

LyondellBasell (LYB)

\$52.19 (As of 04/17/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Earnings estimates for LyondellBasell for the first quarter of 2020 have been going down over the past month. The company is seeing certain challenges in the Intermediates and Derivatives business. A well-supplied market for its Intermediate Chemicals business has put pressure on margins in the segment. Moreover, lower volumes and planned maintenance activities are hurting the company's margins. LyondellBasell is also exposed to raw material cost pressure and volatility in energy costs, which account for a major portion of its operating costs. Relatively higher feedstock costs and lower propylene prices are affecting Olefins results. Also, higher feedstock costs are denting ethylene margins. Declining profitability in the company's Olefins & Polyolefins - Americas business is another matter of concern.

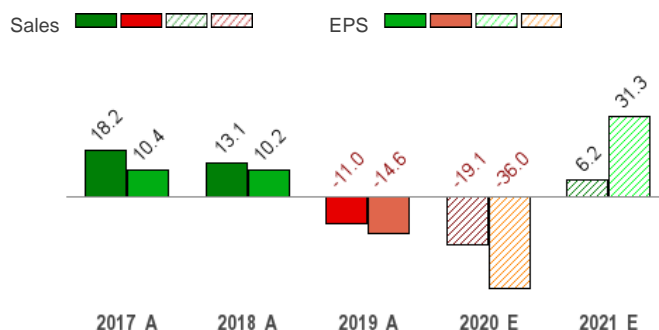
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.91 - \$33.71
20 Day Average Volume (sh)	3,380,689
Market Cap	\$17.4 B
YTD Price Change	-44.8%
Beta	1.56
Dividend / Div Yld	\$4.20 / 8.0%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 14% (217 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.5%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-25.0%
Expected Report Date	05/01/2020
Earnings ESP	-5.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					29,850 E
2020	7,603 E	6,853 E	7,072 E	7,101 E	28,096 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					\$8.09 E
2020	\$1.47 E	\$1.51 E	\$1.66 E	\$1.47 E	\$6.16 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 04/17/2020. The reports text is as of 04/20/2020.

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.

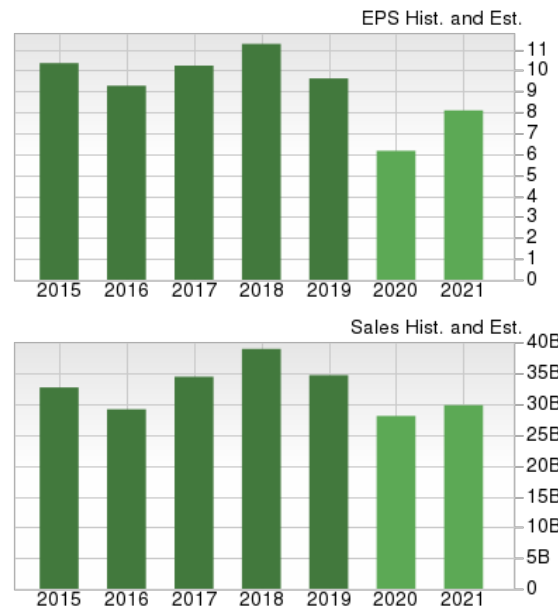
The Intermediates and Derivatives segment (20%) manufactures propylene oxide (PO) and its co-products and derivatives, acetyls, including methanol, ethanol, ethylene oxide and its derivatives, and oxygenated fuels (oxyfuels).

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 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. On a year-over-year and sequential-comparison basis, Intermediate Chemicals results declined in the fourth quarter of 2019. This was due to a margin fall in all businesses as well as lower volumes stemming from planned maintenance activities. Going forward, the company expects planned maintenance activities to hurt EBITDA in this segment by roughly \$10 million in the first and the second quarter of 2020; and \$25 million in the third and the fourth quarter.
- ▼ LyondellBasell is exposed to volatility in raw material and energy costs that account for a major portion of its operating costs. In the last reported quarter, relatively higher feedstock costs and lower propylene prices impacted Olefins results sequentially in the Olefins and Polyolefins Americas segment. In the Olefins & Polyolefins — Europe, Asia, International segment, ethylene margins declined due to higher feedstock costs in fourth-quarter 2019. As such, volatility in raw material and energy costs may continue to remain a headwind in the short haul.
- ▼ Declining margins in the Olefins & Polyolefins — Americas segment is a concern. EBITDA of the segment fell 21.1% year over year in the fourth quarter and declined 16.7% year over year in 2019. The company has planned maintenance schedule activities for 2020 that will continue to hurt margins. A cracker turnaround in the segment that will overlap in the first and the second quarter is expected to hurt EBITDA by \$25 million and \$30 million, respectively.

LyondellBasell is seeing certain challenges in the Intermediates and Derivatives business. It is exposed to raw material cost pressure. It is also seeing pressure in the O&P - Americas business.

Risks

- 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. The PO/TBA plant is on track for completion in the second half of 2021.
 - 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 \$200 million in annual run-rate cost synergies within two years. 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. At the end of Dec 31 2019, the company has 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. It also repurchased 42.7 million ordinary shares during the year. The company had 333 million common shares outstanding at the end of 2019.
-

Last Earnings Report

LyondellBasell's Earnings & Sales Lag Estimates in Q4

LyondellBasell posted profits of \$612 million or \$1.83 per share in fourth-quarter 2019 compared with \$692 million or \$1.79 in the year-ago quarter.

Barring one-time items, adjusted earnings came in at \$1.91 per share that missed the Zacks Consensus Estimate of \$2.26.

Revenues fell 7.9% year over year to \$8,179 million in the reported quarter. The figure also trailed the consensus mark of \$8,427.1 million.

Consolidated EBITDA fell 3.3% year over year to \$1,172 million.

In the fourth quarter, results in most of the segments were affected by a slowdown in industrial demand as well as normal seasonality.

2019 Highlights

In 2019, total revenues fell 11% year over year to \$34,727 million. Net earnings came in at \$3,397 million or \$9.58 per share for the year, down from \$4,690 million or \$12.01 in 2018.

Segment Review

In the **Olefins & Polyolefins — Americas** division, EBITDA fell 21.1% year over year to \$498 million. Olefin results increased more than \$60 million year over year. The company stated that ethylene margin expanded as lower feedstock costs were partly offset by a lower propylene price. Polyolefin results dropped around \$235 million mainly due to spread decline in polypropylene and polyethylene.

The **Olefins & Polyolefins — Europe, Asia, International** segment witnessed a rise in EBITDA of 13.4% year over year to \$144 million. Olefin remained flat on a year-over-year basis. Per the company, volumes were boosted by improved reliability with unplanned and planned maintenance affecting fourth-quarter 2018 results. This was offset by a decline in margin.

The **Advanced Polymer Solutions (APS)** segment saw a decline in EBITDA to \$54 million from \$86 million in the year-ago quarter. Volumes were affected by softness in automotive market. Advanced Polymers margins declined by \$10 million due to lower volumes.

EBITDA in the **Intermediates and Derivatives** segment went down 13.2% on a year-over-year basis to \$329 million. Propylene Oxide & Derivatives results were affected by sales mix, which were partly offset by higher volumes. Volumes rose due to scheduled maintenance in fourth-quarter 2018.

EBITDA in the **Refining** segment were \$22 million in the reported quarter against a loss of \$84 million in the year-ago quarter. The company stated that Maya 2-1-1 crack spread rose considerably year over year in the fourth quarter to \$19.44 per barrel. However, margin improvements from the Maya 2-1-1 crack spread was partly offset by higher prices of heavy sour crude oil bought in the U.S. Gulf Coast market. Also, the Houston Refinery operated at 267,000 barrels per day, up 45.1% year over year, due to the completion of planned maintenance in second-half 2018.

The **Technology** segment's EBITDA rose to \$138 million in the reported quarter from \$68 million a year ago, mainly due to higher licensing revenues.

Financials

As of Dec 31, 2019, LyondellBasell had cash and liquid investments of \$1.1 billion.

In 2019, the company paid out dividends worth \$1.5 billion. It also repurchased 42.7 million ordinary shares during the year. The company had 333 million common shares outstanding as of Dec 31, 2019.

Outlook

LyondellBasell expects to witness normal seasonal improvements in its businesses gradually through the second and the third quarter of 2020. The company believes that a rebound in industrial demand as well as favorable resolution of trade policies will provide substantial upside for the industry. It believes that the foundations of cost management, operational excellence and disciplined capital allocation will continue to serve amid the current challenging environment.

Considering the completion of its new Hyperzone project and the expected benefits from the IMO 2020 regulations, the company expects to extend its impressive track record of generating cash.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	-2.95%
EPS Surprise	-15.49%
Quarterly EPS	1.91
Annual EPS (TTM)	9.58

Recent News

LyondellBasell's Subsidiary Prices Public Offering of Notes - Apr 15, 2020

LyondellBasell's fully-owned subsidiary, LYB International Finance III, LLC, priced a public offering of \$500 million total principal amount of 2.875% guaranteed notes slated to mature in 2025, \$500 million total principal amount of 3.375% guaranteed notes slated to mature in 2030 and \$1 billion total principal amount of 4.2% guaranteed notes slated to mature in 2050.

Notably, the notes will be wholly and unconditionally guaranteed by LyondellBasell. Further, the company anticipates the offering to close on Apr 20, which is subject to customary closing conditions.

LyondellBasell intends to use the net proceeds from the offering for general corporate purposes, which include increasing liquidity and managing short-term debt maturities.

BofA Securities, Inc., J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC are serving as the joint book-running managers for the offering. Notably, the offering is made in accordance with an effective shelf registration statement, which was earlier filed with the Securities and Exchange Commission.

LyondellBasell Delays the PO/TBA Project Construction - Mar 30, 2020

LyondellBasell announced that it will slow construction of its world-scale propylene oxide (PO) and tertiary butyl alcohol (TBA) facility. Considering the current concerns related to the coronavirus pandemic, the company is limiting non-essential activities.

Per the company, the PO/TBA site is under construction and it will be prudent to limit construction activities. It is committed to the completion of this strategic investment at low-cost and incorporating its next generation PO/TBA technology.

The PO/TBA project is more than 30% complete with ongoing installation of key equipment and towers. It has a split-facility design that will optimize synergies between two existing LyondellBasell sites. LyondellBasell is building a 140-acre PO/TBA plant at its Channelview, TX facility and a related 34-acre ethers unit at its Bayport Complex in Pasadena, TX. Post completion, the PO/TBA facility will produce around 1 billion pounds (470,000 metric tons) of PO and 2.2 billion pounds (1 million metric tons) of TBA per year.

Notably, LyondellBasell's decision to slow down construction is not expected to impact ongoing operations at Channelview or Bayport, which are categorized as part of the United States' critical infrastructure by the Department of Homeland Security.

Valuation

LyondellBasell's shares are down 43.3% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 38.4% and 25% over the past year, respectively. The S&P 500 index is down 1.7% in the past year.

The stock is currently trading at 5.44X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.49X for the Zacks sub-industry, 8.12X for the Zacks sector and 10.51X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$44 price target reflects 4.7X 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	5.44	6.49	8.12	10.51
	5-Year High	9.2	13.36	17.72	12.87
	5-Year Low	4.38	5.43	6.5	8.27
	5-Year Median	6.83	7.58	10.87	10.78
P/E F12M	Current	5.57	12.4	12.58	19.53
	5-Year High	13.04	15.18	21.06	19.53
	5-Year Low	3.77	8.25	9.79	15.19
	5-Year Median	8.68	12.28	13.43	17.45
P/B TTM	Current	2.16	1.3	1.59	3.8
	5-Year High	6.69	3.55	3.57	4.55
	5-Year Low	1.44	0.89	1.22	2.84
	5-Year Median	5.02	1.81	2.18	3.64

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (217 out of 253)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	LYB Underperform	X Industry	S&P 500	APD Neutral	EMN Underperform	WLK Underperform
VGM Score	B	-	-	F	B	F
Market Cap	17.41 B	2.16 B	19.60 B	48.88 B	7.49 B	5.24 B
# of Analysts	7	3	14	7	8	5
Dividend Yield	8.05%	2.46%	2.17%	2.42%	4.79%	2.57%
Value Score	B	-	-	F	B	C
Cash/Price	0.06	0.10	0.06	0.05	0.03	0.12
EV/EBITDA	5.10	7.13	11.73	14.17	7.45	5.90
PEG Ratio	1.05	2.14	2.19	2.37	1.37	2.56
Price/Book (P/B)	2.16	1.57	2.67	4.10	1.24	0.82
Price/Cash Flow (P/CF)	3.68	5.22	10.55	16.81	4.69	4.61
P/E (F1)	8.22	14.04	18.18	24.41	8.71	19.34
Price/Sales (P/S)	0.50	0.67	2.08	5.46	0.81	0.64
Earnings Yield	11.80%	6.51%	5.38%	4.09%	11.47%	5.17%
Debt/Equity	1.59	0.52	0.70	0.27	0.93	0.59
Cash Flow (\$/share)	14.19	3.41	7.01	13.17	11.76	8.84
Growth Score	C	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	0.72%	10.54%	10.92%	4.57%	1.77%	4.21%
Proj. EPS Growth (F1/F0)	-35.94%	-14.84%	-3.36%	10.53%	-11.31%	-35.34%
Curr. Cash Flow Growth	-16.46%	-7.54%	5.93%	10.98%	-9.97%	-31.71%
Hist. Cash Flow Growth (3-5 yrs)	-3.48%	6.07%	8.55%	5.70%	1.05%	3.87%
Current Ratio	1.83	1.87	1.24	2.59	1.86	2.21
Debt/Capital	61.62%	35.68%	42.78%	21.49%	48.19%	37.24%
Net Margin	9.78%	5.29%	11.64%	21.10%	8.19%	5.19%
Return on Equity	36.95%	11.98%	16.74%	16.20%	16.47%	7.08%
Sales/Assets	1.14	0.83	0.54	0.46	0.57	0.64
Proj. Sales Growth (F1/F0)	-19.09%	-3.22%	-0.14%	1.09%	-10.53%	-5.05%
Momentum Score	B	-	-	C	C	C
Daily Price Chg	5.54%	4.18%	4.04%	4.05%	5.49%	7.46%
1 Week Price Chg	27.83%	17.51%	16.01%	17.53%	32.42%	29.87%
4 Week Price Chg	20.73%	11.40%	18.93%	15.94%	33.58%	9.83%
12 Week Price Chg	-39.48%	-26.16%	-19.39%	-6.65%	-25.60%	-39.62%
52 Week Price Chg	-43.14%	-37.58%	-11.34%	11.81%	-34.43%	-45.78%
20 Day Average Volume	3,380,689	133,438	3,220,598	1,578,052	1,665,627	893,627
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	-0.59%	0.00%
(F1) EPS Est 4 week change	-24.97%	-10.51%	-7.09%	-3.79%	-13.20%	-18.42%
(F1) EPS Est 12 week change	-41.79%	-19.95%	-9.32%	-4.15%	-18.19%	-44.46%
(Q1) EPS Est Mthly Chg	-31.63%	-21.15%	-10.68%	-5.96%	-30.20%	-34.49%

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	B
Growth Score	C
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.