BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH

BTN Research

Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

July 18, 2019 | www.btnresearch.com

LyondellBasell (LYB) – Update
Maintain BUY

LYB does not report earnings until August 2, but last week it did complete a purchase of 35.1 million shares of its common stock at $88. This reduced the share count by 9.5% At most companies we favor cash dividends over repurchases because dividends reward shareholders who stay rather than giving the cash to shareholders who leave. Moreover, we see too many companies who are atrocious at the timing of buying back their shares – buying high and selling low. Plus, it is often used to limit dilution of stock options paid to management and the net share-count does not decline much.

- At LYB, we praise their repurchase because first and foremost, they are buying a cheap stock. EBITDA runs between $6-$8 billion and the company is buying stock for 5-6x EBITDA. The P/E is about 7-8x and EPS has a 12% growth rate baked in from the share count at the end of 2018 due to the repurchase.

- After purchases, LYB's share count actually does decline by the number of shares bought. They do not have a history of issuing massive amounts of new stock as they do the repurchases:

LYB in mm's	2018	2017	2016
Shares issued	0.3	0.4	0.4
Shares bought	19.2	10.0	36.6
Ending Shares	375.7	394.5	404.0

By seeing the share count actually fall by the amount of the repurchases, LYB has built-in even more EPS growth. It just retired 9.5% more of the stock in one deal and the outstanding share count should be about 335 million.

- They pay a dividend of almost 5% also and just raised it by 5% in 2Q19. They are not ignoring cash payments to people who remain investors.

- The repurchase is a net positive for cash flow. Even if $3.1 billion used to buy stock was fully borrowed and ultimately financed at 5% interest – the cost would be $150 million in interest expense. Net of the tax shield, the cash impact would be about $120 million. But, 35.1 million shares with a quarterly dividend of $1.05 is essentially $150 million of cash flow saved.

- The debt at LYB after this deal would remain under 2x EBITDA and cash flow remains very strong to push that ratio to 1.5x. Free cash flow has been $3.0-$3.5 billion the last 3-years. The dividend is currently $1.4 billion per year, so coverage is over 2x with considerable cash left to retire debt or buy more shares.

Disclosure

BTN Research is a research publication structured to provide analytical research to the financial community. Behind the Numbers, LLC is not rendering investment advice based on investment portfolios and is not registered as an investment adviser in any jurisdiction. Information included in this report is derived from many sources believed to be reliable (including SEC filings and other public records), but no representation is made that it is accurate or complete, or that errors, if discovered, will be corrected.

The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. Other CPAs, unaffiliated with Mr. Middleswart, may or may not have audited the financial statements. The authors also have not conducted a thorough "review" of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing contained herein shall be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "BUY" or "SELL" recommendation. Rather, this research is intended to identify issues that investors should be aware of for them to assess their own opinion of positive or negative potential.

Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them may have a position in, and from time-to-time purchase or sell any of the securities mentioned in this report. Initial positions will not be taken by any of the aforementioned parties until after the report is distributed to clients, unless otherwise disclosed. It is possible that a position could be held by Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them for stocks that are mentioned in an update, or a BTN Thursday Thoughts.