



LyondellBasell Industries N.V. (LYB)

Updated February 3rd, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	\$93	5 Year CAGR Estimate:	7.6%	Market Cap:	\$30.1 B
Fair Value Price:	\$78	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	03/04/24
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date¹:	03/13/24
Dividend Yield:	5.4%	5 Year Price Target	\$104	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	C	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 \$30.1 billion market cap company, with U.S operations headquartered in Houston, Texas and Global operations headquartered in London, generated \$41.1 billion in sales last year.

On February 2nd, 2024, LyondellBasell released its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues totaled \$9.9 billion, which was about 2.6% lower compared to Q4-2022. LyondellBasell also posted a notable decline in EBITDA, which plunged 53% to \$639 million. Net income equaled \$185 million or \$0.56 per share compared to \$353 million or \$1.07 per share in Q4 2022.

The results reflect a significant decline in gasoline crack spreads in Q4 due to lower demand. This affected refining results, impacting its oxy fuels, intermediates, Driftwood, and the value of coproduct fuels in olefins and polyolefins Americas. Its O&P Americas business benefited from lower ethane costs and increased polyethylene exports. However, the demand for olefins and polyolefins stayed soft, especially in Europe, with low utilization rates. Lower demand and higher raw material costs also negatively impacted the company's advanced polymer solutions segment.

In the first quarter, the company expects seasonally softer demand, while economic uncertainty is expected to provide continued headwinds for most of its businesses. Based on management's comments and current market conditions, we forecast fiscal 2024 EPS at \$8.20.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.99	\$9.59	\$9.13	\$11.20	\$12.01	\$9.58	\$5.61	\$18.19	\$12.46	\$8.65	\$8.20	\$10.97
DPS	\$2.70	\$3.04	\$3.33	\$3.55	\$4.00	\$4.15	\$4.20	\$4.44	\$9.90	\$4.94	\$5.00	\$6.69
Shares²	477	440	404	395	376	353	334	334	328	326	326	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 drive earnings growth from a blend of organic growth and acquisitions. For example, the company paid \$2.25 billion for the acquisition of A. Schulman, Inc in 2018, which doubled LyondellBasell's compounding business. It also gave the company exposure to new categories such as consumer products, appliances, and agriculture.

¹ Estimate

² In millions.

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Finally, the company recently launched a three-pillar strategy to create a more profitable and sustainable growth engine. Further, the share buyback program can boost bottom-line growth.

After two strong trading periods (FY2021 and FY2022), earning levels have normalized at lower levels. 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 is very hard to forecast future earnings accurately due to the unpredictable nature of commodity prices. We also forecast a DPS CAGR of 6% through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.7	9.5	8.8	8.2	8.8	9.0	16.7	5.27	7.4	10	11.3	9.5
Avg. Yld.	2.9%	3.3%	4.1%	3.9%	3.8%	4.8%	5.9%	4.6%	10.7%	5.7%	5.4%	6.4%

Since 2014, 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 is somewhat richer, likely reflecting the market's expectations for a rebound in earnings from next year. The dividend should add to returns as well, as it currently yields 5.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	32%	36%	32%	33%	43%	75%	24%	79%	57%	61%	61%

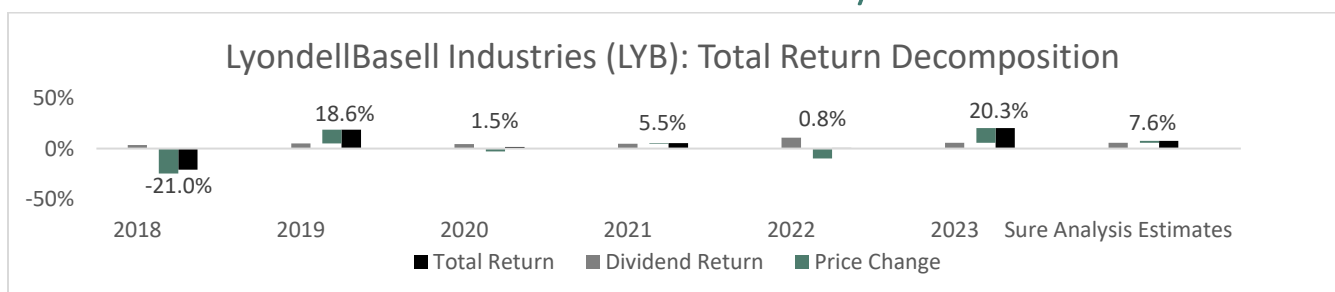
LyondellBasell's primary competitive advantage is its leading industry position. It is the world's largest producer of polypropylene compounds and the largest licensor of polyolefin technologies. It also has a vast intellectual property portfolio, with over 5,500 patents.

The lack of recession performance is a cautionary note, as LyondellBasell emerged from bankruptcy in 2010 after crumbling under a high debt load. As of its most recent filings, LyondellBasell held \$3.4 billion in cash, \$13.2 billion in current assets and \$36.9 billion in total assets against \$7.0 billion in current liabilities and \$23.7 billion in total liabilities. Long-term debt equaled \$10.2 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. Its results remain below the record levels seen during the midst of the pandemic, 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 7.6% annually, stemming from a 5.4% yield and a 6% annual growth rate, offset by the possibility of a valuation headwind. LyondellBasell earns a hold 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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