

Sika AG

CORE HOLDING*

Recommended since 25.06.18

18.04.2024



Country	CH	Market capitalization (bn)	CHF	41.6	Perf. since reco. (%)	
Sector	Construction & Materials	Free float		94.7%	Sika AG	94.8
Factset	SIKA-CH	Closing price	CHF	259.10	Sector	55.1
ISIN	CH0418792922	ESG Risk score*	18.9	Low risk		

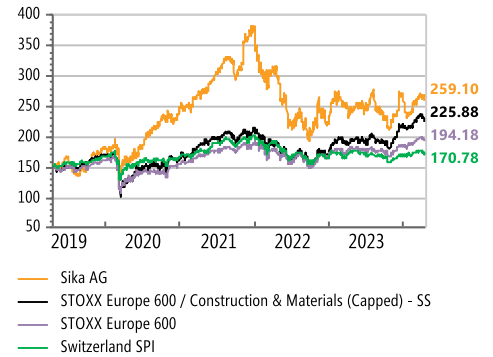
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

Profile

Sika is a Swiss group founded in 1910, and today the world leader in specialty chemicals for bonding, sealing, reinforcement and protection in buildings and, to a lesser extent, the automotive industry. The Group employs 33,000 people and operates over 400 plants in more than 100 countries since the integration of MBCC.

Market - competition - positions - barriers to entry

Sika's end markets are estimated to be worth c. CHF 80bn a year. The group has leading positions in these markets thanks to its global presence – including in emerging markets, where Sika began to expand in the early 1990s – and constant innovation, resulting in a portfolio of over 850 protected brands that give it guaranteed pricing power.



Source: Factset

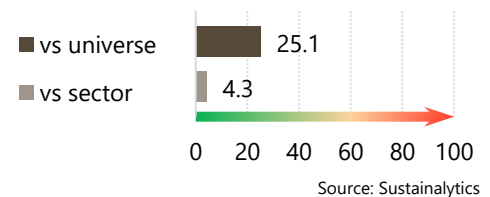
Investment case

- Sika corresponds in essence to our Core Holding philosophy. Its growth has averaged nearly 4% p.a. since 2007 and nearly 5% excluding 2009 (-10%). Over 15 years, its Ebit margin has declined by at most 240 bp y-o-y and its Ebitda and Ebit margins, regularly within the ranges previously announced by management, have shown a clear improvement over the last five years, to stand today at about 19% and 15% respectively. Excluding acquisitions, free cash flow has been positive over the last fifteen years, even during recessions and slowdowns, with a clear acceleration in recent years.
- The strategy is based on the customer as product user, penetration through innovation, induced brand power and external growth (more than 70 acquisitions over 12 years, including Parex in 2019 and MBCC in mid-2023, the largest to date) thanks to cash generation: in total, the Group's sales will have multiplied by 2.7x between 2010 and 2024. Sika is exposed to infrastructure issues in emerging countries, rising construction standards in developed countries and building renovation worldwide. The Group managed the Covid-2020 year remarkably well, rebounded strongly in 2021 and 2022, and integrated MBCC, BASF's former construction chemicals division, in May 2023. The free cash flow generated has already enabled the DN/Ebitda leverage to be reduced from 4.1x to 2.6x by the end of 2023.
- We are including a scenario of moderate recovery in 2024-25 from the 2nd half of 2024, after organic growth of only 1.2% in 2023, to take account of the relative weakness of new construction. Ebitda margin should recover thanks to an improved product mix with MBCC and lower input costs. Beyond that, our projections are in line with the Group's targets for 2028 (presented in 10.2023), i.e. average annual growth of 6-9% at constant exchange rates, and a 280 bp increase in Ebitda margin, of which we estimate that almost half will derive mechanically from synergies and the post-MBCC product mix.

ESG - risks and key points

- Sika is rated low risk for environmental, social and governance issues, its management of which is considered robust.
- The group is exposed to chemical hazards, local regulations on chemical use, and effluent and waste resulting from chemical production, which could result in delayed approvals or additional costs.
- On the climate front, Sika is working to a plan to cut CO2 emissions resulting from its production.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario	
259	304	Swiss risk-free rate scenario at 1.75%; growth and margins as described above. The current price is below our fundamental valuation of 2024. We recommend strengthening positions.

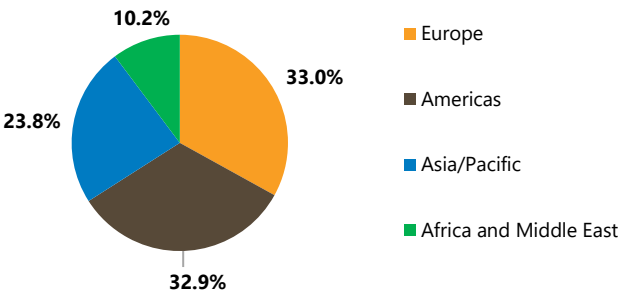
***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2022	2023	2024e	2025e	2026e
Sales revenue	10 492	11 239	11 801	12 627	13 763
Sales growth %	13.4%	7.1%	5.0%	7.0%	9.0%
o/w organic	13.1%	1.2%	3.0%	4.0%	5.0%
EBIT adjusted	1 581	1681	1863	2110	2619
% of sales	15.1%	15.0%	15.8%	16.7%	19.0%
Net income	1 163	1063	1227	1421	1821
Adjusted EPS	7.57	7.67	8.71	9.96	12.53
Adjusted EPS growth	2.8%	1.2%	13.6%	14.3%	25.9%
Free cash-flow	834	1365	1293	1489	1979
FCF/Sales	7.9%	12.1%	11.0%	11.8%	14.4%
Dividend per share	3.20	3.30	3.70	4.00	4.30
Dividend yield	1.2%	1.3%	1.4%	1.5%	1.7%
ROCE - WACC	9.5%	3.9%	4.9%	6.5%	9.8%
ROE (%)	23.4%	20.2%	20.5%	20.7%	22.5%
Net debt/Ebitda	103%	260%	202%	143%	73%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Governance and ownership structure

Since 05.2021, Thomas Hasler

Key shareholders (if any):

Capital Research & Management Co. holds 5,46% / Cascade Investment Llc 5% / The Vanguard Group, Inc. 3,36% / Norges Bank Investment Management 3%

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

-

Glossary

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.

This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does namely not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website – including the present document – is by no mean directed to such persons or entities.