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LyondellBasell Industries N.V. (LYB) CEO Bob Patel on Q3 2019 Results - Earnings Call Transcript

Nov. 1, 2019 3:42 PM ET | 2 Likes
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Q3: 11-01-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $2.6 misses by $-0.16 | Revenue of $8.72B (-14.11% Y/Y) misses by $-155.27M

Earning Call Audio

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LyondellBasell Industries N.V. (NYSE:LYB) Q3 2019 Earnings Conference Call November 1, 2019 11:00 AM ET

Company Participants

David Kinney - Director of Investor Relations

Bob Patel - Chief Executive Officer

Thomas Aebischer - Chief Financial Officer

Conference Call Participants

Duffy Fischer - Barclays

Kevin McCarthy - Vertical Research Partners

David Begleiter - Deutsche Bank

P.J. Juvekar - Citi

Bob Koort - Goldman Sachs

Vincent Andrews - Morgan Stanley

Steve Byrne - Bank of America

Arun Viswanathan - RBC Capital Markets

Bhavesh Lodaya - BMO Capital Markets

Frank Mitsch - Fermium Research

Hassan Ahmed - Alembic Global

John Roberts - UBS

Mike Sison - Wells Fargo

Jeff Zekauskas - JPMorgan

Jim Sheehan – SunTrust

Jonas Oxgaard – Bernstein

Laurence Alexander - Jefferies

Matthew Blair - Tudor Pickering Holt

Operator

Hello, and welcome to the LyondellBasell Teleconference. At the request of LyondellBasell, this conference is being recorded for instant replay purposes. Following today's presentation, we will conduct a question-and-answer session. [Operator Instructions]

I'd now like to turn the conference over to Mr. David Kinney, Director of Investor Relations. Sir, you may begin.

David Kinney

Thank you, Britney. Hello, and welcome to the LyondellBasell third quarter 2019 teleconference. I'm joined today by Bob Patel, our Chief Executive Officer; and Thomas Aebischer, our Chief Financial Officer.

Before we begin the business discussion, I would like to point out that a slide presentation accompanies today's call and is available on our website at www.lyondellbasell.com. Today we will be discussing our business results while making references to some forward-looking statements and non-GAAP financial measures. We believe the forward-looking statements are based upon reasonable assumptions and the alternative measures are useful to investors. Nonetheless, the forward-looking statements are subject to significant risk and uncertainty. We encourage you to learn more about the factors that could lead our actual results to differ by reviewing the cautionary statements in the presentation slides and our regulatory filings, which are available at www.lyondellbasell.com/investorrelations.

Reconciliations of non-GAAP financial measures to GAAP financial measures together with other disclosures including the earnings release are also currently available on our website.

Finally, I would like to point out that a recording of this call will be available by telephone beginning at 2:00 p.m. Eastern time today until 11:59 p.m. Eastern time on December 1 by calling 888-568-0509 in the United States and 203-369-3479 outside the United States. The passcode for both numbers is 5713.

During today's call, we will focus on third quarter results, the current environment, our near-term outlook and provide an update on our growth initiatives.

With that being said, I would now like to turn the call over to Bob.

Bob Patel

Thanks, Dave. Good day to all of you participating around the world and thank you for joining our third quarter earnings call. Let's begin with slide 3 and review the third quarter highlights.

During our Investor Day in September, we emphasized how our leading and advantaged portfolio of businesses is poised to deliver resilient performance and strong cash flows across a range of market conditions. The company delivered on this commitment during the third quarter with $1.9 billion of cash from operating activities.

Our third quarter EBITDA of $1.5 billion represents a decline of approximately 4% relative to the second quarter and 13% relative to the prior year. Third quarter earnings were $2.85 per share, which represents a 6% improvement over the previous quarter. This is our third consecutive quarter of increasing earnings per share.

The advantage of abundant low-cost natural gas liquid feed stocks continue to benefit our North American businesses. Demand for our consumer-driven non-durable products reflected typical seasonal strength with a 5% increase in our global polyethylene and polypropylene sales volume relative to the second quarter.

Industrial driven markets for durable products saw weaker margins and demand due to trade uncertainty. Despite the challenging market conditions, our portfolio of businesses performed well during the quarter continued to efficiently deliver outstanding cash flow.

Let's turn to slide 4 and review our approach to maximizing the returns from this cash generation. We have followed a consistent and disciplined capital allocation strategy that provides a sustainable balance between value-driven growth and strong shareholder returns. Our growth investments in new capacity are underway with our Hyperzone polyethylene capacity being commissioned as we speak.

We now expect sales volumes to ramp up during the first quarter of 2020 with increasing profitability throughout the year. Cost for the project is estimated at approximately $900 million. This project continues to be very attractive due to our advantaged feedstock position in North America and the differentiated technology, which will deliver new high-performing products to our customers.

During our recent Investor Day, many of you toured the construction of our new propylene oxide plant that is being built across two sites outside of Houston, in Channelview and Bayport. We continue to expect this plant will be completed in the second half of 2021 and further increase our cash generation during 2022. The box on the right of the slide illustrates our progress on additional value-driven opportunities.

In late September, we extended our long-term relationship with Enterprise as the anchor customer for their second propane dehydrogenation plant that will start in 2023. This contract provides LyondellBasell with additional propylene supply at cost-based economics to support our downstream capacity growth in propylene oxide.

Earlier in September, we announced a memorandum of understanding with Liaoning Bora Group to form a joint venture that will rapidly expand our global olefins and polyolefins network in China. The project provides LyondellBasell with the local production presence in a market that is growing at more than twice the rate of global GDP. This project is more than 50% complete and expected to begin operations in 2021.

Finally, we completed a tender offer in July that resulted in the repurchase of approximately 9.5% of our outstanding shares for $3.1 billion. These actions demonstrate our discipline and commitment to balancing growth with substantial returns to our shareholders.

Let's turn to slide 5 and discuss our safety results. Our emphasis on operating safely is embedded in our culture. It is never taken for granted. We realize that we need to work every day to cultivate processes and behaviors that support leading safety performance for our employees, contractors, our communities and our business partners. We will continue to maintain a consistent focus on safety, as we believe it underpins everything that we do.

Let's turn to slide 6 where we highlight LyondellBasell's activities in advancing our sustainability agenda. During the same week as our Investor Day in September, we published our second annual sustainability report. This report is on our website and it describes our goals and progress over the prior year.

Our company is also developing innovative business models that advance the circular economy. In addition to our PE and PP mechanical recycling business and usage of bio-based feedstocks to produce new plastics, last month we announced the construction of a new pilot facility in Italy for our MoReTec molecular recycling technology.

We are moving forward with these three business models to increase circularity and develop sustainable and profitable business platforms within the next decade. It's important to remember that plastics provide many benefits to society and will continue to do so in the future. However, we must address the issue of plastic waste. We have committed to pursue zero loss of plastic pallets from our production facilities and we are leading meaningful solutions to eliminate the leakage of plastic into the environment through the Alliance to End Plastic Waste.

Additionally, our company is targeting a 15% reduction in carbon dioxide emission intensity by 2030. We hope that you as our investors and stakeholders will take time to review our sustainability report and provide us with your feedback on our progress.

And now, Thomas will provide more detail on our financial highlights for the third quarter.

Thomas Aebischer

Thank you, Bob, and good day to all of you. Please turn to slide 7 where you can see the growth of our earnings over the past three quarters. As Bob mentioned, third quarter earnings of $2.85 per share were supported by strong consumer driven seasonal demand for our products as well as our sizable share repurchases.

Third quarter results included an $85 million non-cash benefit from the settlement of prior tax year positions that increased earnings by $0.25 per share. Integration costs during the third quarter related to the Schulman acquisition impacted net income by $33 million or $0.10 per share. During the third quarter, we repurchased 37 million shares.

Now let's look more closely at our consistent and efficient cash flow performance on slide 8. Our businesses have generated $5 billion to $6 billion of cash from operating activities over each of the prior four calendar years and $5 billion over the trailing 12 months. With $1.1 billion required for sustaining capital expenditures, our free operating cash flow yield was 13.2% over the past 12 months.

Slide 9 describes our cash flow generation and deployment during a very active third quarter for our finance department. Cash flow from operating activities effectively doubled our starting balance of $1.9 billion. Debt increased by net $1.7 billion, during the third quarter. While the timing of the increase debt aligns with our July tender offer, you will recall that we invested approximately $1.9 billion of cash on hand in acquiring A. Schulman last year.

During the third quarter, we issued $1 billion in Eurobonds, in two tranches and used the proceeds to repay a term loan and a portion of our short-term debt. The coupon rates for the notes were the lowest in our company's history, 0.875% and 1.625% for seven- and 12-year terms respectively.

Near the end of September, we priced $1 billion in 30-year dollar notes, that's held in October. The 4.2% coupon rate for these notes is also the lowest in company history for U.S. bonds of this tenure. We used these proceeds to repay short-term debt.

During the third quarter, as mentioned before, we repurchased 37 million shares and in addition, paid dividend, returning a total of $3.6 billion to shareholders. Capital expenditure for the third quarter were approximately $740 million with roughly 60% invested in profit generating growth projects, with the remainder allocated to sustaining capital.

Our investment in growth has increased in second quarter. And we expect a similar trend over the remainder of the year, as we complete our Hyperzone PE plant and accelerate the activity on construction for our new PO/TBA plant in Houston.

The quarter closed with approximately $1.1 billion of cash and liquid investments. Slide 10, illustrates the maturities of our long-term debt, after the October issuance. The two recent bond offerings reduced our weighted average cost of debt, by 42 basis points.

We have a well balanced maturity profile that reduces refinancing, risks and enables the company to benefit from a consistent presence in both, U.S. and euro fixed income markets. Let's turn to slide 11 and review our disciplined approach to capital deployment that we discussed in detail during our Investor Day.

The principal for our capital allocation strategy have remained consistent. Our businesses generate tremendous cash flows. We are first and foremost committed to a strong and progressive dividend.

We will make capital investments that sustain our manufacturing reliability. And expand our asset footprint. We will pursue value-minded inorganic growth opportunities. And return the surplus cash to share repurchases. All of these decisions points are underpinned by our commitment, to the flexibility provided by our strong investment-grade credit ratings.

With that, thank you very much. And I will turn the call back to, Bob. Thank you.

Bob Patel

Thank you, Thomas. As many of you know, Thomas will be retiring from the company in the coming weeks. I want to take this opportunity to thank Thomas for his hard work over the past four years to build and enhance our finance organization.

These contributions to the development of our growth strategy, and his leadership in standardizing several of our processes, I wish Thomas and his family all the best. I particularly wanted to thank Thomas for agreeing to help us manage a thoughtful transition for a successor Michael McMurray, who will join the company as an Executive Vice President and our Chief Financial Officer next Tuesday, November 5.

Michael joins us after serving as CFO for Owens Corning, in a career that spanned more than 30 years in various finance, treasury and investor relations roles, for Owens Corning and Royal Dutch Shell. I hope you will all join me in warmly welcoming Michael to LyondellBasell.

Now let's turn to slide 12 and review our third quarter EBITDA performance. Our global footprint and diverse business portfolio, continued to demonstrate strength and resiliency in a challenging market environment. EBITDA for the third quarter was $1.5 billion.

Profitability, for integrated polyethylene production remains strong in both the Americas and Europe with, industry benchmark chain margins of approximately $700 and $600 per ton respectively during the third quarter.

During the quarter, we maintained high crude processing rates at our Houston refinery and benefited from improved margins relative to the second quarter. Several of our intermediate chemicals businesses, mainly styrene suffered from weak margins due to lackluster industrial demand in a well-supplied market.

Let's begin with our Olefins and Polyolefins Americas segment on slide 13. Third quarter EBITDA was $653 million, $18 million higher than the second quarter. Profitability was driven by robust global demand and our capability to capture the benefits of abundant and affordable natural gas liquids, through our feedstock optimization.

Olefins results increased by $120 million compared to the second quarter. Margins expanded on higher ethylene sales prices and lower feedstock costs. Ethylene operating rates fell to 80% due to a planned maintenance turnaround that we completed at our Clinton, Iowa facility during the third quarter.

As propane and butane prices fell by nearly 20% in the third quarter, we captured value from the high feedstock flexibility across our fleet of six U.S. ethylene crackers. We increased utilization of propane and butane feedstocks by nearly 10 percentage points to 35% in the third quarter.

Polyolefin results decreased by about $100 million during the third quarter, Polyethylene spread over ethylene price declined by about $220 per ton, partly due to higher ethylene costs and declining polymer prices. Polyolefin volumes increased due to an increase in polyethylene exports.

We expect the fourth quarter will follow typical seasonal trends, with reduced demand as customers take holiday downtime. And seek to minimize year-end inventories. With approximately 80% of the new U.S. polyethylene capacity now in the market, this is an opportune time to review the impact of new capacity and polyethylene pricing.

Slide 14, illustrates quarterly contract price change, for the North American polyethylene industry, over the past five years. The green bars indicate increases, orange bars represent decreases. The amplitude and volatility of price changes during the 2018 and 2019 have been relatively moderate when compared to the prior four years. In fact, the net reported price change over the first three quarters of 2019 has been zero.

Industry statistics indicate that days of sales in inventory, fell in September, with export sales now representing 35% of production. Increasing exports, decreasing inventories and muted pricing responses, all imply that the new capacity is meeting demand in the global market.

Our view is that, the new capacity will create short-term fluctuations particularly in local markets. However, we believe the new capacity is ultimately needed and global polyethylene markets will remain relatively balanced, providing good profitability for advantaged producers such as LyondellBasell.

Now please turn to slide 15 to review the performance of our Olefins and Polyolefins Europe, Asia, and International segment. During the third quarter, EBITDA was $291 million, a $40 million decrease compared to the second quarter. Underlying business results, were impacted by lower polyethylene chain margins, but supported by healthy polyolefins demand.

Olefins results decreased by about $10 million due to a small decline in volume, combined polyolefins results were comparable to the previous quarter. Polyethylene volume increased 10% over the second quarter, with customers returning to the market, after taking a pause during the second half of June.

Polyethylene margins declined offsetting the improvement in volume. Modest reductions in margins across our joint ventures contributed to a decline in equity income of approximately $15 million. We expect the fourth quarter to follow the same seasonal trend, as the Americas with reductions in year-end demand.

Please turn to slide 16. Let's take a look at our Intermediates and Derivatives segment. Third quarter EBITDA was $390 million, a $58 million decrease compared to the prior quarter. Results were affected by a decline in margins, due to a well-supplied market for our intermediate Chemicals business, but bolstered by seasonally strong Oxyfuels profitability.

Intermediate Chemicals results decreased by $95 million compared to the second quarter, driven by a margin decline in all businesses, primarily styrene. We began planned maintenance at our Acetyls plant in La Porte in the third quarter, which will reduce volumes for both the third and fourth quarter.

Oxyfuels & Related Products results improved nearly $30 million as we saw margin increases driven by higher gasoline blend premium and lower butane feedstock prices. During October, oxyfuels margins have declined with weaker gasoline demand as the summer driving season ends. We expect typical fourth quarter seasonal declines for the segment and continued pressure from a well supplied market.

Now please turn to slide 17 to review the results of our Advanced Polymer Solutions segment. Third quarter EBITDA was $102 million, an $18 million decrease compared to the prior quarter. Results were impacted by increased integration costs and continued headwinds in the automotive sector partially offset by a modest improvement in construction demand. Included in the results were $43 million of integration costs for the third quarter, which impacted earnings by $0.10 per share.

Compounding & Solutions results were relatively unchanged due to the softness in the automotive market. Advanced Polymers results increased by $10 million. Third quarter performance was supported by improved seasonal demand from the roofing market. Our team is making continued progress on the integration efforts. In fact, we increased our two-year cost synergy target by $50 million to a total of $200 million.

At the end of the third quarter, we are capturing cost synergies at a forward annual run rate of approximately $125 million. We expect profitability for the segment to follow normal seasonal trends. Trade uncertainty and labor disruptions continue to affect the automotive industry and our business is likely to continue following the general sentiment for that market.

Turning to slide 18. Let's discuss the result for our Refining segment. EBITDA improved by $60 million over the second quarter to negative $6 million for the third quarter. We continue to demonstrate the benefits of our reliability program at the Houston refinery with crude throughput increasing to 264,000 barrels per day operating at 99% of nameplate capacity for the quarter.

Our Houston refinery processes heavy sour crude oils from Mexico, Canada and other locations. In the third quarter, refinery margins benefited from improved diesel spreads and stronger discounts for the portion of heavy sour crude oil we purchased on the open market in Houston. The U.S. refining market has been challenged by global disruptions in the supply of heavy sour crude oil resulting in a string of quarterly losses in our Refining segment.

During September, profitability was further impacted by unusual increases in the formula pricing from higher crude from Mexico. These pricing decisions have spurred us to pursue increased utilization of alternative crude oils for the long-term supply of our refining business. As the implementation of the IMO 2020 marine fuel regulation inches closer, we expect continued margin improvement in our refining results during the fourth quarter. We are well positioned to take advantage of this regulatory change by converting high sulfur crude oils into more environmentally friendly marine fuels.

Please turn to slide 19 as we review the results of our technology segment. During the third quarter, EBITDA was $83 million, a decrease of $24 million compared to the previous quarter. The business model for our technology segment is based upon the licensing of polymer production technologies and catalyst sales.

Individual contract terms and the timing of project milestones drives the pace of licensing revenues for the business. In the third quarter, we had fewer licensing milestones than the prior quarter, which resulted in reduced EBITDA. Catalyst sales volumes and licensing activity are projected to be strong during the fourth quarter.

On slide 20, let me summarize this quarter's results. During the quarter, we increased our earnings to $2.85 per share. Our profitability remained strong and generated cash from operating activities of $1.9 billion. Our company is delivering resilient performance in a challenging market where trade uncertainty and lack of confidence in the industrial sector has reduced demand for many of our products. The long-awaited polyethylene cycle is now upon us with approximately 80% of the U.S. capacity now online.

Polyethylene spreads over naphtha in Asia are approaching 10-year lows. With inventories largely destocked any improvement in industrial confidence is likely to reverse these trends and trigger restocking that should tighten markets and increase margins. In addition to the market improvements, LyondellBasell has tangible sources of cash flow growth that are independent of market sentiment.

During October, the looming implementation of the IMO 2020 marine fuel regulation drove favorable crude oil differentials and higher diesel spreads that improved profitability for our business in October. We will increase our polyethylene capacity and reduce our CapEx over the next year with the completion of our new Hyperzone plant. With higher earnings and lower capital spending, we expect additional cash flow to provide further support for our secure dividend and opportunistic share repurchases.

We continue to advance our growth objectives by pursuing a new partnership in China and a propylene supply agreement with Enterprise. In short, we're leveraging our leading portfolio in advantaged positions to support disciplined investments that should deliver sustainable value for our investors.

We're now pleased to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Duffy Fischer from Barclays. Your line is now open.

Duffy Fischer

Yeah. Good morning, guys.

Bhavesh Patel

Good morning.

Duffy Fischer

First question is just if you look at a number of the major consultants in the space, they would have integrated polyethylene margins coming down kind of throughout or all the way through 2020. Obviously, you get their data and kind of analyze it. Where do you think they're getting it wrong? What are they too punitive on that they would be more negative than your outlook for polyethylene?

Bhavesh Patel

Well Duffy first of all, if you consider the market environment today and if you look at prior downturns, on the demand side, we already have a lot of uncertainty that's impact demand. You think about the auto sector, trade uncertainty, recession fears, Brexit and so on those have all weighed on demand all year long and we've seen destocking. So we think on the demand side, we've already seen somewhat of a downturn. And to your question about what they might be missing. If you -- I would point to the Asia PE to naptha spread. It's approaching $300 per ton. And if you look over the last 10 years that's reaching the lows over that period of time. And it seems to me that that's pointing towards a trough in polyethylene margins.

Operator

[Operator Instructions] And our next question comes from Kevin McCarthy from Vertical Research Partners. Your line is now open.

Kevin McCarthy

Yes. Bob, a couple of questions on the refinery. You referenced IMO 2020. Can you talk through the expected impact of that event? Does it influence the way that you're running your asset in terms of catalyst slates mix of products and how did the unit run in October please?

Bhavesh Patel

So the unit ran very well in October. And if you'll recall from our prior conversations, the impact from IMO comes in several forms for us. One is that we'll benefit from a wider light-heavy differential meaning that sour crudes will see less demand as not all refineries are able to meet the new specifications. We should also see wider distillate spreads -- diesel spreads. We're already seeing that -- some of that and October. So to give you some points of reference, the September Maya 2-1-1 was about $14.60. The October average is now $21.30. So we've seen approximately $6.50 improvement in the Maya 2-1-1 from September to October. We think that as we go into next year, we have significant leverage to that improvement toward the widening of the light-heavy differential.

In terms of our refineries positioning, you'll also recall that we've completed all of our turnaround work. So next year, we do not have any major turnaround activity in our refinery. So we're prepared to run at full rates next year and we're doing our best to buy the most competitive crude oils that suit our refinery and we're going to continue to focus on that. So, I think we're really well-positioned and we think about the volume leverage at 950 million barrels per year that we process.

Thomas Aebischer

95.

Bob Patel

95. Sorry 95 million barrels per year that we process. So every dollar has a pretty significant impact over a year when you multiply it by the 95 million barrels.

Operator

Thank you. And our next question comes from David Begleiter from Deutsche Bank. Your line is open.

David Begleiter

Thank you. Good morning. Bob, just on Hyperzone. Can you discuss whether the expected EBITDA contribution remains the same? How are you going to seed your volumes? Who are you -- how is that progress progressing? And did the cost at the end increase for the project? Thank you.

Bob Patel

Yeah. So, about cost and schedule first, David. So on cost, yes, it did increase. We're showing about a $900 million sort of CapEx number at this point. Still very competitive compared to bills that have occurred recently. In fact, I would say still better than market average from what we can tell. Schedule-wise, we're commissioning now various parts of the plant, and we expect to move into production very late in the year or early next year.

In terms of the EBITDA contribution, it'll ramp up through next year as we demonstrate the production and start to demonstrate the types of products that that plant can make it. What's very typical of new starts is that you have some ups and downs early on to make some off spec while you're trying to prove out the technology. And certainly by the back half of the year, we ought to be producing many of the products that we had envisioned that this differentiated technology will produce.

Operator

Thank you. And our next question comes from P.J. Juvekar from Citi. Your line is now open.

P.J. Juvekar

Yeah. Hi. Good morning, Bob.

Bob Patel

Good morning.

P.J. Juvekar

Can you talk a little bit about your feedstock slate on the Gulf Coast? You mentioned ramping up propane and butane feeds. One of your competitors went to zero naphtha. So, with your propylene deal with Enterprise, can you go even more lighter? Can you just talk about your feedstock slate and how do you see that evolving?

Bob Patel

Well, P.J. first of all, in our feedstock consideration, so far the amount of propylene we produced hasn't really driven the feedstock decision. It's more about the relative price and relative economics. Perhaps the price of propylene has more impact than the amount of volume we output, because we have our flex unit where we can also convert ethylene to propylene, if we needed more propylene and it made economic sense.

As I mentioned earlier, we increased butane and propane cracking up to 35%. And I think we could perhaps stress that a little bit more. And the key point on feedstock flexibility is that with our ability to crack that much of LPG and more Y-grade, if this Y-grade becomes the economical, I think we have the full range of feedstock available to us to capitalize on whatever feedstock environment presents itself. We still see ethane as being really well supplied and well priced to maintain the U.S. advantage when you think about a global cost curve.

Operator

Thank you. And our next question comes from Bob Koort from Goldman Sachs. Your line is now open.

Bob Koort

Thank you. Bob, I just wanted to talk a little bit about capital allocation, in particular reinvestment in LyondellBasell versus potential inorganic targets. I guess since the summer, we've seen a pretty good rally in some of these cyclical names at least in valuation levels as well as your own frankly. But can you just talk about the tension between how you think about M&A, and maybe the short-term fluctuations and valuations and long-term value? And then, maybe you could also speak to the Schulman integration costs and what that cadence looks like going forward. Thanks.

Bob Patel

So, Bob first of all on M&A, there are a few principles that we really hold to. One is that we're committed to a very strong investment grade rating through the cycle, minimum BBB rating post any transaction that we might consider is very important to us to have the flexibility and the strength in terms of our balance sheet. Secondly, must have strategic fit and we're going to be very value-oriented, patient and disciplined. And I think we've demonstrated all of those things through our decisions on what we have done and what we haven't done.

To your point about the tension between acquiring ourselves and acquiring perhaps others, the way think about this is that for the use of our operating cash flow, first and foremost, we're committed to the strong secure and progressive dividend over time. And as we demonstrated at Investor Day, it's really well covered.

Sustaining CapEx by $1.1 billion, organic growth will be declining, so we think we'll have excess cash flow to dedicate to opportunistic buybacks as we progress over the next 12 to 18 months. As far as using our balance sheet, likely we would not use that for buybacks. We would consider more of that for very value oriented M&A. So look for us to stay disciplined, stay close to our core and constantly solve for a strong investment grade rating.

And your question about Schulman integration, the integration costs will ramp up further, and Thomas, I don't know if you wanted to comment on how much will flow through 2020.

Thomas Aebischer

Right. So we -- thank you, Bob. So we -- you have seen the integration costs for the third quarter where we are now at $43 million, so we made further progress in accelerating the integration of Schulman off the tax $33 million. And so we are at the -- we will go live with a large part of the SAP integration of Schulman into LyondellBasell in the first half of 2020 and that's actually where integration costs will peak.

Operator

Thank you. And our next question comes from Vincent Andrews from Morgan Stanley. Your line is now open.

Vincent Andrews

Thank you. Bob, just another question on the refinery, and I guess my question is, as you've obviously improved the reliability of it. And now there's opportunity for a structural change in its margins or earnings power. How core to LyondellBasell is the refinery and would you consider monetizing it?

Bob Patel

Thanks for your question, Vincent. Well, as I've said in the past, I mean our focus has been to improve reliability and control the controllables, if you will, which is run the asset really well. And I'm really proud of the team at the refinery. I think they've delivered really great performance. We wanted to position ourselves for IMO 2020. I think we've done that completing our turnaround work, so we have a clear runway for next year to operate at maximum capacity.

The key focus Vincent, at the moment is, I want to see the refinery turn to profit, generate free cash flow that we can reinvest back into LyondellBasell. And we're going to continue to focus on that. And in terms of portfolio, we'll continue to -- we'll consider options over time. But at the moment, the key is to get the refinery to generate free cash flow.

Operator

Thank you. And our next question comes from Steve Byrne from Bank of America. Your line is now open.

Steve Byrne

Hi. Bob. You talked about both mechanical and molecular recycling, and I'm just curious your longer term views on these. Is your motivation to develop these projects to help drive a plastic recycling industry or do you think either one of them could become really meaningful contributors to your business model in, say, the next five years?

Bob Patel

Good morning, Steve. First of all, I think what's really important when we undertake this plastics debate is that we've got to close the loop. We have to prevent leakage of plastics into the environment as the first objective. Then when we've collected that waste my view is that we're going to need a range of solutions, chemical recycling, mechanical recycling and so on. And so, yes, indeed our ambition is to have a platform in both areas in mechanical and chemical recycling and have a sustainable business platform over the long-term.

We expect to earn returns just like we do in any other investment. Where I wouldn't -- where I would perhaps draw difference here is that the timeline will be a little longer in terms of how long it takes for us to have a platform that's scalable. We're very committed to that in both chemical and mechanical recycling. And I see a path to success there.

Operator

Thank you. And our next question comes from Arun Viswanathan from RBC Capital Markets. Your line is now open.

Arun Viswanathan

Great. Thanks. Good morning. My question is on polyethylene. So I just wanted to get your thoughts on price evolution here. There was a $0.03 increase that the industry was able to get in September. Do you see that potentially sticking through the next quarter or two? And if so why? And if not would you expect prices to come down in December per usual kind of seasonality? What are the drivers that you're looking at to help you understand or form some outlook on polyethylene pricing? Thanks.

Bob Patel

Okay. So Arun first I start with the market backdrop. And in the prepared remarks in our slides we showed you that through the end of the third quarter, the net price change is zero so to me that indicates that markets are somewhat balanced. We've seen reasonable amount of destocking. Recent industry reports have indicated even PE inventories have come down in the U.S. So the backdrop going into the fourth quarter to us feels like there's not a lot of excess inventory downstream because of all of the factors that are -- the macro factors that have created lack of confidence.

Also I mentioned that the Asia PE to naphtha spreads are currently at very low levels around $300 per ton. And if you look back over the last 10 years these are kind of trough levels when we get to this point on Asia PE to naphtha spreads. So yes, we could have some seasonal pricing adjustments like we do every year in the fourth quarter. But I don't expect extraordinary changes because we've reached some evidence of trough, sort of, conditions whether you think about destocking or if you look at this PE to naphtha spread in Asia.

And I think that's one that's held through if you look back over the last 10 years. So that's kind of how I'm thinking about things. And then next year once we get into the spring season, we'll see continued demand growth like we do every year. And anyone will recall that typically the growth in a year happens in the first nine months of the year. So by the time we get into the spring we should start to feel the impact of demand growth going into 2020. So I'm quite constructive at all of this because I think we've already had in some ways quite a correction in terms of inventories and margins. And the evidence I would point to is the Asia PE to naphtha spread.

Operator

Thank you. And our next question comes from John McNulty from BMO Capital Markets. Your line is now open.

Bhavesh Lodaya

Hi. Good morning, Bob. This is Bhavesh Lodaya for John.

Bob Patel

Good morning.

Bhavesh Lodaya

On the Chinese JV with Bora, it appears everything is going according to plan there. Can you share what goalpost are you tracking there as you go ahead? And what gets you more comfortable in terms of making additional investments in the region?

Bob Patel

Well, there's a few factors especially with the Bora JV. First of all, it's based on our polyolefin technology. And the construction costs are almost half of what they would be on the Gulf Coast. So those are two really important factors. The construction is about 50%

complete now. So by the time, we have definitive agreements and we're at a point where we're going to contribute equity into the venture, it'll be even more closer to startup. So all of those factors give us good confidence about the costs and the denominator and the return equation if you will.

It's product that's produced in China for China. So it's a large growing market. And we're very confident about our ability to place that product. And as we look ahead to other investments I think this will be a very good test case for us and build our capability and our presence locally in the region so that when there are future phases in the Bora JV we should be able to invest with confidence and grow our position in a very important market. So those are all of the factors that give us confidence in our investment when we conclude the joint venture with Bora.

Operator

Thank you. And our next question comes from Frank Mitsch from Fermium Research. Your line is now open.

Frank Mitsch

Thank you. Good morning. Hey, Thomas it was nice to work with you and certainly wish you the best for the future.

Thomas Aebischer

Thank you, Frank.

Frank Mitsch

Bob, as I looked at the I&D business, you've had four quarters in a row of negative year-over-year comps and your LTM EBITDA is at $1.6 billion. Is this kind of the base level that we should be thinking about this business? Or how do you think about kind of the base level of earnings of I&D? And I guess as part of that is there anything you can offer with respect to what the pace of economic activity has been either on the industrial or consumer side that has had that impact on I&D being down as I said four quarters in a row?

Bob Patel

Well, so Frank the puts and takes on I&D have been that styrene has weakened considerably as has methanol. And as you know when you think about the I&D business that's the part of the portfolio that provides the upside. And when it's not there we kind of land where we are now. That's an indication of those value chains and how the demand is evolving in this styrene value chain.

PO has been a bit weaker as well because of automotive. That's been a consistent story throughout the year. And methanol has weakened as well. Now offsetting all of that has been a bitter oxyfuel business. So we've had not only better blend premiums this year, but also cheaper butane especially in the U.S.

So Frank for I&D, I mean, you really have to look at this whole portfolio because there are typically offsets. If one is doing better the other doesn't. Not that they're correlated but we find that it's unusual if all of them were trough conditions. So difficult to really point at an exact number, but the part of our portfolio that provides upside has corrected considerably when you think about styrene and methanol.

Operator

Thank you. And our next question comes from Hassan Ahmed from Alembic Global. Your line is now open.

Hassan Ahmed

Good morning, Bob.

Bob Patel

Good morning.

Hassan Ahmed

Bob, a lot of discussion around ethylene polyethylene and I think you've made your case pretty clear that most capacity additions are behind us things potentially could cycle up from here. Could you also give us your views on the polypropylene side of things? How are you thinking about supply/demand over there? And how should we be thinking about sort of 2020? I mean, would sort of margins be a tailwind a headwind? Any sort of thoughts around that will be good.

Bob Patel

Sure, Hassan. So, on polypropylene, there is some new capacity that's starting up next year. But our sense is that, we kind of go sideways. As demand grows likely, this capacity, new capacity will be absorbed. And polypropylene growth rates have been pretty strong. We think those could be bolstered by an improvement in the automotive sector. We have seen this over the last 10 years that when the automotive sector comes back, you really see a big burst in demand. And we saw this back in '12 and '13. We saw it in '16, so likely that will benefit PP as well. And today, the economics include -- or today's margins factor in a very weak automotive market, which probably has more impact on PP than PE. So, I think kind of net of more supply maybe better demand, we go sideways from '19 to '20.

Operator

Thank you. And our next question comes from John Roberts from UBS. Your line is now open.

John Roberts

Thank you, and best wishes as well Thomas.

Thomas Aebischer

Thanks, John.

John Roberts

There's relatively little discussion about polypropylene. I assume, it underperformed polyethylene because its more durables exposed and was Europe significantly different than the U.S.?

Bob Patel

No. You'll recall that polypropylene is really more of a regional market. There is some global trade, but generally there's -- it's more of a regional market. So, Europe and U.S. in terms of demand performance are similar. U.S. probably a little bit better because the automotive sector has been hit much harder in Europe than it has here. And frankly, we see that more in our compounding business, where Europe is weaker. So, polypropylene has been a decent business this year for us. And as I mentioned in a prior question, that I see the net of sort of capacity additions and demand growth showing sideways sort of performance from this year to next.

Operator

Thank you. And our next question comes from Mike Sison from Wells Fargo. Your line is now open.

Mike Sison

Hey guys, nice quarter. Bob, when you think about your outlook for the fourth quarter, you sort of talked about normal seasonal kind of decline fourth quarter versus third quarter and a lot of companies are seeing much more dire sort of outlook sequentially. So, is there anything different in either polyethylene or your other markets that you're not seeing sort of a weaker sequential decline?

Bob Patel

Well, I think we've already seen a lot of the destocking and sort of weakness in our markets throughout the whole year. I mean, if you go back to Q1, Q2 trade uncertainty, recession fears expectations of new capacity causing pricing to come down. That has all caused destocking downstream. And so, typically, when you go into fourth quarter, you see some destocking because of year-end, but my sense is a lot of that's already occurred especially in polyethylene.

And again, I would point you to the Asia PE to naphtha spread. I mean it's really showing trough conditions. So this expectation of weaker markets has been around and the sentiment has been there for most of this year and has driven buyer behavior. So, other than a directionally some seasonal impacts that we get every year, it's difficult to imagine there would be a lot more.

Thomas Aebischer

And Mike, I would remind you that the fourth quarter of 2018 was very weak, so it should be easy -- fairly easy to beat that comp.

Operator

Thank you. And our next question comes from Jeff Zekauskas from JPMorgan. Your line is now open.

Jeff Zekauskas

Thanks very much. Over the past four, five years, polyethylene globally has grown I think pretty close to 5%. At what rate do you think it grew or it's growing in 2019?

Bob Patel

So, Jeff polyethylene has grown probably more like 4% to 4.5% in the timeframe you described. And this year, it's still growing kind of in that range, maybe a little bit lower. Again, as I mentioned earlier with destocking happening globally and the concerns around trade and so on, I think we've seen a little bit reduction in this demand growth, but a lot of its packaging based, so -- and consumable end use demand. So we're still very constructive about demand growth on polyethylene going forward.

Thomas Aebischer

I think it's hard to sort out this year because the increased exports from North America. We're going to have to see where all that polyethylene ended up at the end of things especially after the trade lanes got readjusted after the tariffs.

Operator

Thank you. And our next question comes from Jim Sheehan from SunTrust. Your line is now open.

Jim Sheehan

Good morning, Bob. You said earlier that return timelines and plastic waste projects might be longer than for conventional projects. Related to that, you recently signed on to a commitment with the trade association to serve the interest of all stakeholders, not just shareholders. Could you please comment on how you would address another situation in which a stakeholder interest might conflict with maximizing value for shareholders? For example, if a stakeholder objected to using cash for share repurchases and instead wanted you to use that cash for something else, how would you resolve the conflict? I'm just trying to understand where shareholders fit in the hierarchy of priorities.

Bob Patel

Indeed. Well, I think with stakeholders, we have to emphasize that our aim is to be a going concern that generates good results, so that we can have sustainability in our business model. And we're responsible and disciplined on how we deploy the cash flow we earn not only how we do it, but what we do it that actually earn the cash flow. And so I would frame it in that way that it's important that we generate the results we do keeping all stakeholders in mind and deploy the cash flow that we deploy keeping all stakeholders in mind. And I think frankly, we've done that.

So I don't know that this new commitment requires a change in our approach. I think we've been living by this in the past, and we'll continue to do that in the future. And as it relates to share repurchases the idea is to have a really strong company over a long period of time. And so we're going to be very prudent in where we invest. And shareholders are a very important stakeholder constituency.

Operator

Thank you. And our next question comes from Jonas Oxgaard from Bernstein. Your line is now open.

Jonas Oxgaard

Thank you for squeezing me in here. You're talking about increasing export. Could you talk a little bit about what percentage of your PE is exported now where it's going and what kind of price realizations you get on those volumes?

Bob Patel

So today Jonas about 20% of our PE is exported. That's come up actually from low double digits. So we've already increased our exports. And I can imagine next year after we start Hyperzone that we will increase that further and approach the industry average of something like mid-30s, I think in exports 30% to 35% of export out of the U.S. We'll likely still be under that, but approach that a little bit more as we go into next year.

Operator

[Operator Instructions] Our next question comes from Laurence Alexander from Jefferies. Your line is now open.

Laurence Alexander

Good morning. On the sustainability and circularity discussion could you provide some initial thoughts to help you think about what the next 10 years might look like in terms of your willingness to shift to using bionaphtha for example in Europe, your willingness to let circularity investment move above say 10% of CapEx over time. And would you be willing to buy recyclable products from other companies in order to get you a certain mix in your total portfolio over time?

Bob Patel

Yeah. So, Laurence on bio based naphtha, we've already demonstrated we can crack that in our investment Germany site. And as we find more sources of that, we'll – our aim is to scale that up. And I think over time based on availability of feedstock and our ability to evolve technology, I'm convinced that we're going to have very sustainable good return sort of business models and it's been sort of the nature of our industry, and our company is that first we innovate, and then we get to scale so we can earn returns. And I don't see mechanical recycling, chemical recycling any differently. We're on the front end of this investment

I'm fully prepared that while the investments are very modest at this point, we perhaps will have a little longer time horizon. But we will be able to scale up at the right time and we welcome the adoption of circularity. We think it's very important as we think about the use of plastics going into the long term. And again, as I mentioned earlier the most important comparative today is to prevent the leakage of plastic waste or plastic pallets into the environment. Then once we collect that companies like us are endeavoring to use that waste in many different ways to create new products to close the loop. And we're very committed to that, and we'll continue to invest in that regard.

Operator

Thank you. And our last question comes from Matthew Blair from Tudor Pickering Holt. Your line is now open.\

Matthew Blair

Hey, Bob. Thanks for taking my question. So naphtha pricing has generally weakened this year relative to crude. There's a thought that it may soften more going forward and that can either come from the demand-side as a crackers shift to lighter feedstocks or maybe from the supply side as U.S. shale crude production grows. Do you – what's your view on this? Are you worried about naphtha getting weaker? And if so how would that affect the cost curve for PE and potential pricing for PE?

Bob Patel

Hey, Matthew, good morning, good question. So as you mentioned rightly naphtha's already come-off quite a lot. And frankly, that's part of what's ailing our refining performances. We don't have a refinery, so when some of these products like naphtha and propylene and others come down in price that further directionally affects the results at the refinery. Having said all that, I always kind of go back to historical naphtha premiums or discounts. And I think we're at a point where, if there is – if there is further reduction in naphtha relative to crude oil, it's hard to imagine that that would be sustained. If it does there are offsets. Obviously, our European operations would benefit from that because naphtha will become a lot cheaper. We also could crack more naphtha, if it was advantaged compared to ethane here in the U.S. So I mean, I think they're sort of –

there's two sides to the ledger in terms of naphtha and we'll have to work our way through that. But it seems to me that a sustained step down in naphtha is more difficult to contemplate.

Operator

Thank you. And that was our final question. And I will turn the meeting back over to Mr. David Kinney.

Bob Patel

Thank you. This is Bob Patel. I'll offer a few closing remarks. First of all, thanks for all the great questions. Our company is delivering resilient performance during these times of macro uncertainty, market headwinds and weak industrial demand. At LyondellBasell, we're not simply waiting for markets to rebound. We're taking steps to further increase our cash flow, make disciplined investment decisions and create more value for our shareholders.

Thank you for your interest in our company and we look forward to updating you on our full year results and growth initiatives during our fourth quarter earnings call. With that, we'll end the call. Hope you all have a great weekend. Thank you.

Operator

Thank you for your participation in today's conference. All parties may disconnect at this time.