

CORE HOLDING*

Recommended since 25.06.18

22.07.2022



Country	CH	Market capitalization (bn)	CHF	38.7	Perf. since reco. (%)	
Sector	Construction & Materials	Free float		94.5%	Sika AG	78.7
Factset	SIKA-CH	Closing price	CHF	237.70	Sector	16.0
ISIN	CH0418792922	ESG Risk score*	22.6	Medium risk		

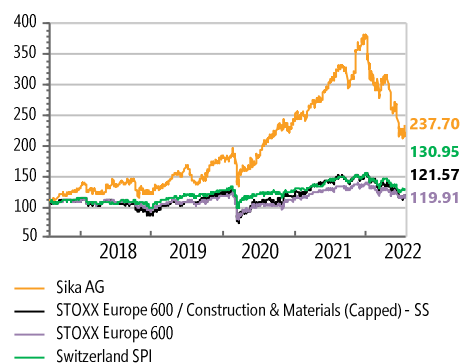
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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

Profile

Swiss group Sika, founded in 1911, is now the global leader in speciality chemicals for bonding, sealing, reinforcing and protecting in the building sector and, to a much lesser extent, the automotive industry. The group has 27,000 employees and operates more than 200 production facilities in over 100 countries.

Market - competition - positions - barriers to entry

Sika's end markets are estimated to be worth c. CHF 80bn a year. The group has leading positions in these markets thanks to its global presence – including in emerging markets, where Sika began to expand in the early 1990s – and constant innovation, resulting in a portfolio of over 850 protected brands that give it guaranteed pricing power.



Source: Factset

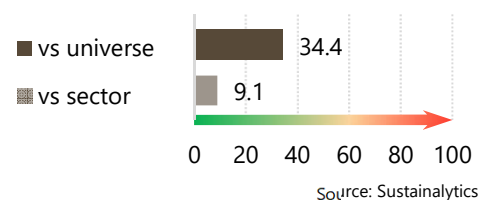
Investment case

- Sika represents the very essence of our Core Holdings philosophy. It has averaged growth of close to 4% a year since 2007 and almost 5% a year excluding 2009 (when it posted a 10% decline). Over 15 years, its EBIT margin has never fallen by more than 240 bps YoY, while its EBITDA and EBIT margins – regularly within the guidance ranges given by management – have risen significantly over the past five years to now stand at around 19% and 15% respectively. Free cash flow has been positive, excluding acquisitions, for the past 15 years, including at times of recession or economic slowdown, and has picked up significantly in recent years.
- Strategy is based on the customers who use its products, market penetration through innovation, brand power and, finally, external growth (32 acquisitions since 2015, including Parex in 2019 and MBCC yet to be closed in 2022) made possible by cash generation: all in all, the group's size will have doubled between 2016 and 2023e. Thanks to its geographical exposure, Sika is exposed to the themes of infrastructure in emerging countries, higher new construction standards in developed countries and building renovation globally. This translates into estimated potential organic growth averaging 6-8% a year.
- Sika remarkably handled the year 2020, strongly rebounded in 2021 and announced the acquisition of MBCC, the ex- BASF construction chemicals division that will add, after closing expected end of 2022, c.30% to the group's sales from 2023. For 2H2022-23, we integrated a slower global growth scenario in the aftermath of post-Ukraine raw materials costs explosion and a more aggressive monetary tightening cycle by the Fed, along with a c. 100 bp pressure on margins, also linked to raw materials inflation.

ESG - risks and key points

- Sika is rated medium risk for environmental, social and governance issues, its management of which is considered robust.
- The group is exposed to chemical hazards, local regulations on chemical use, and effluent and waste resulting from chemical production, which could result in delayed approvals or additional costs.
- On the climate front, Sika is working to a plan to cut CO2 emissions resulting from its production.

ESG risk vs. universe & sector (percentile)*



Valuation** in CHF

Current price	Value Bordier Scenario
238	275

A scenario of Swiss risk-free interest rate of 1.75%; growth and margins as described above. Current share price is now 15% below our revised fundamental valuation: one should progressively reload shares on pullbacks, in a long-term holding perspective.

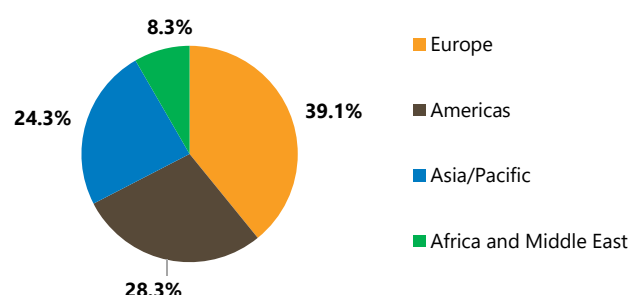
***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2020	2021	2022e	2023e	2024e
Sales revenue	7'878	9'252	10'455	13'800	14'766
Sales growth %	-2.9%	17.5%	13.0%	32.0%	7.0%
o/w organic	-3.8%	15.1%	11.0%	5.0%	5.0%
EBIT adjusted	1'131	1'391	1572	1937	2146
% of sales	14.4%	15.0%	15.0%	14.0%	14.5%
Net income	825	1'049	1156	1414	1591
Adjusted EPS	5.81	7.39	7.55	9.24	10.39
Adjusted EPS growth	5.2%	27.2%	2.2%	22.3%	12.5%
Free cash-flow	1'120	595	1155	977	1451
FCF/Sales	14.2%	6.4%	11.0%	7.1%	9.8%
Dividend per share	2.50	2.90	2.90	3.50	4.50
Dividend yield	1.1%	1.2%	1.2%	1.5%	1.9%
ROCE - WACC	7.0%	8.8%	3.0%	4.8%	6.0%
ROE (%)	25.1%	23.9%	22.5%	23.1%	22.2%
Net debt/Ebitda	191%	145%	368%	273%	215%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Sika AG	Sector	Market
PE (x)***		Construction & Materials	STOXX 600
2021	51.4	15.4	15.4
2022e	31.5	13.9	12.5
2023e	25.7	12.9	12.0
P/B (x)***			
2021	13.3	2.3	2.0
2022e	7.1	1.8	1.7
2023e	6.0	1.7	1.6
Beta (2Y, daily) vs market: 1.12			

***) 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 2017, CEO Paul Schuler.

Agenda

Investor Day: 04.10.2022

3Q-2022 results: 21.10.2022

Key shareholders (if any):

BlackRock Inc. holds 7.7% of voting rights, the Bill & Melinda Gates Foundation 5.3% and Capital Group 5%.

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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