

## Schindler Holding AG Pref

CORE HOLDING\*

Recommended since 20.04.15

22.07.2022



Country	CH	Market capitalization (bn)	CHF	19.4	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		24.6%	Schindler Holding AG Pref	13.2
Factset	SCHP-CH	Closing price	CHF	182.15	Sector	32.0
ISIN	CH0024638196	ESG Risk score*	20.1	Medium risk		

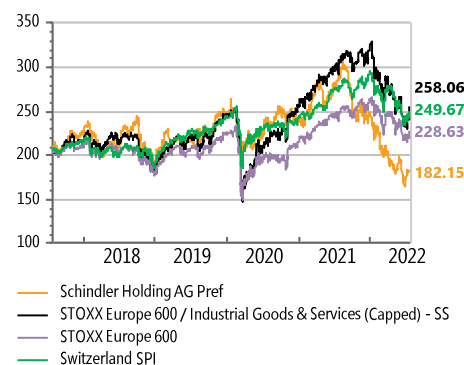
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

## Profile

Established in Lucerne in 1874, Schindler is a global leader in the supply and maintenance of lifts and escalators. The group has over a thousand branches in more than a hundred countries and employs 69'000 people, around 60% of them in maintenance. Its installed base of equipment moves more than a billion people every day.

## Market - competition - positions - barriers to entry

The global market, worth around €60bn (split 50/50 between new installations/modernisation and maintenance) is dominated by five players (who together account for two thirds of the market): Otis, Schindler, Kone, Thyssen and Hitachi. Structural growth is driven by urbanisation (with the number of urban dwellers expected to increase by 1bn over 2015-2030), the emergence of middle classes (set to grow by 2.5bn over 2015-2030) and the ageing population. Barriers to entry relate to regulation (safety) and the ability to offer rapid, local 24/7 service.



Source: Factset

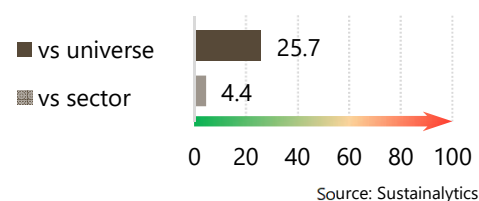
## Investment case

- ⑤ Lift makers by nature line up with Bordier's Core Holdings concept: sales are resilient (driven by maintenance and periodic inspections across the installed base). Excluding forex effects, Schindler delivered average sales growth of 4.8% a year over the period 2008-2019, with sales dipping by only 5.9% in 2009, the year of the most severe recession since the Second World War, and the EBITDA margin fluctuating by less than 200 bps around 12%. With capital intensity historically averaging around 2% of sales, Schindler can generate high and reasonably predictable free cash flow and return on capital employed. At the more cyclical level, Schindler has once again demonstrated its resilience in a market characterised by a drop-off in China, the world's number one market for new installations, since 2016; the group's growth has averaged over 5% a year and its operating margin has held steady in spite of rising materials costs and a sustained innovation drive.
- ⑤ The COVID-19-related slowdown translated into a... 0.4% positive (!) organic growth in 2020 and a limited 60 bp compression in adjusted operating margin. In 2021, the group orders intake caught up to 2019 level and the adjusted operating margin could be maintained.
- ⑤ In 2022, the Chinese developers turmoil will lead to a potentially negative organic growth (the group's guidance was adjusted accordingly at Q2-2022 results) and that Schindler will not be able to fully offset the sharp costs inflation, leading to a more than 1 %pt drop in operating margin. Longer term, the group should come back to a c. 4% annual growth rate and reach a 11-12% Ebit margin thanks to its Top Speed 23 program and the standardization of the product range.

## ESG - risks and key points

- ⑤ Schindler's risk exposure is medium, in particular due to regulatory and safety requirements and potential implications in terms of legal proceedings.
- ⑤ Its management of these risks is considered in line with the average and the group is not involved in any significant controversies.
- ⑤ The group's sustainability strategy is structured around six pillars aligned with the UN's Sustainable Development Goals.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in CHF

Current price	Value Bordier Scenario
182	214

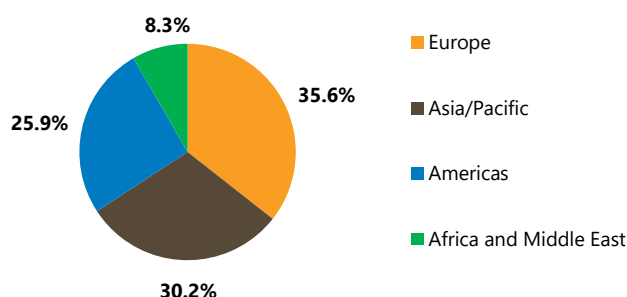
Our scenario assumes a Swiss 10-year yield to 1.75% and the sales and margin trajectory described above, giving a long-term adjusted EBIT margin of 11.5%. After the share correction, the current level integrates the expected poor FY2022 and has entered a buy-zone in a longer term perspective.

\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

**"Bordier Core Holding" indicators**

In millions of CHF	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>10'640</b>	<b>11'236</b>	<b>11'000</b>	<b>11'330</b>	<b>11'783</b>
<b>Sales growth %</b>	<b>-5.2%</b>	<b>5.6%</b>	<b>-2.1%</b>	<b>3.0%</b>	<b>4.0%</b>
<i>o/w organic</i>	<i>0.4%</i>	<i>5.7%</i>	<i>-0.6%</i>	<i>3.0%</i>	<i>4.0%</i>
<b>EBIT adjusted</b>	<b>1'185</b>	<b>1'166</b>	<b>988</b>	<b>1074</b>	<b>1235</b>
<b>% of sales</b>	<b>11.1%</b>	<b>10.4%</b>	<b>9.0%</b>	<b>9.5%</b>	<b>10.5%</b>
<b>Net income</b>	<b>722</b>	<b>828</b>	<b>556</b>	<b>740</b>	<b>867</b>
<b>Adjusted EPS</b>	<b>7.82</b>	<b>7.68</b>	<b>6.24</b>	<b>6.87</b>	<b>8.03</b>
Adjusted EPS growth	-7.2%	-1.8%	-18.7%	10.0%	17.0%
<b>Capex/Sales</b>	<b>5.7%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.3%</b>
Free cash-flow	974	673	602	790	919
<b>FCF/Sales</b>	<b>9.2%</b>	<b>6.0%</b>	<b>5.5%</b>	<b>7.0%</b>	<b>7.8%</b>
Dividend per share	4.00	4.00	4.00	4.50	4.60
<b>Dividend yield</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.5%</b>	<b>2.5%</b>
<b>ROCE - WACC</b>	<b>19.5%</b>	<b>17.7%</b>	<b>13.1%</b>	<b>13.3%</b>	<b>14.3%</b>
<b>ROE (%)</b>	<b>21.6%</b>	<b>19.2%</b>	<b>15.4%</b>	<b>16.1%</b>	<b>17.6%</b>
<b>Net debt/Ebitda</b>	<b>-125.4%</b>	<b>-116.4%</b>	<b>-158.9%</b>	<b>-152.1%</b>	<b>-158.8%</b>

Source: Factset, Bordier estimates

**Sales breakdown - 12/2021****Ratios**

	Schindler Holding AG Pref	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
<b>PE (x)***</b>	Indus. Good & Serv.		STOXX 600
2021	32.0	20.3	15.4
2022e	29.2	15.2	12.5
2023e	26.5	14.8	12.0
<b>P/B (x)***</b>			
2021	6.2	3.5	2.0
2022e	4.5	2.7	1.7
2023e	4.3	2.5	1.6
<b>Beta (2Y, daily) vs market: 0.97</b>			

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

**Governance and ownership structure**

Since 2022, CEO role taken back by Silvio Napoli, chairman.

**Agenda**

3Q-2022 Results: 20.10.2022

**Key shareholders (if any):**

The Schindler and Bonnard families between them hold 70.4% of voting rights.

**Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):**

Capital consists of ordinary shares (SCHN) and participation certificates (SCHP, corresponding to this updated investment case) carrying no voting rights (free float expressed here in voting rights).

**Glossary****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.

*This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website – including the present document – is by no mean directed to such persons or entities.*