

LyondellBasell (LYB)

\$71.05 (As of 08/11/20)

Price Target (6-12 Months): **\$76.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

LyondellBasell's profits declined year over year in the second quarter of 2020. Adjusted earnings beat the Zacks Consensus Estimate, while sales trailed the same. The company is expanding its key projects to leverage on U.S. natural gas liquids. The HDPE project is expected to boost capacity and contribute to earnings. LyondellBasell is also expected to benefit from the construction of PO/TBA plant. The A. Schulman buyout will also generate significant cost synergies. LyondellBasell is also committed to boost shareholders' returns. However, it is seeing certain challenges in the Intermediates and Derivatives business. Moreover, lower demand for gasoline and other durable goods is affecting performance of Oxyfuels & Related Products as well as Propylene Oxide & Derivative volumes. High debt level is another concern.

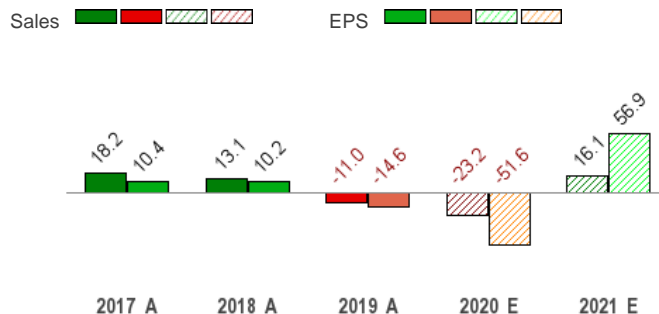
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.91 - \$33.71
20 Day Average Volume (sh)	1,845,114
Market Cap	\$23.7 B
YTD Price Change	-24.8%
Beta	1.53
Dividend / Div Yld	\$4.20 / 5.9%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 23% (196 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.4%
Last Sales Surprise	-4.0%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	11/06/2020
Earnings ESP	0.3%
P/E TTM	10.5
P/E F1	15.3
PEG F1	2.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,318 E	7,155 E	7,195 E	7,219 E	30,976 E
2020	7,494 A	5,546 A	6,404 E	6,502 E	26,685 E
2019	8,778 A	9,048 A	8,722 A	8,179 A	34,727 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.91 E	\$1.98 E	\$1.91 E	\$1.77 E	\$7.31 E
2020	\$1.52 A	\$0.71 A	\$1.17 E	\$1.29 E	\$4.66 E
2019	\$2.22 A	\$2.75 A	\$2.70 A	\$1.91 A	\$9.62 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

Based in Rotterdam, the Netherlands, LyondellBasell Industries N.V. is among the leading plastics, chemical and refining companies globally with operations across 18 countries. The company's products are used across a bevy of industries including electronics, automotive parts, packaging, construction materials and biofuels.

LyondellBasell, which emerged from Chapter 11 bankruptcy in 2010, is among the leading global producers of olefins and polyethylene. It is the world's second largest producer of polypropylene. It generated revenues of roughly \$34.7 billion in 2019.

LyondellBasell operates through six segments – Olefins & Polyolefins – Americas; Olefins & Polyolefins - Europe, Asia, International; Intermediates and Derivatives; Advanced Polymer Solutions; Refining; and Technology.

The Olefins & Polyolefins – Americas (21% of 2019 sales) division makes and markets olefins, including ethylene and ethylene co-products, and polyolefins.

The Olefins & Polyolefins - Europe, Asia, International unit (24%) is engaged in the production and distribution of olefins, including ethylene and ethylene co-products, polyolefins and polypropylene compounds.

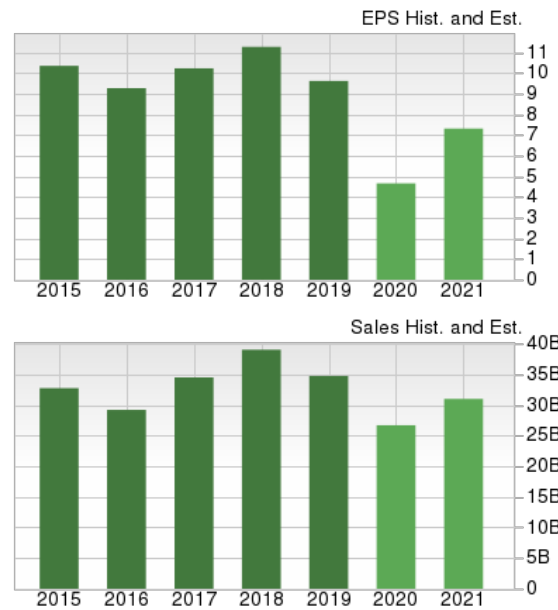
The Intermediates and Derivatives segment (20%) manufactures propylene oxide (PO) and its co-products and derivatives, acetyls, including methanol, ethanol, ethylene oxide and its derivatives, and oxygenated fuels (oxyfuels).

The Advanced Polymer Solutions segment (12%) manufactures and markets Compounding & Solutions and Advanced Polymers.

The Refining segment (21%) refines heavy, high-sulfur crude oil and different types of other crude oils as well as sources available on the U.S. Gulf Coast. The company's Houston refinery in Texas has been designed to refine heavy, high-sulfur crude oil.

LyondellBasell's Technology segment (2%) develops and licenses chemical and polyolefin process technologies and also makes and distributes polyolefin catalysts.

LyondellBasell has acquired A. Schulman, Inc. in a deal worth \$2.25 billion. The deal was closed on August 2018 and results from the new business are included prospectively.



Reasons To Buy:

- ▲ LyondellBasell is benefitting from the favorable North American natural gas environment. It is executing its expansion projects to leverage the U.S. natural gas liquids (NGLs) advantage. The construction of LyondellBasell's new high-density polyethylene (HDPE) plant on the U.S. Gulf Coast is complete. It will employ the company's proprietary Hyperzone PE technology and has an annual capacity of 1.1 billion pounds. LyondellBasell is also constructing a world scale plant on the U.S. Gulf Coast for producing propylene oxide (PO) and tertiary butyl alcohol (TBA). The plant will have annual capacity of 1 billion pounds of PO and 2.2 billion pounds of TBA and its derivatives.
- ▲ LyondellBasell has purchased A. Schulman in a deal worth \$2.25 billion, a move that creates a premier global provider of advanced polymer solutions with extensive geographic reach, leading technologies and a diverse product portfolio. A. Schulman is a leading supplier of high-performance plastic compounds, composites and powders. The buyout doubles the size of LyondellBasell's existing compounding business and creates a platform for future growth with reach into additional high-growth markets such as packaging and consumer products, electronics and appliances, building and construction, and agriculture. LyondellBasell expects to capture \$150 million-to-\$200 million in annual run-rate cost synergies in 2020. The buyout is also expected to be accretive to earnings within the first full year following its closure. The integration of A. Schulman is progressing well. In 2019, the company captured \$130 million in forward annualized run rate synergies.
- ▲ LyondellBasell remains committed to deliver greater value to its shareholders leveraging healthy cash flows. The company generated cash flows from operations of roughly \$5 billion in 2019. In 2019, the company paid out dividends worth \$1.5 billion. In the second quarter, the company also paid out dividends worth \$350 million. It also ended the second quarter with around \$5.8 billion of cash and available liquidity.

LyondellBasell's HDPE project should boost capacity and add to its earnings. The buyout of A. Schulman will also create significant cost synergies.

Reasons To Sell:

- ▼ The company is seeing certain challenges in the Intermediates and Derivatives business. Results of the segment were affected by declining margins in the last reported quarter. A well-supplied market for its Intermediate Chemicals business has put pressure on margins. The segment's EBITDA plunged 50.2% sequentially and 77.5% on a year-over-year basis in the second quarter. Factors like lower volumes and margins stemming from lower demand from automotive, construction and furniture end markets partly affected results. Moreover, a significant reduction in demand for gasoline and other durable goods affected performance of Oxyfuels & Related Products as well as Propylene Oxide & Derivative volumes. Moreover, margins in the Advanced Polymer Solutions segment declined in the last reported quarter due to lower demand stemming from persistently low automotive demand and the impact of coronavirus. These challenges are expected to persist in the near term.
- ▼ Declining margins in the Olefins & Polyolefins — Americas segment is a concern. EBITDA of the Olefins & Polyolefins — Americas segment fell nearly 61% year over year in the second quarter. Results were mostly affected by the coronavirus pandemic. Further, margins in the Olefins & Polyolefins — Europe, Asia, International segment declined around 44% year over year. Lower ethylene prices are affecting margins in the segment and lower demand is exerting pressure on volumes.
- ▼ The company's high debt level is another concern. Its long-term debt was \$13,674 million at the end of second-quarter 2020, up from \$12,159 million in the prior quarter. Further, its time-interest-earned ratio of 7.1 at the end of second-quarter 2020 fell from 10.4 in the prior quarter and has also deteriorated over the last several quarters. As such, the company appears to have a higher default risk.

LyondellBasell is seeing certain challenges in the Intermediates and Derivatives business. Declining Olefins & Polyolefins margins is another concern. High debt level is another cause of worry.

Last Earnings Report

LyondellBasell's Q2 Earnings Beat, Sales Lag Estimates

LyondellBasell posted profits of \$314 million or 94 cents per share in second-quarter 2020, down from \$1,003 million or \$2.70 in the year-ago quarter.

Barring one-time items, adjusted earnings came in at 71 cents per share that beat the Zacks Consensus Estimate of 61 cents.

Revenues fell 38.7% year over year to \$5,546 million in the reported quarter. The figure also trailed the consensus mark of \$5,775.6 million.

Consolidated EBITDA fell 51.9% year over year to \$760 million.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-3.98%
EPS Surprise	16.39%
Quarterly EPS	0.71
Annual EPS (TTM)	6.84

Segment Review

In the Olefins & Polyolefins — Americas division, EBITDA fell 60.9% year over year to \$248 million. Polyolefin results dropped around \$185 million due to lower margins, which was partly offset by a modest rise in polyethylene volume.

The Olefins & Polyolefins — Europe, Asia, International segment witnessed a fall in EBITDA of 44.1% year over year to \$185 million. Margins declined due to lower ethylene prices, which was partly offset by lower feedstock costs. Volumes declined due to lower demand.

The Advanced Polymer Solutions (APS) segment posted a loss of \$44 million compared with EBITDA of \$120 million in the year-ago quarter. Compounding & Solutions results declined \$85 million mainly due to lower automotive demand.

EBITDA in the Intermediates and Derivatives segment fell 77.5% on a year-over-year basis to \$101 million.

EBITDA in the Refining segment came at \$165 million in the reported quarter against a loss of \$66 million in the year-ago quarter. Crude throughput fell 24,000 barrels per day due to unplanned maintenance and rate reduction in response to lower demand.

The Technology segment's EBITDA fell to \$112 million in the reported quarter, up 4.7% year over year. Lower licensing revenues were more than offset by higher catalyst volumes and margins.

Financials

As of Jun 30, LyondellBasell had cash and liquid investments of \$3 billion.

In the second quarter, the company paid out dividends worth \$350 million. It also had 334 million common shares outstanding as of Jun 30.

Outlook

LyondellBasell stated that demand for its products is improving with increased economic activity. In response to increased demand, the company raised operating rates and prices for North American polyethylene exports to Asia. The company expects Refining and Oxyfuels & Related Products businesses demand to improve with increased mobility and reductions in fuel inventories. Also, the Advanced Polymer Solutions unit is gaining from rebounding demand for its plastics used in automotive manufacturing.

Recent News

LyondellBasell's Spheripol Technology Selected by Indian Oil

LyondellBasell, on **Jun 16, 2020**, announced that Indian Oil Corporation Ltd. ("IOCL") will employ its Spheripol technology for a new 450 KTA polypropylene plant that will be built in Panipat, Haryana State, India.

IOCL is currently operating polypropylene plants with total capacity of 1,300 KTA at the Panipat and Paradip sites in India. These facilities are based on LyondellBasell's proprietary Spheripol technology. Additionally, Indian Oil is using LyondellBasell's Hostalen technology to produce 300 KTA of high-density polyethylene (HDPE) product. Indian Oil aims to double the polypropylene production capacity over the next five years.

The Spheripol technology is the leading process technology for polypropylene. It has more than 27 million tons of licensed capacity. Spheripol's latest fifth-generation technology includes process improvements that enhance operational efficiency. The plant will start operations using the Avant ZN catalyst.

By optionally joining the Technical Service program of LyondellBasell, new licensees can enjoy the benefits of its in-house expertise of catalyst know-how, ongoing production improvement and sustainable product development.

Other than the Spheripol process technology, LyondellBasell's range of approved polyolefin processes and catalysts includes Hostalen, Spherizone, Lupotech, Spherilene, Metocene PP and Avant.

LyondellBasell Grants Hostalen ACP Licenses to Sinopec Hainan

LyondellBasell, on **May 26, 2020**, announced that Sinopec Hainan Refining & Chemical Co., Ltd. will utilize its Hostalen 'Advanced Cascade Process' (Hostalen ACP) technology for a new facility.

Notably, the Hostalen ACP is a low-pressure slurry process technology that produces high-performance, multi-modal HDPE resins with an increased toughness balance, high stress-cracking resistance and impact resistance. The technology is used in pressure pipe, blow molding and film applications.

The technology is expected to be used for 300 kilo tons per annum (KTA) high-density polyethylene ("HDPE") facility that will be built in Yangpu, Hainan Province, P.R. China. Notably, with the latest capacity additions, LyondellBasell has now provided license to more than 8500 KTA of benchmark multi-modal HDPE resins.

Per LyondellBasell, multi-modal HDPE resins play an important role in catering to the increasing demand for higher-value polyethylene products. The Sinopec Hainan HDPE facility will begin operations using Avant Z501 and Avant Z509 catalysts to make an entire range of multi-modal HDPE products.

The new licensees are anticipated to gain from LyondellBasell's in-house expertise of ongoing process, operating and product improvements by optionally joining the company's Technical Service program.

Valuation

LyondellBasell's shares are down 24.6% in the year-to-date period and down 6% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and the Zacks Basic Materials sector are down 7.5% and up 1.1% in the year-to-date period, respectively. Over

the past year, the Zacks sub-industry and sector are up 1.4% and 10.7%, respectively.

The S&P 500 index is up 4.1% in the year-to-date period and up 15% in the past year.

The stock is currently trading at 8.57X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.4X for the Zacks sub-industry, 11.07X for the Zacks sector and 12.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.2X and as low as 4.38X, with a 5-year median of 6.83X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$76 price target reflects 12.09X forward 12-month earnings per share.

The table below shows summary valuation data for LYB:

Valuation Multiples - LYB					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.57	8.4	11.07	12.66
	5-Year High	9.2	13.12	18.08	12.84
	5-Year Low	4.38	5.24	6.56	8.25
	5-Year Median	6.83	7.49	10.77	10.9
P/E F12M	Current	11.3	19.44	15.37	22.8
	5-Year High	12.91	19.44	21.06	22.8
	5-Year Low	3.77	8.97	9.86	15.25
	5-Year Median	8.62	13.15	13.53	17.58
P/B TTM	Current	3.22	1.76	2.46	4.68
	5-Year High	6.47	2.82	3.07	4.68
	5-Year Low	1.44	0.87	1.23	2.83
	5-Year Median	4.82	1.71	2.2	3.74

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Westlake Chemical Corporation (WLK)	Outperform	3
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
Dow Inc. (DOW)	Neutral	4
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
SINOPEC Shanghai Petrochemical Company, Ltd. (SHI)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	3

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	LYB	X Industry	S&P 500	APD	EMN	WLK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	B	D
Market Cap	23.72 B	2.53 B	23.61 B	62.20 B	10.18 B	7.85 B
# of Analysts	7	3	14	7	9	5
Dividend Yield	5.91%	1.87%	1.69%	1.90%	3.51%	1.71%
Value Score	A	-	-	D	A	C
Cash/Price	0.15	0.13	0.07	0.10	0.07	0.21
EV/EBITDA	6.17	8.21	13.32	17.99	8.61	7.41
PEG Ratio	1.94	3.40	2.95	3.83	3.18	18.40
Price/Book (P/B)	3.22	1.82	3.22	5.17	1.67	1.22
Price/Cash Flow (P/CF)	5.01	6.88	12.79	21.38	6.39	6.96
P/E (F1)	15.15	20.12	22.02	33.55	13.44	43.43
Price/Sales (P/S)	0.79	0.91	2.57	7.05	1.17	1.03
Earnings Yield	6.56%	4.53%	4.29%	2.98%	7.44%	2.31%
Debt/Equity	2.01	0.60	0.77	0.61	0.89	0.64
Cash Flow (\$/share)	14.19	3.41	6.94	13.17	11.76	8.84
Growth Score	B	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	-2.41%	8.03%	10.41%	4.94%	0.65%	-2.25%
Proj. EPS Growth (F1/F0)	-51.53%	-24.36%	-6.51%	2.24%	-21.54%	-56.56%
Curr. Cash Flow Growth	-16.46%	-9.82%	5.22%	10.98%	-9.97%	-31.71%
Hist. Cash Flow Growth (3-5 yrs)	-3.48%	6.32%	8.55%	5.70%	1.05%	3.87%
Current Ratio	2.36	1.89	1.34	3.48	1.88	2.85
Debt/Capital	66.96%	37.80%	44.59%	37.97%	47.11%	39.01%
Net Margin	6.79%	3.83%	10.13%	21.58%	6.64%	5.14%
Return on Equity	29.99%	10.94%	14.59%	15.96%	14.02%	4.74%
Sales/Assets	0.97	0.75	0.51	0.43	0.54	0.56
Proj. Sales Growth (F1/F0)	-23.16%	-7.20%	-1.45%	-1.38%	-11.55%	-13.38%
Momentum Score	F	-	-	F	F	A
Daily Price Chg	1.23%	0.85%	-0.17%	0.13%	1.25%	0.21%
1 Week Price Chg	6.67%	4.02%	2.30%	-1.72%	-2.10%	6.02%
4 Week Price Chg	6.11%	6.11%	6.41%	0.22%	2.96%	15.26%
12 Week Price Chg	22.35%	23.94%	15.42%	19.31%	18.58%	46.36%
52 Week Price Chg	-6.03%	3.94%	2.88%	22.61%	11.96%	-2.04%
20 Day Average Volume	1,845,114	55,716	2,007,486	1,298,981	971,639	496,145
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.49%	10.11%
(F1) EPS Est 4 week change	-1.59%	0.00%	1.84%	-1.01%	-5.87%	13.10%
(F1) EPS Est 12 week change	0.06%	0.00%	2.40%	-1.01%	-5.28%	24.43%
(Q1) EPS Est Mthly Chg	-4.17%	3.02%	0.72%	-2.01%	-7.23%	66.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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