



Linde plc (LIN)

Updated February 20th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$222	5 Year CAGR Estimate:	1.4%	Market Cap:	\$119B
Fair Value Price:	\$162	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/07/20 ¹
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	03/22/20 ²
Dividend Yield:	1.6%	5 Year Price Target	\$217	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	6.1%

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 Guildford, United Kingdom. Linde plc trades with a market capitalization of \$119 billion, which makes the company number one in its industry by a wide margin on that metric.

Linde plc released its fourth quarter earnings results on February 13. The company announced that its revenues totaled \$7.1 billion during the quarter, which was up 1% from the prior year's quarter on an as-reported basis. Revenues were negatively impacted by currency rate changes, at constant currency rates Linde plc would have reported a revenue growth rate of 3% year-over-year, which is a decent result.

Through margin increases Linde was able to grow its profits at a highly attractive pace, as earnings-per-share growth came in at 25% versus the previous year's quarter, bringing its fourth quarter earnings-per-share to \$1.89. The company's guidance for the current fiscal year was announced during the earnings call, Linde forecasts earnings-per-share to grow to \$8.00 - \$8.25 during 2020, which represents a growth rate of 11% at the midpoint of the guidance range relative to 2019's adjusted earnings-per-share of \$7.34.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.84	\$5.45	\$5.61	\$5.87	\$5.73	\$5.35	\$5.21	\$5.68	\$6.19	\$7.34	\$8.12	\$10.87
DPS	\$1.80	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$3.50	\$3.50	\$4.47
Shares³	303	299	297	296	294	289	288	289	334	541	535	520

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, though. Asset sales, which were necessary for the regulators' okay for the merger, were a headwind.

Linde plc is 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-singl-digit 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

¹ Estimated date

² Estimated date

³ In Millions

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buyback program that could shrink the company's share count by roughly 5%. We believe that Linde will be able to reduce its share count at a low-single-digit pace annually, resulting in a small tailwind for its earnings-per-share.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	22.0	18.4	19.3	20.0	22.6	21.7	21.8	23.2	25.4	29.0	27.3	20.0
Avg. Yld.	2.1%	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.2%	1.6%	1.6%	2.1%

Based on forecasted earnings-per-share of \$8.12 during fiscal 2020, Linde plc trades at more than 27 times this year's earnings. Shares of Praxair (our proxy for Linde plc for gauging 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 over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	46.9%	36.7%	39.2%	40.9%	45.4%	53.5%	57.6%	55.5%	53.3%	47.7%	43.1%	41.1%

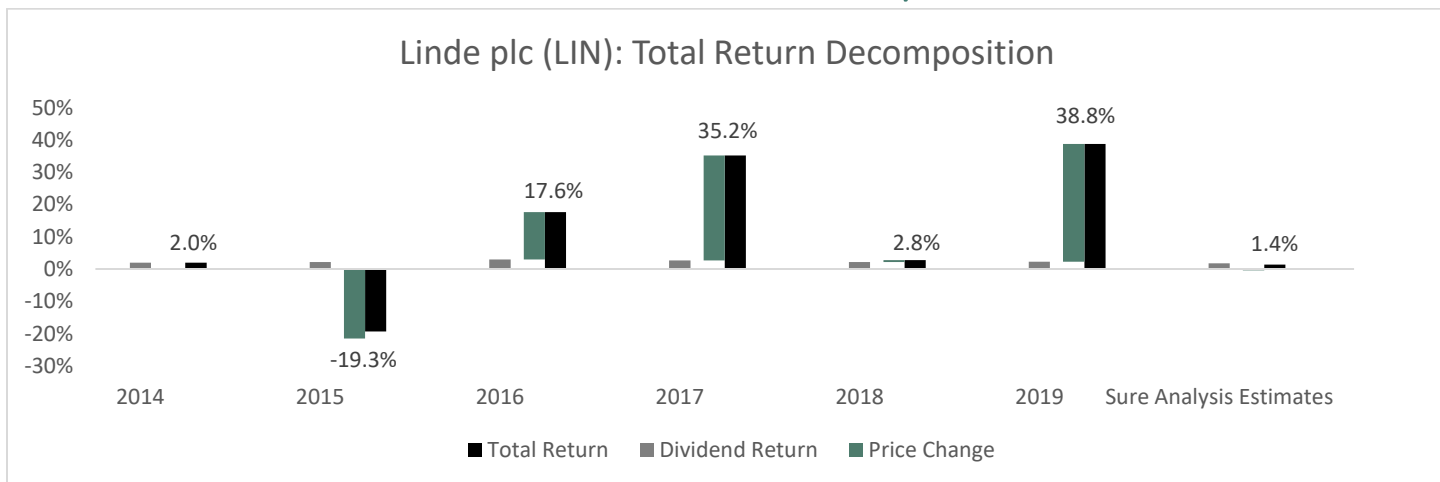
Praxair's (our Linde plc proxy) dividend payout ratio was never especially high during the last decade. Based on forecasted earnings, Linde plc's forward dividend payout ratio will be very reasonable as well, at less than 50%. We believe that the dividend is thus relatively safe, especially as Linde's business is not very 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 quite stable, as its gases are sold to non-cyclical industries such as healthcare.

Final Thoughts & Recommendation

Linde plc is the clear leader in its industry. Not all merger synergies have been captured yet, but following the implementation of the new business structure and some asset sales Linde is already generating attractive profits. We believe that Linde will be able to grow its earnings-per-share meaningfully going forward. Unfortunately, Linde's shares trade at a very high valuation. Total returns are forecasted to be very low over the coming years, which is why we rate 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10,116	11,252	11,224	11,925	12,273	10,776	10,534	11,437	14,900	28,228
Gross Profit	4,362	4,794	4,828	5,181	5,311	4,816	4,679	4,976	5,816	11,584
Gross Margin	43.1%	42.6%	43.0%	43.4%	43.3%	44.7%	44.4%	43.5%	39.0%	41.0%
SG&A Exp.	1,196	1,239	1,270	1,349	1,308	1,152	1,145	1,207	1,629	3,457
D&A Exp.	925	1,003	1,001	1,109	1,170	1,106	1,122	1,184	1,830	4,675
Operating Profit	2,096	2,462	2,459	2,593	2,599	2,465	2,320	2,492	2,244	2,701
Op. Margin	20.7%	21.9%	21.9%	21.7%	21.2%	22.9%	22.0%	21.8%	15.1%	9.6%
Net Profit	1,195	1,672	1,692	1,755	1,694	1,547	1,500	1,247	4,381	2,285
Net Margin	11.8%	14.9%	15.1%	14.7%	13.8%	14.4%	14.2%	10.9%	29.4%	8.1%
Free Cash Flow	517	658	572	897	1,198	1,154	1,324	1,730	1,819	2,506
Income Tax	768	641	586	649	691	612	551	1,026	817	769

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	15,274	16,356	18,090	20,255	19,769	18,319	19,332	20,436	93,386	86,612
Cash & Equivalents	39	90	157	138	126	147	524	617	4,466	2,700
Acc. Receivable	1,664	1,750	1,763	1,815	1,746	1,601	1,640	1,814	4,368	4,322
Inventories	399	456	476	506	551	531	550	614	1,651	1,697
Goodwill & Int.	2,198	2,539	2,680	3,790	3,724	3,554	3,700	4,018	43,097	43,156
Total Liabilities	9,129	10,559	11,669	13,252	13,759	13,526	13,891	13,925	36,306	35,090
Accounts Payable	830	896	928	921	864	791	906	922	3,219	3,266
Long-Term Debt	5,557	6,562	7,362	8,811	9,225	9,231	9,515	9,000	15,296	13,956
Total Equity	5,792	5,488	6,064	6,609	5,623	4,389	5,021	6,018	51,596	49,074
D/E Ratio	0.96	1.20	1.21	1.33	1.64	2.10	1.90	1.50	0.30	0.28

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.1%	10.6%	9.8%	9.2%	8.5%	8.1%	8.0%	6.3%	7.7%	2.5%
Return on Equity	21.5%	29.6%	29.3%	27.7%	27.7%	30.9%	31.9%	22.6%	15.2%	4.5%
ROIC	10.7%	13.9%	12.9%	11.9%	10.9%	10.6%	10.4%	8.2%	10.0%	3.3%
Shares Out.	303	299	297	296	294	289	288	289	334	541
Revenue/Share	32.49	36.68	37.18	39.89	41.52	37.28	36.61	39.56	44.59	51.78
FCF/Share	1.66	2.15	1.90	3.00	4.05	3.99	4.60	5.98	5.44	4.60

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

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