

Europe Satellite*

Recommended since 18.09.2020

17.02.2022



Country FR	Market capitalization (bn) EUR 82.0	Perf. since reco. (%)
Secteur Industrial Goods & Services	Free float 93.9%	Schneider Electric 38.1
Factset SU-FR	Closing price EUR 145.74	Sector 28.6
ISIN FR0000121972	ESG Risk score* 17.1 Low risk	



Profile
Schneider Electric is a French group founded in 1836 specialising in energy management and industrial automation. With 150,000 employees and a balanced geographical footprint, the company offers efficient and sustainable solutions for residential customers (connected objects), buildings (low-voltage), datacentres (inverters), infrastructure (high-voltage) and industry (software). Schneider has refocused its business model around process digitalisation and optimised energy management by developing its digital offering. Its main competitors are Eaton, ABB, Legrand and Keyence.

Strengths/opportunities

- Strategy focused on digitalisation and energy efficiency.
- Resilient growth and margins; pricing power.
- A beneficiary of investment and fiscal stimulus in support of the energy transition.

Weaknesses/threats

- Mixed track record on M&A.
- RoCE still slightly behind top-tier industrial players.
- Cycle-sensitive earnings.

Investment case

- We think Schneider Electric is ideally positioned in the high value-added themes of energy efficiency and the digital transition. We expect energy management in industry and infrastructure, combined with ever increasing electrification of the economy, to offer long-term potential.
- Buildings, factories and datacentres offer potential energy savings for many businesses that would make natural customers for Schneider, which offers digital solutions for reducing CO2 emissions (with savings averaging out at 40m metric tons a year) and Aveva (industrial software – 60% owned by Schneider), which has acquired OSISOFT, strengthening Schneider's services and software offering.
- Free cash flow has historically been resilient: in 2021, it equated to 10% of sales, and it should remain sustained in the 10-15% range in the coming years, which will be characterized by the acceleration of transition and industrial digitalization investments.
- We have assigned the b-Transition label to Schneider Electric given its environmental impact around the world. With >40% of the group's sales being digital, the share will be eligible for the b-Digital label if this proportion increases further.

Valuation

Schneider is trading at a fwd P/E of 21.4x, with EPS expected to grow close to 12% p.a. over 2022-24. Taking into account the company's ESG credentials and positive contribution to the energy transition, our fundamental valuation comes out at €175 per share.

ESG risk vs. universe & sector (percentile)*



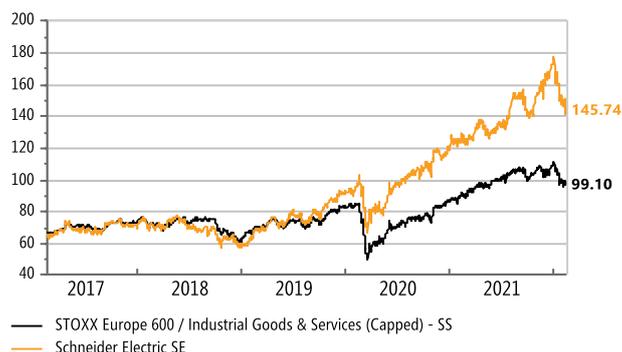
EUR	12/2020	2021e	2022e
Sales revenue (mio)	25 159	30 938	32 676
Sales growth	-7.4%	23.0%	5.6%
EBIT adjusted (mio)	3 669	5 029	5 591
% of sales	14.6%	16.3%	17.1%
Net income (mio)	2 126	3 508	3 950
Net income growth	-12.0%	65.0%	12.6%
FCF/Sales	15.7%	11.6%	12.7%
Net debt/Ebitda	0.9x	0.9x	0.5x
Dividend yield	1.8%	2.1%	2.3%
PE	30.8x	21.7x	19.3x
P/BV	3.2x	3.5x	3.2x

Factset estimates

ESG - risks and key points

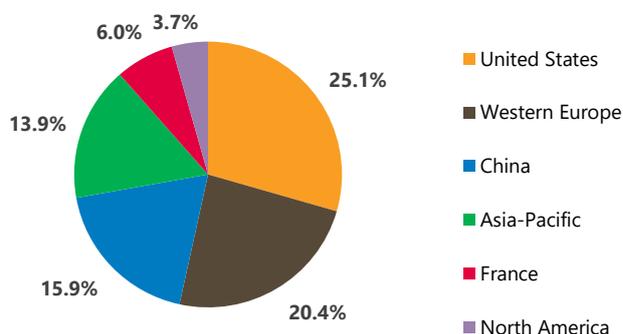
- Schneider has little exposure to ESG risks. Management adheres to a strict policy on controversial issues.
- The group has a strict ethics programme (workforce diversification and equality). Schneider is exposed to the risk of being unable to recruit/retain highly skilled employees.
- Consumer electricals: safety forms an integral part of the company's strategy (it has implemented continuous monitoring and assessment processes).

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2020



*: see overleaf

Source: Factset, Sustainabilitycs

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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