Iodine	66,091	65,000	1.7%	66,563	-0.7%	68,581	-3.6%
Lithium	15,427	23,000	-32.9%	29,513	-47.7%	58,723	-73.7%
Potash	452	380	18.8%	446	1.3%	816	-44.7%
Ind. Chemicals	1,516	910	66.5%	895	69.4%	1,236	22.6%
Gross profit by product	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
SPN	28.1	49.6	-43.5%	52.8	-46.8%	90.4	-69.0%
Iodine	94.9	140.4	-32.4%	139.8	-32.1%	131.4	-27.8%
Lithium	235.1	383.0	-38.6%	538.5	-56.3%	1,379.0	-83.0%
Potash	8.0	-	#DIV/0!	15.1	-46.8%	24.7	-67.6%
Ind. Chemicals	19.4	(2.1)	n.m.	7.5	157.2%	16.4	18.1%
Others	15.4	(0.8)	n.m.	-	0.0%	-	0.0%
Total	1,065.5	570.2	86.9%	753.6	41.4%	1,641.9	-35.1%
Gross margin by product	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
SPN	12.5%	23.5%	-10.9 pp	23.8%	-11.3 pp	33.0%	-20.4 pp
Iodine	43.5%	61.7%	-18.2 pp	65.6%	-22.1 pp	61.8%	-18.3 pp
Lithium	29.7%	43.8%	-14.1 pp	42.1%	-12.4 pp	54.6%	-24.9 pp
Potash	15.8%	0.0%	15.8 pp	20.0%	-4.3 pp	30.7%	-14.9 pp
Ind. Chemicals	103.1%	-4.8%	107.9 pp	17.4%	85.7 pp	48.3%	54.8 pp
Total	30.6%	40.3%	-9.7 pp	40.9%	-10.4 pp	52.4%	-21.8 pp

Source: BofA Global Research estimates

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Price objective basis & risk

SQM (SQM)

Our PO of US\$46/ADR derives from 100% DCF, with a WACC of 11.8%, which is based on a country risk of 300bps, Beta of 1.45, cost of debt of 8.5% in USD and equity/debt structure of 65%/35%.

Upside risks to our price objective are: 1) higher lithium prices, 2) higher iodine prices, 3) higher potassium nitrate premium to potassium chloride, 4) higher lithium volumes, 5) re-rating of multiples as the agreement with Codelco is reached and a major regulatory overhang is eliminated.

Downside risks to our price objective are: 1) lower potash and iodine prices, 2) lower lithium volumes and prices given global surplus, 3) corporate governance, 4) risks associated to the execution of the lithium expansion plan, 5) capital allocation, if SQM accelerates lithium expansion outside Chile.

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Sociedad Quimica (SQM) Price Chart



SQM — Restricted — PO

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Sell	807	22.84%	Sell	383	47.46%

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