



# LyondellBasell Industries N.V. (LYB)

Updated February 4<sup>th</sup>, 2023, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$98	<b>5 Year CAGR Estimate:</b>	6.4%	<b>Market Cap:</b>	\$32.0 B
<b>Fair Value Price:</b>	\$72	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/24/23
<b>% Fair Value:</b>	137%	<b>5 Year Valuation Multiple Estimate:</b>	-6.1%	<b>Dividend Payment Date<sup>1</sup>:</b>	03/07/23
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$105	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 of 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 \$32.0 billion market cap company, with U.S. operations headquartered in Houston, Texas and Global operations headquartered in London, generated \$50.5 billion in sales last year.

On February 3<sup>rd</sup>, 2023, LyondellBasell released its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenues totaled \$10.2 billion, which was a 20.5% decline compared to Q4-2021. The decline was due to the Olefins & Polyolefins businesses encountering headwinds from reduced demand in Europe and Asia as well as global capacity additions against last year's record demand. These factors led to lower commodity prices.

The decline in revenues resulted in a compression in margins. Thus, net income equaled \$353 million or \$1.07 per share compared to \$726 billion or \$2.18 per share in Q4-2021. For the year, earnings-per-share totaled \$12.46, declining from the previous year's record \$18.19 per-share as commodity prices and demand for commodities cooled down. We expect challenging market conditions to persist at least through the first half of 2023. Our initial estimates point toward earnings-per-share of about \$7.40 for the year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$9.58	\$5.61	\$18.19	\$12.46	<b>\$7.40</b>	<b>\$10.87</b>
<b>DPS</b>	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.15	\$4.20	\$4.44	\$9.90 <sup>2</sup>	<b>\$4.76</b>	<b>\$6.37</b>
<b>Shares<sup>3</sup></b>	519	477	440	404	395	376	353	334	334	328	<b>328.0</b>	<b>300.0</b>

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.

<sup>1</sup> Estimate

<sup>2</sup> Includes a special dividend of \$5.2/share.

<sup>3</sup> 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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After two strong trading periods (FY2021 and FY2022), we forecast a strong decline in earnings in FY2023. Nevertheless, we expect earnings to then grow at a CAGR of 8% from a lower base, assuming improving conditions in the commodities market. That said, it's incredibly hard to predict future earnings accurately due to the unpredictable nature of commodity prices. We also forecast a DPS CAGR of 6% through 2028.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	11.7	9.5	8.8	8.2	8.8	9.0	16.7	5.3	7.4	13.3	9.7
Avg. Yld.	2.90%	2.90%	3.30%	4.10%	3.90%	3.80%	4.80%	5.90%	4.60%	10.7%	4.8%	6.0%

Since 2013 shares of LyondellBasell have traded hands with an average P/E ratio of about 9.5 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 relatively rich, but that is due to expectations for lower earnings this year. We believe the stock should be trading at a P/E of about 9.7 under "normal" conditions, implying relatively strong valuation headwinds ahead. The dividend should add to returns as well, currently yielding 4.8%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	34%	32%	36%	32%	33%	43%	75%	24%	79%	64%	59%

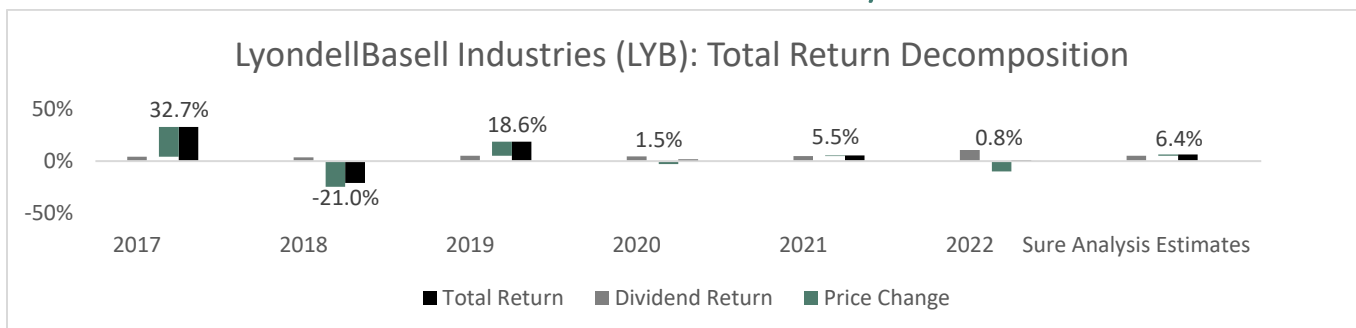
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

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 Q4-2022, LyondellBasell held \$2.2 billion in cash, \$11.8 billion in current assets and \$36.4 billion in total assets against \$6.8 billion in current liabilities and \$23.8 billion in total liabilities. Long-term debt equaled \$10.5 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. Still, despite of the rather tough market environment, we believe that the dividend should remain covered.

## Final Thoughts & Recommendation

LyondellBasell is a high-quality business with 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. Results should decline notably this year, but we expect an improving performance in the light of an improving commodities environment over the medium-term. We forecast a total return potential of 6.4% annually, stemming from a 4.8% dividend yield, and an 8% annual growth rate, offset by a 6.1% annual valuation headwind. 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
<b>Revenue</b>	48183	5352	44062	45608	2735	9183	34484	39004	27750	46170
<b>Gross Profit</b>	5,451	5,757	6,122	6,669	7,052	5,992	6,425	6,475	3394	8776
<b>Gross Margin</b>	11.3%	12.7%	13.9%	14.6%	21.5%	20.5%	18.6%	16.6%	12.2%	19.0%
<b>SG&amp;A Exp.</b>	918	909	870	806	828	833	859	1,129	1140	1255
<b>D&amp;A Exp.</b>	931	983	1,021	1,019	1,047	1,064	1,174	1,241	1385	1393
<b>Operating Profit</b>	4,337	4,676	5,102	5,736	6,122	5,060	5,460	5,231	2141	7397
<b>Op. Margin</b>	9.0%	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%	7.7%	16.0%
<b>Net Profit</b>	2,147	2,848	3,857	4,174	4,476	3,836	4,879	4,690	1420	5596
<b>Net Margin</b>	4.5%	6.3%	8.8%	9.2%	13.7%	13.1%	14.1%	12.0%	5.1%	12.1%
<b>Free Cash Flow</b>	1,810	3,727	3,274	4,549	4,402	3,363	3,659	3,366	1457	5736
<b>Income Tax</b>	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
<b>Total Assets</b>	22839	24220	27298	24221	22757	23442	26206	28278	35400	36740
<b>Cash &amp; Equivalents</b>	1,065	2,732	4,450	1,031	924	875	1,523	332	1763	1472
<b>Acc. Receivable</b>	3,778	3,904	4,030	3,448	2,517	2,842	3,539	3,503	3291	4808
<b>Inventories</b>	5,499	5,075	5,279	4,517	4,051	3,809	4,217	4,515	4344	4901
<b>Goodwill &amp; Int.</b>	1,762	1,629	1,509	1,335	1,176	1,078	1,138	2,779	2704	2570
<b>Total Liabilities</b>	12192	13041	14784	15877	16183	17369	17256	17998	27420	24870
<b>Accounts Payable</b>	3,414	3,285	3,572	3,064	2,182	2,529	2,895	3,087	2398	4291
<b>Long-Term Debt</b>	4,032	4,400	5,835	7,045	8,028	8,981	8,619	9,387	15960	11610
<b>Total Equity</b>	10593	11139	12478	8314	6550	6048	8949	10257	7971	11860
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.9%	12.1%	15.0%	16.2%	19.1%	16.6%	19.7%	17.2%	4.3%	15.5%
<b>Return on Equity</b>	19.4%	26.2%	32.7%	40.2%	60.2%	60.9%	65.1%	48.8%	17.7%	56.4%
<b>ROIC</b>	13.3%	18.8%	22.7%	24.7%	29.8%	25.9%	29.9%	25.2%	6.4%	23.6%
<b>Shares Out.</b>	572	519	477	440	404	395	376	353	334	334
<b>Revenue/Share</b>	84.24	78.60	77.30	87.54	70.25	69.48	86.43	100.27	83.09	138.24
<b>FCF/Share</b>	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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