

# L'Air Liquide S.A.

## Europe Satellite\*

Recommended since 19.01.2023

27.06.2023



<b>Country</b> FR	<b>Market capitalization (bn)</b> EUR 83,8	<b>Perf. since reco. (%)</b>
<b>Sector</b> Chemicals	<b>Free float</b> 97,0%	L'Air Liquide S.A. 10,3
<b>Factset</b> AI-FR	<b>Closing price</b> EUR 159,72	Sector -2,6
<b>ISIN</b> FR0000120073	<b>ESG Risk score*</b> 12,8 Low risk	

### Profile

Air Liquide is the world's second largest industrial gas company, with a market share of over 30%. The Group achieves 95% of its sales in industrial gases (oxygen, nitrogen, argon, hydrogen, carbon monoxide, helium, etc.). The business is divided into four divisions: 1/ Industrial Merchant (40%) - liquefied gas, variable volumes, small on-site production units for medium/small customers; 2/ Large Industries (30% of sales) - tonnage/on-site production, pipeline transport for large industrial customers; 3/ Healthcare (16%) - medical gases, home healthcare services; 4/ Electronics (9%) - solutions mainly for the semiconductor market.

### Strengths/opportunities

- c. 55% of turnover is resilient, achieved in defensive end markets or via long-term take-or-pay contracts (indexed to energy costs and inflation).
- Hydrogen and carbon capture and storage technologies represent long-term opportunities.

### Weaknesses/threats

- Exposure to more cyclical markets - 45% of turnover.
- Economic uncertainty may affect sales growth and the flow of project opportunities.
- Risk of postponing investment projects.

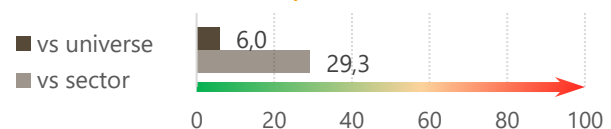
### Investment case

- Air Liquide will benefit from solid growth in the medium to long term, supported by various investment opportunities, but also good pricing power and productivity gains (USD 1.6bn will be generated cumulatively over 2022-25), which will lead to further margin improvement. By 2025, the company expects sales to grow by 5-6% per year, operating margin to improve by more than 160bp and EBITDA to increase by more than 30% vs 2021. The integration of Airgas has significantly diluted returns (ROCE compression from 10.5% to less than 8% in 2016), but an improvement is visible since 2019 and a recovery of ROCE to a level above 10% is anticipated by 2023.
- The pipeline of new projects amounts to USD 3.5bn and will result in USD 1.3bn of forward sales. Start-ups will be the source of growth in Large Industries, expected to grow at +4-5%/year. As for Linde, the areas of development will remain significant, driven by the energy transition (decarbonised hydrogen produced by water electrolysis, carbon capture & storage technologies) and the expansion of end markets in electronics and healthcare.
- While the industrial gases industry is characterised by a relative resilience of its activity and medium to long-term visibility, giving it a defensive profile within Chemicals, this segment will also benefit from the macroeconomic recovery when it materialises.

### Valuation

Valuation is now 10% higher in NTM PE than its 10-year historical average. But it reflects the resilience of the business across cycles, visibility and long-term prospects.

### ESG risk vs. universe & sector (percentile)\*



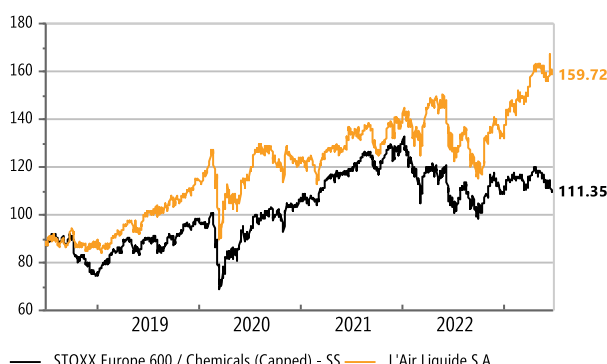
EUR	12/2022	2023e	2024e
Sales revenue (mio)	29 934	29 624	31 174
Sales growth	28,3%	-1,0%	5,2%
EBIT adjusted (mio)	4 754	5 192	5 617
% of sales	15,9%	17,5%	18,0%
Net income (mio)	2 759	3 413	3 740
Net income growth	7,3%	23,7%	9,6%
FCF/Sales	7,7%	8,4%	8,9%
Net debt/Ebitda	1,6x	1,3x	1,1x
Dividend yield	1,8%	2,0%	2,1%
PE	26,4x	24,3x	22,2x
P/BV	3,6x	3,3x	3,0x

Factset estimates

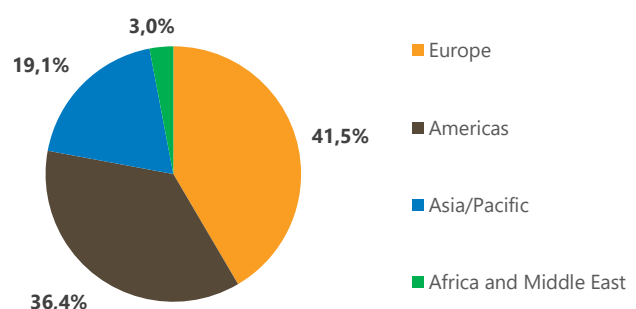
### ESG - risks and key points

- Air Liquide's ESG exposure is low and reinforced by a solid management of ESG issues.
- The industrial gases sector is one of the most energy-intensive industries - target to reduce greenhouse gas emissions by 33% by 2035 (vs 2020).
- Air Liquide offers solutions that will eventually contribute to decarbonisation in the industrial and transport sectors: green hydrogen, carbon capture & storage unit.

### 5-year performance vs sector



### Sales breakdown - 12/2022



\*: see overleaf

# 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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