



LyondellBasell Industries N.V. (LYB)

Updated October 29th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	8.8%	Market Cap:	\$25.4 B
Fair Value Price:	\$117	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date¹:	11/25/22
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.4%	Dividend Payment Date¹:	12/06/22
Dividend Yield:	6.1%	5 Year Price Target	\$90	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

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 \$25.4 billion market cap company, with U.S operations headquartered in Houston, Texas and Global operations headquartered in London, generated \$46.1 billion in sales last year.

On October 28th, 2022, LyondellBasell released its Q3-2022 results for the period ending September 30th, 2022. For the quarter, revenues totaled \$12.3 billion, which was a 3.5% decline compared to Q3-2021. The decline was due to lower sales in the company's olefins, polyethylene, and polypropylene products following last year's record demand. Higher revenues from oxyfuels and refined products mostly offset these declines.

Despite the company posting relatively strong sales, the cost of sales rose 9.6% following higher feedstock and energy costs, which pressured the company's bottom line. Thus, net income equaled \$570 million or \$1.75 per share compared to \$1.76 billion or \$5.25 per share in Q3-2021. Based on LyondellBasell's results year-to-date, along with the current market outlook for commodities, we now project EPS of \$14.60 for the full year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.96	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$9.58	\$5.61	\$18.19	\$14.60	\$11.30
DPS	\$1.45	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.15	\$4.20	\$4.44	\$4.76²	\$6.37
Shares³	572	519	477	440	404	395	376	353	334	330	325	300

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 buyback program can boost bottom-line growth.

After two strong trading periods (FY2021 and FY2022), we are assuming a negative 5% growth in EPS through 2027, as inflated earnings driven by ideal market conditions should normalize. We also forecast a DPS CAGR of 6% through 2027.

¹ Estimate

² The company also paid a \$5.20/share special dividend. The special payout is not reflected in our tables, and total return estimates.

³ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.1	10.1	11.7	9.5	8.8	8.2	8.8	9.0	16.7	5.3	5.3	8.0
Avg. Yld.	3.2%	2.9%	2.9%	3.3%	4.1%	3.9%	3.8%	4.8%	5.9%	4.6%	6.1%	7.0%

Since 2012 shares of LyondellBasell have traded hands with an average P/E ratio of about 9.7 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 inflated results year-to-date. We expect a modest valuation expansion potential towards a P/E of 8 in the medium-term. The dividend should add to returns as well, currently yielding 6.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	30%	34%	32%	36%	32%	33%	43%	75%	24%	33%	56%

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.

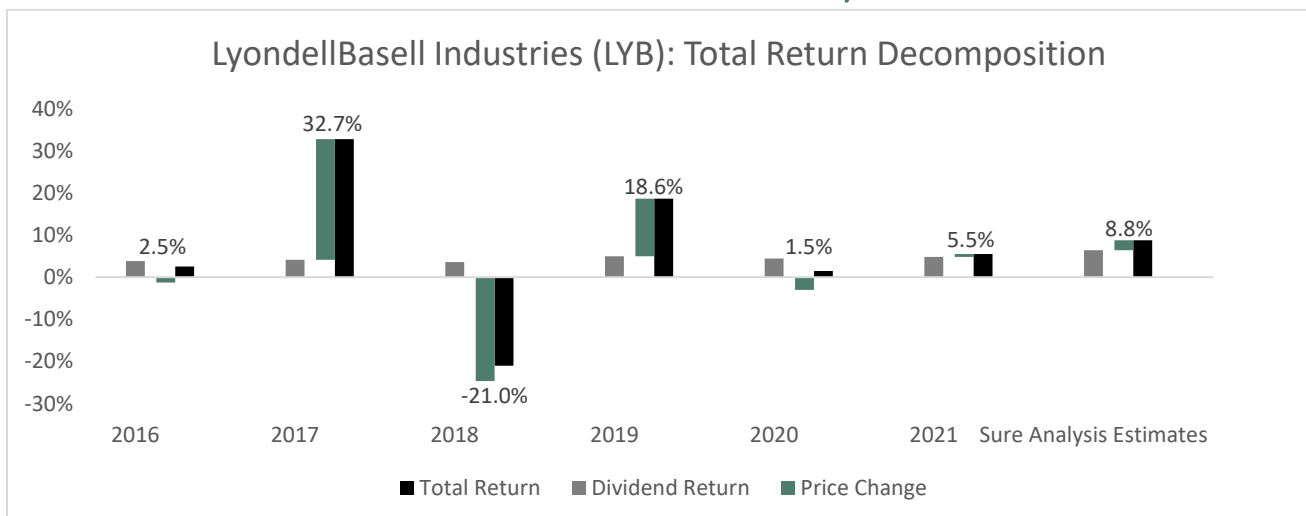
The lack of recession performance is a cautionary note, as LyondellBasell emerged from bankruptcy in 2010 after crumbling under a high debt load. At the end of Q3-2022, LyondellBasell held \$1.5 billion in cash, \$12.3 billion in current assets and \$36.5 billion in total assets against \$7.6 billion in current liabilities and \$24.3 billion in total liabilities. Long-term debt equaled \$10.4 billion.

As proven in its most recent quarter results, LyondellBasell's profit margins are very sensitive to modest changes in sales and expenses. The company should be adversely impacted during a prolonged recession. Despite the rather worrisome trading environment and bleak medium-term outlook, we believe that LyondellBasell's dividend should remain covered.

Final Thoughts & Recommendation

LyondellBasell is a high-quality business in a relatively sound financial condition. The company is not recession-resistant, but it is in much better shape today than it was a decade ago. The latest dividend hike, along with this year's hefty special dividend, should solidify investors' confidence in the stock. We forecast a total return potential of 8.8% annually, stemming from a 6.1% dividend yield and a potential valuation tailwind. Accordingly, LyondellBasell earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	48183	5352	44062	45608	2735	9183	34484	39004	27750	46170
Gross Profit	5,451	5,757	6,122	6,669	7,052	5,992	6,425	6,475	3394	8776
Gross Margin	11.3%	12.7%	13.9%	14.6%	21.5%	20.5%	18.6%	16.6%	12.2%	19.0%
SG&A Exp.	918	909	870	806	828	833	859	1,129	1140	1255
D&A Exp.	931	983	1,021	1,019	1,047	1,064	1,174	1,241	1385	1393
Operating Profit	4,337	4,676	5,102	5,736	6,122	5,060	5,460	5,231	2141	7397
Op. Margin	9.0%	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%	7.7%	16.0%
Net Profit	2,147	2,848	3,857	4,174	4,476	3,836	4,879	4,690	1420	5596
Net Margin	4.5%	6.3%	8.8%	9.2%	13.7%	13.1%	14.1%	12.0%	5.1%	12.1%
Free Cash Flow	1,810	3,727	3,274	4,549	4,402	3,363	3,659	3,366	1457	5736
Income Tax	1,059	1,327	1,136	1,540	1,730	1,386	598	613	-43	1163

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	22839	24220	27298	24221	22757	23442	26206	28278	35400	36740
Cash & Equivalents	1,065	2,732	4,450	1,031	924	875	1,523	332	1763	1472
Acc. Receivable	3,778	3,904	4,030	3,448	2,517	2,842	3,539	3,503	3291	4808
Inventories	5,499	5,075	5,279	4,517	4,051	3,809	4,217	4,515	4344	4901
Goodwill & Int.	1,762	1,629	1,509	1,335	1,176	1,078	1,138	2,779	2704	2570
Total Liabilities	12192	13041	14784	15877	16183	17369	17256	17998	27420	24870
Accounts Payable	3,414	3,285	3,572	3,064	2,182	2,529	2,895	3,087	2398	4291
Long-Term Debt	4,032	4,400	5,835	7,045	8,028	8,981	8,619	9,387	15960	11610
Total Equity	10593	11139	12478	8314	6550	6048	8949	10257	7971	11860
LTD/E Ratio	0.38	0.40	0.47	0.85	1.23	1.49	0.96	0.92	2.00	0.98

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.9%	12.1%	15.0%	16.2%	19.1%	16.6%	19.7%	17.2%	4.3%	15.5%
Return on Equity	19.4%	26.2%	32.7%	40.2%	60.2%	60.9%	65.1%	48.8%	17.7%	56.4%
ROIC	13.3%	18.8%	22.7%	24.7%	29.8%	25.9%	29.9%	25.2%	6.4%	23.6%
Shares Out.	572	519	477	440	404	395	376	353	334	334
Revenue/Share	84.24	78.60	77.30	87.54	70.25	69.48	86.43	100.27	83.09	138.24
FCF/Share	3.16	6.46	5.74	8.73	9.45	8.01	9.17	8.65	4.36	17.17

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

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