



Air Products & Chemicals Inc. (APD)

Updated August 25th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$268	5 Year CAGR Estimate:	-0.2%	Market Cap:	\$60B
Fair Value Price:	\$171	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/30/21
% Fair Value:	157%	5 Year Valuation Multiple Estimate:	-8.6%	Dividend Payment Date:	10/10/21
Dividend Yield:	2.2%	5 Year Price Target	\$229	Years Of Dividend Growth:	39
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	11.9%

Overview & Current Events

Air Products & Chemicals is one of the world's largest producers and distributors of atmospheric and process gases, serving other businesses in the industrial, technology, energy, and materials sectors. Air Products & Chemicals operates through three main business units: Industrial Gases – Americas, Industrial Gases – EMEA, and Industrial Gases – Asia. Its 39-year streak of consecutive dividend increases qualifies it to be a member of the Dividend Aristocrats Index. The company is headquartered in Allentown, Pennsylvania.

Air Products & Chemicals reported financial results for the third quarter of fiscal 2021 on August 10. The company generated revenues of \$2.6 billion during the quarter, which was up 26% year-over-year, easily beating the analyst consensus estimate. Air Products & Chemicals was able to grow its revenues meaningfully, which was, in part, the result of an easy comparison compared to the previous year's not-very-strong quarter. Higher costs prevented the company from growing its net profits by a similar amount. Air Products & Chemicals managed to generate an EBITDA margin of 37.3% during the quarter, which was down 500 basis points year over year.

Air Products & Chemicals was able to generate earnings-per-share of \$2.31 during the third quarter, which was up 15% compared to the previous year's period, as the positive impact of higher revenues was partially offset by higher expenses, which is why profits grew less than sales. Following a record year in 2020, Air Products & Chemicals is forecasted to generate even higher profits this year, despite results in H1 being relatively flat year over year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.73	\$5.40	\$5.50	\$5.78	\$6.57	\$7.55	\$6.31	\$7.45	\$8.21	\$8.38	\$9.00	\$12.04
DPS	\$2.23	\$2.50	\$2.77	\$3.02	\$3.20	\$3.39	\$3.71	\$4.40	\$4.64	\$5.36	\$6.00	\$8.42
Shares¹	210	213	211	214	215	217	218	221	221	222	223	225

Between 2010 and 2020, Air Products & Chemicals generated earnings-per-share growth of 6% annually, which is a solid growth rate. There were some ups and downs over the years during that time, but the trend has been positive.

Air Products & Chemicals' growth over the coming years will be driven by international expansion, as the company's Gases Asia business has delivered the highest growth rate in the recent past, although its American business remains the largest segment for now. Air Products & Chemicals has several growth projects either recently completed or scheduled to be completed in the coming months. Some of these investments around the world include building a second liquid hydrogen plant in California, a new air separation unit (ASU) in Minnesota, an ASU plant in India, and helium investments in Algeria. Air Products & Chemicals has announced that it will build the first hydrogen fuel cell vehicle fueling station in Saudi Arabia, along with oil giant Saudi Aramco. Air Products & Chemicals has also announced several more projects that will come on line during the next couple of years, including a major \$3.5 billion joint venture with Yankuang in China. Last year, Air Products & Chemicals also announced a new \$7 billion Carbon-Free Hydrogen joint venture with ACWA Power and NEOM that will drive its green energy exposure. These investments, coupled with margin growth initiatives, should lead to meaningful earnings growth for the company over the coming years.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.4	15.6	16.5	20.6	21.7	18.6	22.6	21.8	27.0	35.0	29.8	19.0
Avg. Yld.	2.5%	3.0%	3.1%	2.5%	2.2%	2.4%	2.6%	2.6%	2.1%	1.8%	2.2%	3.7%

Air Products & Chemicals has never traded at an especially low valuation, but more recently its shares have become even more expensive. Based on current estimates, shares are trading for around 30 times this year's net profits right now, which is why we believe that shares are heavily overvalued. The corresponding multiple contraction that we expect will negatively impact the stock's total returns to a significant degree.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	38.9%	46.3%	50.4%	52.2%	48.7%	44.9%	58.8%	59.1%	55.8%	61.8%	66.7%	69.9%

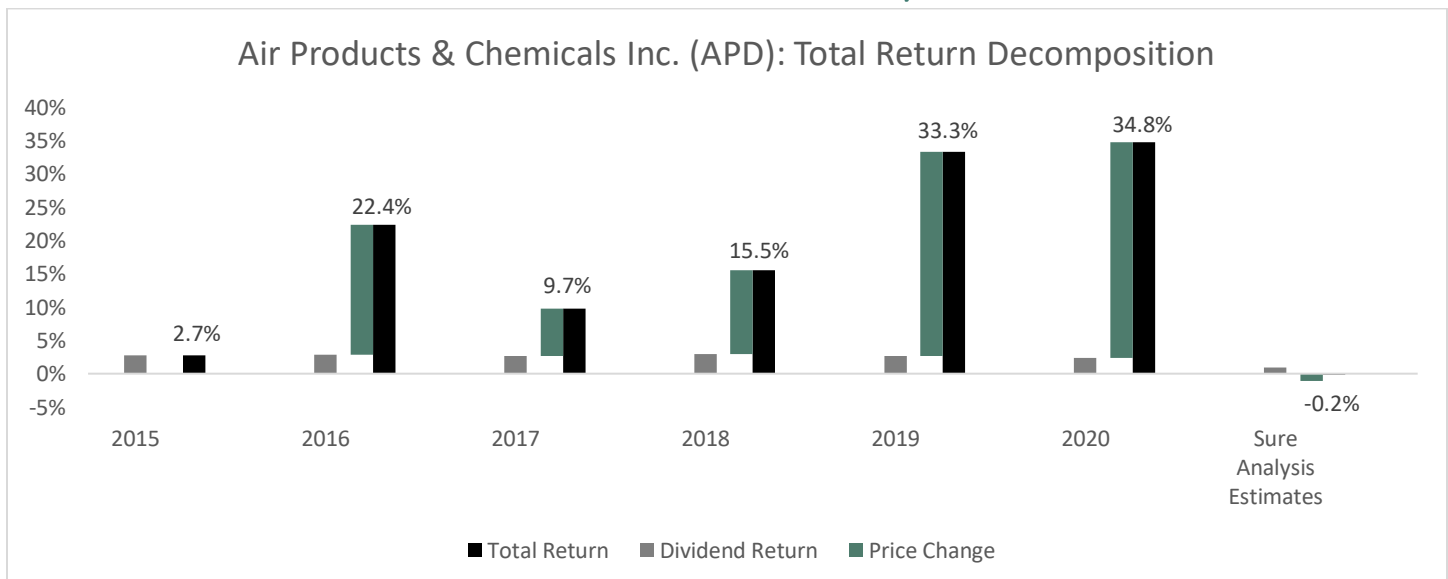
Air Products & Chemicals will pay out roughly 66% of its net profits in the form of dividends this year. This is not an especially low payout ratio, but the dividend looks easily sustainable at the current level. The company's reasonable payout ratio also ensures that it can continue its streak of dividend increases.

Air Products & Chemicals' most compelling competitive advantage is its industry expertise. The company also benefits from high switching costs -- it is difficult to find a competitor that offers the full range of identical services in a particular geographic region. Air Products & Chemicals operates a relatively recession-resistant business. Earnings-per-share declined by just 18% in 2009, during the Great Recession, one of the steepest downturns of the last decades.

Final Thoughts & Recommendation

Air Products & Chemicals is an attractive company at first sight. It holds a multi-decade streak of consecutive dividend increases, a strong globalized business model, and a leadership position in the gases industry. Despite these positives, Air Products & Chemicals appears positioned to deliver unappealing total returns over the coming years, due to its high valuation. We estimate that Air Products & Chemicals will not generate positive annual returns over the coming five years, which is why we rate the stock a sell at the current, elevated price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9674	9612	10180	10439	7824	7504	8188	8930	8919	8856
Gross Profit	2575	2560	2708	2809	2226	2326	2436	2741	2943	2998
Gross Margin	26.6%	26.6%	26.6%	26.9%	28.5%	31.0%	29.8%	30.7%	33.0%	33.9%
SG&A Exp.	942	947	1089	1060	792	684	714	761	750	776
D&A Exp.	834	841	907	957	859	855	866	971	1083	1185
Operating Profit	1545	1519	1533	1648	1385	1613	1786	1966	2170	2204
Operating Margin	16.0%	15.8%	15.1%	15.8%	17.7%	21.5%	21.8%	22.0%	24.3%	24.9%
Net Profit	1224	1167	994	992	1278	631	3000	1498	1760	1887
Net Margin	12.7%	12.1%	9.8%	9.5%	16.3%	8.4%	36.6%	16.8%	19.7%	21.3%
Free Cash Flow	444	278	43	824	1307	1753	523	966	980	756
Income Tax	375	287	308	369	300	433	261	524	480	478

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14291	16942	17850	17779	17335	18029	18467	19178	18943	25169
Cash & Equivalents	421	454	450	337	206	1293	3274	2791	2249	5253
Acc. Receivable	1362	1545	1544	1486	1406	1146	1174	1207	1260	1275
Goodwill & Int.	670	787	706	706	658	255	335	396	388	405
Total Liabilities	1057	2360	2371	1853	1640	1233	1090	1227	1217	1327
Accounts Payable	8352	10319	10651	10258	9953	10815	8282	8002	7555	12725
Long-Term Debt	794	1005	1026	741	622	579	660	595	528	546
Total Equity	4562	5292	6274	6119	5879	5211	3963	3813	3326	7908
D/E Ratio	5796	6477	7042	7366	7249	7080	10086	10858	11054	12080

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.8%	7.5%	5.7%	5.6%	7.3%	3.6%	16.4%	8.0%	9.2%	8.6%
Return on Equity	21.6%	19.0%	14.7%	13.8%	17.5%	8.8%	35.0%	14.3%	16.1%	16.3%
ROIC	12.0%	10.4%	7.8%	7.3%	9.5%	4.9%	22.6%	10.3%	11.9%	10.8%
Shares Out.	210.2	212.5	211.2	213.5	215.4	217.4	218.3	220.9	220.7	220.7
Revenue/Share	44.46	44.77	47.95	48.51	36.01	34.37	37.25	40.44	40.25	39.84
FCF/Share	2.04	1.29	0.20	3.83	6.02	8.03	2.38	4.38	4.42	3.40

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

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