



Linde plc (LIN)

Updated May 7th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$430	5 Year CAGR Estimate:	1.7%	Market Cap:	\$205B
Fair Value Price:	\$324	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/04/24 ¹
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	06/18/24 ²
Dividend Yield:	1.3%	5 Year Price Target	\$434	Years Of Dividend Growth:	31
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

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 first quarter earnings results on May 2. The company announced that its revenues totaled \$8.1 billion during the quarter, which was down 1% versus the prior year's quarter. This was weaker than the previous quarter, during which Linde generated a revenue increase. Linde was able to grow its margins meaningfully, as its operating margin expanded by an attractive 200 basis points year-over-year.

Linde's earnings-per-share during the first quarter totaled \$3.75, which means that the company's earnings-per-share growth came in at 10% 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 \$15.30 to \$15.60 for fiscal 2024, which represents a solid growth rate of around 9% compared to 2023, which was also a record year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.73	\$5.35	\$5.21	\$5.68	\$6.19	\$7.34	\$8.23	\$10.69	\$12.29	\$14.20	\$15.45	\$20.68
DPS	\$2.60	\$2.86	\$3.00	\$3.15	\$3.30	\$3.50	\$3.85	\$4.24	\$4.68	\$5.10	\$5.56	\$7.80
Shares³	294	289	288	289	334	541	531	522	504	492	480	450

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 more than \$1 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 to \$10 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 Estimated date

³ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.6	21.7	21.8	23.2	25.4	29.0	31.5	32.2	26.5	28.9	27.8	21.0
Avg. Yld.	2.0%	2.5%	2.6%	2.4%	2.2%	1.6%	1.5%	1.2%	1.4%	1.2%	1.3%	1.8%

Based on forecasted earnings-per-share of around \$15.45 for fiscal 2024, Linde plc trades at ~28 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 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, which is why we believe that Linde's shares are overvalued. Shares have gotten less expensive compared to 2019-2021 but are still very pricey.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	45.4%	53.5%	57.6%	55.5%	53.3%	47.7%	46.7%	39.7%	38.1%	35.9%	36.0%	37.7%

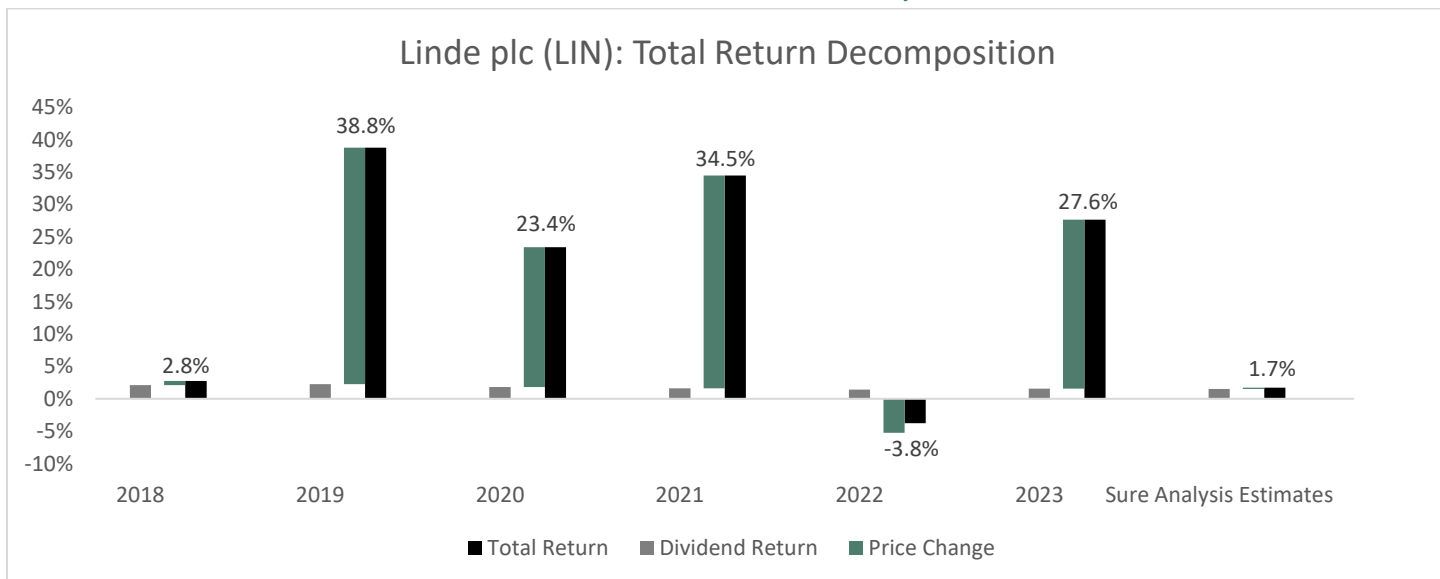
Praxair's (our Linde plc proxy) dividend payout ratio was never especially high during the last decade. Based on forecasted earnings, Linde plc's forward dividend payout ratio will be very reasonable as well, at less than 40%. We believe that the dividend is thus relatively safe, especially as Linde's 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 to 2023, and it looks like the company will do even better during the current year. 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 relatively 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 like a fundamentally strong company.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,273	10,776	10,534	11,358	14,836	28,228	27,243	30,793	33,364	32,854
Gross Profit	5,311	4,816	4,679	4,976	5,816	11,584	11,860	13,250	13,914	15,362
Gross Margin	43.3%	44.7%	44.4%	43.8%	39.2%	41.0%	43.5%	43.0%	41.7%	46.8%
SG&A Exp.	1,308	1,152	1,145	1,207	1,629	3,457	3,193	3,189	3,107	3,295
D&A Exp.	1,170	1,106	1,122	1,184	1,830	4,675	4,626	4,635	4,204	3,816
Operating Profit	2,737	2,465	2,320	2,492	2,244	3,268	3,889	5,283	6,460	8,105
Op. Margin	22.3%	22.9%	22.0%	21.9%	15.1%	11.6%	14.3%	17.2%	19.4%	24.7%
Net Profit	1,694	1,547	1,500	1,247	4,381	2,285	2,501	3,826	4,147	6,199
Net Margin	13.8%	14.4%	14.2%	11.0%	29.5%	8.1%	9.2%	12.4%	12.4%	18.9%
Free Cash Flow	1,198	1,154	1,324	1,730	1,819	2,506	4,029	6,639	5,691	5,518
Income Tax	691	612	551	1,026	817	769	847	1,262	1,434	1,814

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19,769	18,319	19,332	20,436	93,386	86,612	88,229	81,605	79,658	80,811
Cash & Equivalents	126	147	524	617	4,466	2,700	3,754	2,823	5,436	4,664
Acc. Receivable	1,746	1,601	1,640	1,814	4,410	4,322	4,167	4,499	4,559	4,718
Inventories	551	531	550	614	1,651	1,697	1,729	1,733	1,978	2,115
Goodwill & Int.	3,724	3,554	3,700	4,018	43,097	43,156	44,385	40,840	38,237	39,150
Total Liabilities	13,583	13,413	13,880	13,914	36,290	34,977	38,647	36,164	38,271	39,716
Accounts Payable	864	791	906	922	3,219	3,266	3,095	3,503	2,995	3,020
Long-Term Debt	9,225	9,231	9,515	9,000	15,296	13,956	16,154	14,207	17,914	19,373
Total Equity	5,623	4,389	5,021	6,018	51,596	49,074	47,317	44,035	40,028	39,720
LTD/E Ratio	1.64	2.10	1.90	1.50	0.30	0.28	0.34	0.32	0.45	0.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	8.1%	8.0%	6.3%	7.7%	2.5%	2.9%	4.5%	5.1%	7.7%
Return on Equity	25.1%	27.9%	29.0%	20.8%	13.8%	4.2%	4.9%	8.1%	9.6%	15.0%
ROIC	10.7%	10.5%	10.3%	8.2%	10.0%	3.3%	3.8%	6.1%	7.0%	10.4%
Shares Out.	294	289	288	289	334	541	531	522	504	492
Revenue/Share	41.52	37.28	36.61	39.29	44.40	51.78	51.29	59.00	66.19	66.74
FCF/Share	4.05	3.99	4.60	5.98	5.44	4.60	7.59	12.72	11.29	11.21

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

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