

ASSA ABLOY AB Class B

CORE HOLDING*

Recommended since 31.03.20

19.04.2024



Country SE	Market capitalization (bn) SEK 338.8	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 92.0%	ASSA ABLOY AB Class B 62.5
Factset ASSA.B-SE	Closing price SEK 305.00	Sector 96.8
ISIN SE0007100581	ESG Risk score* 18.7 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

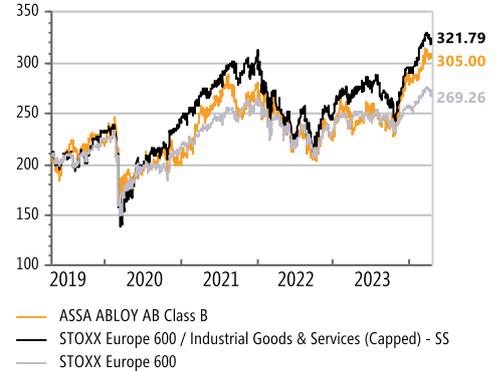
Swedish group Assa Abloy, spun off in 1994 from Securitas AB (to which Abloy, founded in 1907 and originally holder of the patent for the cylinder lock, belonged), specialises in access and building security solutions as well as their automation and digitalisation. The group, now global leader, has more than 61,000 employees and operates in over 1000 sites in more than 70 countries.

Market - competition - positions - barriers to entry

The access security market is estimated at c. \$100 billion/year, of which 60% maintenance and 40% construction, 25% residential and 75% non-residential, and remains fragmented. Assa Abloy is by far the world leader, with a c. 14% market share, well ahead of Switzerland's Dormakaba (c. 3%) and America's Allegion (c. 4%). Barriers to entry are technology - innovation, local standards and, in some cases, a global presence.

Investment case

- Assa Abloy is the undisputed leader in a sector that is experiencing structural growth, driven by security needs, urbanization and more recently digitalization. The strategy is based on a portfolio of more than 200 brands (80% of sales are under the Assa Abloy umbrella brand), innovation (>4% R&D expenditure on sales, 3'600 people, >10'000 patents), enabling the company to fuel organic growth of 4-5% p.a. on average over the cycle. The second pillar, of equal importance, is recurrent acquisitions (an average of 15 per year). An integral part of the strategy, acquisitions are self-financed and integrated according to a proven process. By rapidly generating synergies, they enable the Group to accelerate revenue growth while boosting margins.
- Overall, Assa Abloy has achieved an average annual sales growth rate of 9.3% over the last 14 years, including 2008-2009. The sensitivity to the cycle was characterized by -12% organic growth in 2009 and an Ebit margin compression of around 400bp. The business model is now more resilient than at the time of the great crisis, with 2/3 of sales in maintenance. The 2020-21-22 results have shown this resilience and the ability to rebound. The model was reaffirmed at the Investor Day on 16.11.2022.
- After sustained growth in 2022, 2023 was marked by a slowdown in organic growth to 3%, the lowest level since 2018, excluding Covid, offset by the start of the integration of American HHI (which now leads to c.50% of sales in the US and 1/3 in the residential market, compared with 25% previously). Our scenario for 2024 takes into account a further slight organic decline in sales in Europe, after -2% in 2023, and a slowdown in organic growth in the US, to c. 3% vs. 6% in 2023, where residential construction seems to have bottomed out but non-residential (offices and possibly retail) is expected to slow. The operating margin should continue to improve in 2024-25, thanks in particular to the ongoing integration of HHI and the corresponding synergies and efficiency improvements.

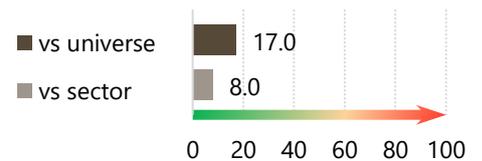


Source: Factset

ESG - risks and key points

- Assa Abloy is rated low risk in relation to environmental, social and governance constraints: its exposure to these issues is deemed moderate, with the risks well managed. Furthermore, the group has not been the subject of any major controversies.
- The group is committed, through the Science Base Targets, to a plan to reduce its CO2 emissions by 50% by 2030 vs 2019, and to become carbon neutral by 2050.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in SEK



Our fundamental valuation assumes European long term yields of 2.0% and the sales and margin trajectory set out above. With recurring acquisitions forming an integral part of the business model, we are projecting external growth of 4-5% a year out to 2034 and zero thereafter.

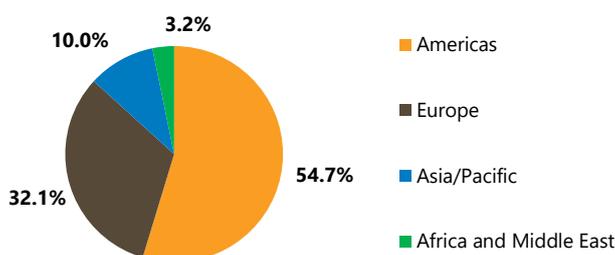
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of SEK	2022	2023	2024e	2025e	2026e
Sales revenue	120 793	140 716	156 096	170 925	188 018
Sales growth %	27.0%	16.8%	10.9%	9.5%	10.0%
a/w organic	12.0%	3.0%	2.0%	5.0%	5.0%
EBIT adjusted	18 997	22 184	24 919	28 473	31 690
% of sales	15.7%	15.8%	16.0%	16.7%	16.9%
Net income	13 296	13 640	15 881	18 611	21 032
Adjusted EPS	12.28	14.68	15.17	17.62	19.80
Adjusted EPS growth	25.0%	19.5%	3.3%	16.2%	12.3%
Capex/Sales	1.7%	1.7%	1.7%	1.7%	1.7%
Free cash-flow	12 361	29 068	22 899	25 813	29 004
FCF/Sales	10.2%	20.7%	14.7%	15.1%	15.4%
Dividend per share	4.80	5.40	5.40	6.50	7.00
Dividend yield	1.6%	1.8%	1.8%	2.1%	2.3%
ROCE - WACC	3.6%	1.4%	2.7%	4.0%	5.1%
ROE (%)	15.9%	17.8%	16.6%	17.2%	17.2%
Net debt/Ebitda	134%	218%	176%	123%	82%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

	ASSA ABLOY AB Class B		Stoxx Europe 600	
	Sector	Market	Sector	Market
PE (x)***	Indus. Good & Serv.	STOXX 600		
	2023	19.8	20.8	14.5
	2024e	20.0	19.1	13.9
	2025e	17.3	16.7	12.6
P/B (x)***				
	2023	3.5	3.2	2.0
	2024e	3.3	3.1	1.9
	2025e	3.0	2.8	1.8
Beta (2Y, daily) vs market: 1.11				

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 01.03.2018: CEO M. Nico Delvaux.

Key shareholders (if any):

The group holds 8% of its shares in treasury. And other important stockholders are: Swedbank Robur Fonder AB 5,19% / The Vanguard Group, Inc. 3,4%.

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

Two classes of shares: A (one voting right per share) and B (ten voting rights per share). No more than 10% of the shares may be held in treasury.

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.

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