

Sandvik AB

CORE HOLDING*

Recommended since 06.07.21

18.07.2022



Country SE	Market capitalization (bn) SEK	210.0	Perf. since reco. (%)
Sector Industrial	Free float	83.6%	Sandvik AB -23.5
Factset SAND-SE	Closing price SEK	167.25	Sector -17.5
ISIN SE0000667891	ESG Risk score*	23.4 Medium risk	

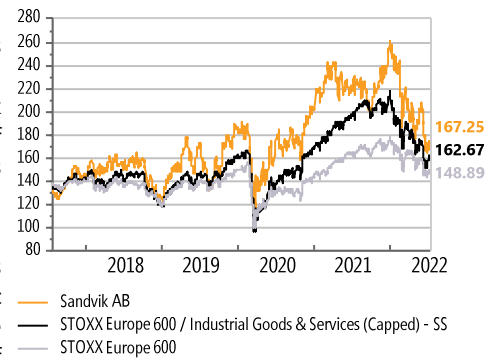
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

Profile

Sandvik is a leading company producing underground mining equipment. It was founded in 1862, has a workforce of 37,000 and generated sales of SEK 99bn in FY2021. Its two main business divisions are Sandvik Mining & Rock Solutions and Sandvik Manufacturing & Machining Solutions, accounting for 43% and 35%, respectively, of group sales. In 2022, its Sandvik Materials Technology (SMT) business, which generates c.15% of Sandvik's sales, will be sold in 2022 and proceeds distributed to shareholders.

Market - competition - positions - barriers to entry

Sandvik earns c. 45% of its sales from underground mining/excavation equipment, this market having a total value of SEK 210bn in 2020. In this sector, Sandvik and Epiroc operate in a specialised segment, forming a virtual duopoly with their sales levels more or less the same. Sandvik retains its competitiveness courtesy of a high level of innovativeness, rooted in an R&D spend equating to roughly 4% of sales.



Source: Factset

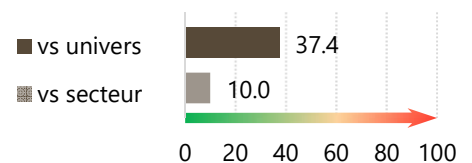
Investment case

- Even though its fundamental metrics (e.g. sales, EBITDA and EBIT) are twice as high as Epiroc's, Sandvik's market capitalisation is only 30% bigger than Epiroc's. As Epiroc is only active in the mining/excavation equipment sector, this state of affairs would tend to suggest low valuations are given to Sandvik's other businesses. Sandvik budgeted SEK 30bn for acquisitions over the 2021-2026 period, but demonstrated a strong acceleration on that front since 2021. We thus integrate the whole plan over three years only, with a specific focus on more digital activities and higher growth potential.
- It should be borne in mind that Sandvik is exposed to risky markets, in particular through its manufacturing and machining operations. Its exposure to the oil and gas industry is running at around 4% of group sales. Its mining equipment business is also exposed to coal extraction, which accounts for about 4% of group sales. As a result, we estimate approximately 8% of group sales are exposed to markets that are either in decline or at risk of declining. This prompts us to factor an assumption of lower growth in businesses exposed to such risks. In addition, Sandvik generated c.6% of its revenue in Ukraine-Russia ; we consider this revenue will fade as early as 2022.
- c.45% of Sandvik's sales are generated in an industry that stands to benefit, in the mid term, from a quickening of investments in the mining industry in the aftermath of low capex over the last few years and in connection with demand for metals, ores and minerals required for the energy transition. Sandvik just integrated this trend, at its Investor Day held May 17th, 2022. Nevertheless, our valuation embarks a moderate recession in sales and profits in the short term, in the aftermaths of the sharp and recent decrease in commodities prices, as well as a soaring inflation of inputs costs.

ESG - risks and key points

- Sandvik is rated as "Medium Risk" on the basis of an assessment of ESG criteria. This rating stems from Sandvik's exposure to material ESG risks being judged to be moderate, coupled with its "Average" risk management; moreover, the group has not been involved in any major controversies.
- Sandvik has demonstrated its very sound governance, which has lessened the degree of ESG-related risks.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in SEK

Current price	Value Bordier Scenario
167	185

Our fundamental valuation of Sandvik factors in long-bond yields of 2.0% in Europe and our sales/margin trajectories as outlined above. Our assumed scenario of a mid-term capex cycle to come at mining companies means we are factoring in the group's target as expressed in May 2022.

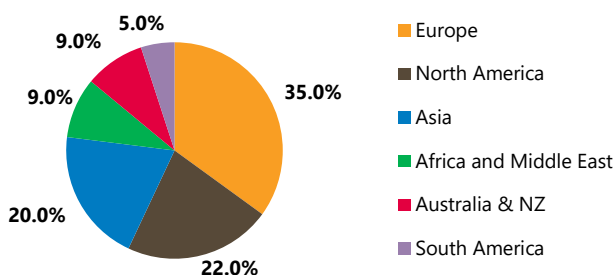
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of SEK	2020	2021	2022e	2023e	2024e
Sales revenue	86'404	99'105	110'007	108'906	116'530
Sales growth %	-16.0%	15.0%	11.0%	-1.0%	7.0%
o/w organic	-11.0%	12.0%	4.0%	-4.0%	7.0%
EBIT adjusted	14'563	19'472	19801	20148	22723
% of sales	16.9%	19.6%	18.0%	18.5%	19.5%
Net income	8'726	14'483	14700	15391	17490
Adjusted EPS	9.03	12.13	11.70	12.25	13.92
Adjusted EPS growth	-11.8%	34.3%	-3.5%	4.7%	13.7%
Capex/Sales	3.4%	27.0%	13.6%	9.2%	4.3%
Free cash-flow	12'418	-12'976	-699	12090	17575
FCF/Sales	14.4%	-13.1%	-0.6%	11.1%	15.1%
Dividend per share	4.50	4.75	6.00	6.50	7.00
Dividend yield	2.2%	1.9%	3.6%	3.9%	4.2%
ROCE - WACC	4.1%	5.0%	3.1%	2.9%	4.6%
ROE (%)	17.4%	19.7%	17.1%	16.5%	17.1%
Net debt/Ebitda	-51.4%	68%	89%	73%	36%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Sandvik AB	Stoxx Europe 600 Sector	Market
PE (x)***	Indus. Good & Serv.	STOXX 600	
2021	20.9	20.3	15.4
2022e	14.3	14.7	12.2
2023e	13.7	14.4	11.6
P/B (x)***			
2021	4.1	3.5	2.0
2022e	2.4	2.6	1.7
2023e	2.3	2.4	1.6
Beta (2Y, daily) vs market: 1.19			

***) 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 1 February 2020: CEO & President Stefan Widing.

Agenda

3Q-2022 Results: 17.10.2022

Key shareholders (if any):

AB Industrivärden: 12.5% of share capital.

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

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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.

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