

Emerson Electric Co.

US Satellite*

Recommended since 19.11.2024

19.11.2024



Country US	Market capitalization (bn) USD 74.3	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 99.6%	Emerson Electric Co. 0.0
Factset EMR-US	Closing price USD 129.16	Sector 0.0
ISIN US2910111044	ESG Risk score* 22.8 Medium risk	



Profile

With 73,000 employees in 150 countries and headquarters in St. Louis, Missouri, Emerson Electric Co. provides engineering services, industrial automation equipment, climate control systems, precision instrumentation and software engineering solutions. Its products help clients to optimise operations, ensure safety and reduce emissions. The Group generates c.50% of its sales in the Americas, c.20% in Europe, c.22% in Asia and c.8% in Africa-Middle East.

Strengths/opportunities

- Transformation in completion phase, model enhancement
- Potential market share gains in Automation
- Attractive shareholder return policy

Weaknesses/threats

- Significant but limited exposure to the US (40%)
- Recovery of Process Automation segments still uncertain
- Relatively cyclical profile

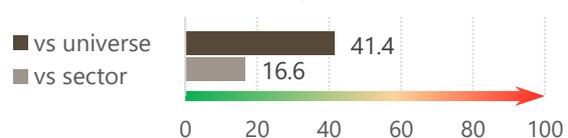
Investment case

- The transformation and overhaul of our portfolio of assets in recent years (almost \$40 billion of divestments and acquisitions) has shaped a more coherent group in the key industrial automation and control market, which is exposed to a number of megatrends (production relocation, processes digitalisation, energy supply security).
- In particular, segments linked to the Energy Transition (clean fuels, batteries, hydrogen, nuclear, etc.), where the penetration of automation and digitalisation systems is set to increase, represent half of the project pipeline and a growth opportunity for the decade to come.
- As a result, the business dealing with the control, automation and digitisation of industrial processes now accounts for more than 90% of sales, and all of this leads to growth and profitability potential that is higher than Emerson's historical figures, but which has not yet been reflected in the valuation ratios, and hence the stock price. We believe that Emerson is at a 20% discount to its 'new peers', i.e. the technology - automation - industrial digitalisation groups (Honeywell, Eaton, Rockwell, Parker Hannifin), while the expansion of its margins in the transformation phase validates the thesis of integration into this peer group.

Valuation

The stock is trading on a PE fwd of 20.9x compared with 26.3x for the peer group average and on a EV/Ebit fwd of 17.4x compared with 22.6x for the peer group average, i.e. a discount of 21-23%, justifying our target price of \$160.

ESG risk vs. universe & sector (percentile)*



USD

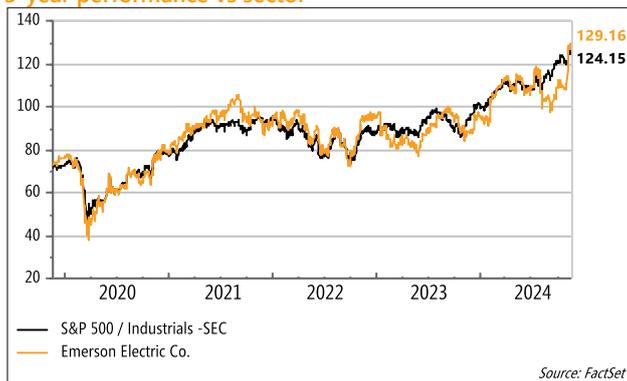
	09/2024	2025e	2026e
Sales revenue (mio)	17 492	18 279	19 220
Sales growth	15.3%	4.5%	5.2%
EBIT adjusted (mio)	2 656	4 439	4 750
% of sales	15.2%	24.3%	24.7%
Net income (mio)	1 618	3 346	3 608
Net income growth	-24.8%	106.8%	7.8%
FCF/Sales	16.7%	17.4%	19.7%
Net debt/Ebitda	1.1x	0.6x	0.2x
Dividend yield	1.6%	1.7%	1.7%
PE	31.9x	21.7x	19.8x
P/BV	2.9x	3.3x	3.1x

Factset estimates

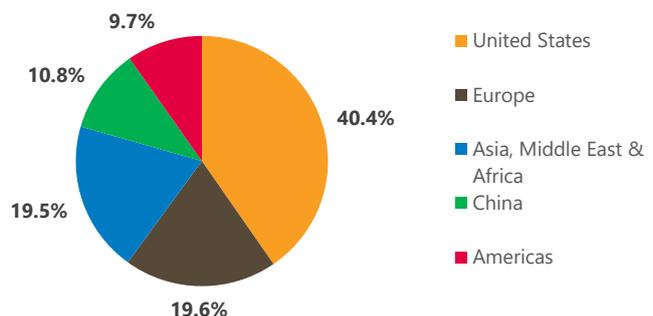
ESG - risks and key points

- Emerson has a medium risk of financial exposure to ESG factors, due to medium exposure and strong management of these risks.
- The risks relate in particular to product quality and its impact on clients' production processes, as well as human capital management following the major divestment-acquisition phase of recent years.

5-year performance vs sector



Sales breakdown - 09/2024



*: 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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