

Europe Satellite*

Recommended since 31.05.2022

10.06.2022



Country NL
Sector Chimie
Factset DSM-NL
ISIN NL0000009827

Market capitalization (bn) EUR 27.0
Free float 94.6%
Closing price EUR 156.30
ESG Risk score* 19.8 Low risk

Perf. since reco. (%)
Koninklijke DSM N.V. -0.6
Secteur -1.1



Profile

DSM, a Dutch company founded in 1902, announces the completion of its transformation towards ingredients by merging with Firmenich (a Swiss private company specialised in ingredients) and selling its Performance Materials division. The new DSM-Firmenich group will be divided into four divisions: 1/ Animal, Nutrition & Health (29% of turnover); 2/ Perfumery & Beauty (28%); 3/ Food & Beverage - Taste & Beyond (24%) and 4/ Health, Nutrition & Care (19%). The domiciliation will be in Switzerland, with two headquarters (Switzerland and the Netherlands) and a listing in Amsterdam. DSM shareholders will hold 65.5% and Firmenich 34.5%.

Strengths/opportunities

- Repositioning towards high value-added nutrition/health activities, benefiting from sustained and stable growth.
- Rich pipeline of innovative solutions, with sales and EBITDA potential of EUR 1bn and EUR 400mio by 2025 (before merger).
- Strong balance sheet allowing for further targeted acquisitions.

Investment case

- By announcing the sale of its Materials division (for an enterprise value of EUR 3.7bn) and its merger with Firmenich, DSM is finalising its repositioning in ingredients dedicated to nutrition, beauty and health. Firmenich's expertise in fragrances and flavours is complementary to DSM's, which focuses on nutrition and health, including the development of innovative solutions to reduce emissions from livestock and dependence on marine resources. The businesses benefit from strong positions and prospects in their various markets. The combined sales and EBITDA will amount to EUR 11.4bn and EUR 2.2bn respectively. The transaction is expected to close in the first half of 2023.
- The growth profile of the new entity will be among the most attractive in the industry and will benefit from the externalisation of sales (50-60%) and cost (40-50%) synergies, which will contribute EUR 350mio to EBITDA by 2026. Management expects sales growth to accelerate from 5% to 5-7% on average per year and an EBITDA margin increase from 19.5% to 22-23%.
- The risk of the merger failing appears limited, given the complementary nature of the activities. Nevertheless, if this should be the case, DSM "standalone" retains attractive prospects and valuation (after a recent 21% fall in the share price) which make it a buy.

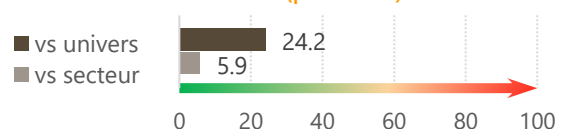
Weaknesses/threats

- "Basic" products (mainly vitamins), which are exposed to competition, account for 25% of EBITDA (before the merger), with a high sensitivity to price volatility.
- The successful completion of the merger with Firmenich is a risk, although limited by the complementary nature of their activities.

Valuation

The valuation is reasonable with a PE and EV/EBITDA 2022 at a discount of 7% and 20% respectively to its peers in ingredients. The repositioning of the company will allow a rerating over the medium term.

ESG risk vs. universe & sector (percentile)*



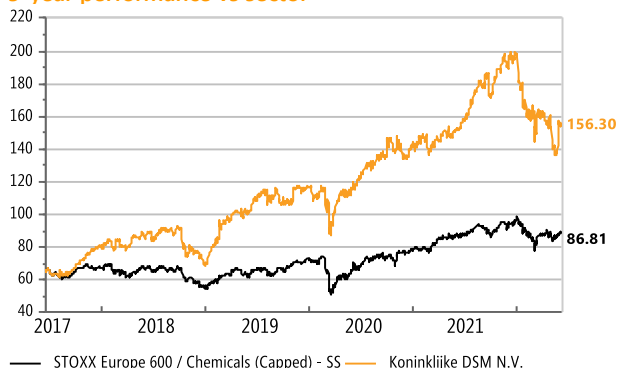
EUR	12/2021	2022e	2023e
Sales revenue (mio)	9'204	10'088	10'465
Sales growth	13.5%	9.6%	3.7%
EBIT adjusted (mio)	1'117	1'206	1'318
% of sales	12.1%	12.0%	12.6%
Net income (mio)	858	928	1'033
Net income growth	68.9%	8.2%	11.2%
FCF/Sales	10.3%	7.5%	9.5%
Net debt/Ebitda	0.6x	0.4x	0.1x
Dividend yield	1.6%	1.7%	1.8%
PE	30.2x	29.5x	26.7x
P/BV	2.9x	2.8x	2.6x

Factset estimates

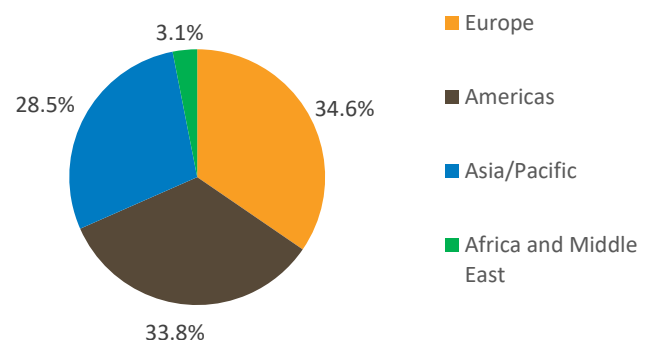
ESG - risks and key points

- DSM's ESG risk level is low. Its exposure is medium and mitigated by good ESG management and strong corporate governance performance. The company has not experienced any major controversies in the past.
- 63% of turnover is generated by solutions with environmental and social benefits.
- Target to reduce greenhouse gas emissions by 30% by 2030 (vs 2016 - validated by the Science Based Targets initiative).

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

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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