



LyondellBasell Industries N.V. (LYB)

Updated April 26th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$88	5 Year CAGR Estimate:	11.0%	Volatility Percentile:	43.0%
Fair Value Price:	\$90	5 Year Growth Estimate:	6.0%	Momentum Percentile:	17.0%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Growth Percentile:	53.1%
Dividend Yield:	4.5%	5 Year Price Target	\$120	Valuation Percentile:	59.7%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	67.0%

Overview & Current Events

LyondellBasell Industries goes back to 1955, when its predecessor company began industrial-scale production of polyethylene in Germany. Today LyondellBasell is one the largest plastics, chemicals and refining companies in the world. The company provides materials and products that help advance solutions for food safety, water purity, fuel efficiency of vehicles, and functionality in electronics and appliances. LyondellBasell sells products in more than 100 countries and is the world's largest producer of polymer compounds. Its business segments include Olefins & Polyolefins – Americas, Olefins & Polyolefins – Europe, Asia, International, Intermediates & Derivatives, Advanced Polymer Solutions, Refining, and Technology. The \$33 billion market cap company, with U.S operations headquartered in Houston, Texas and Global operations headquartered in London, generates about \$39 billion in annual sales.

On April 26th, 2019 LyondellBasell released Q1 2019 results for the period ending March 31st, 2019. For the quarter sales totaled \$8.78 billion, a 10.1% decline compared to Q1 2018. Net income came in at \$817 million, compared to \$1.23 billion previously, while earnings-per-share totaled \$2.19 against the \$3.11 reported in Q1 2018. Despite the negatives, CEO Bob Patel had a rosier view to the future: "In the first few weeks of April we have seen signs of industry improvement... Looking beyond the quarter, we will advance our growth strategy and increase our earnings with a robust pipeline..."

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	\$2.78	\$3.79	\$4.96	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$10.00	\$13.38
DPS	---	---	\$0.55	\$1.45	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.04	\$4.50
Shares	---	565	569	572	519	477	440	404	395	389	385	360

Since 2010 LyondellBasell has put together a terrific growth record, increasing earnings-per-share by an average compound rate of 20% per annum during the 2010 through 2018 period. However, there are two important caveats: 1) in April of 2010 the company emerged from Chapter 11 bankruptcy protection, meaning that the company was starting from an artificially low base and 2) as of late challenges have emerged that have stalled growth. Indeed, we are anticipating a marked downdraft in earnings this year.

Moving forward, LyondellBasell's success will come from a combination of organic growth and acquisitions. Internally, the company expects new projects underway and scheduled to be completed from 2019 through 2024 will add \$600 million to its annual EBITDA. For example, LyondellBasell recently launched its Advanced Polymer Solutions segment, which promises to be a new growth platform. The company also started construction on its new propylene oxide plant in Texas.

Additionally, LyondellBasell utilizes acquisitions to generate growth, such as the \$2.25 billion acquisition of A. Schulman, Inc., which doubled LyondellBasell's compounding business. It also gave the company exposure to new categories such as consumer products, appliances, and agriculture. Further, the share repurchase program can add bottom line per share growth, especially considering the company's valuation. Despite recent difficulties, we anticipate moderate growth from this point of 6% annually over the next 5 years.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	8.1	9.5	9.1	10.1	11.7	9.5	8.8	8.2	8.7	8.8	9.0
Avg. Yld.	---	---	1.5%	3.2%	2.9%	2.9%	3.3%	4.1%	3.9%	3.8%	4.6%	3.7%

Since 2010 shares of LyondellBasell have traded hands with an average P/E ratio of about 9 times earnings. We believe this is a fair value estimate for the firm, keeping in mind this has ranged from 6 to 14 times earnings in the past. In addition, the dividend will add significantly to returns, despite a more than reasonable payout ratio. We believe a combination of dividends and share repurchases is a prudent mix considering the below average valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	15%	29%	30%	34%	32%	36%	32%	33%	40%	34%

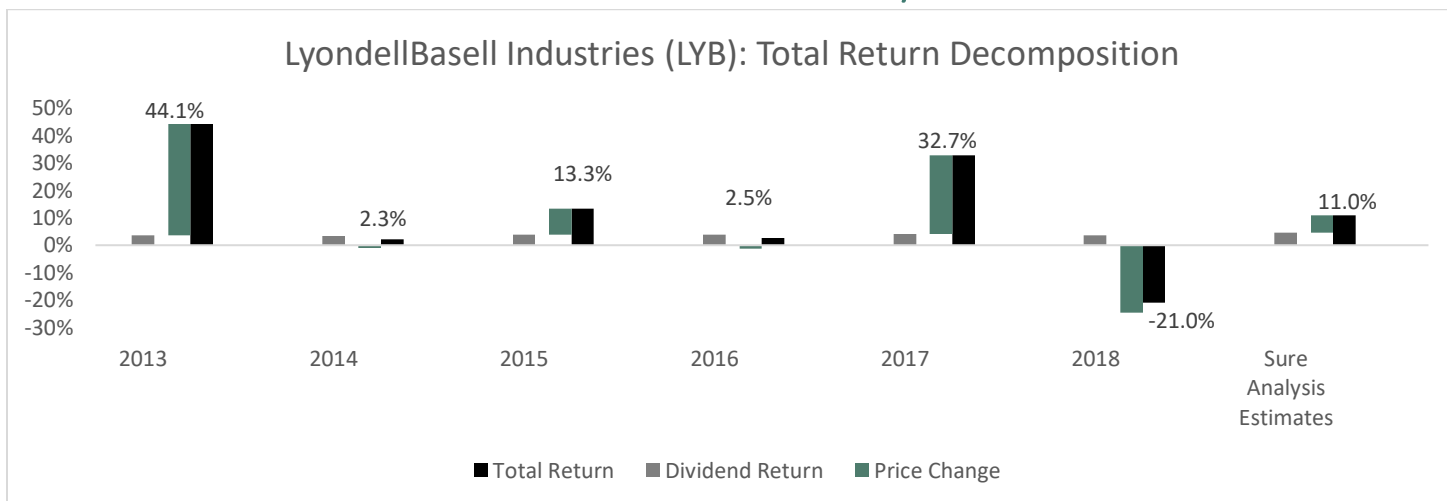
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

The lack of a recession performance is a cautionary note, as LyondellBasell emerged from bankruptcy in 2010 after crumbling under a high debt load. However, it seems a lesson has been learned. At yearend, LyondellBasell held \$11.4 billion in current assets and \$28.7 billion in total assets against \$6.2 billion in current liabilities and \$17.6 billion in total liabilities (although over 60% of the company's assets are in property, plant and equipment). Further, long-term debt equaled \$7.5 billion against underlying earnings power of over \$4 billion annually.

Final Thoughts & Recommendation

Shares are unchanged since our last update; however, earnings expectations have been reduced. LyondellBasell is a high-quality business in strong financial condition. It has an excellent balance sheet, with a manageable debt load. The company is not recession-resistant, which could mean cyclical results to come, but it is in much better shape today than it was a decade ago. We see total return potential of 11% annually, stemming from the company's 4.5% dividend yield, 6% growth rate and a moderate 0.5% valuation tailwind. Due to our lower earnings expectations, we are reducing our rating from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30828	41151	48183	45352	44062	45608	32735	29183	34484	39004
Gross Profit	1456	4049	5451	5757	6122	6669	7052	5992	6425	6475
Gross Margin	4.7%	9.8%	11.3%	12.7%	13.9%	14.6%	21.5%	20.5%	18.6%	16.6%
SG&A Exp.	850	872	918	909	870	806	828	833	859	1129
D&A Exp.	1774	1123	931	983	1021	1019	1047	1064	1174	1241
Operating Profit	461	3023	4337	4676	5102	5736	6122	5060	5460	5231
Op. Margin	1.5%	7.3%	9.0%	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%
Net Profit	-2865	10151	2147	2848	3857	4174	4476	3836	4879	4690
Net Margin	-9.3%	24.7%	4.5%	6.3%	8.8%	9.2%	13.7%	13.1%	14.1%	12.0%
Free Cash Flow	-1566	1329	1810	3727	3274	4549	4402	3363	3659	3366
Income Tax	-1411	-953	1059	1327	1136	1540	1730	1386	598	613

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	27761	25494	22839	24220	27298	24221	22757	23442	26206	28278
Cash & Equivalents	558	4222	1065	2732	4450	1031	924	875	1523	332
Acc. Receivable	3092	3482	3778	3904	4030	3448	2517	2842	3539	3503
Inventories	3277	4824	5499	5075	5279	4517	4051	3809	4217	4515
Goodwill & Int.	1861	2147	1762	1629	1509	1335	1176	1078	1138	2779
Total Liabilities	36608	13898	12192	13041	14784	15877	16183	17369	17256	17998
Accounts Payable	1627	1968	3414	3285	3572	3064	2182	2529	2895	3087
Long-Term Debt	6984	6082	4032	4400	5835	7045	8028	8981	8619	9387
Total Equity	-8976	11535	10593	11139	12478	8314	6550	6048	8949	10257
D/E Ratio	-0.78	0.53	0.38	0.40	0.47	0.85	1.23	1.49	0.96	0.92

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-10.2%	38.1%	8.9%	12.1%	15.0%	16.2%	19.1%	16.6%	19.7%	17.2%
Return on Equity	38.1%	793.4%	19.4%	26.2%	32.7%	40.2%	60.2%	60.9%	65.1%	48.8%
ROIC	-35.5%	128.4%	13.3%	18.8%	22.7%	24.7%	29.8%	25.9%	29.9%	25.2%
Shares Out.	N/A	565	569	572	519	477	440	404	395	389
Revenue/Share	54.66	72.70	84.24	78.60	77.30	87.54	70.25	69.48	86.43	100.27
FCF/Share	-2.78	2.35	3.16	6.46	5.74	8.73	9.45	8.01	9.17	8.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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