



Air Products & Chemicals Inc. (APD)

Updated November 19th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$328	5 Year CAGR Estimate:	3.4%	Market Cap:	\$73B
Fair Value Price:	\$257	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/05/25 ¹
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	02/12/25 ²
Dividend Yield:	2.2%	5 Year Price Target	\$344	Years Of Dividend Growth:	42
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 42-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 fourth quarter of fiscal 2024 on November 7. The company generated revenues of \$3.19 billion during the quarter, which was up 0.3% year-over-year, missing the analyst consensus estimate by \$30 million. Air Products & Chemicals was not able to grow its revenues meaningfully unlike during most of the last couple of quarters, which was, in part, the result of a tough comparison compared to the previous year's quarter. Costs declined, however, which, in combination with a relatively flat top-line result, made for some earnings growth compared to the previous year's quarter.

Air Products & Chemicals was able to generate earnings-per-share of \$3.56 during the fourth quarter, which was up 13% compared to the previous year's period. EBITDA was up 12% during the period. Following a record year in 2024, Air Products & Chemicals is guiding for another record profit in fiscal 2025, with earnings-per-share seen at \$12.70 to \$13.00. The guidance implies an earnings-per-share growth rate of around 3% this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$6.57	\$7.55	\$6.31	\$7.45	\$8.21	\$8.38	\$9.03	\$10.14	\$11.51	\$12.43	\$12.85	\$17.20
DPS	\$3.20	\$3.39	\$3.71	\$4.40	\$4.64	\$5.36	\$5.68	\$6.36	\$6.87	\$7.06	\$7.08	\$9.93
Shares³	215	217	218	221	221	222	223	223	223	223	223	225

Between 2015 and 2024, Air Products & Chemicals generated earnings-per-share growth of 7% annually, which is a very solid growth rate. Growth was a bit uneven over that time frame, but the trend has been clearly positive. The dividend has been increased every year of the last decade and a lot longer than that as well.

Air Products & Chemicals' growth over the coming years will be driven by international expansion, as the company's Gases Asia business continues to grow at a very solid rate, although its American business remains the largest segment for now. Air Products & Chemicals keeps investing in new assets, both in existing markets and by entering new markets. Air Products & Chemicals has, for example, announced a \$7 billion Carbon-Free Hydrogen joint venture with ACWA Power and NEOM that will drive its green energy exposure and expand its presence in Saudi Arabia. The company is expanding its hydrogen footprint in other markets as well, investing heavily in recent years and for the foreseeable future. These investments, coupled with margin growth initiatives, should lead to meaningful earnings-per-share growth for the company over the coming years, we believe.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	21.7	18.6	22.6	21.8	27.0	35.0	28.3	23.0	24.9	24.0	25.5	20.0
Avg. Yld.	2.2%	2.4%	2.6%	2.6%	2.1%	1.8%	2.3%	2.7%	2.4%	2.4%	2.2%	2.9%

Air Products & Chemicals has never traded at an especially low valuation, but there were wide movements in its valuation nevertheless. Based on current estimates, shares are trading for around 25 to 26 times this year's net profits right now, which is why we believe that shares are overvalued right here. The multiple compression that we expect will negatively impact the stock's total returns in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	48.7%	44.9%	58.8%	59.1%	55.8%	61.8%	62.9%	62.7%	59.7%	56.8%	55.1%	57.7%

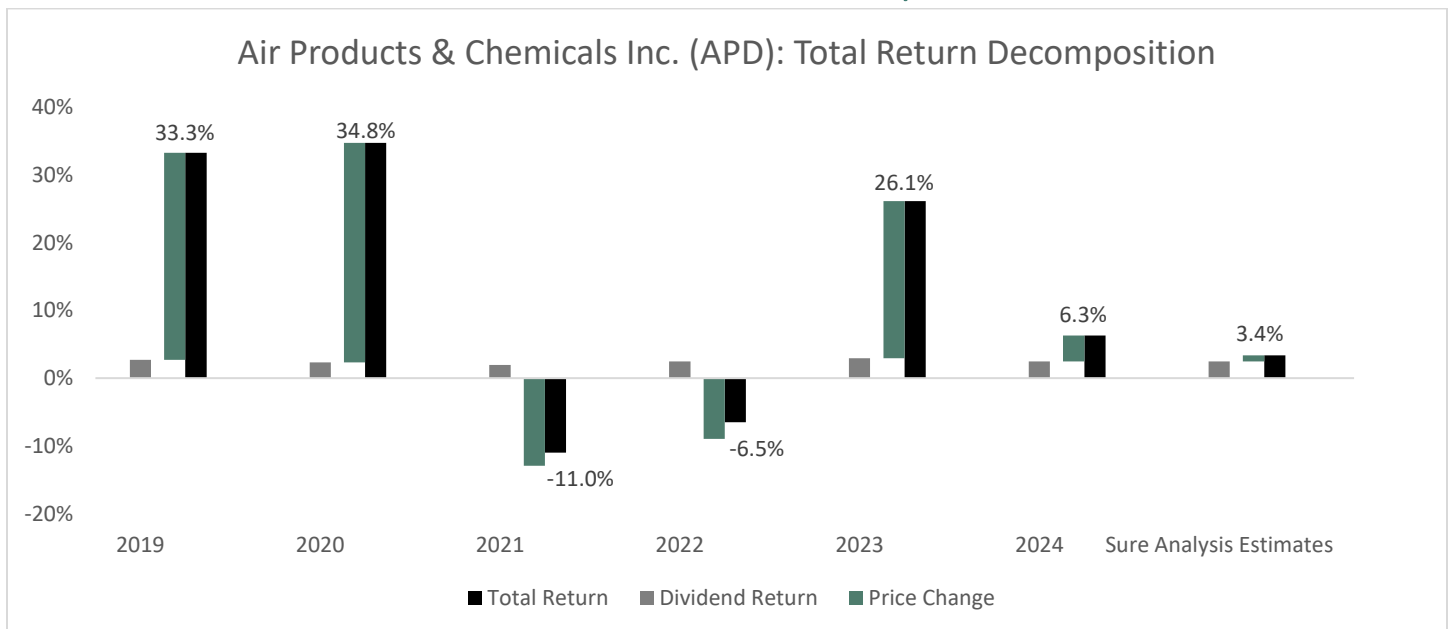
Air Products & Chemicals will pay out roughly half of its net profits in the form of dividends this year. This is not an ultra-low payout ratio, but the dividend looks easily sustainable at the current level. The company's reasonable payout ratio also means that it should be able to raise its dividend regularly in the future, as it has done for decades.

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 ~20% in 2009, during the Great Recession, for example.

Final Thoughts & Recommendation

Air Products & Chemicals is an attractive company at first sight. It holds a multi-decade streak of consecutive dividend increases, operates with a strong globalized business model, and has a good position in the growing gases industry. Earnings-per-share growth has been appealing in recent years, but the dividend growth rate has slowed down to some degree due to Air Products & Chemicals' large investments. We estimate that Air Products & Chemicals will generate reasonable but far from strong returns, which is why Air Products & Chemicals earns a hold rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	7,824	7,504	8,188	8,930	8,919	8,856	10,323	12,699	12,600	12,101
Gross Profit	2,226	2,326	2,436	2,741	2,943	2,998	3,137	3,360	3,767	3,932
Gross Margin	28.5%	31.0%	29.8%	30.7%	33.0%	33.9%	30.4%	26.5%	29.9%	32.5%
SG&A Exp.	792	684	714	761	750	742	828	901	957	942
D&A Exp.	859	855	866	971	1,083	1,185	1,321	1,338	1,358	1,451
Operating Profit	1,385	1,613	1,786	1,966	2,170	2,238	2,268	2,413	2,739	2,948
Operating Margin	17.7%	21.5%	21.8%	22.0%	24.3%	25.3%	22.0%	19.0%	21.7%	24.4%
Net Profit	1,278	631	3,000	1,498	1,760	1,887	2,099	2,256	2,300	3,828
Net Margin	16.3%	8.4%	36.6%	16.8%	19.7%	21.3%	20.3%	17.8%	18.3%	31.6%
Free Cash Flow	1,307	1,753	523	966	980	756	878	304	(1,420)	(3,150)
Income Tax	300	433	261	524	480	478	463	501	551	945

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	17,335	18,029	18,467	19,178	18,943	25,169	26,859	27,193	32,003	39,575
Cash & Equivalents	206	1,293	3,274	2,791	2,249	5,253	4,469	2,711	1,617	2,980
Acc. Receivable	1,406	1,146	1,174	1,207	1,260	1,275	1,451	1,794	1,700	1,822
Inventories	658	255	335	396	388	405	454	514	652	766
Goodwill & Int.	1,640	1,233	1,090	1,227	1,217	1,327	1,332	1,171	1,196	1,217
Total Liabilities	9,953	10,815	8,282	8,002	7,555	12,725	12,771	13,490	16,342	20,901
Accounts Payable	622	579	660	595	528	546	737	1,121	1,213	2,926
Long-Term Debt	5,879	5,211	3,963	3,813	3,326	7,908	7,637	7,645	10,306	14,228
Total Equity	7,249	7,080	10,086	10,858	11,054	12,080	13,540	13,144	14,313	17,037
LTD/E Ratio	0.81	0.74	0.39	0.35	0.30	0.65	0.56	0.58	0.72	0.84

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.3%	3.6%	16.4%	8.0%	9.2%	8.6%	8.1%	8.3%	7.8%	10.7%
Return on Equity	17.2%	8.6%	34.5%	14.0%	15.6%	15.8%	15.8%	16.2%	15.7%	22.3%
ROIC	9.5%	4.9%	22.6%	10.3%	11.9%	10.8%	10.0%	10.5%	9.7%	13.0%
Shares Out.	215	217	218	221	221	222	223	223	223	223
Revenue/Share	36.01	34.37	37.25	40.44	40.25	39.84	46.40	57.07	56.58	54.31
FCF/Share	6.02	8.03	2.38	4.38	4.42	3.40	3.94	1.36	(6.38)	(14.14)

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

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