

Zehnder Group AG Class A

Swiss convictions Bern

Recommended since 06.11.2020

25.05.2022



Country	CH	Market capitalization (bn)	CHF	0.8	Perf. since reco. (%)	
Sector	Construction & Materials	Free float		94.9%	Zehnder Group AG Class A	45.8
Factset	ZEHN-CH	Closing price	CHF	68.10	Market	8.8
ISIN	CH0276534614	ESG Risk score*	#N/A	#N/A		



Profile

Zehnder is an international supplier of energy-efficient solutions for indoor climate. The group offers individual designer radiators, indoor ventilation with heat recovery, heating and cooling ceiling systems, as well as clean-air systems. Zehnder ranks as market leader in several countries in both its radiator and ventilation businesses. Zehnder's dominant geographical market is Europe, followed by North America and China, which now account for c. 9% each of group sales.

Strengths/opportunities

- Zehnder is a leading company, having strong brands in both its radiator and ventilation businesses, with a focus on the more resilient residential construction markets.
- Solid balance sheet with low leverage and adequate liquidity provides operational flexibility.

Weaknesses/threats

- Worse than expected key construction markets, potentially leading to heightened competitive pressures.
- FX headwinds could impact sales and margins.
- Hikes in prices of raw materials, such as steel, could hurt margins.

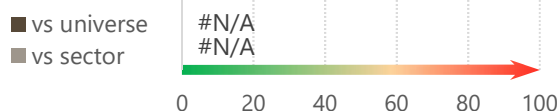
Investment case

- New CEO's positive recent track record with a focus on the more attractive ventilation business and cost-cutting to boost margins.
- With its 'green' ventilation business, Zehnder is well-positioned to benefit from the EU's Green Deal focused on the energy efficiency of buildings.
- Attractive launch of new innovative products scheduled for next year will likely boost expected organic growth.
- Based on expected operational leverage and further cost savings at loss-making units and in procurement, plus efficiency gains in administration, we forecast strong double-digit EBIT growth for 2022e and 2023e.

Valuation

We expect EPS to improve over 2022-2023. Zehnder should be capable of hitting the 8-10% EBIT margin target by 2022. Thus the valuation is still reasonable and attractive.

ESG risk vs. universe & sector (percentile)*



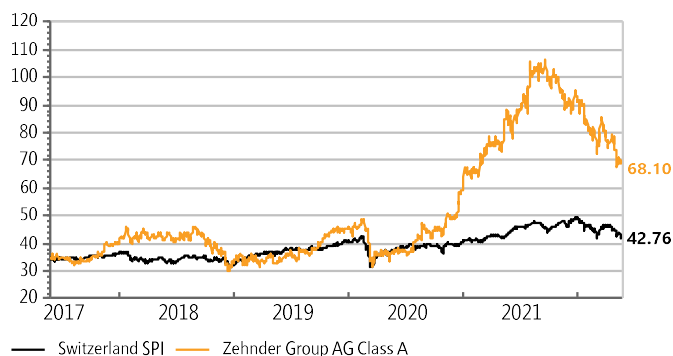
EUR	12/2021	2022e	2023e
Sales revenue (bn)	753	758	800
Sales growth	22.0%	0.6%	5.5%
EBIT adjusted (bn)	119	74	81
% of sales	15.8%	9.7%	10.2%
Net income (bn)	65	57	62
Net income growth	65.8%	-12.2%	8.6%
FCF/Sales	8.3%	2.8%	6.7%
Net debt/Ebitda	-0.9x	-1.0x	-1.2x
Dividend yield	2.6%	2.9%	3.1%
PE	16.8x	13.5x	12.4x
P/BV	2.6x	2.0x	1.9x

Factset estimates

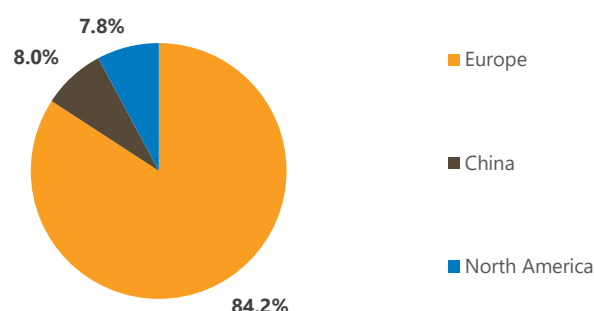
ESG - risks and key points

- Considering the company's medium exposure, we view Zehnder as being at medium risk of serious financial impact stemming from ESG factors.
- Zehnder's disclosure is poor, signalling inadequate accountability to investors and the public.
- On the plus side, Zehnder has not been implicated in any significant ESG-related controversies.

5-year performance vs SPI



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainabilityics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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