

LyondellBasell (LYB)

\$67.72 (As of 05/26/20)

Price Target (6-12 Months): **\$72.00**

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:C

Value: B

Growth: C

Momentum: D

Summary

LyondellBasell's adjusted earnings beat the Zacks Consensus Estimate in the first quarter, 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. It is also on track with its PO/TBA project. The A. Schulman buyout will also generate significant cost synergies. LyondellBasell is committed to boost shareholders' returns. However, it is seeing certain challenges in the Intermediates and Derivatives business. Moreover, decline in demand stemming from persistently low automotive demand and the impact of the coronavirus is hurting Oxyfuels & Related Products business. Also, the refining market is affected by declining prices and reduced demand for transportation fuels. High debt level is another concern.

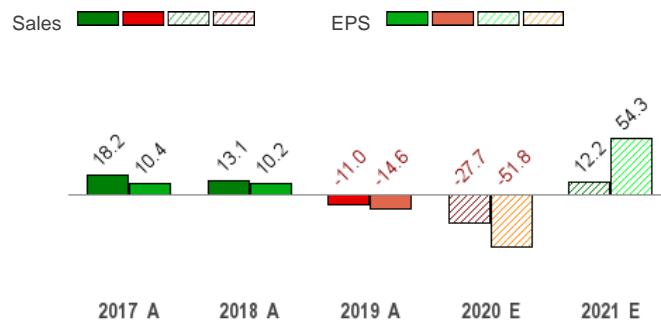
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.91 - \$33.71
20 Day Average Volume (sh)	2,361,593
Market Cap	\$22.6 B
YTD Price Change	-28.3%
Beta	1.53
Dividend / Div Yld	\$4.20 / 6.2%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 35% (165 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-15.8%
Expected Report Date	08/07/2020
Earnings ESP	0.0%
P/E TTM	7.7
P/E F1	14.6
PEG F1	1.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					28,159 E
2020	7,494 A	5,397 E	5,968 E	6,351 E	25,098 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					\$7.16 E
2020	\$1.47 A	\$0.52 E	\$1.14 E	\$1.13 E	\$4.64 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 05/26/2020. The reports text is as of 05/27/2020.

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.

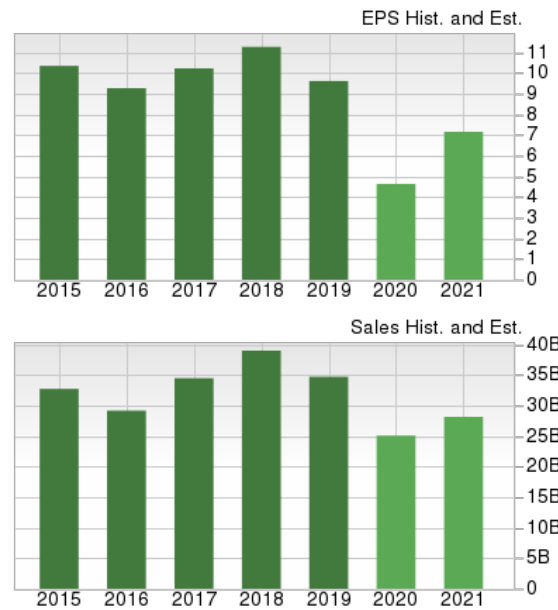
The Intermediates and Derivatives segment (20%) manufactures propylene oxide (PO) and its co-products and derivatives, acetyls, including methanol, ethanol, ethylene oxide and its derivatives, and oxygenated fuels (oxyfuels).

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 \$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. In the first quarter, the company also paid out dividends worth \$351 million.

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. On a year-over-year and sequential-comparison basis, Intermediate Chemicals results declined in the first quarter. Moreover, the Oxyfuels & Related Products businesses of the unit witnessed challenging market conditions in the first quarter due to lower margins and demand for transportation fuels. 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 Refining segment and Olefins & Polyolefins — Americas segment is a concern. The Refining business swung losses in the first quarter while EBITDA of the Olefins & Polyolefins — Americas segment fell 29.1% year over year. The company stated that the refining market has been challenged by declining prices and reduced demand for transportation fuels, which includes gasoline and jet fuel. Going forward, it expects these factors to continue to put pressure on margins.
- ▼ The company's high debt level is another concern. Its long-term debt was \$12,159 million at the end of first-quarter 2020, up from \$11,614 million in the prior quarter. Further, its time-interest-earned ratio of 10.4 at the end of first-quarter 2020 fell from 12.7 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 margins in the Refining segment is another concern. High debt level is another cause of worry.

Last Earnings Report

LyondellBasell's Q1 Earnings Beat, Sales Lag Estimates

LyondellBasell posted profits of \$144 million or 42 cents per share in first-quarter 2020, down from \$817 million or \$2.19 in the year-ago quarter.

Barring one-time items, adjusted earnings came in at \$1.47 per share that beat the Zacks Consensus Estimate of \$1.36.

Revenues fell 14.6% year over year to \$7,494 million in the reported quarter. The figure also trailed the consensus mark of \$7,507.2 million.

Consolidated EBITDA fell 54.8% year over year to \$646 million.

Segment Review

In the Olefins & Polyolefins — Americas division, EBITDA fell 29.1% year over year to \$366 million. Polyolefin results dropped around \$110 million due to lower margins, partly offset by higher polyethylene volume.

The Olefins & Polyolefins — Europe, Asia, International segment witnessed a fall in EBITDA of 36.1% year over year to \$189 million. Olefin results rose around \$45 million on a year-over-year basis with an improvement in both volume and margin. Ethylene margin expanded mainly due to lower feedstock prices, which was partly offset by decline in ethylene prices.

The Advanced Polymer Solutions segment saw a decline in EBITDA to \$113 million from \$148 million in the year-ago quarter. Compounding & Solutions results declined \$30 million mainly due to lower demand stemming from persistently low automotive demand and the impact of coronavirus.

EBITDA in the Intermediates and Derivatives segment fell 47.9% on a year-over-year basis to \$203 million.

EBITDA in the Refining segment came in at a loss of \$272 million in the reported quarter compared with a loss of \$15 million in the year-ago quarter. Margin declined due to the inability to upgrade products during an unplanned outage. Crude throughput fell by 33,000 barrels per day.

The Technology segment's EBITDA fell to \$56 million in the reported quarter from \$83 million in the prior-year quarter, mainly due to lower licensing revenues.

Financials

As of Mar 31, LyondellBasell had cash and liquid investments of \$1.8 billion.

In the first quarter, the company paid out dividends worth \$351 million. It also had 334 million common shares outstanding as of Mar 31.

Outlook

LyondellBasell expects low crude oil pricing, the coronavirus pandemic and a slowing economy to affect its business in the second quarter. The company's order books for April and May indicate strong ongoing demand for its polyolefins in medical and consumer packaging applications. Demand for industrial and durable products markets are expected to remain weak. Moreover, significantly lower demand for transportation fuels will impact the Refining and Oxyfuels & Related Products businesses.

The company is undertaking actions to manage risk by accelerating cost-saving initiatives, aggressively managing working capital and lowering capital expenditures for 2020 by \$500 million. It also increased liquidity to more than \$5 billion during April.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	-0.18%
EPS Surprise	8.09%
Quarterly EPS	1.47
Annual EPS (TTM)	8.83

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.

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 28.2% in the year-to-date period and down 12.7% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and the Zacks Basic Materials sector are down 19% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17% and 5.3%, respectively.

The S&P 500 index is down 7% in the year-to-date period and up 6.7% in the past year.

The stock is currently trading at 7X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.37X for the Zacks sub-industry, 8.69X for the Zacks sector and 10.93X 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 6.79X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 12.76X 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	7	7.37	8.69	10.93
	5-Year High	9.2	13.36	18.31	12.86
	5-Year Low	4.38	5.37	6.48	8.28
	5-Year Median	6.79	7.57	10.5	10.78
P/E F12M	Current	11.98	16.77	16.16	21.49
	5-Year High	12.79	16.77	21.06	21.49
	5-Year Low	3.77	8.25	9.79	15.23
	5-Year Median	8.62	12.28	13.49	17.49
P/B TTM	Current	3.08	1.59	2.61	4.04
	5-Year High	6.69	3.55	3.43	4.56
	5-Year Low	1.44	0.89	1.22	2.83
	5-Year Median	4.97	1.8	2.18	3.65

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
Dow Inc. (DOW)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	2
SINOPEC Shanghai Petrochemical Company, Ltd. (SHI)	Underperform	4
Westlake Chemical Corporation (WLK)	Underperform	5

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	LYB	X Industry	S&P 500	APD	EMN	WLK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	B	B	F
Market Cap	22.60 B	2.25 B	21.18 B	52.52 B	9.33 B	5.95 B
# of Analysts	4	3	14	7	8	5
Dividend Yield	6.20%	2.27%	2.03%	2.25%	3.85%	2.25%
Value Score	B	-	-	C	B	D
Cash/Price	0.09	0.12	0.06	0.04	0.08	0.27
EV/EBITDA	5.96	6.70	12.37	15.26	8.11	6.53
PEG Ratio	1.90	2.95	2.88	2.97	2.69	17.35
Price/Book (P/B)	3.08	1.67	2.90	4.48	1.51	0.92
Price/Cash Flow (P/CF)	4.77	5.84	11.55	18.05	5.84	5.27
P/E (F1)	14.78	19.07	21.24	28.04	11.62	40.95
Price/Sales (P/S)	0.68	0.69	2.24	5.85	1.02	0.74
Earnings Yield	6.85%	4.93%	4.57%	3.57%	8.61%	2.45%
Debt/Equity	1.82	0.55	0.76	0.28	0.87	0.74
Cash Flow (\$/share)	14.19	3.41	6.96	13.17	11.76	8.84
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	-0.35%	9.92%	10.87%	4.81%	1.66%	1.53%
Proj. EPS Growth (F1/F0)	-51.79%	-27.74%	-10.31%	3.29%	-17.16%	-65.09%
Curr. Cash Flow Growth	-16.46%	-7.54%	5.46%	10.98%	-9.97%	-31.71%
Hist. Cash Flow Growth (3-5 yrs)	-3.48%	6.01%	8.55%	5.70%	1.05%	3.87%
Current Ratio	1.76	1.87	1.29	2.59	1.66	3.68
Debt/Capital	64.71%	37.09%	44.54%	21.68%	46.58%	42.60%
Net Margin	8.14%	4.87%	10.59%	21.66%	8.85%	6.16%
Return on Equity	36.08%	12.74%	16.29%	16.36%	16.76%	6.41%
Sales/Assets	1.09	0.79	0.55	0.46	0.56	0.61
Proj. Sales Growth (F1/F0)	-27.73%	-8.04%	-2.34%	-0.64%	-12.76%	-11.78%
Momentum Score	D	-	-	A	C	C
Daily Price Chg	12.08%	4.00%	2.82%	1.47%	4.86%	5.89%
1 Week Price Chg	12.72%	5.49%	4.99%	2.77%	9.15%	14.22%
4 Week Price Chg	21.65%	5.11%	3.55%	6.34%	13.17%	9.44%
12 Week Price Chg	-6.26%	-6.07%	-4.95%	4.59%	12.62%	-16.99%
52 Week Price Chg	-12.04%	-18.00%	-3.04%	17.58%	1.10%	-22.53%
20 Day Average Volume	2,361,593	112,015	2,429,758	971,536	1,336,742	676,464
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-15.77%	-3.55%	-2.27%	-1.97%	-6.32%	-34.09%
(F1) EPS Est 12 week change	-52.98%	-33.51%	-16.39%	-10.96%	-20.40%	-60.00%
(Q1) EPS Est Mthly Chg	-59.51%	-53.71%	-4.03%	-3.43%	-20.11%	-112.57%

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	B
Growth Score	C
Momentum Score	D
VGM Score	C

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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