



LyondellBasell Industries N.V. (LYB)

Updated October 31st, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	6.8%	Market Cap:	\$23 B
Fair Value Price:	\$54	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	11/29/20
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date¹:	12/09/20
Dividend Yield:	6.1%	5 Year Price Target	\$72	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	5.0%

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. The \$23 billion market cap company, with U.S operations headquartered in Houston, Texas and Global operations headquartered in London, generated \$35 billion in sales last year.

On October 30th, 2020 LyondellBasell released Q3 2020 results for the period ending September 30th, 2020. For the quarter sales totaled \$6.78 billion, a 22.3% decline compared to Q3 2019, as the company saw declines in all of its segments. Net income equaled \$114 million or \$0.33 per share compared to \$965 million or \$2.85 per share in the year ago quarter. However, this included several special items. On an adjusted basis, net income equaled \$427 million or \$1.27 per share. Results continue to be impacted by the COVID-19 pandemic. The company's liquidity position now sits at \$5.5 billion (from \$5.8 billion last quarter).

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.78	\$3.79	\$4.96	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$9.58	\$4.50	\$8.03
DPS	---	\$0.55	\$1.45	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.15	\$4.20	\$4.87
Shares²	565	569	572	519	477	440	404	395	376	353	334	320

From 2010 to 2018, LyondellBasell put together a terrific growth record, increasing earnings-per-share by an average compound rate of 20% per annum. 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, 2019 saw a marked downdraft in earnings.

We expect significantly lower earnings this year as well, as the company deals with the ongoing COVID-19 pandemic. However, we are using \$6.00 in underlying earnings power and a 6% intermediate-term growth rate for valuation purposes and fair value estimates.

Over time LyondellBasell can improve from a combination of organic growth and acquisitions. For example, LyondellBasell recently launched its Advanced Polymer Solutions segment, which could be a new growth platform. In addition, 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 growth as well.

¹ Estimate

² In millions.

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.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.1	9.5	9.1	10.1	11.7	9.5	8.8	8.2	8.8	9.0	11.4	9.0
Avg. Yld.	---	1.5%	3.2%	2.9%	2.9%	3.3%	4.1%	3.9%	3.8%	4.8%	6.1%	6.7%

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 valuation estimate for the firm, keeping in mind this has ranged from 6 to 14 times earnings in the past. Given the current value of more than 11 times estimated earnings power, this implies a valuation headwind. Meanwhile, the dividend will add significantly to returns, given the 6% starting yield. While this payout appears more vulnerable today, management has indicated its intention to preserve the dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	15%	29%	30%	34%	32%	36%	32%	33%	43%	70%	61%

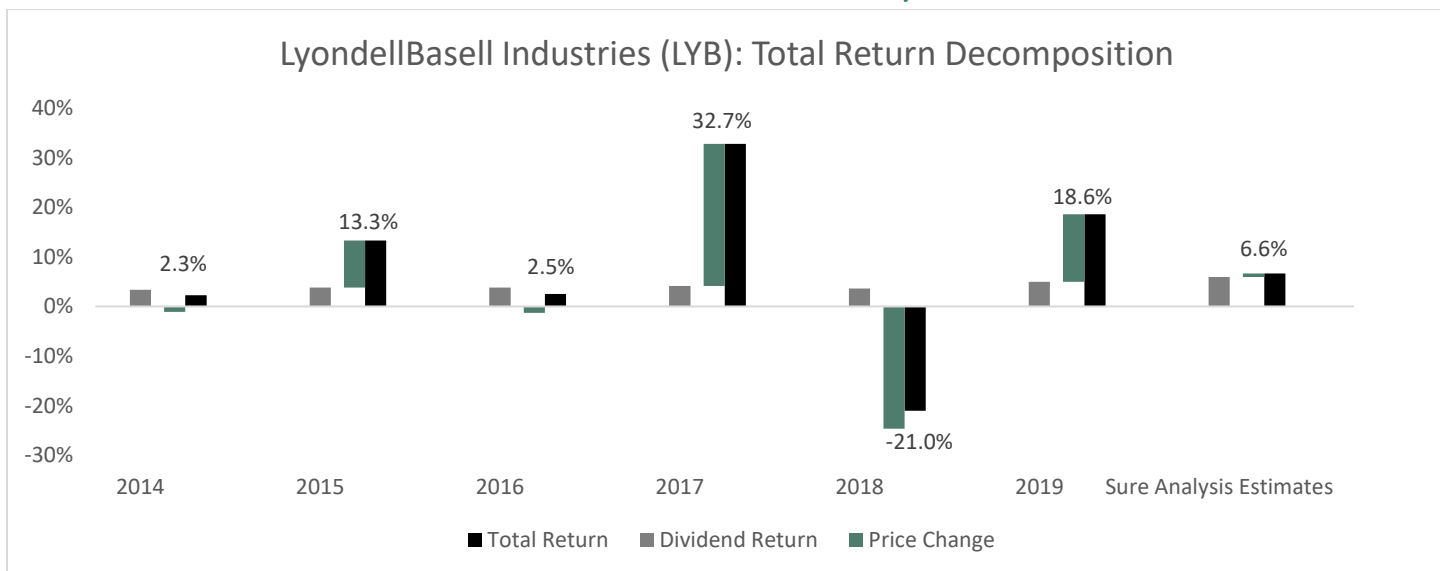
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

The lack of 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 the end of Q3 2020, LyondellBasell held \$2.5 billion in cash, \$10.8 billion in current assets and \$31.9 billion in total assets against \$4.8 billion in current liabilities and \$24.6 billion in total liabilities. Long-term debt equaled \$13.8 billion.

Final Thoughts & Recommendation

After being up 15% in our last report, shares are up another 8% in the last three months. LyondellBasell is a high-quality business in reasonable financial condition. However, the current global crisis will impact the business. 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 6.8% annually, stemming from the company's 6.1% dividend yield and 6% growth rate, offset by a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	30828	41151	48183	5352	44062	45608	2735	9183	34484	39004
Gross Profit	1,456	4,049	5,451	5,757	6,122	6,669	7,052	5,992	6,425	6,475
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	1,129
D&A Exp.	1,774	1,123	931	983	1,021	1,019	1,047	1,064	1,174	1,241
Operating Profit	461	3,023	4,337	4,676	5,102	5,736	6,122	5,060	5,460	5,231
Op. Margin	1.5%	7.3%	9.0%	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%
Net Profit	(2,865)	10,151	2,147	2,848	3,857	4,174	4,476	3,836	4,879	4,690
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	(1,566)	1,329	1,810	3,727	3,274	4,549	4,402	3,363	3,659	3,366
Income Tax	(1,411)	(953)	1,059	1,327	1,136	1,540	1,730	1,386	598	613

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	27761	25494	22839	24220	27298	24221	22757	23442	26206	28278
Cash & Equivalents	558	4,222	1,065	2,732	4,450	1,031	924	875	1,523	332
Acc. Receivable	3,092	3,482	3,778	3,904	4,030	3,448	2,517	2,842	3,539	3,503
Inventories	3,277	4,824	5,499	5,075	5,279	4,517	4,051	3,809	4,217	4,515
Goodwill & Int.	1,861	2,147	1,762	1,629	1,509	1,335	1,176	1,078	1,138	2,779
Total Liabilities	36608	13898	12192	13041	14784	15877	16183	17369	17256	17998
Accounts Payable	1,627	1,968	3,414	3,285	3,572	3,064	2,182	2,529	2,895	3,087
Long-Term Debt	6,984	6,082	4,032	4,400	5,835	7,045	8,028	8,981	8,619	9,387
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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		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.	565	569	572	519	477	440	404	395	376	353
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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