LyondellBasell Industries N.V. (LYB)

Updated August 6th, 2021, by Eli Inkrot

Key Metrics

Current Price:	$99	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$33 B
Fair Value Price:	$150	**5 Year Growth Estimate:**	-3.0%	**Ex-Dividend Date[1]:**	08/28/21
% Fair Value:	66%	**5 Year Valuation Multiple Estimate:**	8.6%	**Dividend Payment Date[1]:**	09/08/21
Dividend Yield:	4.6%	**5 Year Price Target**	$129	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	7.6%

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 $33 billion market cap company, with U.S operations headquartered in Houston, Texas and Global operations headquartered in London, generated $28 billion in sales last year.

On May 28th, 2021, LyondellBasell announced a $1.13 quarterly dividend, marking a 7.6% increase, after paying the same $1.05 dividend for eight straight quarters.

On July 30th, 2021, LyondellBasell released Q2 2021 results for the period ending June 30th, 2021. For the quarter sales totaled $11.56 billion, an 108.5% increase compared to Q2 2020, as gains were seen across all of the company's segments. Net income equaled $2.059 billion or $6.13 per share compared to $314 million or $0.94 per share in Q2 2020.

LyondellBasel reduced its net debt from $13.6 billion to $12.7 billion with more deleveraging planned for the second half of 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.79	$4.96	$6.75	$7.99	$9.59	$9.13	$11.20	$12.01	$9.58	$5.61	***$15.00***	***$12.88***
DPS	$0.55	$1.45	$2.00	$2.70	$3.04	$3.33	$3.55	$4.00	$4.15	$4.20	***$4.52***	***$6.05***
Shares[2]	569	572	519	477	440	404	395	376	353	334	***335***	***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 LyondellBasell emerged from Chapter 11 bankruptcy protection, meaning that the company was starting from an artificially low base and 2) 2019 and 2020 saw marked downdrafts in earnings.

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 bottom-line growth.

After a strong Q2 2021 showing, we expect significant results for 2021. However, thereafter we are assuming a -3% growth rate, as earnings may very well peak in 2021. Even so, this still implies improved intermediate term growth expectations.

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[1] Estimate

[2] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.5	9.1	10.1	11.7	9.5	8.8	8.2	8.8	9.0	16.7	***6.6***	***10.0***
Avg. Yld.	1.5%	3.2%	2.9%	2.9%	3.3%	4.1%	3.9%	3.8%	4.8%	5.9%	***4.6%***	***4.7%***

Since 2011 shares of LyondellBasell have traded hands with an average P/E ratio of about 10 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. The current valuation appears low, but that is due to the expectation of standout results for 2021. Moreover, a portion of the artificial valuation tailwind could be offset by the negative expected growth rate. Meanwhile, the dividend will add to returns, with the 4.6% starting yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	15%	29%	30%	34%	32%	36%	32%	33%	43%	75%	***30%***	***47%***

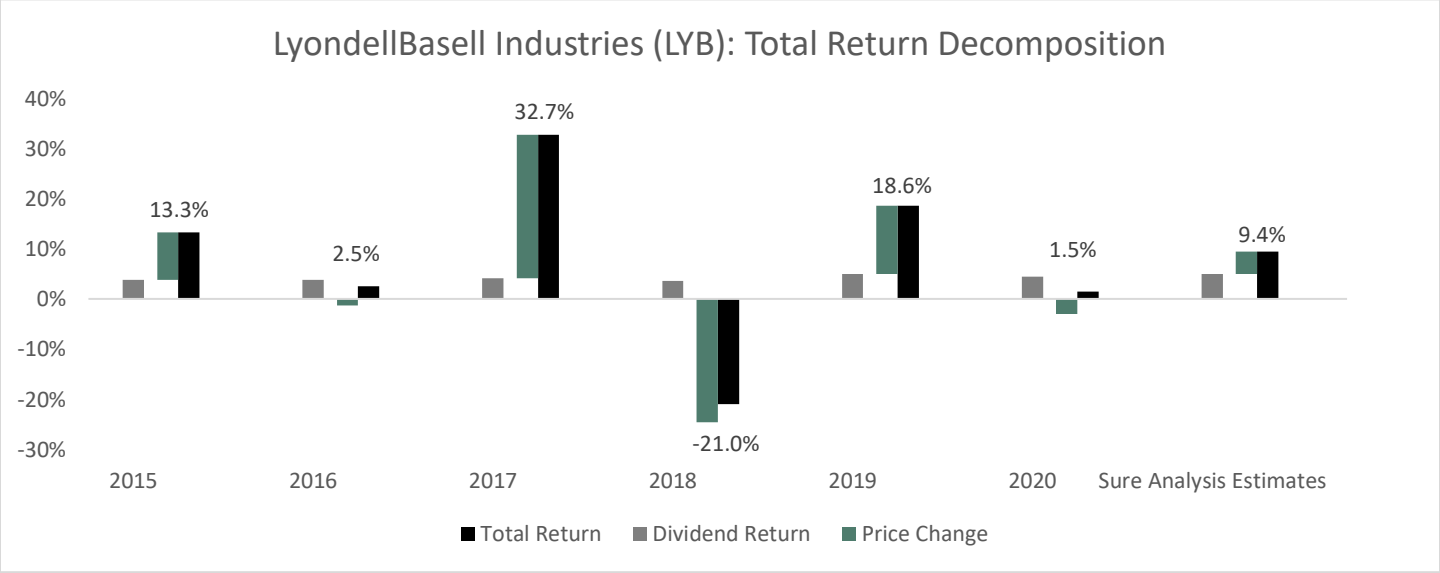
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

The lack of recession performance is a cautionary note, as LyondellBasell emerged from bankruptcy in 2010 after crumbling under a high debt load. At the end of Q2 2021, LyondellBasell held $1.4 billion in cash, $12.9 billion in current assets and $37.3 billion in total assets against $6.6 billion in current liabilities and $26.7 billion in total liabilities. Long-term debt equaled $13.5 billion.

Final Thoughts & Recommendation

Shares are up 81% since our May 2020 report. LyondellBasell is a high-quality business in reasonable financial condition. The company is not recession-resistant, but it is in much better shape today than it was a decade ago. We forecast total return potential of 9.4% annually, stemming from the company's 4.6% dividend yield and the potential for a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	41151	48183	5352	44062	45608	2735	9183	34484	39004	27750
Gross Profit	4,049	5,451	5,757	6,122	6,669	7,052	5,992	6,425	6,475	3394
Gross Margin	9.8%	11.3%	12.7%	13.9%	14.6%	21.5%	20.5%	18.6%	16.6%	12.2%
SG&A Exp.	872	918	909	870	806	828	833	859	1,129	1140
D&A Exp.	1,123	931	983	1,021	1,019	1,047	1,064	1,174	1,241	1385
Operating Profit	3,023	4,337	4,676	5,102	5,736	6,122	5,060	5,460	5,231	2141
Op. Margin	7.3%	9.0%	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%	7.7%
Net Profit	10,151	2,147	2,848	3,857	4,174	4,476	3,836	4,879	4,690	1420
Net Margin	24.7%	4.5%	6.3%	8.8%	9.2%	13.7%	13.1%	14.1%	12.0%	5.1%
Free Cash Flow	1,329	1,810	3,727	3,274	4,549	4,402	3,363	3,659	3,366	1457
Income Tax	(953)	1,059	1,327	1,136	1,540	1,730	1,386	598	613	-43

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	25494	22839	24220	27298	24221	22757	23442	26206	28278	35400
Cash & Equivalents	4,222	1,065	2,732	4,450	1,031	924	875	1,523	332	1763
Acc. Receivable	3,482	3,778	3,904	4,030	3,448	2,517	2,842	3,539	3,503	3291
Inventories	4,824	5,499	5,075	5,279	4,517	4,051	3,809	4,217	4,515	4344
Goodwill & Int.	2,147	1,762	1,629	1,509	1,335	1,176	1,078	1,138	2,779	2704
Total Liabilities	13898	12192	13041	14784	15877	16183	17369	17256	17998	27420
Accounts Payable	1,968	3,414	3,285	3,572	3,064	2,182	2,529	2,895	3,087	2398
Long-Term Debt	6,082	4,032	4,400	5,835	7,045	8,028	8,981	8,619	9,387	15960
Total Equity	11535	10593	11139	12478	8314	6550	6048	8949	10257	7971
D/E Ratio	0.53	0.38	0.40	0.47	0.85	1.23	1.49	0.96	0.92	2.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	38.1%	8.9%	12.1%	15.0%	16.2%	19.1%	16.6%	19.7%	17.2%	4.3%
Return on Equity	793.4%	19.4%	26.2%	32.7%	40.2%	60.2%	60.9%	65.1%	48.8%	17.7%
ROIC	128.4%	13.3%	18.8%	22.7%	24.7%	29.8%	25.9%	29.9%	25.2%	6.4%
Shares Out.	569	572	519	477	440	404	395	376	353	334
Revenue/Share	72.70	84.24	78.60	77.30	87.54	70.25	69.48	86.43	100.27	83.09
FCF/Share	2.35	3.16	6.46	5.74	8.73	9.45	8.01	9.17	8.65	4.36

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

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