



Linde plc (LIN)

Updated September 28th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$192	5 Year CAGR Estimate:	1.7%	Volatility Percentile:	11.9%
Fair Value Price:	\$141	5 Year Growth Estimate:	6.0%	Momentum Percentile:	71.6%
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Growth Percentile:	54.8%
Dividend Yield:	1.8%	5 Year Price Target	\$189	Valuation Percentile:	13.2%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	8.5%

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 Guildford, United Kingdom. Linde plc trades with a market capitalization of \$103 billion, which makes the company number one in its industry by a wide margin on that metric.

Linde plc released its second quarter earnings results on August 5. The company announced that its revenues totaled \$7.2 billion during the quarter, which was unchanged from the prior year's quarter, adjusted for the merger between Linde and Praxair. Revenues were heavily impacted by currency rate changes, though; at constant currency rates Linde plc would have reported a revenue growth rate of 4% year over year, which is a decent result.

Through some margin increases Linde was able to grow its profits at an attractive pace, as Linde managed to generate earnings-per-share growth of 12% year over year, bringing its second quarter earnings-per-share to \$1.83.

The company's guidance for the remainder of the current year is quite positive, Linde forecasts earnings-per-share to grow by 12%-16% versus 2018's adjusted earnings-per-share of \$6.19. This would result in earnings-per-share in a range between \$6.95 and \$7.18, which represents an increase versus the company's previous guidance range.

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	\$6.19	\$7.07	\$9.46
DPS	\$1.60	\$1.80	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$3.50	\$4.26
Shares¹	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%. 2018 was the first year for which Linde plc reported net profits as a combined company.

The merger between Praxair and Linde AG, which led to the creation of Linde plc, has impacted the combined company's results massively, as sales rose substantially. Higher net profits were partially offset by an increase in the company's share count. Asset sales, which were necessary for the regulators' okay for the merger, were a headwind.

Linde plc will be able to generate substantial cost-savings through synergies between the two companies. Executives 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. Linde plc also recently announced a \$6 billion stock buyback program that could shrink the company's share count by close to 6%. During the most recent quarter, Linde plc has repurchased shares worth \$500 million, for a ~2% annual buyback pace.

¹ In Millions

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	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	25.4	27.2	20.0
Avg. Yld.	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.2%	1.8%	2.3%

Based on forecasted earnings-per-share of \$7.07 during fiscal 2019, Linde plc trades at more than 27 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 relatively high multiple of 20 times earnings is justified. Shares trade well above that level right now, though, which is why we believe that Linde's shares are significantly overvalued. Multiple compression will be a big headwind for total returns.

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%	53.3%	49.5%	45.0%

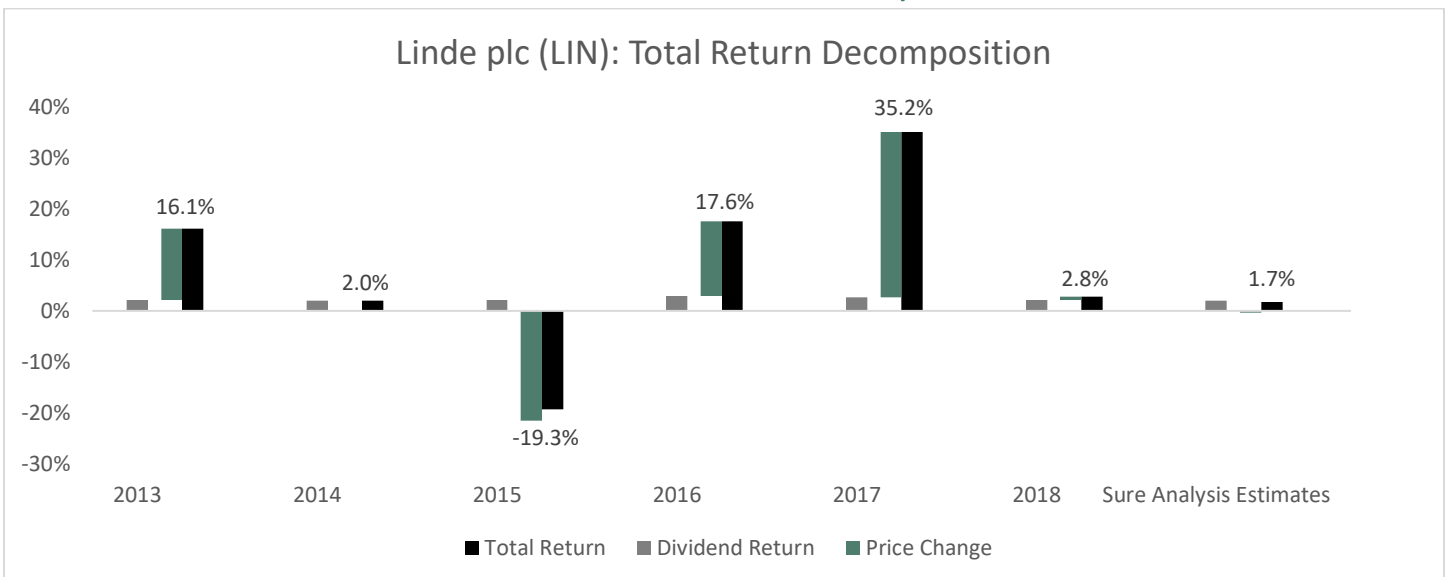
Praxair's (our Linde plc proxy) dividend payout ratio was never especially high during the last decade. Based on forecasted earnings, Linde plc's dividend payout ratio will be very reasonable as well, at roughly 50%. We believe that the dividend is thus relatively safe, especially as Linde's business 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 very cyclical, as its gases are sold to stable industries such as healthcare.

Final Thoughts & Recommendation

Linde plc is the clear leader in its industry, which is a major positive. It is not yet known how quickly the merger synergies can be captured and what the impact of asset sales will look like, but we believe that Linde will be able to grow its earnings-per-share meaningfully going forward. Unfortunately, Linde's shares trade at a high valuation, which does not seem justified. Total returns are forecasted to be marginal going forward, which is why we deem Linde a sell at the current price, even though the company's fundamentals remain strong.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	8956	10116	11252	11224	11925	12273	10776	10534	11437	14900
Gross Profit	3924	4362	4794	4828	5181	5311	4816	4679	4976	5816
Gross Margin	43.8%	43.1%	42.6%	43.0%	43.4%	43.3%	44.7%	44.4%	43.5%	39.0%
SG&A Exp.	1088	1196	1239	1270	1349	1308	1152	1145	1207	1629
D&A Exp.	846	925	1003	1001	1109	1170	1106	1122	1184	1830
Operating Profit	1881	2096	2462	2459	2593	2599	2465	2320	2492	2244
Op. Margin	21.0%	20.7%	21.9%	21.9%	21.7%	21.2%	22.9%	22.0%	21.8%	15.1%
Net Profit	1254	1195	1672	1692	1755	1694	1547	1500	1247	4381
Net Margin	14.0%	11.8%	14.9%	15.1%	14.7%	13.8%	14.4%	14.2%	10.9%	29.4%
Free Cash Flow	816	517	658	572	897	1198	1154	1324	1730	1819
Income Tax	169	768	641	586	649	691	612	551	1026	817

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	14317	15274	16356	18090	20255	19769	18319	19332	20436	93386
Cash & Equivalents	45	39	90	157	138	126	147	524	617	4466
Acc. Receivable	1579	1664	1750	1763	1815	1746	1601	1640	1814	4368
Inventories	377	399	456	476	506	551	531	550	614	1651
Goodwill & Int.	2212	2198	2539	2680	3790	3724	3554	3700	4018	43097
Total Liabilities	8669	9129	10559	11669	13252	13759	13526	13891	13925	36306
Accounts Payable	730	830	896	928	921	864	791	906	922	3219
Long-Term Debt	5055	5557	6562	7362	8811	9225	9231	9515	9000	15296
Total Equity	5315	5792	5488	6064	6609	5623	4389	5021	6018	51596
D/E Ratio	0.95	0.96	1.20	1.21	1.33	1.64	2.10	1.90	1.50	0.30

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	9.2%	8.1%	10.6%	9.8%	9.2%	8.5%	8.1%	8.0%	6.3%	7.7%
Return on Equity	26.9%	21.5%	29.6%	29.3%	27.7%	27.7%	30.9%	31.9%	22.6%	15.2%
ROIC	12.5%	10.7%	13.9%	12.9%	11.9%	10.9%	10.6%	10.4%	8.2%	10.0%
Shares Out.	307	303	299	297	296	294	289	288	289	334
Revenue/Share	28.67	32.49	36.68	37.18	39.89	41.52	37.28	36.61	39.56	44.59
FCF/Share	2.61	1.66	2.15	1.90	3.00	4.05	3.99	4.60	5.98	5.44

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

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