bordier 1844

Eaton Corp. Plc

US Satellite*

Recommended since 03.04.2020 | 13.02.2024

Country	US	Market capitalization (bn)	USD	110.3	Perf. since reco. (%)	
Secteur	Industrial Goods & Services	Flottant	99.6%		Eaton Corp. Plc	284.6
Factset	ETN-US	Cours de clôture	USD	274.05	Sector	152.6
ISIN	IE00B8KQN827	ESG Risk score*	18.3	Low risk		

transition

Profile

Founded in 1911, Eaton Corp. is an American group with its head office in Ireland. It specialises in energy management equipment for buildings, infrastructure, transport and machinery. Markets in which Siemens, ABB, Schneider and Legrand are active, for example. The group, with 92,000 employees, earned sales of $23 bn in 2022 and an adjusted EBIT margin of 22%. Eaton has paid a dividend every year since it was first listed in 1923.

Strengths/opportunities

- Capacity to generate and redistribute cash to shareholders.
- Desensitisation of business model to economic cycles – resilience.
- Positioned on the themes of energy Transition and US Reshoring.

Weaknesses/threats

- Sensitivity of results to cycles.
- Risk of too hawkish Fed tightneing policy that would translate into a deep recession and badly hurt the corporate investment cycle.

Investment case

- We believe electrification of the economy will continue and intensify, particularly in transport, and that energy management systems in industrial processes and buildings still have significant long-term growth potential.
- In recent years, the strategy has focused on desensitising the group to cycles and aligning the business asset portfolio with secular growth themes. This will further enhance the business model and structural margin potential up to 2025, with a strong focus on energy transition and smart, connected objects. Although cyclical, Eaton has historically stood out for its ability to generate free cash at all times, which, coupled with its strong liquidity and the restructuring in 2021, enabled it to enhance its positions in the crisis as demonstrated by FY 2021, 2022 and 2023 results, breaking records one after the other.
- For 2024, end markets are, according to management, positively oriented for most of the business and the management provided a growth guidance, both for sales and earnings per share. However, we believe the cycle will take its toll, although Eaton will be more resilient than the broader industrial cyclicals. At current share price, we would reduce and buy on weakness to capitalize beyond that on this ideal vehicle for exposure to the structural Transition and US Reshoring themes.

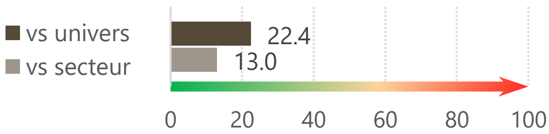
Valuation

The stock is trading on a fwd PE of 24.5x against a peak of c. 25x at the end of 2020 and a 10-year average of 16-17x. We believe a 220-230$ share price would represent a good re-entry point.

USD	12/2023	2024e	2025e
Sales revenue (mio)	23 196	24 954	26 663
Sales growth	*11.8%*	*7.6%*	*6.8%*
EBIT adjusted (mio)	3 885	4 718	5 197
% of sales	*16.7%*	*18.9%*	*19.5%*
Net income (mio)	3 218	3 991	4 384
Net income growth	*30.8%*	*24.0%*	*9.9%*
FCF/Sales	12.4%	13.8%	14.4%
Net debt/Ebitda	1.5x	1.3x	1.0x
Dividend yield	1.3%	1.4%	1.5%
PE	30.0x	27.0x	24.4x
P/BV	5.7x	5.5x	5.1x

Factset estimates

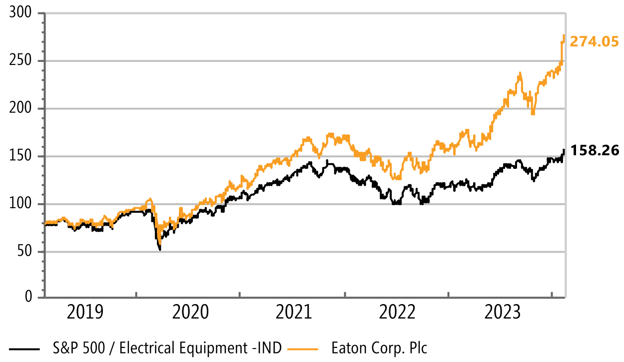
ESG risk vs. universe & sector (percentile)*



ESG - risks and key points

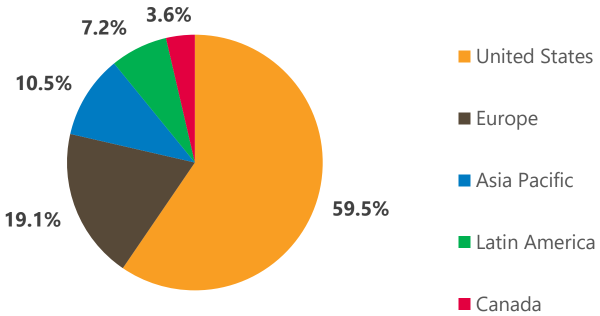
- Eaton has low exposure to ESG risks, which are also well managed, and places great importance on such issues.
- The share is part of the FTSE4Good Index.
- Some equipment sold by Eaton may expose clients to risks of power outages or fire, which calls for high standards of quality and reliability.

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2022



*: see overleaf

Source: Factset, Sustainalytics

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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