

## Europe Satellite\*

Recommended since 31.01.2020

19.07.2022



Country FR	Market capitalization (bn) EUR 9.4	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 95.3%	Alstom SA -44.2
Factset ALO-FR	Closing price EUR 24.79	Sector 2.9
ISIN FR0010220475	ESG Risk score* 19.2 Low risk	



## Profile

Founded almost a hundred years ago, the French-based Alstom has become a pure-play rail equipment manufacturer (rolling stock, transport systems, maintenance, signalling) since it sold its energy-related businesses to General Electric in 2014. It currently has a workforce of some 70,000 employed in 250 industrial plants located in 70 countries. Alstom has now integrated Canadian group Bombardier's Transportation division, lifting it to No.2 worldwide behind Chinese group CRRC (which to date has been almost exclusively geared to its home market).

## Strengths/opportunities

- Sizeable order book providing visibility.
- Rail transport being prioritised in recovery programmes.
- Positioning strengthened and synergies to come from Bombardier Transportation.

## Weaknesses/threats

- Medium-term competition risk from the Chinese internationally.
- Cost base still overexposed to Europe.
- Negative margins order book from ex-Bombardier Transport still to be delivered and residual inherent risks.

## Investment case

- Bombardier Transportation acquisition in 2021 lead to the creation of the world's leading group outside China for rail transport systems: a sector set for sustainable long-term growth against the backdrop of the economic transition and need to cut carbon emissions. The Canadian group has been struggling in orders execution in the two years prior integration. A portion of the book (16 projects for 12 bnEUR sales) remain at commercial risk. Thereafter, Alstom's management, reputed for its execution capabilities, will be successful in lifting Bombardier's rail business back up to profitability levels more in line with the sector, in particular through the > 400 mEUR identified synergies, by 2024-25.
- The new enlarged group should thus generate sales of some €18bn by FY2024-25, delivering adjusted EBIT of €1.4 bn and net profits of €1.1 bn, which compares with 240 mEUR for Alstom as a standalone entity on its most recent annual results. The share remains subject to fears of negative free cash-flow and, at the end, the need of a capital increase. Working on the presumption of 70%-80% of cash conversion, in line with group targets, reaffirmed at 1Q 2022-23 release, plus a 25% dilution that may arise from a 2 bnEUR capital increase, we value the share at EUR 33.6. We thus advise keep holding the shares, or even reload it for investors who can withstand those risks.

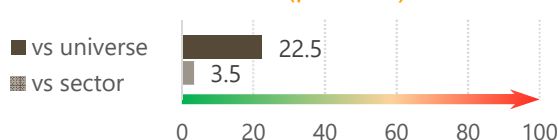
## Valuation

The table below factors in figures for Bombardier Transportation starting 03.2022. Our valuation, discounting 1.4 bnEUR provisions cash-out and the hereabove sales and margin trajectory and a potential 2 bnEUR capital increase, stands at 33.6 EUR per share.

EUR	03/2022	03/2023e	02/2024e
Sales revenue (mio)	15'471	16'511	17'419
Sales growth	76.1%	6.7%	5.5%
EBIT adjusted (mio)	125	771	1'109
% of sales	0.8%	4.7%	6.4%
Net income (mio)	-576	631	877
Net income growth	-340.0%	-209.6%	38.8%
FCF/Sales	-6.5%	1.2%	2.3%
Net debt/Ebitda	2.8x	2.3x	1.6x
Dividend yield	1.0%	1.5%	1.9%
PE	#N/A	14.7x	11.4x
P/BV	0.9x	1.0x	1.0x

Factset estimates

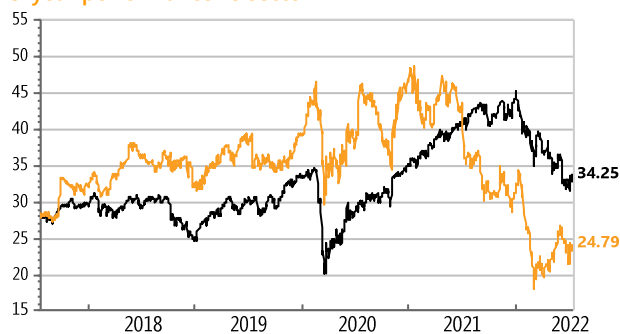
## ESG risk vs. universe &amp; sector (percentile)\*



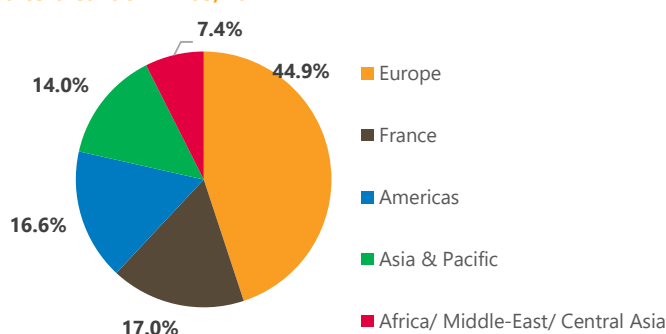
## ESG - risks and key points

- Alstom has low ESG risk overall, chiefly thanks to its management of such issues, which is regarded as sound.
- The group is exposed to ethical risks in its operations – corruption (one case in 2012) or unfair competition – but its organisation on this score is certified as complying with the ISO 37001 international standard.
- Sales often involve public tenders for which the criteria of safety and reliable operation are key. The size of the order book bears testament to clients' confidence in Alstom in such matters.

## 5-year performance vs sector



## Sales breakdown - 03/2022



\*: see overleaf

Source: Factset, Sustainabilitys

# 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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