

## Swiss convictions Bern

Recommended since 06.11.2020

25.05.2022



<b>Country</b> CH	<b>Market capitalization (bn)</b> CHF 32.8	<b>Perf. since reco. (%)</b>
<b>Sector</b> Chemicals	<b>Free float</b> 99.7%	Givaudan SA -10.3
<b>Factset</b> GIVN-CH	<b>Closing price</b> CHF 3534.00	Market 8.8
<b>ISIN</b> CH0010645932	<b>ESG Risk score*</b> 19.8 Low risk	



### Profile

Givaudan SA specialises in manufacturing and distributing fragrance and flavour products through its two operating divisions: Fragrance and Flavour. Its Fragrance division produces and sells fragrances through three business units: Fine Fragrances, Consumer Products and Fragrance & Active Cosmetic Ingredients. The Flavour division manufactures and markets flavours via four business units: Beverages, Dairy, Savoury and Sweet Goods. The company was founded by Leon Givaudan and Xavier Givaudan in 1895 and is headquartered in Vernier (Switzerland).

### Strengths/opportunities

- Entering new markets to keep its pace of growth high.
- Despite the coronavirus pandemic, Givaudan has been very successful.
- Best-in-class profitability with a highly cash-generative business, which translates into high cash returns for shareholders.

### Weaknesses/threats

- Heavy reliance on large multinational customers.
- Only low exposure to cosmetic ingredients.
- Givaudan can run into possible crop shortages for natural raw materials.

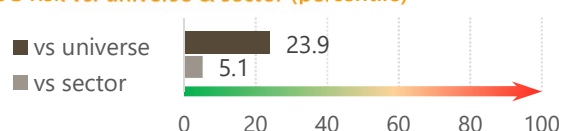
### Investment case

- Givaudan is keen to further intensify its strategy to move closer to its customers; it wants to be involved at an early stage, particularly with new companies entering markets with disruptive products.
- The company intends to grow organically by 4-5% a year and generate annual free cash flow of over 12% (based on sales).
- Givaudan regularly hits its expected targets and has grown 13.3% a year since its listing in 2000. One reason for this has been its good positioning with regionally-anchored companies, whose growth in recent years has systematically outpaced that of global multinationals.
- The pace of growth is set to be sustained over the next three years, with sales doubling by 2030 (vs. 2018 baseline), in particular through additional customer markets and smart acquisitions.
- Especially on the back of its acquisition of Naturex, which processes natural substances, Givaudan intends to expand into the areas of nutritional specialties, food ingredients and beauty.

### Valuation

Givaudan's valuation is quite high on a P/E basis, but this is justifiable on the grounds of its bright outlook. When it comes to its FCF yield especially, the company looks more attractive compared to peers (3% vs 2.7% for consumer chemicals).

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



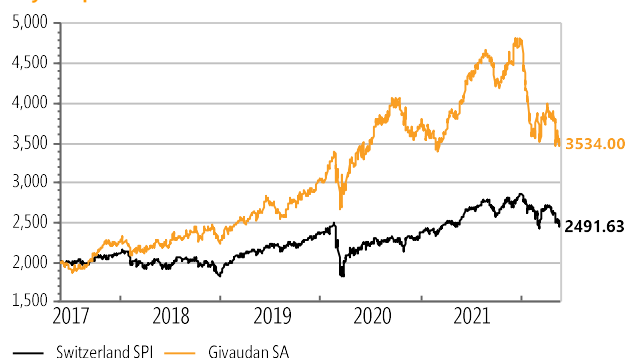
CHF	12/2021	2022e	2023e
Sales revenue (bn)	6'684	7'149	7'548
Sales growth	5.7%	7.0%	5.6%
EBIT adjusted (bn)	1'086	1'142	1'289
% of sales	16.2%	16.0%	17.1%
Net income (bn)	821	874	1'002
Net income growth	10.5%	6.4%	14.7%
FCF/Sales	15.5%	12.4%	13.9%
Net debt/Ebitda	3.0x	2.8x	2.4x
Dividend yield	1.9%	1.9%	2.0%
PE	53.8x	35.6x	31.4x
P/BV	9.0x	7.9x	7.2x

Factset estimates

### ESG - risks and key points

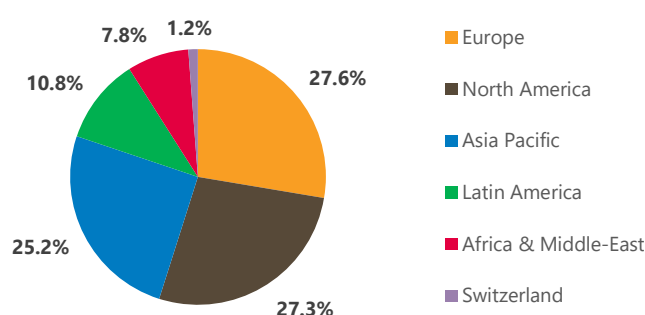
- Givaudan is at medium risk, although the sector does generally exhibit a higher degree of exposure to ESG issues.
- The company is noted for its strong corporate governance performance, which clearly lessens its overall risk.
- Givaudan is taking risk associated with emissions, effluents and waste seriously and has instigated several programmes to reinforce controls. The company's overall management of key ESG issues is robust.

### 5-year performance vs SPI



Source: FactSet

### Sales breakdown - 12/2021



\*: see overleaf

Source: Factset, Sustainalytics

# 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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