

Schindler Holding AG Pref

CORE HOLDING*

Recommended since 20.04.15

18.04.2024



Country	CH	Market capitalization (bn)	CHF	23.6	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		24.6%	Schindler Holding AG Pref	39.2
Factset	SCHP-CH	Closing price	CHF	224.00	Sector	72.8
ISIN	CH0024638196	ESG Risk score*	19.9	Low risk		

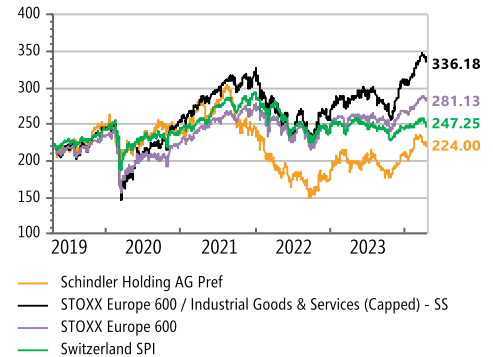
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

Profile

Established in Lucerne in 1874, Schindler is a global leader in the supply and maintenance of lifts and escalators. The group has over a thousand branches in more than a hundred countries and employs 70'000 people, around 60% of them in maintenance. Its installed base of equipment moves one and a half billion people every day.

Market - competition - positions - barriers to entry

The global market, worth around €70bn (split 50/50 between new installations/modernisation and maintenance) is dominated by five players (who together account for two thirds of the market): Otis, Schindler, Kone, Thyssen and Hitachi. Structural growth is driven by urbanisation (with the number of urban dwellers expected to increase by 1bn over 2015-2030), the emergence of middle classes (set to grow by 2.5bn over 2015-2030) and the ageing population. Barriers to entry relate to regulation (safety) and the ability to offer rapid, local 24/7 service.



Source: Factset

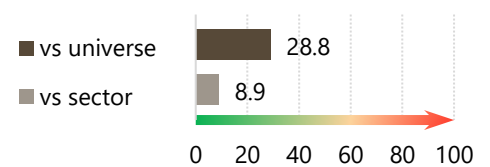
Investment case

- Elevator companies are by nature in line with Bordier & Cie's Core Holdings concept: resilience of sales (maintenance and periodic inspections of the installed base). Excluding currency effects, Schindler has thus achieved average sales growth of 4.2% p.a. over 2008-2023, including -5.9% only in 2009, the year of the deepest recession since World War II, with an Ebitda margin fluctuating at +/-200bp around 12%. With an organic capital intensity of around 2% of sales on average, Schindler is able to generate a high and correctly predictable free cash flow and return on capital employed.
- More cyclically, Schindler showed its resilience in a Chinese market that has been shrinking since 2016, the world's leading market for new installations. The year 2020, impacted by the Covid-19 crisis, saw positive organic growth (!) of 0.4% and a current operating margin down by just 60 bp, and the Group returned to its order intake level in 2021. 2022 was marked as the low point in terms of profitability. Supply chain normalization and standardization efforts enabled Schindler to exceed expectations in 2023, returning to an adjusted operating margin of 10.9%.
- The situation of Chinese developers had a negative impact on growth in 2022 and 2023. In addition, financial conditions (interest rates) and difficulties in the US commercial real estate segment should result in a decline in the US non-residential market, leading us to expect organic growth to remain sluggish (1-2%) over 2024-25. On the other hand, Schindler's operating margin is now on an upward trajectory, and should reach 13% in the medium term, which is now management's official target. Finally, the Group will remain a significant cash generator, and has announced an increase in its payout policy from 35-65% to 50-80% of net income in the future.

ESG - risks and key points

- Schindler's risk exposure is medium, in particular due to regulatory and safety requirements and potential implications in terms of legal proceedings.
- Its management of these risks is considered in line with the average and the group is not involved in any significant controversies.
- The group's sustainability strategy is structured around six pillars aligned with the UN's Sustainable Development Goals.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario
224	258

Our scenario incorporates a Swiss 10-year rate of 1.75% and the sales and margin trajectory described above, for an adjusted Ebit margin of 13% over time. After its correction since the peak, the stock has started its rebound and remains close to 20% below our fundamental valuation.

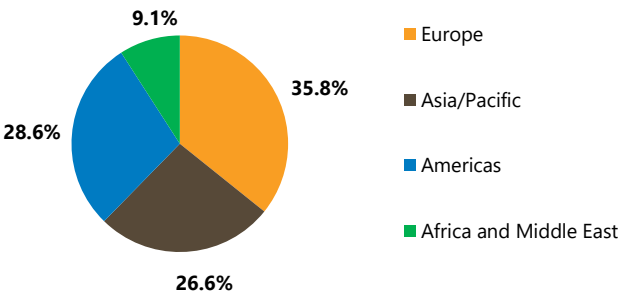
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2022	2023	2024e	2025e	2026e
Sales revenue	11 346	11 494	11 551	11 898	12 374
Sales growth %	1.0%	1.5%	0.5%	3.0%	4.0%
o/w organic	2.5%	6.5%	2.0%	3.0%	4.0%
EBIT adjusted	1 047	1249	1266	1423	1567
% of sales	9.2%	10.9%	11.0%	12.0%	12.7%
Net income	610	866	923	1040	1153
Adjusted EPS	6.71	8.04	8.57	9.66	10.70
Adjusted EPS growth	-12.8%	19.9%	6.5%	12.7%	10.8%
Capex/Sales	1.1%	3.0%	3.0%	3.0%	3.0%
Free cash-flow	558	1208	932	1104	1218
FCF/Sales	4.9%	10.5%	8.1%	9.3%	9.8%
Dividend per share	4.00	5.00	5.60	6.10	7.10
Dividend yield	1.8%	2.2%	2.5%	2.7%	3.2%
ROCE - WACC	11.0%	19.3%	16.7%	17.1%	16.9%
ROE (%)	16.6%	18.8%	18.7%	19.6%	20.1%
Net debt/Ebitda	-192.0%	-106.5%	-121.5%	-134.6%	-149.3%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Governance and ownership structure

Since 2022, CEO role taken back by Silvio Napoli, chairman.

Key shareholders (if any):

The Schindler and Bonnard families between them hold 70.4% of voting rights.

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

Capital consists of ordinary shares (SCHN) and participation certificates (SCHP, corresponding to this updated investment case) carrying no voting rights (free float expressed here in voting rights).

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 Sustainability, 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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