



LyondellBasell Industries N.V. (LYB)

Updated September 18th, 2018 by Bob Ciura

Key Metrics

Current Price: \$103	5 Year CAGR Estimate: 11.7%	Volatility Percentile: 52.3%
Fair Value Price: \$118	5 Year Growth Estimate: 5.0%	Momentum Percentile: 49.3%
% Fair Value: 87%	5 Year Valuation Multiple Estimate: 2.8%	Valuation Percentile: 83.9%
Dividend Yield: 3.9%	5 Year Price Target \$151	Total Return Percentile: 81.2%

Overview & Current Events

LyondellBasell Industries goes back to 1955, when its predecessor company began industrial-scale production of polyethylene in Germany. Today, LyondellBasell is a diversified chemicals giant, headquartered in London. Its business segments are Olefins & Polyolefins, Intermediates & Derivatives, Refining, and Technology. The company's products improve food and water safety and enhance fuel efficiency of cars and trucks.

On 8/3/18 LyondellBasell reported second-quarter financial results. Sales increased 22% from the same quarter a year ago, to \$10.2 billion, due to the advancement of multiple growth projects already in place. Quarterly EBITDA hit a record for the company, up 5% from the previous quarter. The Intermediates & Derivatives and Technology segments led the way. LyondellBasell reported 7% volume growth in Propylene Oxide and Derivatives shipments. Earnings-per-share increased 50%, due to revenue growth, share repurchases, and a significant benefit from U.S. tax reform.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	N/A	N/A	\$2.78	\$3.79	\$4.96	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$11.79	\$15.05
DPS	N/A	N/A	\$0.00	\$0.55	\$1.45	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$5.11
Shares	N/A	N/A	564.6	569.3	572.0	519.0	477.1	440.2	404.1	394.5	390.0	380.0

LyondellBasell's future earnings growth will be derived from organic growth, as well as acquisitions. The company expects new projects underway and scheduled to be completed from 2019 through 2024 will add \$600 million to its annual EBITDA. Also, LyondellBasell utilizes acquisitions to generate growth, such as the \$2.25 billion acquisition of A. Schulman, Inc. The deal doubled LyondellBasell's compounding business, and also gave it exposure to new categories such as consumer products, appliances, and agriculture. Share repurchases will be a separate driver of earnings growth. In June 2018, LyondellBasell announced it had approved the repurchase of up to 10% of the company's shares, currently worth over \$4 billion, by the end of 2019. We expect 5% annual earnings growth from 2018 through 2023. Dividends are expected to increase at the same rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	8.1	9.5	9.1	10.1	11.7	9.5	8.8	8.2	8.7	10.0
Avg. Yld.	0.0%	0.0%	0.0%	1.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	3.9%	0.9%

In the past 10 years, the stock traded for an average price-to-earnings ratio of 9.4. The stock currently trades for a price-to-earnings ratio of 8.7. Our fair value estimate is a price-to-earnings ratio of 10.0, which implies significant upside potential for the shares based on the current valuation. If the stock valuation expands to the fair value estimate, shareholders would earn annual returns of 2.8% just from multiple expansion.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	6.7%	5.2%	15.9%	23.9%	23.8%	22.4%	27.5%	31.0%	25.6%	24.5%	24.5%	24.5%
Debt/A	121%	132%	54.5%	53.4%	53.8%	54.2%	65.6%	71.1%	74.1%	65.8%	66.0%	66.0%
Int. Cov.	-2.4	-1.4	8.4	4.5	7.6	18.0	19.0	23.5	18.2	12.8	13.0	13.0
Payout	0.0%	0.0%	0.0%	14.5%	29.2%	29.6%	33.8%	31.7%	36.5%	31.7%	33.9%	33.9%
Std. Dev.	0.0%	0.0%	40.3%	42.0%	34.7%	19.1%	30.8%	29.6%	23.5%	17.4%	17.5%	17.5%

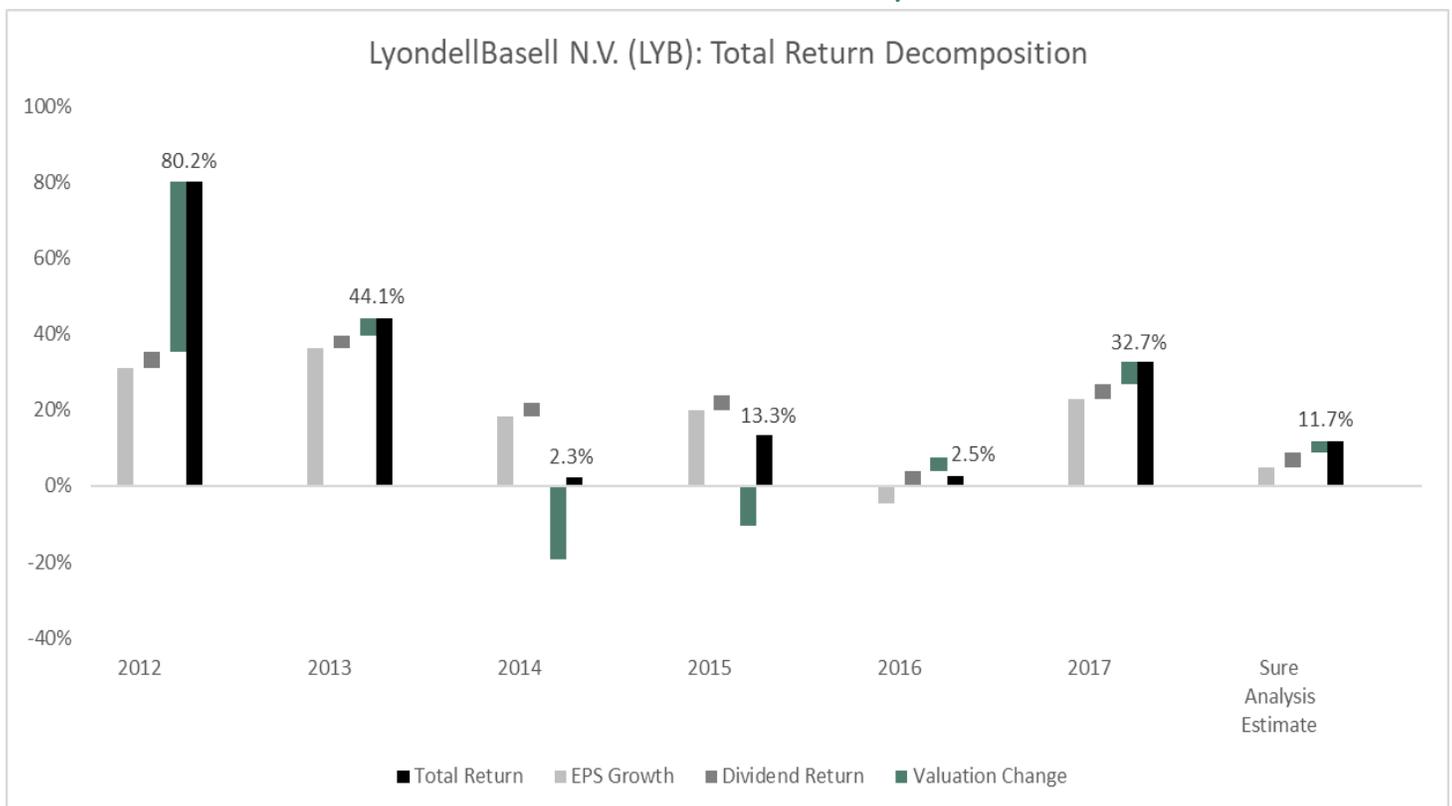
LyondellBasell has dramatically improved its safety and quality over the past 10 years. The company declared bankruptcy in 2009, due to a high debt load. As you can see in the above table, LyondellBasell could not cover its interest costs, which prompted its bankruptcy filing. The company emerged from bankruptcy in 2010, and in the years since greatly increased its profitability and interest coverage.

LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. Its massive scale provides the company with greater operational efficiencies than its peers. It also has a vast intellectual property portfolio. LyondellBasell ended 2017 with 5,580 patents. That said, the company is not recession-resistant. As an industrial manufacturer, LyondellBasell is closely tied to the health of the global economy. Another recession would be harmful to LyondellBasell's earnings.

Final Thoughts & Recommendation

LyondellBasell is a high-quality business in strong financial condition. It has an excellent balance sheet, with low debt and a manageable debt level. The company is not recession-resistant, meaning an upcoming recession would negatively impact shareholder returns. However, assuming the global economy stays out of recession, shareholders could earn total returns of 11.7% per year over the next five years. As a result, we rate LyondellBasell as a buy.

Total Return Breakdown by Year



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