



LyondellBasell Industries N.V. (LYB)

Updated May 2nd, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	10.2%	Market Cap:	\$30.5 B
Fair Value Price:	\$92	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	06/02/23
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date¹:	06/13/23
Dividend Yield:	5.1%	5 Year Price Target	\$123	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

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 \$30.5 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 April 28th, 2023, LyondellBasell released its Q1 results for the period ending March 31st, 2023. For the quarter, revenues totaled \$10.3 billion, which was about 22% lower compared to Q1-2022. The decline was due to lower commodity prices, even though operations remained rather robust. Results in the company's olefins and polyolefins businesses benefited from higher asset utilization. Further, demand for fuels remained strong, while the company's oxyfuels and refining businesses continued to earn margins above historical averages.

Nevertheless, due to lower revenues, net income equaled \$474 million or \$1.33 per share compared to \$1.32 billion or \$4.00 per share in Q1-2022. In the near-term, the company expects typical seasonal trends to drive modest improvement in global demand. Further, increased summer demand for transportation fuels should provide support for oxyfuels and refining margins. Based on management's comments and the company's Q1 results, we have updated our fiscal 2023 earnings-per-share estimate to \$9.50, up from \$7.40 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.75	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$9.58	\$5.61	\$18.19	\$12.46	\$9.50	\$12.71
DPS	\$2.00	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.15	\$4.20	\$4.44	\$9.90 ²	\$4.76	\$6.37
Shares³	519	477	440	404	395	376	353	334	334	328	328.0	300.0

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.

¹ Estimate

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

³ In millions.

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After two strong trading periods (FY2021 and FY2022), we forecast a notable decline in earnings in FY2023. Nevertheless, we expect earnings to then grow at a CAGR of 6% 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	9.8	9.7
Avg. Yld.	2.90%	2.90%	3.30%	4.10%	3.90%	3.80%	4.80%	5.90%	4.60%	10.7%	5.1%	5.2%

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 has converged very close to our assigned P/E of about 9.7, which we believe is a fair multiple under "normal" conditions. Therefore, we don't expect any tailwinds/headwinds to arise from a P/E expansion/contraction. The dividend should add to returns as well, currently yielding 5.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Payout	30%	34%	32%	36%	32%	33%	43%	75%	24%	79%	50%	50%

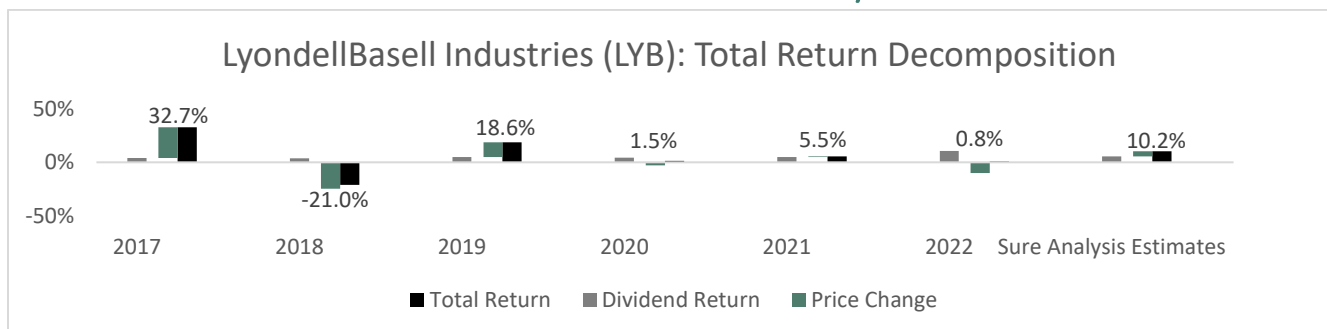
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

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 Q1-2023, LyondellBasell held \$1.8 billion in cash, \$12 billion in current assets and \$36.3 billion in total assets against \$6.5 billion in current liabilities and \$23.6 billion in total liabilities. Long-term debt equaled \$10.6 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 10.2% annually, stemming from a 5.1% dividend yield, a 6% annual growth rate, and relatively stable valuation assumptions. Accordingly, LyondellBasell earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5352	44062	45608	2735	9183	34484	39004	27750	46170	50450
Gross Profit	5,757	6,122	6,669	7,052	5,992	6,425	6,475	3394	8776	6604
Gross Margin	12.7%	13.9%	14.6%	21.5%	20.5%	18.6%	16.6%	12.2%	19.0%	13.1%
SG&A Exp.	909	870	806	828	833	859	1,129	1140	1255	1310
D&A Exp.	983	1,021	1,019	1,047	1,064	1,174	1,241	1385	1393	1267
Operating Profit	4,676	5,102	5,736	6,122	5,060	5,460	5,231	2141	7397	5170
Op. Margin	10.3%	11.6%	12.6%	18.7%	17.3%	15.8%	13.4%	7.7%	16.0%	10.2%
Net Profit	2,848	3,857	4,174	4,476	3,836	4,879	4,690	1420	5596	3882
Net Margin	6.3%	8.8%	9.2%	13.7%	13.1%	14.1%	12.0%	5.1%	12.1%	7.7%
Free Cash Flow	3,727	3,274	4,549	4,402	3,363	3,659	3,366	1457	5736	4229
Income Tax	1,327	1,136	1,540	1,730	1,386	598	613	-43	1163	882

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	24220	27298	24221	22757	23442	26206	28278	35400	36740	36360
Cash & Equivalents	2,732	4,450	1,031	924	875	1,523	332	1763	1472	2151
Acc. Receivable	3,904	4,030	3,448	2,517	2,842	3,539	3,503	3291	4808	3593
Inventories	5,075	5,279	4,517	4,051	3,809	4,217	4,515	4344	4901	4804
Goodwill & Int.	1,629	1,509	1,335	1,176	1,078	1,138	2,779	2704	2570	2489
Total Liabilities	13041	14784	15877	16183	17369	17256	17998	27420	24870	23740
Accounts Payable	3,285	3,572	3,064	2,182	2,529	2,895	3,087	2398	4291	3583
Long-Term Debt	4,400	5,835	7,045	8,028	8,981	8,619	9,387	15960	11610	11320
Total Equity	11139	12478	8314	6550	6048	8949	10257	7971	11860	12620
LTD/E Ratio	0.40	0.47	0.85	1.23	1.49	0.96	0.92	2.00	0.98	0.90

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.1%	15.0%	16.2%	19.1%	16.6%	19.7%	17.2%	4.3%	15.5%	10.6%
Return on Equity	26.2%	32.7%	40.2%	60.2%	60.9%	65.1%	48.8%	17.7%	56.4%	31.7%
ROIC	18.8%	22.7%	24.7%	29.8%	25.9%	29.9%	25.2%	6.4%	23.6%	16.4%
Shares Out.	519	477	440	404	395	376	353	334	334	328
Revenue/Share	78.60	77.30	87.54	70.25	69.48	86.43	100.27	83.09	138.24	153.81
FCF/Share	6.46	5.74	8.73	9.45	8.01	9.17	8.65	4.36	17.17	12.89

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

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