



Linde plc (LIN)

Updated April 12th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$185	5 Year CAGR Estimate:	-0.7%	Volatility Percentile:	6.6%
Fair Value Price:	\$118	5 Year Growth Estimate:	6.0%	Momentum Percentile:	82.7%
% Fair Value:	156%	5 Year Valuation Multiple Estimate:	-8.6%	Growth Percentile:	52.7%
Dividend Yield:	1.9%	5 Year Price Target	\$158	Valuation Percentile:	4.7%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	5.1%

Overview & Current Events

Linde plc, which was created through the merger of Germany-based industrial gas company Linde AG and US-based industrial gas company 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. Linde plc trades with a market capitalization of \$101 billion, which makes the company the number one in its industry by a wide margin.

Linde plc released its full-year earnings for fiscal 2018 in late March. The company did not have a traditional earnings call, as the merger, which was closed in late 2018, is still subject to some conditions. The company has to divest several assets in order for the merger's conditions to be met fully.

During fiscal 2018 Linde plc generated revenues of \$14.9 billion, which was 31% more than the revenues that the company generated during the previous fiscal year. This was, of course, mainly due to the merger of Praxair and Linde AG, which has increased the size of the business substantially.

Linde plc was able to generate an operating profit of \$5.25 billion during fiscal 2018, which was more than twice the operating profit from the previous year's quarter. This metric was impacted by a large one-time item: net gains on the sale of businesses that totaled \$3.3 billion. On the other hand, Linde plc was subject to substantial transaction expenses, which offset a portion of the company's one-time gains. It is nevertheless likely that operating profits will not be as high as they were during 2018 in the coming years. Linde plc's earnings-per-share totaled \$12.79 during the last fiscal year, although once again, one-time gains on asset sales had a substantial positive impact that will not be replicable going forward. Linde plc's earnings-per-share number was based on an average diluted share count of 334 million during fiscal 2018, but the share count has risen substantially since, standing at 545 million at the end of February. This will be another factor that will limit Linde plc's earnings-per-share during the current year relative to the earnings-per-share that the company generated during the previous year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.01	\$3.84	\$5.45	\$5.61	\$5.87	\$5.73	\$5.35	\$5.21	\$5.68	\$12.79	\$5.90	\$7.90
DPS	\$1.60	\$1.80	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$3.50	\$4.20
Shares	307	303	299	297	296	294	289	288	289	334	545	530

The numbers in the above table, through 2017, are for Praxair as a standalone company, as Linde plc was only created in 2018. Praxair, 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, which led to the creation of Linde plc, has impacted the combined company's results massively, but the exact impact remains to be seen. Asset sales, which are necessary for the regulators' okay for the merger, will be a headwind for the combined company, but Linde plc will be able to generate substantial cost-savings through synergies between the two companies. During the last couple of quarters executives have touted synergies and potential cost-

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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. Linde plc also recently announced a \$6 billion stock buyback program that could shrink the company's share count by ~6%.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.2	22.0	18.4	19.3	20.0	22.6	21.7	21.8	23.2	12.2	31.3	20.0
Avg. Yld.	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.2%	1.9%	2.7%

Based on our forecast for earnings-per-share of \$5.90 during fiscal 2019, Linde plc trades at more than 30 times this year's earnings. Shares of Praxair (our proxy for Linde plc to gauge the historic valuation) were never especially cheap, and due to the solid growth outlook and Linde plc's clear leadership in its industry we believe that a multiple of 20 times earnings is justified. Shares look substantially overvalued today as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39.9%	46.9%	36.7%	39.2%	40.9%	45.4%	53.5%	57.6%	55.5%	25.8%	59.3%	53.2%

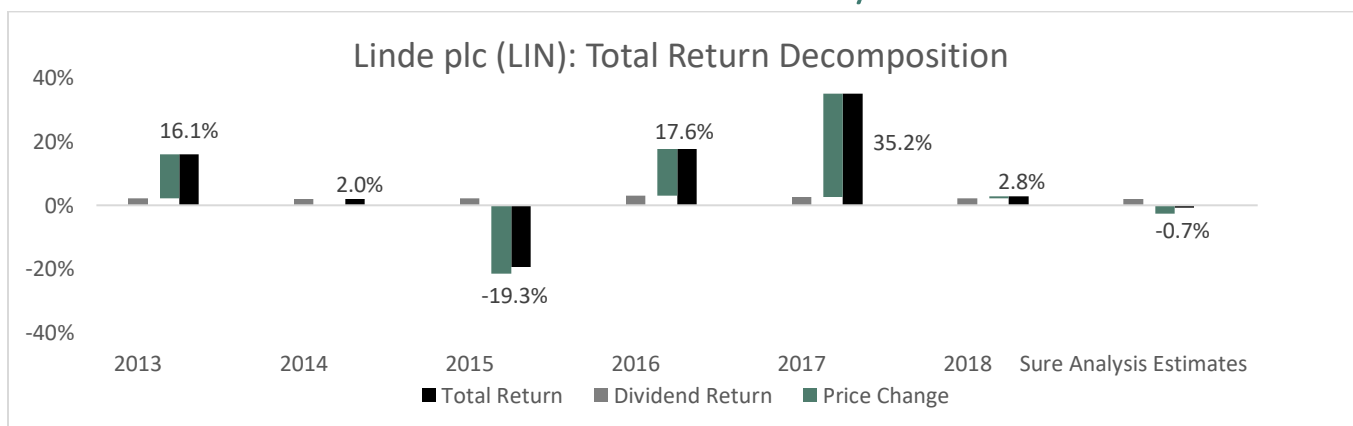
Praxair's (our Linde plc proxy) dividend payout ratio was never high during the last decade. Based on forecasted earnings, Linde plc's dividend payout ratio will be very reasonable as well, under 60%. We believe that the dividend is thus relatively safe, especially as the business is not overly cyclical.

Linde plc is the clear leader in the industrial gases market, and has thus large competitive advantages in terms of size and scale. Synergies that will be captured throughout the next couple of years will increase its competitiveness further. Linde plc is active in an industry that is not overly cyclical, as its gases are also used in industries such as healthcare.

Final Thoughts & Recommendation

Linde plc is the clear number one in its industry, which is a major positive. It is not yet known how quickly the synergies can be captured and what the impact of asset sales will look like, and shares look quite expensive. Total returns are expected to be just below zero in the coming years as earnings growth and the dividend yield are more than offset by a reversion to the mean on the valuation. We thus believe that Linde plc's shares should be sold. However, at a lower valuation, they could be worth a look on the long side.

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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