

US Satellite*

Recommended since 03.04.2020

15.08.2022



Country US	Market capitalization (bn) USD 61.2	Perf. since reco. (%)
Secteur Industrial Goods & Services	Flottant 99.6%	Eaton Corp. Plc 114.0
Factset ETN-US	Cours de clôture USD 152.44	Sector 92.0
ISIN IE00B8KQN827	ESG Risk score* 17.8 Low risk	



Profile

Founded over 100 years ago, Eaton Corp. is an American group with its head office in Ireland. It specialises in energy management equipment for buildings, infrastructure, transport and machinery. Markets in which Siemens, ABB, Schneider and Legrand are active, for example. The group, with 97,000 employees, earned sales of \$19.6 bn in 2021 and an adjusted EBIT margin of 14.6%. Eaton has paid a dividend every year since it was first listed in 1923.

Strengths/opportunities

- Capacity to generate and redistribute cash to shareholders.
- Ongoing desensitisation of its business model to economic cycles – resilience.
- Positioned on the themes of energy transition.

Weaknesses/threats

- Sensitivity of results to cycles.
- Risk of too hawkish Fed tightening policy that would derail the economic and corporate investment cycles.

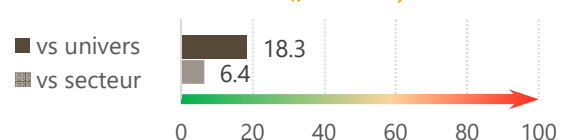
Investment case

- We believe electrification of the economy will continue and intensify, particularly in transport, and that energy management systems in industrial processes and buildings still have significant long-term growth potential.
- In recent years, the strategy has focused on desensitising the group to cycles and aligning the business asset portfolio with secular growth themes. This will further enhance the business model and structural margin potential up to 2025, with a strong focus on energy transition and smart, connected objects. Although cyclical, Eaton has historically stood out for its ability to generate free cash at all times, which, coupled with its strong liquidity and the restructuring announced in 2020, enabled it to enhance its positions in the crisis as demonstrated by FY2020, FY 2021 and record 1H-2022 results which led the group to upgrade its FY2022 targets.
- This makes it possible to propose investing in Eaton with the prospect of it being a long-term hold and valuing the share on the basis of EPS (with a number of shares down 2% p.a. due to the recurring share buyback policy) projected at >8.0\$ on a 12 months fwd basis and on a 20x multiple, consistent with a continued economic cycle and long term growth prospects, i.e. 160\$ per share. On this basis, we advise holding the shares and taking advantage of corrections to strengthen positions in the long term "Transition" perspective.

Valuation

The share is trading on a 19x PE fwd multiple, vs a 25x peak at 2021 end and a 17.8x 5 year average which, except a deep recession, could be viewed as a floor considering the evolving product portfolio and the "Energy Transition" group profile.

ESG risk vs. universe & sector (percentile)*



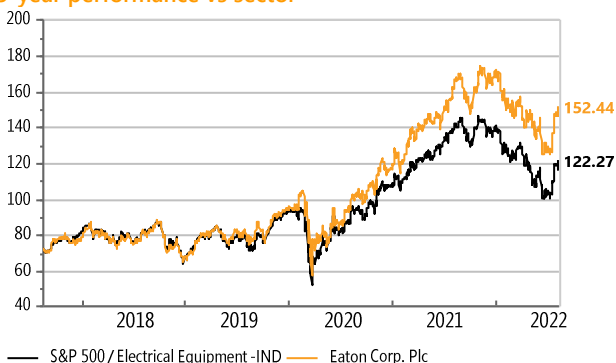
USD	12/2021	2022e	2023e
Sales revenue (mio)	19'628	20'722	21'969
Sales growth	9.9%	5.6%	6.0%
EBIT adjusted (mio)	2'870	3'782	4'374
% of sales	14.6%	18.3%	19.9%
Net income (mio)	2'144	3'031	3'311
Net income growth	52.1%	41.4%	9.2%
FCF/Sales	8.1%	11.1%	14.4%
Net debt/Ebitda	2.2x	1.7x	1.4x
Dividend yield	2.1%	2.1%	2.0%
PE	32.4x	20.2x	18.3x
P/BV	3.1x	3.5x	3.3x

Factset estimates

ESG - risks and key points

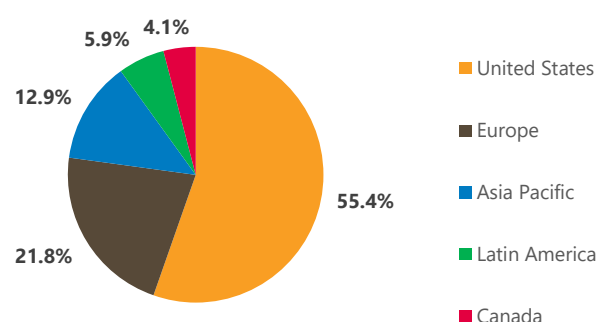
- Eaton has low exposure to ESG risks, which are also well managed, and places great importance on such issues.
- The share is part of the FTSE4Good Index; the group cut its CO₂ emissions by 10% in 2019, for example.
- Some equipment sold by Eaton may expose clients to risks of power outages or fire, which calls for high standards of quality and reliability.

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2021



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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