

Linde plc

US Satellite*

Recommended since 16.11.2020

28.10.2024



Country US	Market capitalization (bn) USD 228,5	Perf. since reco. (%)
Sector Chemicals	Free float 98,2%	Linde plc 85,5
Factset LIN-US	Closing price USD 473,76	Sector US 33,4
ISIN IE000S9YS762	ESG Risk score* 11,6 Low risk	

Profile
Linde plc (formed by the merger of Linde AG and Praxair) is the world leading industrial gas company, with a market share of 31%-32%. The Group generates 83% of its sales in Industrial Gases (oxygen, nitrogen, argon, hydrogen, carbon monoxide, helium, etc.) and 10% in Engineering (covering the life cycle of air separation unit projects). The distribution method is 40% Packaged (bottled gas for small customers), 28% Merchant (liquefied gas, variable volumes for medium-sized customers) and 24% On-site (tonnage - on-site production, pipeline delivery for large industrial customers).

Strengths/opportunities

- ⦿ c. 65% of sales are resilient, generated on defensive end markets or via long-term "take-or-pay" contracts (indexed to energy costs and inflation).
- ⦿ Praxair merger offers potential for margin improvement.
- ⦿ Hydrogen represents a long-term opportunity.

Investment case

- ⦿ The excellent execution of the management since the merger has enabled the group to strengthen its positions in all its markets and significantly improve its margins (c. +630bp over 2020-23). The outlook remains strong and will be driven by new projects, good pricing power and productivity gains, which will lead to a further improvement in margins (particularly in Europe and Asia). The group should be able to generate an increase in sales and BPA of more than 5% and 10% per year in the medium term.
- ⦿ The portfolio of new projects amounts to USD 4.7bn and will deliver c. 2% organic growth per annum. The areas of development will remain significant in the medium to long term, driven by the energy transition (green hydrogen produced by water electrolysis, carbon capture & storage technologies) and the expansion of end markets in electronics and healthcare. With regard to the energy transition, management estimates the investment opportunity arising from the Inflation Reduction Act to be over USD 30bn in the US.
- ⦿ Share buybacks are part of the capital allocation strategy. The current program started at the end of 2023 and amounts to USD 17bn.
- ⦿ The outlook for 2024 is well-oriented, with EPS growth expected to reach +8-10%. Linde offers a more "resilient" profile in relative terms within the Chemicals sector.

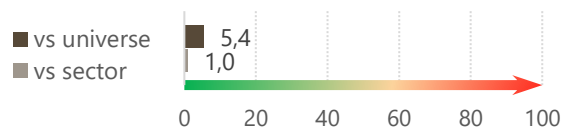
Weaknesses/threats

- ⦿ Exposure to more cyclical markets (35% of sales).
- ⦿ Economic uncertainty can affect sales growth and the flow of planned opportunities.
- ⦿ High sensitivity to the economic climate in the Engineering business.

Valuation

The valuation reflects the resilience of the business across cycles, the visibility and the long-term outlook. The stock has regained its historic premium (10%) over its peers (Air Liquide and Air Products).

ESG risk vs. universe & sector (percentile)*



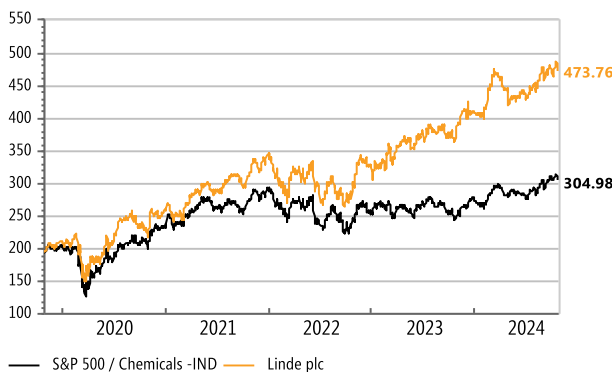
USD	12/2023	2024e	2025e
Sales revenue (mio)	32 854	33 569	35 493
Sales growth	-1,5%	2,2%	5,7%
EBIT adjusted (mio)	9 115	9 633	10 449
% of sales	27,7%	28,7%	29,4%
Net income (mio)	6 989	7 511	8 110
Net income growth	12,8%	7,5%	8,0%
FCF/Sales	16,8%	16,8%	17,9%
Net debt/Ebitda	1,3x	1,3x	1,2x
Dividend yield	1,2%	1,2%	1,3%
PE	33,4x	30,5x	27,7x
P/BV	5,8x	5,8x	5,6x

Factset estimates

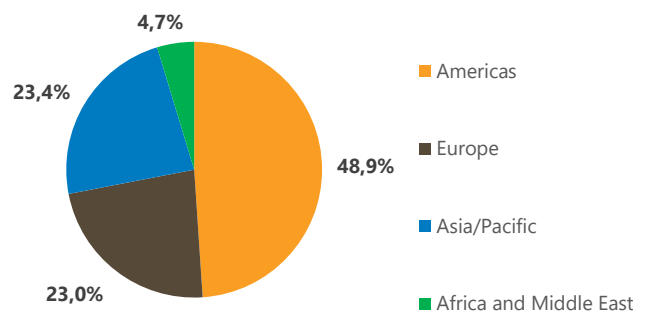
ESG - risks and key points

- ⦿ Linde's exposure to ESG risks is negligible, with strong issue management in this area.
- ⦿ The industrial gas sector is one of the most energy-intensive industries. Goal of lowering greenhouse gas emissions intensity by 35% by 2028.
- ⦿ Linde offers solutions that can ultimately contribute to decarbonisation in the industrial and transport sectors: green hydrogen, carbon capture & storage units.

5-year performance vs sector



Sales breakdown - 12/2023



*: 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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