Linde Plc

Materials
NASDAQ: LIN
Market Perform | Hold

December 31, 2023
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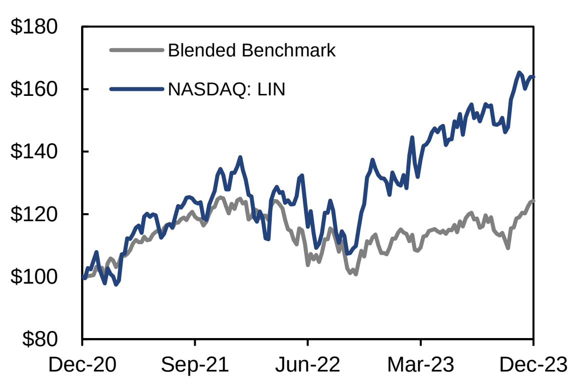
Return on Investment	
Current Share Price	$410.71
Target Price	$415.00
Dividend Yield	1.26%
Implied Return	2%
Conviction Rating	1

Market Profile	
52-Week Range	$318.88 - $434.21
Market Capitalization (US$mm)	$179,564
Net Debt (US$mm)	$14,109
Minority Interest (US$mm)	$1,340
Enterprise Value (US$mm)	$195,013
Beta (5-Year Monthly)	0.93

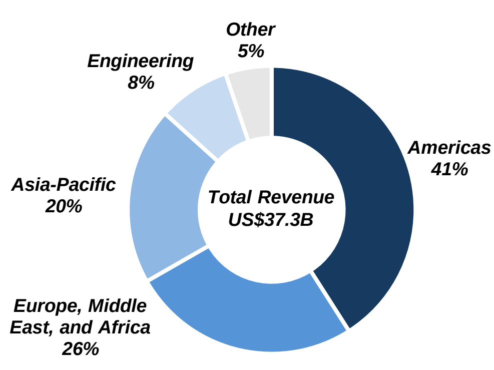
Metrics	2023E	2024E	2025E
Revenue (US$mm)	$35,044	$36,655	$38,270
EBITDA (US$mm)	$10,470	$11,721	$12,276
EPS (US$)	$14.10	$15.46	$17.03
EV/EBITDA	18.6x	16.6x	15.9x

Holding Period Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: 2023 Revenue Segmentation



Source: Company Filings

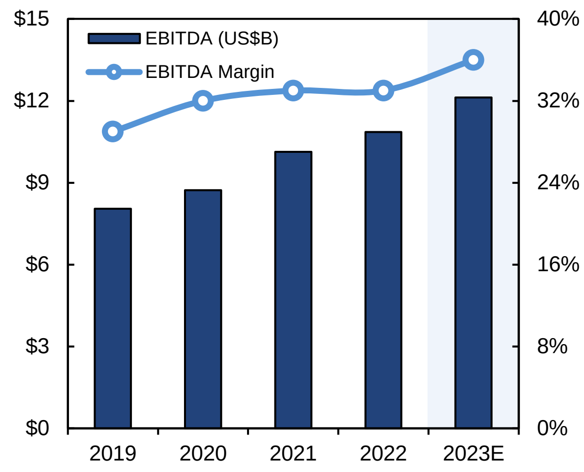
Business Description

Linde Plc (NASDAQ: LIN) merged with Praxair in 2018 to form the world's largest industrial gas company and technological innovator within its industry. The Company's primary products within its industrial gas distribution operations include atmospheric gases (oxygen, nitrogen, argon, and rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, and specialty gases). LIN operates through the following reportable segments: Americas, Europe, Middle East, Asia (EMEA), Asia-Pacific (APAC) and Engineering. LIN's operations are geographically diverse, as 68% of its sales stem from outside of the U.S. Products are distributed through three methods: (i) on-site or tonnage, (ii) merchant or bulk liquid, and (iii) packaged or cylinder gases. The Company's revenue by distribution mode is divided into 27% on-site, 26% merchant, 33% packaged, and 14% other. Through its engineering designs, LIN builds equipment that produces industrial gases and offers customers a wide range of processing facilities, including natural gas and air separation plants. These products and services are provided to diverse industries, including healthcare, chemicals and energy, manufacturing, mining, food and beverage, and electronics. The Company plans to add clean energy to its portfolio of products in the coming years, including green and blue hydrogen, as well as carbon capture solutions.

Industry Overview

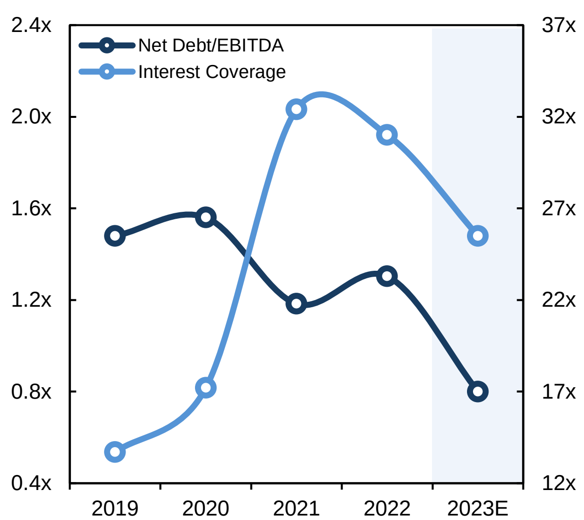
The global industrial gas industry is highly concentrated, with a few major competitors, such as Air Liquide (ENXTPA: AI) and Air Products and Chemicals (NYSE: APD). LIN holds a market share of ~32%, with AI and APD, holding a 31% and 12% market share, respectively. The industrial gases industry is divided into consumer-related and industry-related products. Historically, LIN's consumer-related end products, including healthcare, food and beverage, and electronic products, perform more defensively. In contrast, industrial-related products used in manufacturing, metals and mining, and energy perform cyclically. The industry's distribution modes are separated into the following: 1) on-site, 2) merchant, and 3) packaged, creating an integrated supply model for each business. On-site contracts range from 15 - 20 years, with take-or-pay agreements serving local and national geographies. Merchant contract lengths vary from 3 - 7 years, which creates network density due to carbon dioxide being the primary product transported via merchant contracts. Packaged contracts range from 1 - 3 years and comprise bundle offerings and services serving the global market. The industrial gas market is expected to experience tailwinds from the growing need for alternative energy sources, increasing demand from the healthcare sector, industrial growth in APAC, and flexibility to meet environmental regulations. The industrial gas market is expected to reach 1.67B tons in 2024 and grow at a CAGR of ~3% to reach 2.07B tons by 2029. Compared to the broader chemical industry, the industrial gas market tends to be more defensive due to long-term supply contracts and diverse end markets. In addition to limited commodity price risk, companies pass on raw material cost inflation to customers through pricing and tolling arrangements, ensuring stable profit margins.

Figure 2: LHS EBITDA vs RHS EBITDA Margin



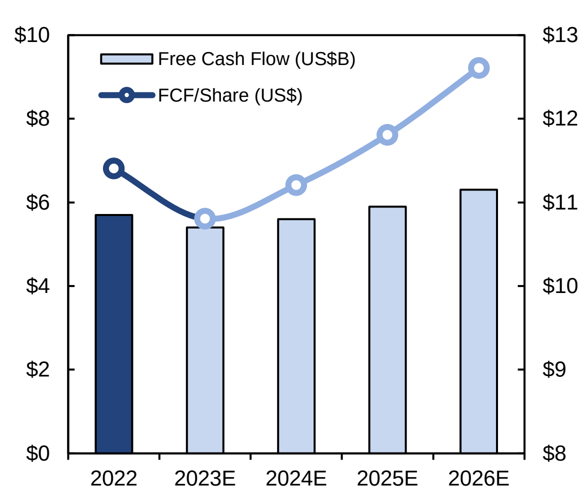
Source: S&P Capital IQ

Figure 3: LHS Net/Debt EBITDA vs RHS Interest Coverage



Source: S&P Capital IQ

Figure 4: LHS Free Cash Flow vs RHS FCF/Share



Source: CPMT Estimates

Mandate Fit

Quality Management: Sanjiv Lamba was appointed CEO of LIN in March 2022 and has three decades of experience with the Company. Prior to being appointed as CEO, Lamba served as COO and EVP of APAC. CEO compensation consists of 10% base salary, while the remaining 90% is at-risks. Executive performance-based compensation consists of thresholds and targets such as Return on Capital, Total Shareholder Return benchmarked against a blend of S&P 500 companies, cash flow, and sales figures to maximize shareholder value and alignment. 80% of LIN's board is comprised of independent directors while 28% and 12% of the board are female and ethnically diverse, respectively. The CPMT believes the Company's board lacks diversity and female representation but has a positive outlook on LIN's goal to increase females on the board to at least 30% by the end of 2024.

Competitive Advantage: LIN's scale allows it to implement superior automation programs within its supply chain, translating to cost efficiencies and margin expansion. LIN's EBITDA margin has increased 4.3% over the last three years to 36.2%, whereas its competitors have seen an average margin contraction of 5.1% over the same period. LIN's active productivity and automation program has kept SG&A costs stable, compared to rising costs for peers. Due to its diversified operations and geographies, LIN can shift its production capabilities to successfully meet demand in certain regions when opportunities arise. Furthermore, the Company's announcement of clean energy projects in the next few years serves as a potential catalyst for multiple expansion due to LIN strong operating model, economies of scale and in-house expertise.

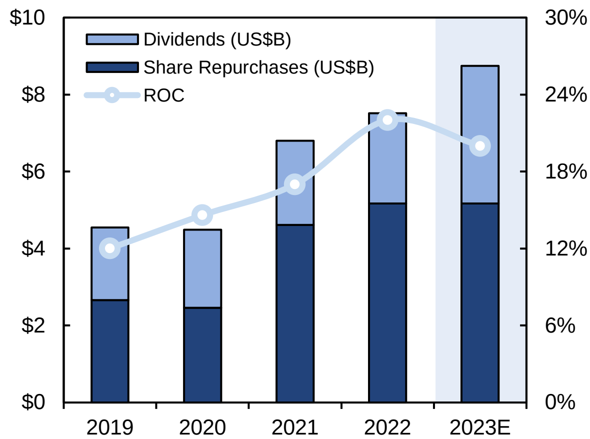
Strong Balance Sheet: LIN has consistently maintained an investment grade balance sheet with a rating of A and A2 from S&P and Moody's, respectively. The Company holds a 1.3x Net Debt/EBITDA ratio compared to the peer average of 1.8x. LIN can maintain low operating costs in an inflationary environment with long-term leases with a weighted average term of eight years and a discount rate of 3.3%. The Company has adequate liquidity with US$3.9B of cash on hand and two undrawn revolving credit facilities of US$1.5B and US$5.0B. LIN's management has a discipled approach to capital structure, with 8.2% being debt, largely consisting of fixed-rate US$ or Euro-denominated notes with an average weighted interest rate of 1.4%. The Company holds moderate refinancing risk, with 32.0% of outstanding notes maturing within the next three years.

Growing Free Cash Flow: As the industry is characterized by diversified long-term contracts, LIN's contracted cash flow reduces the risk profile of its FCF. Contracts can range from 3-20 years with quality customers and fixed fees elements. The Company has grown its FCF at a five-year CAGR of 16.6%. LIN has a strong history of returning capital to shareholders, with share repurchases increasing at a 10-year CAGR of 28%.

Risks

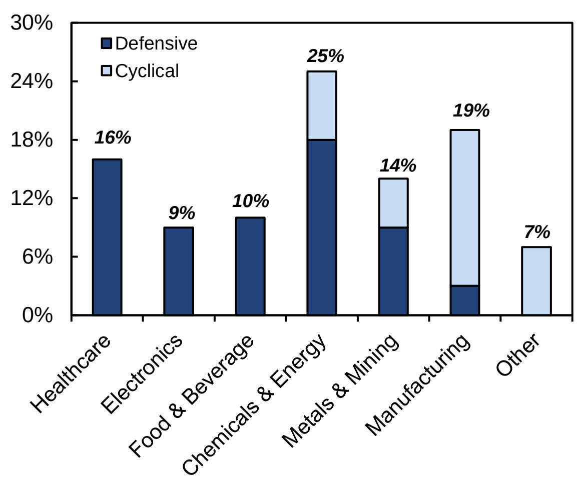
Merchant and Packaged Gas Pricing: LIN's merchant and packaged gas segment is prone to volatility, as witnessed in the recent quarters with elevated power costs in the U.S. While the Company's on-site gas segment provides the basis for a stable revenue stream, the merchant and packaging gas segment exposes LIN to greater economic and pricing uncertainty due to short-term contracts and higher number of transactions. With 59% of the Company's revenue coming from the merchant and packaged (cont.)

Figure 5: LHS Shareholder Returns vs RHS ROC



Source: S&P Capital IQ

Figure 6: 2022 Defensive vs Cyclical Sales by End Market



Source: Company Filings

gas segment, pricing and volume is an ongoing challenge for LIN

China Economic Slowdown: China has experienced stagnant growth through lower steel, manufacturing, and electronics volume. China's Manufacturing Purchasing Managers' Index has been contracting, declining to ~50.6% in September 2023. Management expects volumes to remain flat for 2024 with optimism surrounding the emerging trend of EV production, which is still considered a nascent industry.

Investment Thesis and Valuation

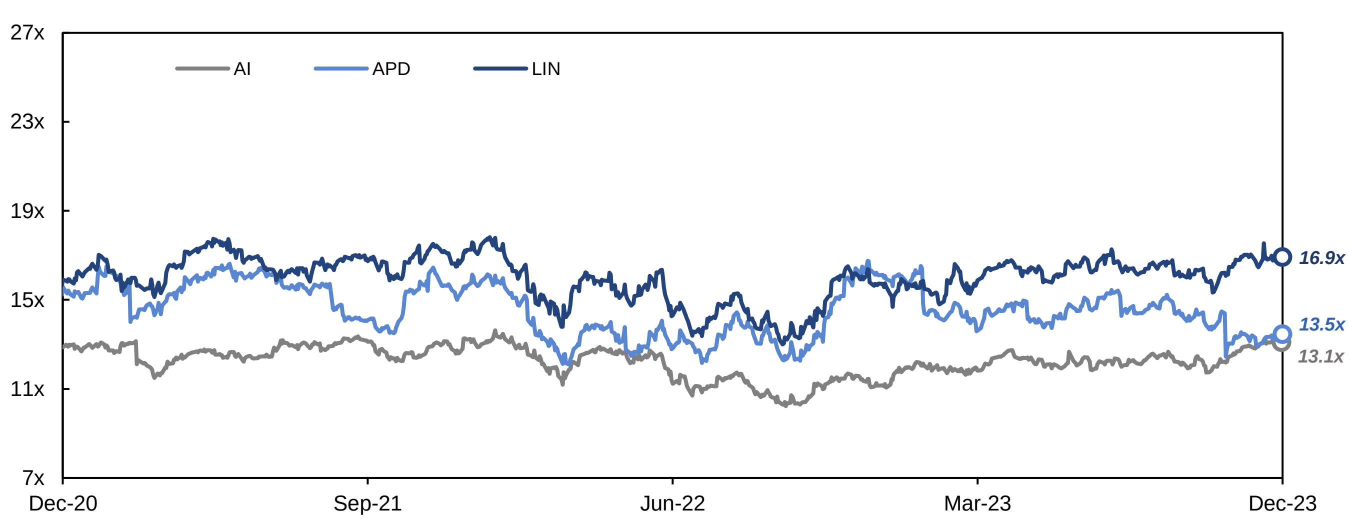
LIN was valued at US$415 using a five-year DCF with a WACC of 7.6%. The terminal value was determined using a 50/50 blend of (1) the Gordon Growth method, using a terminal growth rate of 2.50%, and (2) applying an EV/EBITDA exit multiple of 16x.

The CPMT initiated a position in LIN in December 2020 with the expectation that its integration of Praxair and Linde AG in 2017 would drive significant cost reduction and cross-selling opportunities. Majority of Praxair's executive team joined LIN, which helped it recognize ~US$1.1B in synergies.

LIN's resilient business model earns a premium multiple relative to its industrial gas sector peers, due to strong historical margins, lower project risk, and earnings resilience through cycles. With macroeconomic weakness expected in 2024, LIN's increasing project backlog, continued pricing flexibility, and preemptive cost initiatives will help the Company achieve EPS growth of 10%. The announcement of clean energy projects by LIN could catalyze multiple expansion, given investors' preference for this type of earnings growth. LIN may capitalize on ~US$50B of global clean energy investment opportunities, with ~US$30B directed toward the U.S. LIN expects US$9 - 10B of these projects to be decided within the next few years. Management expects these opportunities will add ~US$1B of net income to earnings, comfortably taking its EPS growth over 10%.

Due to the highly concentrated, oligopolistic nature of the industrial gas industry, the CPMT believes that LIN continues to be well-positioned to take advantage of favorable pricing power and increased industrial gas production around the world.

Figure 7: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ