



Linde plc (LIN)

Updated November 15th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$153	5 Year CAGR Estimate:	3.8%	Volatility Percentile:	0.2%
Fair Value Price:	\$122	5 Year Growth Estimate:	6.0%	Momentum Percentile:	44.2%
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Growth Percentile:	48.2%
Dividend Yield:	2.2%	5 Year Price Target	\$163	Valuation Percentile:	16.1%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	14.1%

Overview & Current Events

Linde plc, which was created through the merger of Linde AG and Praxair, is the world's largest industrial gas corporation. The company produces, sells, and distributes atmospheric, process, and specialty gases, along with high-performance surface coatings. The company is headquartered in Danbury, CT.

Praxair reported its (standalone) third quarter earnings results on November 9. The company was able to generate revenues of \$3.0 billion, up 3% year over year. Revenues were negatively impacted by currency rate movements. Adjusted for foreign exchange fluctuations, revenues would have grown by 7% during the third quarter. Praxair generated operating earnings of \$0.7 billion, which represented an increase of 8% year over year (not adjusted for currency movements). The company was able to generate earnings-per-share of \$1.69 during the third quarter, which represents an increase of 13% compared to Q3 2017. Due to winning four new on-site projects, Praxair was able to grow its backlog by 29% compared to the prior year's quarter. The growth in the company's backlog (now at \$2.2 billion) bodes well for Praxair's revenue growth outlook during the fourth quarter of 2018.

Praxair also was able to grow its operating cash flows to \$870 million during the third quarter, the highest level the company's cash generation has been at during the last couple of years. Cash proceeds were used to lower Praxair's debt levels. Net debt is now standing at 1.9 times trailing EBITDA, which is reasonable leverage for an industrial company.

During the last year one important development was Praxair's merger with Linde. In late October the two companies received approval for the merger-of-equals by US regulators, although there are some conditions. The merged company will have to sell several assets, including in the United States. This is not a major hurdle, though. Praxair and Linde completed the merger on October 31, although the merger is still only conditional until the required asset sales are complete. Shares of Praxair have stopped trading at the end of October. The combined company is now named Linde plc, and trades under the ticker LIN on American stock exchanges.

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	\$6.10	\$8.16
DPS	\$1.50	\$1.60	\$1.80	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$4.55

Praxair has, as a stand-alone company, delivered unspectacular earnings growth rates through the last decade. Its earnings-per-share rose from \$4.19 during 2008 to \$5.68 during 2017, which equates to an earnings-per-share growth rate of 3.5%. Linde plc will pay the same dividend Praxair has been paying going forward.

The merger with Linde will impact the combined company's results massively, but it is not possible to forecast any exact results. Asset sales (which are necessary to the regulators' conditional okay for the merger) will be a headwind for the combined company, but on the other hand Linde plc will be able to generate substantial cost-savings through synergies between the two companies. During the last couple of quarters executives from both Linde AG and Praxair have touted synergies and potential cost-savings of \$1.1 to \$1.2 billion annually.

It seems likely that Linde plc will grow its earnings-per-share at a mid-single-digits rate in the long run, slightly faster than Praxair's earnings-per-share growth rate through the last decade, due to the positive impact of synergies.

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.



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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	25.1	20.0
Avg. Yld.	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.2%	2.6%

Linde is forecasted to earn \$6.10 during fiscal 2018 (the company will report Q4 and FY 2018 results as a combined company). Based on this estimate, Linde plc trades at roughly 25 times this year's profits right now, which seems like an overly high valuation for the company's shares. Praxair was valued at roughly 20 times annual profits throughout most of the last decade. It seems likely that Linde plc will trade at a somewhat similar valuation in the future.

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%

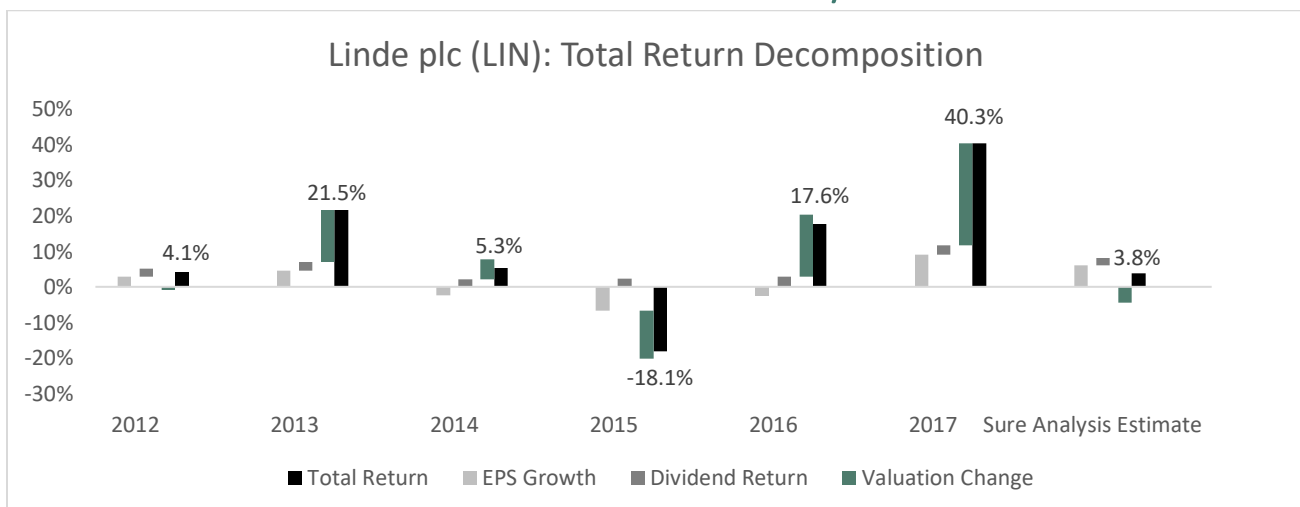
The historic numbers in the above table are those that belong to Praxair, which makes up the majority of the combined company Linde plc. The business had strong quality metrics, including solid returns on assets, high interest coverage, and a payout ratio that is not too high.

Linde plc is the largest company in its industry, which will allow for massive advantages in terms of scale and fixed cost dilution. The industrial gas business is somewhat cyclical, but Praxair remained profitable during the last financial crisis.

Final Thoughts & Recommendation

In the past we have covered Praxair as a company here on Sure Dividend. Linde plc is a different company, thus the data in the tables in this report is only partially reflecting what future results could/will look like. Due to the high valuation for Linde plc (based on current forecasts) we believe that the company's returns will not be compelling over the coming years. We rate Linde plc a sell at current prices due to poor expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	10796	8956	10116	11252	11224	11925	12273	10776	10534	11437
Gross Profit	4301	3924	4362	4794	4828	5181	5311	4816	4674	4982
Gross Margin	39.8%	43.8%	43.1%	42.6%	43.0%	43.4%	43.3%	44.7%	44.4%	43.6%
SG&A Exp.	1312	1088	1196	1239	1270	1349	1308	1152	1145	1207
D&A Exp.	850	846	925	1003	1001	1109	1170	1106	1122	1184
Operating Profit	1900	1881	2095	2462	2455	2583	2593	2466	2328	2507
Op. Margin	17.6%	21.0%	20.7%	21.9%	21.9%	21.7%	21.1%	22.9%	22.1%	21.9%
Net Profit	1211	1254	1195	1672	1692	1755	1694	1547	1500	1247
Net Margin	11.2%	14.0%	11.8%	14.9%	15.1%	14.7%	13.8%	14.4%	14.2%	10.9%
Free Cash Flow	427	816	517	658	572	897	1198	1154	1308	1730
Income Tax	465	169	768	641	586	649	691	612	551	1026

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	13054	14317	15274	16356	18090	20255	19769	18319	19332	20436
Cash & Equivalents	32	45	39	90	157	138	126	147	524	617
Acc. Receivable	1604	1579	1664	1750	1763	1815	1746	1601	1640	1814
Inventories	445	377	399	456	476	506	551	531	550	614
Goodwill & Int.	2030	2212	2198	2539	2680	3790	3724	3554	3700	3786
Total Liabilities	8743	8669	9129	10559	11669	13252	13759	13526	13891	13925
Accounts Payable	820	730	830	896	928	921	864	791	906	972
Long-Term Debt	5025	5055	5557	6562	7362	8811	9225	9231	9515	9000
Total Equity	4009	5315	5792	5488	6064	6609	5623	4389	5021	6018
D/E Ratio	1.25	0.95	0.96	1.20	1.21	1.33	1.64	2.10	1.90	1.50

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.2%	9.2%	8.1%	10.6%	9.8%	9.2%	8.5%	8.1%	8.0%	6.3%
Return on Equity	26.5%	26.9%	21.5%	29.6%	29.3%	27.7%	27.7%	30.9%	31.9%	22.6%
ROIC	12.8%	12.5%	10.7%	13.9%	12.9%	11.9%	10.9%	10.6%	10.4%	8.2%
Shares Out.	318.3	312.4	311.4	306.7	301.8	299.0	295.6	289.1	287.8	289.1
Revenue/Share	33.92	28.67	32.49	36.68	37.18	39.89	41.52	37.28	36.61	39.56
FCF/Share	1.34	2.61	1.66	2.15	1.90	3.00	4.05	3.99	4.55	5.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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