

## ASSA ABLOY AB Class B

## CORE HOLDING\*

Recommended since 31.03.20

19.07.2022



Country	SE	Market capitalization (bn)	SEK	252.3	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		91.9%	ASSA ABLOY AB Class B	21.0
Factset	ASSA.B-SE	Closing price	SEK	227.10	Sector	44.7
ISIN	SE0007100581	ESG Risk score*	17.1	Low 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

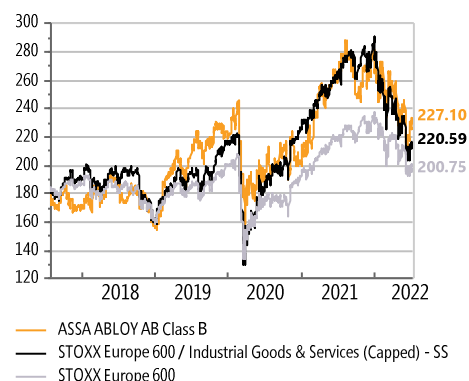
Swedish group Assa Abloy, spun off in 1994 from Securitas AB (to which Abloy, founded in 1907 and originally holder of the patent for the cylinder lock, belonged), specialises in access and building security solutions as well as their automation and digitalisation. The group, now global leader, has around 48,000 employees and operates in more than 70 countries.

## Market - competition - positions - barriers to entry

The access security market, estimated at c. \$50bn a year, with a 60/40 split between maintenance and construction and a 25/75 split between residential and non-residential, remains fragmented. Assa Abloy is far and away the world number one, with a market share of c. 16%, ahead of Swiss group Dormakaba (c. 5%) and US group Allegion (c. 4%). Barriers to entry are technology/innovation, local standards and, in some cases, the need for a global presence.

## Investment case

- Assa Abloy is the undisputed leader in a structural growth sector driven by security needs, urbanisation and, more recently, digitalisation. Its strategy is based on a portfolio of over 130 brands (with 80% of sales coming under the Assa Abloy umbrella brand) and a focus on innovation (R&D spend equates to 4% of sales; 2,000 engineers, 9000 patents), powering organic growth averaging 5% a year over the cycle. The second and equally important pillar consists of recurring acquisitions (with more than 300 acquisitions completed since 1994). An integral part of the group's strategy, acquisitions – generally of small companies – are self-financed, with acquired companies integrated according to a tried and tested process. Synergies are quickly realised, boosting sales growth while also expanding margins.
- All in all, Assa Abloy has averaged sales growth of 8% a year over the past 13 years, including 2008-2009. As an indication of its sensitivity to the cycle, the group reported organic growth of -12% in 2009, together with a squeeze of around 400 bps on its EBIT margin. Its business model is now more resilient than it was during the great financial crisis, with two thirds of sales coming from maintenance. This was demonstrated with FY2020 results, with FY2021 results demonstrating its rebound potential. Indeed, FY2021 sales were higher than in FY2019.
- After a still high organic growth expected for FY2022, we anticipate a deceleration in FY2023, on the back of as sub-par global GDP growth in the aftermath of monetary policies tightening, and a slight compression of the Ebit margin due to high inflation levels. Mid term, the group's trajectory will gradually return to 9% annual growth (organic and acquisitions combined), with a target adjusted operating margin of 17%. Projections which translates into 2026 digits slightly below those of the group, targetting 150 bnSEK in sales and 25 bnSEK in Ebit.

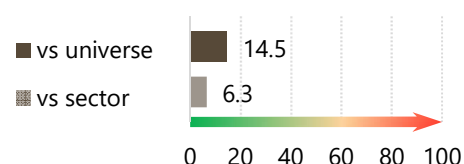


Source: Factset

## ESG - risks and key points

- Assa Abloy is rated low risk in relation to environmental, social and governance constraints: its exposure to these issues is deemed moderate, with the risks well managed. Furthermore, the group has not been the subject of any major controversies.
- The group is committed, through the Science Base Targets, to a plan to reduce its CO2 emissions by 50% by 2030 vs 2019, and to become carbon neutral by 2050.

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



Source: Sustainalytics

## Valuation\*\* in SEK

Current price	Value Bordier Scenario
227	274

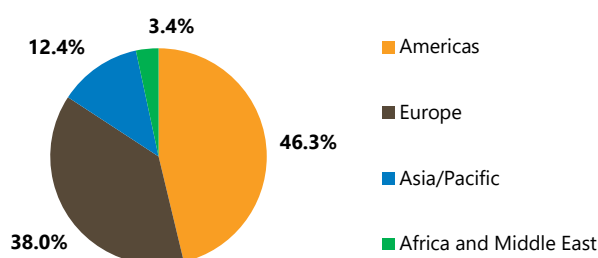
Our fundamental valuation assumes European long term yields of 2.0% and the sales and margin trajectory set out above. With recurring acquisitions forming an integral part of the business model, we are projecting external growth of 4-5% a year out to 2032 and zero thereafter.

\*\* 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 SEK	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>87'649</b>	<b>95'007</b>	<b>111'158</b>	<b>116'716</b>	<b>126'053</b>
<b>Sales growth %</b>	<b>-7.0%</b>	<b>8.0%</b>	<b>17.0%</b>	<b>5.0%</b>	<b>8.0%</b>
<i>o/w organic</i>	<i>-8.0%</i>	<i>11.0%</i>	<i>9.0%</i>	<i>1.0%</i>	<i>4.0%</i>
<b>EBIT adjusted</b>	<b>12'458</b>	<b>14'181</b>	<b>16563</b>	<b>16807</b>	<b>18783</b>
<b>% of sales</b>	<b>14.2%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.4%</b>	<b>14.9%</b>
<b>Net income</b>	<b>9'172</b>	<b>10'901</b>	<b>12253</b>	<b>12441</b>	<b>13963</b>
<b>Adjusted EPS</b>	<b>7.03</b>	<b>9.82</b>	<b>11.61</b>	<b>11.79</b>	<b>13.23</b>
Adjusted EPS growth	-30.7%	39.7%	18.3%	1.5%	12.2%
<b>Capex/Sales</b>	<b>1.9%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>
Free cash-flow	11'984	10'827	12035	12668	14074
<b>FCF/Sales</b>	<b>13.7%</b>	<b>11.4%</b>	<b>10.8%</b>	<b>10.9%</b>	<b>11.2%</b>
Dividend per share	3.90	4.20	4.50	5.00	5.50
<b>Dividend yield</b>	<b>1.5%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.2%</b>	<b>2.4%</b>
<b>ROCE - WACC</b>	<b>4.2%</b>	<b>3.9%</b>	<b>5.0%</b>	<b>4.5%</b>	<b>5.2%</b>
<b>ROE (%)</b>	<b>13.3%</b>	<b>15.7%</b>	<b>15.9%</b>	<b>14.7%</b>	<b>14.9%</b>
<b>Net debt/Ebitda</b>	<b>185%</b>	<b>142%</b>	<b>100%</b>	<b>87%</b>	<b>65%</b>

Source: Factset, Bordier estimates

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

	ASSA ABLOY AB Class B	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
<b>PE (x)***)</b>		Indus. Good & Serv.	STOXX 600
2021	28.1	20.3	15.4
2022e	19.6	14.7	12.2
2023e	19.3	14.4	11.6
<b>P/B (x)***)</b>			
2021	4.4	3.5	2.0
2022e	3.1	2.6	1.7
2023e	2.8	2.4	1.6
<b>Beta (2Y, daily) vs market: 0.93</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 01.03.2018: CEO M. Nico Delvaux.

**Agenda**

Q3-2022 results: 26.10. 2022

**Key shareholders (if any):**

The group holds 8% of its shares in treasury.

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

Two classes of shares: A (one voting right per share) and B (ten voting rights per share). No more than 10% of the shares may be held in treasury.

**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 Sustainability, 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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