



Linde plc (LIN)

Updated November 3rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$328	5 Year CAGR Estimate:	-0.3%	Market Cap:	\$165B
Fair Value Price:	\$222	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/04/21 ¹
% Fair Value:	148%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	12/22/21
Dividend Yield:	1.3%	5 Year Price Target	\$297	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	10.4%

Overview & Current Events

Linde plc, which was created through the merger of Germany-based industrial gases company Linde AG and US-based industrial gases 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 is, by both market capitalization as well as by sales generation, the number one in its industry by a wide margin.

Linde plc released its third quarter earnings results on October 28. The company announced that its revenues totaled \$7.7 billion during the quarter, which was up 12% from the prior year's quarter. This was a deceleration versus the previous quarters, during which Linde reported revenue growth of 19%. Linde was able to grow its margins meaningfully, which allowed for attractive earnings growth during the quarter.

Linde's earnings-per-share during the third quarter totaled \$2.73, which means that the company's earnings-per-share growth came in at 27% versus the previous year's quarter. Linde's management also has a quite positive view regarding the foreseeable future, as Linde is forecasting earnings-per-share in a range of \$10.52 to \$10.62 for fiscal 2021, which represents attractive growth of ~28% versus 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.45	\$5.61	\$5.87	\$5.73	\$5.35	\$5.21	\$5.68	\$6.19	\$7.34	\$8.23	\$10.57	\$14.15
DPS	\$2.00	\$2.20	\$2.40	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$3.50	\$3.85	\$4.24	\$5.95
Shares²	299	297	296	294	289	288	289	334	541	531	520	500

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. Higher net profits were partially offset by an increase in the company's share count, however. Asset sales, which were necessary for the regulators' okay for the merger, also had an impact.

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-single-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 recently upped its stock buyback program by another \$5 billion, which should drive further share count declines. We believe that Linde will be able to reduce its share count meaningfully in the future, resulting in a tailwind for its earnings-per-share.

¹ Estimated date

² In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.4	19.3	20.0	22.6	21.7	21.8	23.2	25.4	29.0	31.5	31.0	21.0
Avg. Yld.	2.0%	2.0%	2.0%	2.0%	2.5%	2.6%	2.4%	2.2%	1.6%	1.5%	1.3%	2.0%

Based on forecasted earnings-per-share of \$10.57 for fiscal 2021, Linde plc trades at 31 times this year's earnings right now. 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 an above-average multiple of 21 times earnings is justified. Shares trade well above that level right now, however, which is why we believe that Linde's shares are overvalued. Multiple compression will likely be a major headwind over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36.7%	39.2%	40.9%	45.4%	53.5%	57.6%	55.5%	53.3%	47.7%	46.7%	40.1%	42.0%

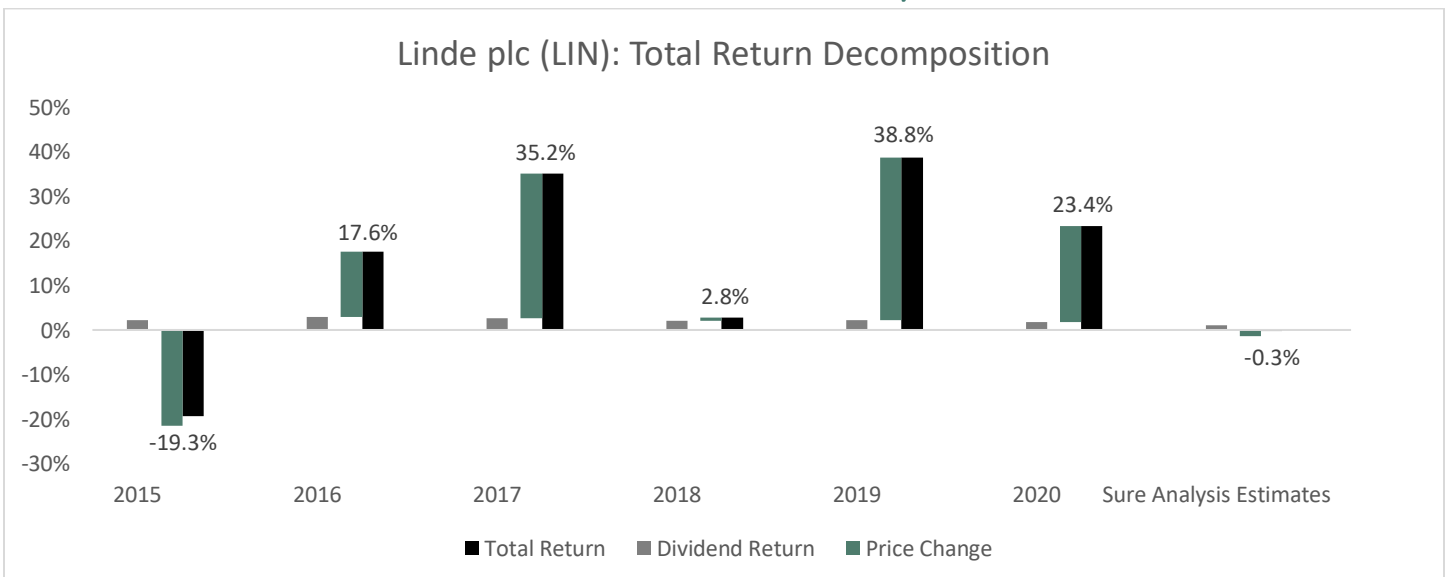
Praxair's (our Linde plc proxy) dividend payout ratio was never especially high during the last decade. Based on forecasted earnings, Linde plc's forward dividend payout ratio will be very reasonable as well, at around 50%. We believe that the dividend is thus relatively safe, especially as Linde's business is not very cyclical.

Linde plc is the clear leader in the industrial gases market, and thus has 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. Despite the pandemic, Linde generated new record profits in 2020, and it looks like the company will do even better during the current year, as the global economy recovers and demand for Linde's gases grows. We believe that Linde will be able to grow its earnings-per-share meaningfully in the long run. Unfortunately, Linde's shares trade at a quite high valuation. Total returns are forecasted to be unattractive over the coming years, which is why we rate Linde a sell at the current price, even though Linde looks strong fundamentally.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11,252	11,224	11,925	12,273	10,776	10,534	11,358	14,836	28,228	27,243
Gross Profit	4,794	4,828	5,181	5,311	4,816	4,679	4,976	5,816	11,584	11,860
Gross Margin	42.6%	43.0%	43.4%	43.3%	44.7%	44.4%	43.8%	39.2%	41.0%	43.5%
SG&A Exp.	1,239	1,270	1,349	1,308	1,152	1,145	1,207	1,629	3,457	3,193
D&A Exp.	1,003	1,001	1,109	1,170	1,106	1,122	1,184	1,830	4,675	4,626
Operating Profit	2,462	2,459	2,625	2,737	2,465	2,320	2,492	2,244	3,268	3,889
Op. Margin	21.9%	21.9%	22.0%	22.3%	22.9%	22.0%	21.9%	15.1%	11.6%	14.3%
Net Profit	1,672	1,692	1,755	1,694	1,547	1,500	1,247	4,381	2,285	2,501
Net Margin	14.9%	15.1%	14.7%	13.8%	14.4%	14.2%	11.0%	29.5%	8.1%	9.2%
Free Cash Flow	658	572	897	1,198	1,154	1,324	1,730	1,819	2,506	4,029
Income Tax	641	586	649	691	612	551	1,026	817	769	847

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16,356	18,090	20,255	19,769	18,319	19,332	20,436	93,386	86,612	88,229
Cash & Equivalents	90	157	138	126	147	524	617	4,466	2,700	3,754
Acc. Receivable	1,750	1,763	1,815	1,746	1,601	1,640	1,814	4,410	4,628	4,167
Inventories	456	476	506	551	531	550	614	1,651	1,697	1,729
Goodwill & Int.	2,539	2,680	3,790	3,724	3,554	3,700	4,018	43,097	43,156	44,385
Total Liabilities	10,559	11,669	13,252	13,759	13,526	13,891	13,925	36,306	35,090	38,660
Accounts Payable	896	928	921	864	791	906	922	3,219	3,266	3,095
Long-Term Debt	6,562	7,362	8,811	9,225	9,231	9,515	9,000	15,296	13,956	16,154
Total Equity	5,488	6,064	6,609	5,623	4,389	5,021	6,018	51,596	49,074	47,317
D/E Ratio	1.20	1.21	1.33	1.64	2.10	1.90	1.50	0.30	0.28	0.34

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.6%	9.8%	9.2%	8.5%	8.1%	8.0%	6.3%	7.7%	2.5%	2.9%
Return on Equity	29.6%	29.3%	27.7%	27.7%	30.9%	31.9%	22.6%	15.2%	4.5%	5.2%
ROIC	13.9%	12.9%	11.9%	10.9%	10.6%	10.4%	8.2%	10.0%	3.3%	3.8%
Shares Out.	299	297	296	294	289	288	289	334	541	531
Revenue/Share	36.68	37.18	39.89	41.52	37.28	36.61	39.29	44.40	51.78	51.29
FCF/Share	2.15	1.90	3.00	4.05	3.99	4.60	5.98	5.44	4.60	7.59

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

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