

LyondellBasell (LYB)

\$86.24 (As of 01/23/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Earnings estimates for LyondellBasell for the fourth quarter of 2019 have been stable in the past month. 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 on track with its PO/TBA project. The buyout of A. Schulman will also generate significant cost synergies. It is committed to boost shareholders' returns by leveraging on healthy cash flows. The company has also outperformed the industry in the past year. However, LyondellBasell is seeing certain challenges in the Intermediates and Derivatives business. It is also exposed to raw material cost pressure. Also, it is witnessing headwinds in the refining business. Challenging market conditions and lower by-product prices are denting margins in the segment.

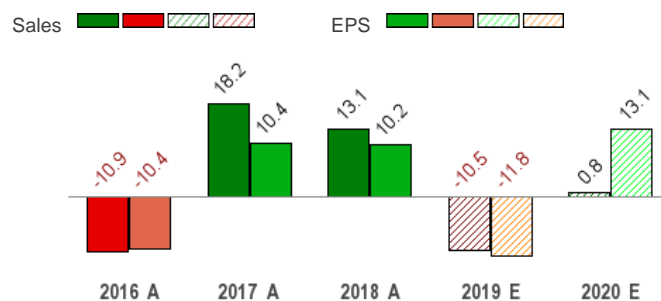
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.91 - \$68.61
20 Day Average Volume (sh)	1,877,514
Market Cap	\$28.8 B
YTD Price Change	-8.7%
Beta	1.40
Dividend / Div Yld	\$4.20 / 4.9%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 7% (237 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	-2.9%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	01/31/2020
Earnings ESP	2.8%
P/E TTM	9.1
P/E F1	7.7
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					35,191 E
2019	8,778 A	9,048 A	8,722 A	8,427 E	34,897 E
2018	9,767 A	10,206 A	10,155 A	8,876 A	39,004 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.07 E	\$2.85 E	\$3.62 E	\$3.05 E	\$11.24 E
2019	\$2.22 A	\$2.75 A	\$2.70 A	\$2.25 E	\$9.94 E
2018	\$3.11 A	\$3.34 A	\$2.96 A	\$1.83 A	\$11.27 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 01/23/2020. The reports text is as of 01/24/2020.

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 \$39 billion in 2018.

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 (23% of 2018 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.

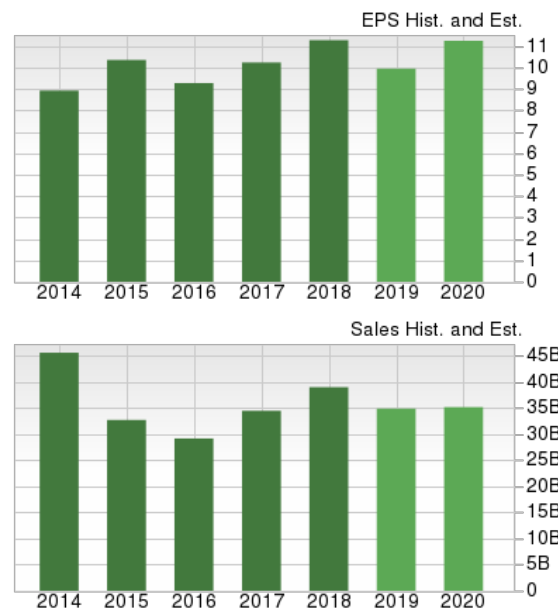
The Intermediates and Derivatives segment (22%) manufactures propylene oxide (PO) and its co-products and derivatives, acetyls, including methanol, ethanol, ethylene oxide and its derivatives, and oxygenated fuels (oxyfuels).

The Advanced Polymer Solutions segment (9%) 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 (1%) 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's shares are rose 2.7% in the past year, outperforming the industry's 23.4% decline. 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. LyondellBasell remains on track with the construction a high-density polyethylene (HDPE) plant on the U.S. Gulf Coast that will employ its proprietary Hyperzone PE technology. The facility, which is scheduled for startup in the second half of 2019, will have 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 third-quarter 2019, the company captured cost synergies at an annual rate of around \$125 million.
- ▲ LyondellBasell remains committed to deliver greater value to its shareholders leveraging healthy cash flows. The company generated cash flows from operations of \$5.5 billion in 2018, up 5.8% year over year. Also, the company generated around \$1.9 billion of cash from operating activities during the third quarter, up 30.2% year over year. In February 2018, LyondellBasell raised its quarterly dividend by 11%.

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:

- ▼ LyondellBasell is seeing pressure in the refining business. In the last reported quarter, operating income and EBITDA of the segment swung to loss on a year over year basis. Margins in the segment were impacted by challenging market conditions along with lower by-product prices and a decrease in the Maya 2- 1-1 spread. High prices on the portion of heavy sulfur crude oil that the company purchases on the open Houston market, reduced its profitability relative to Maya 2-1-1 referenced crack spreads. Per the company, the U.S. refining market faces challenges from global disruptions in the supply of heavy sour crude oil. This is leading to quarterly losses in the Refining unit.
- ▼ 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 sequential-comparison basis, Intermediate Chemicals results declined in the third quarter due to a margin fall in all businesses, mainly styrene. Notably, the company started a planned maintenance at its Acetyls plant in La Porte during the third quarter. The move impacted its performance in the third quarter by reducing volumes. The trend is expected to continue into the fourth quarter. Moreover, Oxyfuels & Related Products results remain under pressure due to an adequately supplied market. Expected typical fourth-quarter seasonal declines are additional concerns for the segment.
- ▼ LyondellBasell faces volatility in raw material and energy costs that account for a major portion of its operating costs. Ethylene feedstocks were volatile during the second half of 2018. Higher feedstock costs during most of 2018 resulted in olefin margin declines. Also, polyolefin results declined year over year due to higher ethylene costs and declining polymer prices. As such, volatility in raw material and energy costs may continue to remain a headwind in the short haul.

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 refining business.

Last Earnings Report

LyondellBasell's Earnings & Sales Miss Estimates in Q3

LyondellBasell logged net profits of \$965 million or \$2.85 per share in third-quarter 2019 compared with \$1,113 million or \$2.85 in the year-ago quarter.

Barring one-time items, adjusted earnings came in at \$2.70 per share that missed the Zacks Consensus Estimate of \$2.78.

LyondellBasell generated revenues of \$8,722 million, down 14.1% year over year. The figure also trailed the Zacks Consensus Estimate of \$8,983.2 million.

Consolidated EBITDA declined 12.6% year over year to \$1,513 million.

Segment Review

In the *Olefins & Polyolefins — Americas* division, EBITDA fell 7.2% year over year to \$653 million. Olefin results rose more than \$150 million year over year. Polyolefins results dropped around \$215 million, mainly due to lower spread in polyethylene over ethylene. The downside was partly offset by increase in polyolefin volume.

EBITDA in the *Olefins & Polyolefins — Europe, Asia, International (EAI)* segment rose 11.1% year over year to \$291 million. Olefin results increased around \$75 million on a year-over-year basis on higher margin and volume. Consolidated polyolefins results increased around \$10 million mainly on higher volume.

The *Advanced Polymer Solutions (APS)* segment's EBITDA was \$102 million in the third quarter compared with \$70 million in the year-ago quarter.

EBITDA in the *Intermediates and Derivatives* segment declined 22.6% on a year-over-year basis to \$390 million. Propylene Oxide & Derivatives results declined around \$15 million on a year-over-year basis due to modest decline in volume. The downtick was caused by scheduled maintenance.

EBITDA in the *Refining* segment amounted to a loss of \$6 million against profit of \$84 million in the year-ago quarter. Crude throughput was 264,000 barrels per day, up 14.3% year over year.

The *Technology* segment's EBITDA fell 15.3% year over year to \$83 million.

Financials

LyondellBasell had cash and liquid investments of \$1.1 billion at the end of the third quarter.

The company paid out dividends of \$351 million during third-quarter 2019. As of Sep 30, 2019, the company had 333 million common shares outstanding.

Outlook

The company continued to benefit from low-cost natural gas liquid feedstocks with favorable prices continuing into October 2019. It expects seasonal softening of demand for the remainder of the year.

The company also expects profitability at its Houston refinery to improve during the fourth quarter. Per LyondellBasell, this is likely to be driven by an increase in demand for low-sulfur marine fuels ahead of the IMO 2020 regulation deadline.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	-2.91%
EPS Surprise	-2.88%
Quarterly EPS	2.70
Annual EPS (TTM)	9.50

Recent News

LyondellBasell Inks JV with Sinopec to Produce PO/SM in China – Dec 23, 2019

LyondellBasell has announced that it has inked a non-binding Memorandum of Understanding (MoU) with China Petroleum & Chemical Corporation (Sinopec) to form a 50:50 joint venture (JV). The JV will build a new propylene oxide and styrene monomer (SM) plant in Zhenhai, Ningbo, China, which will serve the domestic market.

The new facility is expected to produce an annual output of 300 kilo tons of PO and 600 kilo tons of SM. Construction of the facility is slated to start early 2020 and the start-up is expected in 2022.

Notably, PO and SM are core products of LyondellBasell and the new facility will employ the company's leading PO/SM technology. Additionally, the products developed will be marketed equally by both parties, which will considerably boost their respective participation in the Chinese market.

Post completion, the JV will build upon their existing joint venture that operates in the same location under the name, Ningbo ZRCC Lyondell Chemical Company Limited. The latest cooperation on the second PO/SM unit between Lyondell and Sinopec is based on the successful partnership of their first unit.

With growing demand for construction materials, furnishings and packaging markets, LyondellBasell sees opportunity to unite its leading technology with Sinopec's operational capabilities to better serve the Chinese market. Per IHS Markit, China constitutes more than 60% of the Asian chemicals market demand and represents 40% of global chemicals growth over the next decade.

LyondellBasell operates five fully-owned units in China that are situated in Suzhou, Guangzhou, Dongguan, Dalian and Changshu. Moreover, the company is building the world's largest next generation PO/tertiary butyl alcohol (TBA) facility near Houston, TX.

LyondellBasell Declares Quarterly Dividend – Nov 22, 2019

LyondellBasell has declared a dividend of \$1.05 per share, which was paid out on Dec 9, 2019 to shareholders of record Dec 2, 2019, with an ex-dividend date of Nov 29, 2019.

LyondellBasell Provides Construction Updates for PO/TBA Plant - Nov 11, 2019

LyondellBasell announced that the construction at its PO/TBA plant is now more than 20% complete. Works at the facility are shifting to vertical assembly from foundation and infrastructure construction.

The 140-acre PO/TBA plant is currently under construction at the LyondellBasell Channelview Complex in Channelview, TX. A major milestone in terms of the project's progress was recently highlighted by the delivery of a 25-story distillation tower, which is expected to be the tallest equipment installed.

The project promises a long-term value for investors. The company is on track to bring the world's largest PO/TBA facility online in 2021. It may be noted that once operational, the PO/TBA plant will produce 470,000 metric tons of PO and 1 million metric tons of TBA per year.

Per a study by Greater Houston Partnership, the \$2.4-billion PO/TBA project is expected to generate tax benefits worth more than \$450 million for the county, community college, school district and other local taxing districts for a period of 10 years.

Moreover, the project is expected to create more than 2,200 construction jobs during the peak of construction along with 160 permanent positions.

LyondellBasell to Construct Molecular Recycling Facility – Oct 15, 2019

LyondellBasell has announced the construction of its latest small-scale pilot facility at the company's Ferrara site in Italy, taking a step ahead toward the conversion of post-consumer plastic waste into new plastics.

LyondellBasell's MoReTec molecular recycling technology shows that the use of a catalyst in the pyrolysis process, or the structural breakdown of plastic waste into molecules is quicker and more energy-efficient than conventional chemical recycling.

The goal of MoReTec is to recycle plastic waste, such as multi-layer films, back to the molecular state using a proprietary catalyst-based approach to produce new plastic for all uses, including food and healthcare products.

Per LyondellBasell, the company's investment in a small-scale pilot facility will lead to the advancement of its MoReTec technology toward commercial scale, in addition to continued catalyst development.

Per LyondellBasell, this solution has significant potential, given its lower-energy use and faster chemical-conversion process which requires less heat. The company will continue to build its pilot facility at Ferrara, while also concentrating on the impact of different types of waste on the molecular recycling process, catalyst selection, and process conditions.

The company is also actively engaged in mechanical recycling through its joint venture with SUEZ – Quality Circular Polymers (QCP) – which turns post-consumer plastic waste into new plastic pellets used in applications ranging from electrical appliances, detergent bottles and suitcases. LyondellBasell has also created new bioplastics from 100% recycled raw materials, such as cooking and vegetable oil waste, that can be used to make products such as food packaging, toys, and furniture.

LyondellBasell's Polypropylene Technology Picked by Shandong – Oct 10, 2019

LyondellBasell has announced that Shandong Chambroad Sinopoly New Materials Co., Ltd. has picked its leading polypropylene technology for the latter's new global facility. It includes a 400 KTA polypropylene plant using LyondellBasell's Spheripol technology and a 200 KTA polypropylene plant using its Spherizone technology. The facility will be constructed in Binzhou City, Shandong Province, China.

Per LyondellBasell, its polypropylene technology is the most widely-used process globally. The company's customers appreciate the Spheripol process' simplicity and strength. This apart, the Spherizone technology enables to produce outstanding polymer grades on a benchmark cost basis.

Spheripol has more than 25 million tons of licensed capacity. The fifth generation Spheripol technology includes process improvements that further boosts operational efficiency. The Spherizone multi-zone circulating reactor (MZCR) offers a unique and innovative platform to manufacture polypropylene products, with advanced architecture and product properties, which has led to more than 15 Spherizone plants licensed in Asia. Both plants will begin operations using LyondellBasell's Avant ZN catalyst.

Moreover, the new licensees will be eligible to use the company's Technical Service program, and benefit from its in-house expertise of continuous production improvement, sustainable product development and catalyst know-how.

Per Shandong Chambroad, LyondellBasell's polypropylene will help the company deliver cost-effective recognized bulk polymers through the Spheripol technology. Also, the Spherizone technology will aid in supplying differentiated high-margin polymer products.

Notably, the Spheripol technology had earlier been chosen by Sonatrach Total Entreprise Polymeres Spa ("STEP"), which is a joint venture between Sonatrach and TOTAL S.A.

Valuation

LyondellBasell's shares are up 2.7% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 23.4% and up 1.4% over the past year, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 8.02X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.39X for the Zacks sub-industry, 9.67X for the Zacks sector and 12.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.2X and as low as 5.19X, with a 5-year median of 6.78X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$91 price target reflects 8.02X 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	8.02	7.39	9.67	12.38
	5-Year High	9.2	12.41	18.17	12.86
	5-Year Low	5.19	5.08	7.34	8.48
	5-Year Median	6.78	7.25	10.56	10.69
P/E F12M	Current	7.6	12.57	13.46	19.13
	5-Year High	13.04	15.05	21.12	19.34
	5-Year Low	5.99	8.18	9.77	15.17
	5-Year Median	8.86	12.38	13.77	17.44
P/B TTM	Current	3.64	1.7	2.33	4.54
	5-Year High	6.69	3.51	3.54	4.55
	5-Year Low	2.15	0.88	1.33	2.85
	5-Year Median	5.1	2.51	2.18	3.61

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (237 out of 255)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	LYB Neutral	X Industry	S&P 500	APD Outperform	EMN Neutral	WLK Neutral
VGM Score	A	-	-	C	B	B
Market Cap	28.75 B	2.85 B	24.46 B	52.32 B	10.07 B	8.67 B
# of Analysts	6	3	13	7	8	5
Dividend Yield	4.87%	1.79%	1.75%	1.96%	3.56%	1.55%
Value Score	A	-	-	D	A	A
Cash/Price	0.02	0.06	0.04	0.05	0.02	0.16
EV/EBITDA	5.64	6.36	14.11	15.14	7.18	5.23
PEG Ratio	0.97	1.60	2.04	2.04	1.43	2.55
Price/Book (P/B)	3.64	2.09	3.40	4.59	1.65	1.36
Price/Cash Flow (P/CF)	5.84	6.48	13.66	18.01	5.83	5.25
P/E (F1)	7.56	14.27	19.10	25.07	9.64	16.54
Price/Sales (P/S)	0.81	0.89	2.67	5.87	1.07	1.05
Earnings Yield	13.03%	6.84%	5.23%	3.99%	10.37%	6.04%
Debt/Equity	1.38	0.56	0.72	0.28	0.91	0.59
Cash Flow (\$/share)	14.76	3.41	6.94	13.17	12.71	12.86
Growth Score	B	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	1.92%	10.15%	10.60%	4.43%	2.30%	6.61%
Proj. EPS Growth (F1/F0)	13.06%	7.23%	7.59%	15.31%	9.09%	7.12%
Curr. Cash Flow Growth	7.46%	3.75%	13.90%	10.98%	4.53%	26.46%
Hist. Cash Flow Growth (3-5 yrs)	2.91%	6.70%	9.00%	5.70%	4.27%	16.64%
Current Ratio	1.30	1.81	1.22	2.54	1.65	2.81
Debt/Capital	58.19%	38.75%	42.99%	22.08%	47.73%	37.11%
Net Margin	9.80%	5.57%	11.35%	19.73%	8.12%	5.74%
Return on Equity	35.56%	11.94%	17.10%	15.88%	16.58%	8.52%
Sales/Assets	1.19	0.85	0.55	0.46	0.58	0.67
Proj. Sales Growth (F1/F0)	0.84%	2.13%	4.03%	5.79%	1.63%	3.87%
Momentum Score	B	-	-	D	C	C
Daily Price Chg	-0.46%	-0.12%	0.26%	-0.32%	0.71%	-0.31%
1 Week Price Chg	2.87%	0.69%	2.29%	2.16%	3.56%	5.17%
4 Week Price Chg	-8.81%	-5.19%	2.24%	0.51%	-6.09%	-4.51%
12 Week Price Chg	-3.86%	0.91%	7.79%	11.27%	-2.60%	6.88%
52 Week Price Chg	2.72%	-2.62%	21.61%	51.62%	-5.12%	-7.15%
20 Day Average Volume	1,877,514	107,001	1,536,379	1,017,126	902,890	357,877
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.65%	0.00%
(F1) EPS Est 4 week change	-0.99%	-0.21%	0.00%	-0.12%	-1.19%	-2.70%
(F1) EPS Est 12 week change	-7.49%	-3.38%	-0.23%	1.21%	-10.04%	-7.58%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.87%	0.00%	NA

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	B
VGM Score	A

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

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