

Europe Satellite*

Recommended since 31.01.2020

08.08.2023



| | | | | | | |
|---------|-----------------------------|----------------------------|------|-------------|-----------------------|-------|
| Country | FR | Market capitalization (bn) | EUR | 10.3 | Perf. since reco. (%) | |
| Sector | Industrial Goods & Services | Free float | | 98.4% | Alstom SA | -40.5 |
| Factset | ALO-FR | Closing price | EUR | 26.44 | Sector | 22.7 |
| ISIN | FR0010220475 | ESG Risk score* | 21.5 | Medium risk | | |



Profile

Founded almost a hundred years ago, the French-based Alstom has become a pure-play rail equipment manufacturer (rolling stock, transport systems, maintenance, signalling) since it sold its energy-related businesses to General Electric in 2014. It currently has a workforce of some 74,000 employed in over 250 industrial plants located in 70 countries. Alstom has now integrated Canadian group Bombardier's Transportation division, lifting it to No.2 worldwide behind Chinese group CRRC (which to date has been almost exclusively geared to its home market).

Strengths/opportunities

- Sizeable order book providing visibility.
- Rail transport being prioritised in recovery programmes.
- Positioning strengthened and synergies to come from Bombardier Transportation.

Weaknesses/threats

- Medium-term competition risk from the Chinese internationally.
- Cost base still overexposed to Europe.
- Negative margins order book from ex-Bombardier Transport still to be delivered and residual inherent risks.

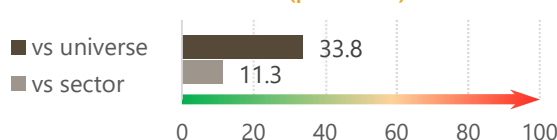
Investment case

- The acquisition of Bombardier Transportation in 2021 created the world leader outside of China in rail transportation systems: a sector poised for sustainable growth as part of the green transition. The Canadian company faced difficulties in fulfilling orders in the two years preceding its acquisition. A part of the backlog remains to be delivered with a negative margin. Beyond that, we believe that Alstom's management, known for its quality of execution, will succeed in bringing Bombardier's activities back to a more normal level of profitability within the sector, and in particular in achieving the synergies identified by 2024-25.
- The new group should thus generate c. EUR 18 bn in sales by 2024-25, EUR 1.3 bn in adjusted Ebit and EUR 0.9 bn in net income, compared to the EUR 240 m published by Alstom alone for its latest annual results. While the stock remains subject to fears of negative free cash flow, the recent results and quarterly digits have reassured on this front.
- Assuming a conversion of 70-80% of the result into free cash flow, consistent with the group's objectives, we value the share at EUR 31-37, ex-capital increase the probability of which is getting reduced as the negative effects of the acquisition are digested.

Valuation

At the current price, the stock is trading at c. 16x earnings for the fiscal year ending 03.2024 and slightly more than 1x the book value.

ESG risk vs. universe & sector (percentile)*



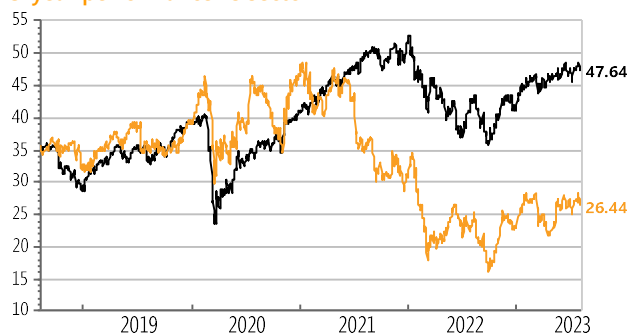
| EUR | 03/2023 | 02/2024e | 02/2025e |
|---------------------|---------|----------|----------|
| Sales revenue (mio) | 16 507 | 17 316 | 18 227 |
| Sales growth | 6.7% | 4.9% | 5.3% |
| EBIT adjusted (mio) | 290 | 1 048 | 1 292 |
| % of sales | 1.8% | 6.1% | 7.1% |
| Net income (mio) | -128 | 657 | 907 |
| Net income growth | -77.8% | -613.4% | 38.0% |
| FCF/Sales | 1.1% | 1.5% | 3.0% |
| Net debt/Ebitda | 2.4x | 1.8x | 1.2x |
| Dividend yield | 0.9% | 1.3% | 1.9% |
| PE | ns | 16.3x | 11.4x |
| P/BV | 1.0x | 1.1x | 1.0x |

Factset estimates

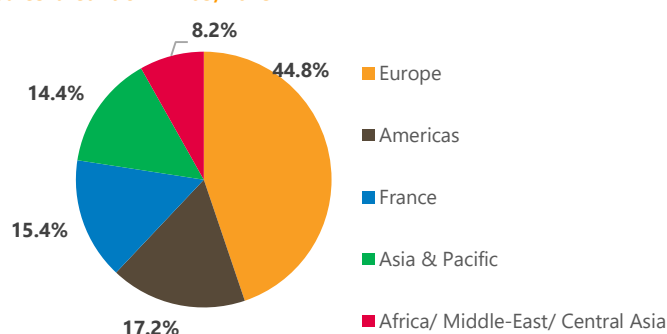
ESG - risks and key points

- Alstom has medium ESG risk overall, with a management of such issues regarded as sound.
- The group is exposed to ethical risks in its operations – corruption (one case in 2012) or unfair competition – but its organisation on this score is certified as complying with the ISO 37001 international standard.
- Sales often involve public tenders for which the criteria of safety and reliable operation are key. The size of the order book bears testament to clients' confidence in Alstom in such matters.

5-year performance vs sector



Sales breakdown - 03/2023



*: see overleaf

Source: Factset, Sustainability

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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