

DKSH Holding AG

Swiss convictions

Recommended since 18.01.2018

20.03.2024



Country CH	Market capitalization (bn) CHF 4.1	Perf. since reco. (%)
Sector Health Care	Free float 54.7%	DKSH Holding AG -29.4
Factset DKSH-CH	Closing price CHF 63.20	Market 16.1
ISIN CH0126673539	ESG Risk score* 14.8 Low risk	

Profile

DKSH, founded in 1865 in Zurich, is the leading provider of market expansion solutions in Asia. The Group provides all services enabling its customers to distribute products in new or existing markets (from sourcing, research and analysis, marketing and sales to distribution and logistics and after-sales services). The company is active in the following business areas: Consumer Goods (35% of sales), Healthcare (52%), Performance Materials (9%) and Technology (4%). DKSH operates in 36 markets with 33,350 specialists.

Strengths/opportunities

- DKSH's businesses are highly cash-generating activities, and its balance sheet is very strong (with positive cash balances).
- Growth potential through acquisitions.
- Sale of the Maurice Lacroix watch brand.

Weaknesses/threats

- Emerging markets are more volatile, and the company is relatively overexposed to Thailand.
- Margin pressure in the Consumer Goods business line.

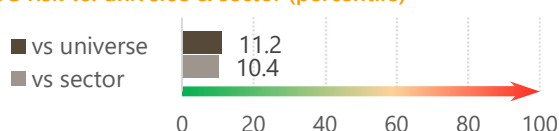
Investment case

- The Group achieves more than 90% of its sales in Southeast Asia and China. These markets offer a higher growth potential because the middle class is expanding there and its share in international trade is increasing.
- In a still uncertain environment, we particularly appreciate the profile of DKSH for its defensive virtues: 52% of its revenues are health-related (pharmacies) and 20% are from basic consumption (supermarkets), which have been the only business activities relatively unaffected by containment measures. These activities benefit from the growth of tourism in Thailand (1/3 of revenue) and the positive effect this has on the personal consumption of its inhabitants.
- DKSH's balance sheet is particularly robust and cash generation consistently exceeds expectations, providing financial flexibility for future acquisitions.
- The outlook for 2024 is reassuring, with volumes expected to rise > GDP growth thanks to a robust recovery in intra-Asian trade. In terms of EBIT, continued strategic refocusing (exit from unprofitable fashion retail activities) should enable margins to improve by > 10bp.

Valuation

DKSH has no real competitors to compare it with. However, after two years of disappointing operating and stock market performance, the stock has recovered and is once again trading in line with its historical average, which seems quite reasonable to us.

ESG risk vs. universe & sector (percentile)*



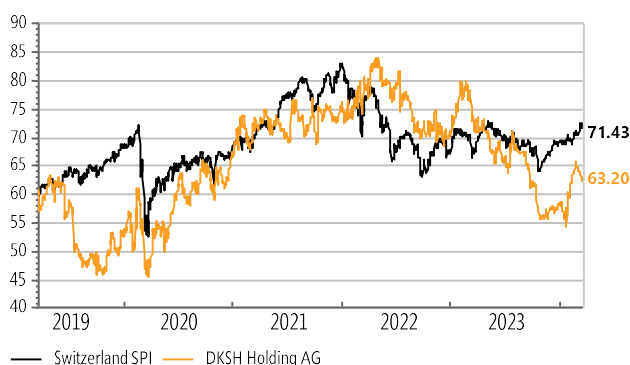
CHF	12/2023	2024e	2025e
Sales revenue (mio)	11'066	11'101	11'530
Sales growth	-2.2%	0.3%	3.9%
EBIT adjusted (mio)	289	347	372
% of sales	2.6%	3.1%	3.2%
Net income (mio)	182	212	230
Net income growth	-9.5%	16.4%	8.5%
FCF/Sales	3.3%	2.3%	2.3%
Net debt/Ebitda	0.6x	0.0x	-0.1x
Dividend yield	3.6%	3.7%	3.8%
PE	20.8x	19.0x	17.5x
P/BV	2.2x	2.3x	2.2x

Factset estimates

ESG - risks and key points

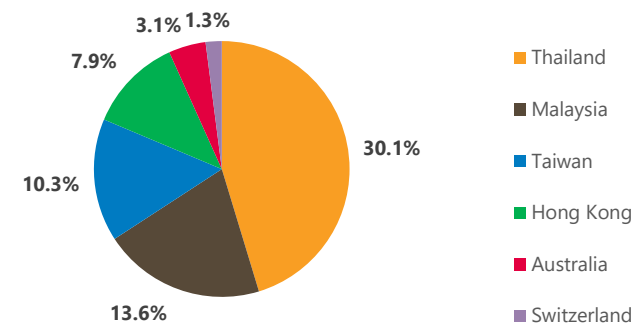
- DKSH has a relatively high risk in terms of product governance, just average.
- The Group is dependent on a skilled workforce. Employee retention/satisfaction programs are just average at DKSH, but the risk is low.
- The company manages the ethical risk in its marketing activities rather well so that it is not misleading.

5-year performance vs SPI



Source: FactSet

Sales breakdown - 12/2023



*: 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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