



Praxair Inc. (PX)

Updated July 27th, 2018 by Nick McCullum

Key Metrics

Current Price: \$166	5 Year CAGR Estimate: 2.4%	Volatility Percentile: 18.6%
Fair Value Price: \$125	5 Year Growth Estimate: 6.0%	Momentum Percentile: 75.6%
% Fair Value: 133%	5 Year Valuation Multiple Estimate: -5.6%	Valuation Percentile: 14.7%
Dividend Yield: 2.0%	5 Year Price Target \$167	Total Return Percentile: 11.8%

Overview & Current Events

Praxair Inc. is one of the world's largest industrial gas corporations. The company produces, sells, and distributes atmospheric, process, and specialty gases, along with high-performance surface coatings. Praxair trades with a market capitalization of \$48 billion and generates sales of \$11 billion in its most recent fiscal year. With 25 consecutive years of dividend increases, Praxair qualifies to be a member of the Dividend Aristocrats Index.

A number of important developments have impacted Praxair since the time of our last quarterly research report. First, the company reported (4/26/18) financial results for the first quarter of fiscal 2018. Sales of \$3.0 billion increased by 10% over the prior year's quarter, while adjusted operating profit rose by 17% and GAAP and adjusted earnings-per-share expanded by 18% and 20%, respectively. The company's strong performance was due to robust economic activity across each of Praxair's major end-markets and geographies, specifically Asia and North America. The company also stated *"In addition to organic growth, we started up several large projects and added significant new wins to our backlog. The strength of our backlog and potential for new opportunities should continue to deliver approximately 3% EPS growth per year over the next three to four years."* Praxair also provided an update on the pending merger with Linde AG, stating that they *"expect to close in the second half of the year."* Praxair's first quarter earnings release was well-received by the markets and share rose following the announcement.

More recently, Praxair reported (7/26/18) financial results for the second quarter of 2018. Sales of \$3.1 billion increased by 8% year-on-year, while adjusted operating profit rose by 15% and GAAP and adjusted earnings-per-share expanded by 17% and 18%, respectively. Praxair's strong performance was again driven by positive economic activity in its end markets. Regarding the Linde AG merger, Praxair stated *"We achieved additional regulatory approvals and earlier this month, we announced an agreement to sell the majority of our European business in support of our efforts to gain EC approval."* Praxair's shares rose by just over 2% following the announcement as investors positively reacted to the company's performance in the quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.19	\$4.01	\$3.84	\$5.45	\$5.61	\$5.87	\$5.73	\$5.35	\$5.21	\$5.68	\$6.02	\$8.06
DPS	\$1.50	\$1.60	\$1.80	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.40	\$4.55

We are leaving our Praxair's growth estimates unchanged from last quarter's research reports. With that said, these estimates have far more uncertainty than many companies in our investment universe due to its pending merger with Linde AG, a German multinational chemical company. This merger, which was announced (7/1/2017) last summer, combines Linde's long-standing leadership in engineering and technology with Praxair's operational excellence. The transaction is expected to generate \$1.2 billion in annual cost synergies, creating a company with approximately \$29 billion of revenues and a current market value in excess of \$70 billion. The merger is all-stock in nature, with current Linde shareholders receiving 1.54 shares in the new holding company for each Linde shares and Praxair investors receiving the new stock on a one-for-one basis. The combined company will be named Linde and will be cross-listed on both the New York Stock Exchange and the Frankfurt Stock Exchange. Praxair continues to believe that the merger will close in the second half of fiscal 2018.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.3	18.2	22.0	18.4	19.3	20.0	22.6	21.7	21.8	23.2	27.6	20.7
Avg. Yld.	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.0%	2.6%

Praxair has traded at an average price-to-earnings ratio of 20.7 over the last decade. Using our fiscal 2018 earnings-per-share estimate of \$6.02, the company is currently priced at an earnings multiple of 27.6, potentially due to excitement surrounding the aforementioned merger with Linde AG. If the company reverts to 20.7x earnings over the next 5 years, this will reduce its annualized returns by 5.6% during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

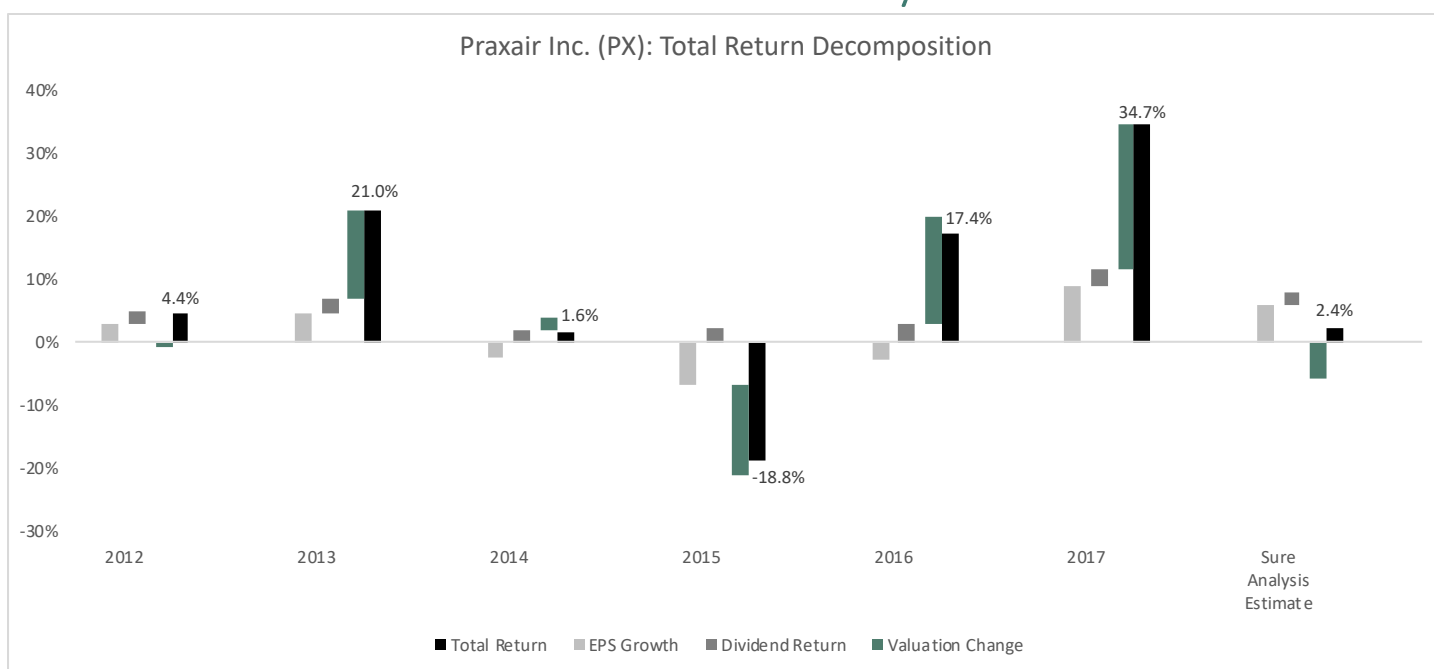
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.9%	27.4%	28.6%	29.3%	26.7%	25.6%	26.9%	26.3%	24.2%	24.4%	25.0%	25.0%
Debt/A	69.3%	62.9%	62.1%	66.4%	66.5%	67.4%	71.6%	76.0%	74.0%	70.6%	70.0%	65.0%
Int. Cov.	9.5	11.8	16.7	15.5	17.3	14.7	14.5	14.4	12.8	15.2	14.0	15.0
Payout	35.8%	39.9%	46.9%	36.7%	39.2%	40.9%	45.4%	53.5%	57.6%	55.5%	56.5%	56.5%
Std. Dev.	56.1%	32.7%	19.2%	25.0%	16.8%	13.6%	14.7%	17.5%	18.7%	14.3%	18.0%	18.0%

Praxair scores well on a number of quality metrics. The company has consistently been able to generate more than ten times in interest expense in operating earnings, and its balance sheet employs a level of leverage that we believe is reasonable given the consistency inherent in its business model. Although Praxair's dividend has steadily climbed over the last decade, the company's dividend payout ratio is still at a level that will support additional dividend growth if earnings stagnate temporarily.

Final Thoughts & Recommendation

Praxair continues to trade at a premium to its long-term historical valuation multiples. This will introduce meaningful headwinds to Praxair's future total returns. With low single digit annualized total returns appearing baked into Praxair's current stock price, the company earns a sell recommendation from Sure Dividend for the time being.

Total Return Breakdown by Year



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