



GMG Equity Research

GIVAUDAN

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17/10/2019

Key data

Market capitalization (millions CHF)	24.100
Entreprise value (million CHF)	27.069
Share price (CH)	2877

Stock absolute and relative performance (CHF)

In %	Absolute	Relative *
1 month	3,7%	3,6%
3 months	7,9%	6,9%
6 months	12,2%	6,3%
YTD	29,4%	5,9%
1 year	20,6%	6,3%
2018	3,9%	12,4%
2017	24,4%	4,5%

*relative to SPI

Description

Givaudan has been an independent listed company since it was carved out from Roche in 2002.

It is the world leader in fragrances and aromas. Its global lead over competitors like Swiss Firmenich, US IFF and German Symrise has increased after the takeover of Dutch-British Quest International in 2006. Givaudan's market share is around 25%.

The firm has two divisions of roughly equal weights.

The Fragrances division creates and supplies scents for products like soap, toothpaste or washing powders. The division also provides perfumes, including high end ones for the luxury industry. Clients are HPC and luxury firms.

The Aromas division helps the food industry improving the appeal of their products. Customers range from smaller regional players to the largest global multinational groups.

The rapid shift of demand towards "natural" ingredients represents a challenge that Givaudan is addressing through its own research & development and through targeted acquisitions.

The firm has some bargaining power as it remains the owner of the recipes used in its clients products. Moreover, barriers of entry in the sector are extremely high.

Firm's performance

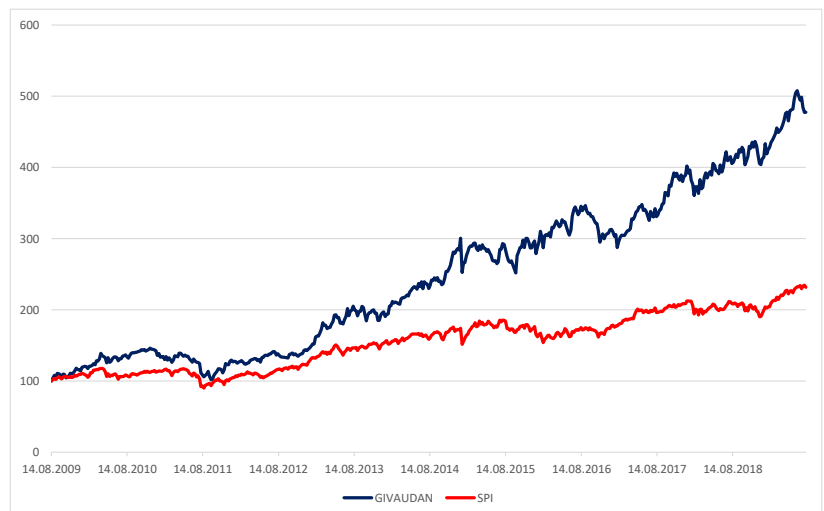
Givaudan's stock performance has been among the best in the Swiss market since the stock was floated in 2002.

It has been delivering a steady mid single digit sales growth and an outstanding level of profitability over time.

Lately, sales growth has proven resilient despite the slowdown experienced by many of its large global customers. Givaudan has been able to mitigate this negative trend thanks to its large portfolio of local and regional customers, especially those in the emerging countries. In other words, Givaudan was in a position to take advantage of the market share gains of its regional customers.

One can expect sales to go on growing at mid single digit rates over time, with steady high margins and strong cash flows. These should enable rising dividends.

Share price (10 years)





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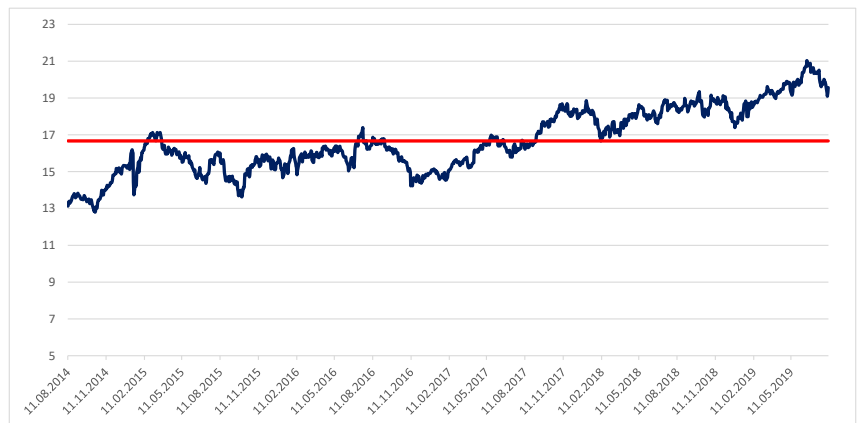
Valuation ratios

	12/16	12/17	12/18	12/19e	12/20e
EV/EBITDA	16,1	20,1	20,8	20,8	18,8
PER	29,1	25,9	30,0	32,6	28,6
Free Cash Flow Yield	3,4%	2,9%	2,8%	2,1%	2,8%
Dividend Yield	3,0%	2,6%	2,6%	2,4%	2,5%
P/BV	5,2	5,9	5,6	6,5	6,5

Bloomberg ESG ranking

Global ESG	61,6
Environment	55,8
Social	70,2
Governance	66,1

EV / EBITDA



Environment, Social & Governance comments

Environment

- As it adapts to consumers' demand, Givaudan is shifting its production using more natural and sustainable inputs.
 - Givaudan aims at reducing its greenhouse gas emissions by 30% from 2015 to 2030. It also targets a yearly reduction in waste of 4%.

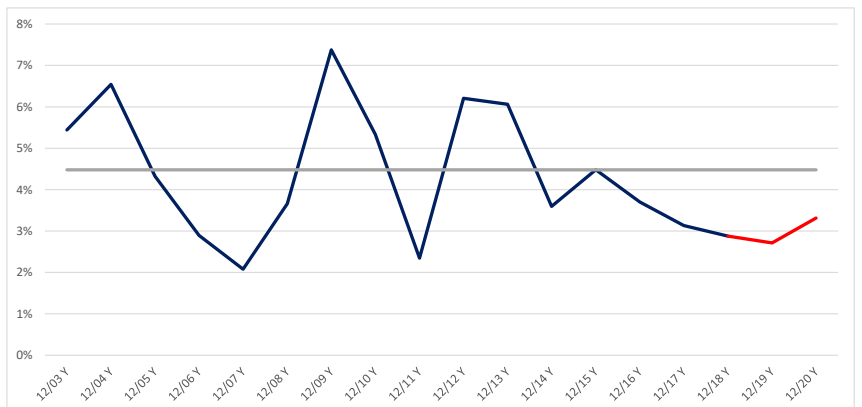
Social

- The firm buys a very large number of raw materials, some of which are rare, for example when they are grown by small farmers in few areas in the world. The firm looks to secure its supplies through programs where it buys close to the farmers, provides income stability to families as well as access to education and healthcare.

Governance

- A guide of ethical standards named "Sense of tomorrow" has been published.
 - The main shareholder (13.9% of the shares) is the Bill and Melinda Gates foundation.

Free Cash Flow Yield

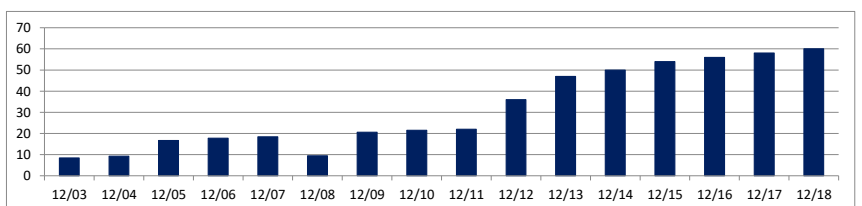


ESG affiliations and codes of conduct

UN Global Compact	✓
UN PRI (responsible investment)*	✓
Anti bribery policy	✓
Employee CSR training	✗
Fair remuneration policy	✗

* Applicable to financial institutions

Dividend per share (CHF)





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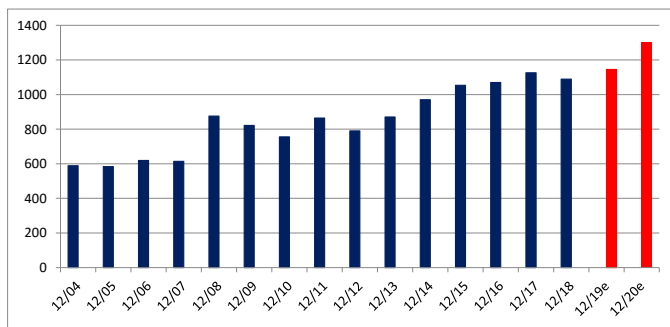
Performance ratios

	12/16	12/17	12/18	12/19e	12/20e
Operating Margin	18,8%	17,2%	15,9%	15,9%	16,7%
ROIC	15,2%	16,8%	12,5%		
ROE	18,1%	22,3%	18,3%	20,1%	21,4%
WC / Sales	29,7%	26,3%	32,0%	28,5%	27,0%
Net Debt / EBITDA	82,6%	98,6%	248,6%	227,8%	191,4%
Net Debt / Equity	28,2%	30,4%	76,5%	79,7%	73,5%
Capex / D&A	55,5%	87,6%	94,8%		

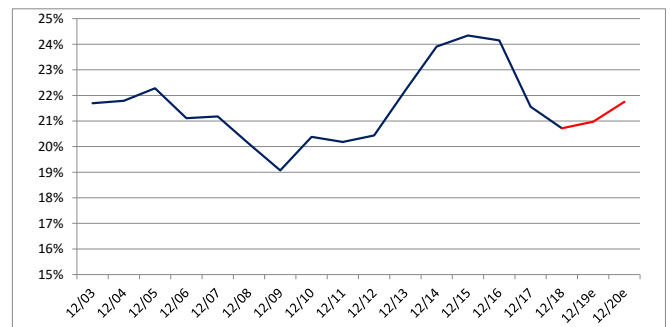
Financial statements (million CHF)

		12/16	12/17	12/18	12/19e	12/20e
Chairman:	Calvin Grieder					
Tenure (years):	2,7					
CEO:	Gilles Andrier					
Tenure (years):	14,9					
CFO:	Tom Hallam					
Tenure (years):	2,8					
	Sales	4.663	5.051	5.527	6.215	6.570
	<i>variation</i>		8,3%	9,4%	12,4%	5,7%
	D&A costs	245	218	252		
	EBITDA	1.126	1.089	1.145	1.303	1.429
	<i>variation</i>		-3,3%	5,1%	13,8%	9,6%
	Net earnings	596	807	704	742	847
	Total current assets	2.343	2.854	3.121	3.121	3.121
	Total fixed assets	4.171	4.455	6.147	6.147	6.147
	Shareholders equity	3.293	3.538	3.723	3.723	3.723
	Working capital	1.384	1.329	1.771	1.771	1.771
	Net debt	930	1.074	2.847	2.969	2.735
	Operating cash flow	774	842	893	997	1.153
	Capex	-136	-191	-239	-277	-273
	Free cash flow	638	651	654	721	880

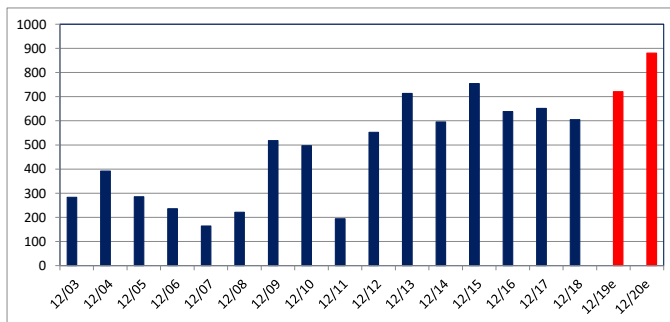
EBITDA



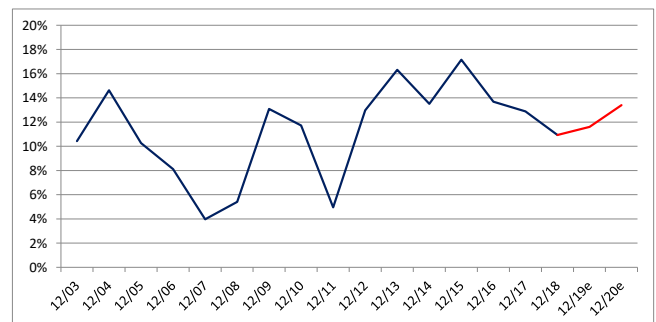
EBITDA margin



Free cash flow



Free cash flow & Free cash flow / sales





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SWOT

Strengths

- Givaudan is the world leader in the fragrance and flavour industry, which has experienced steady growth and high margins for a long time. High barriers to entry tend to lock in this situation

Weaknesses

- One the firm's main issue is the redeployment of the cash it generates. Indeed, the management has been looking for new investment opportunities for quite some time without coming with any substantial project

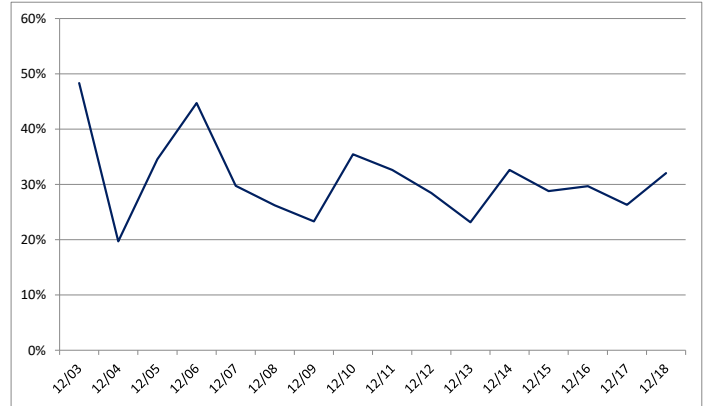
Opportunities

- Givaudan aims at winning market share thanks to its state of the art know-how

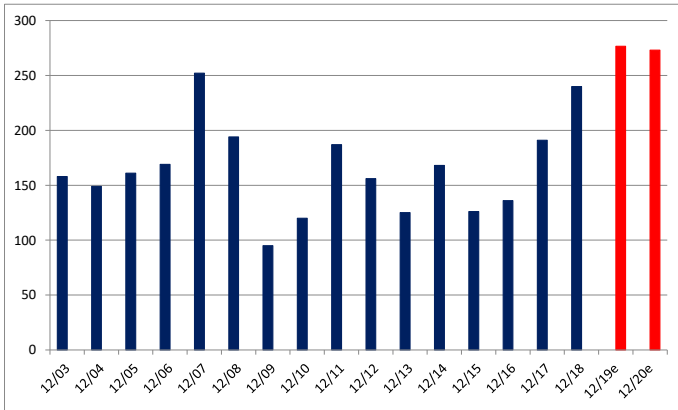
Threats

- The final customers' desire for ever more natural products is a challenge. Givaudan adapts to this evolution through its R&D, its efforts to improve the sourcing of natural, sometimes difficult to find, ingredients and through targetet M&A

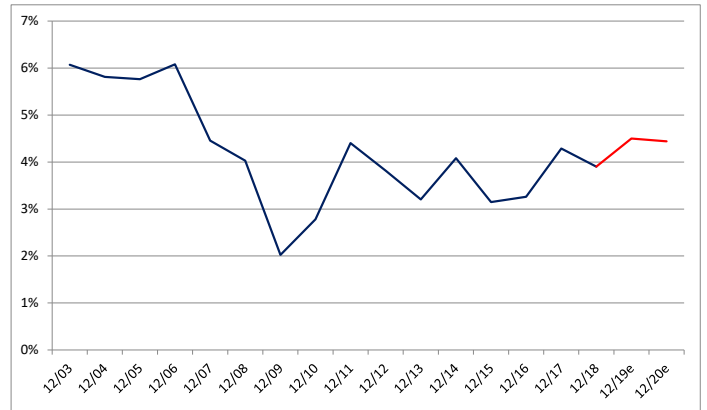
Working capital / sales



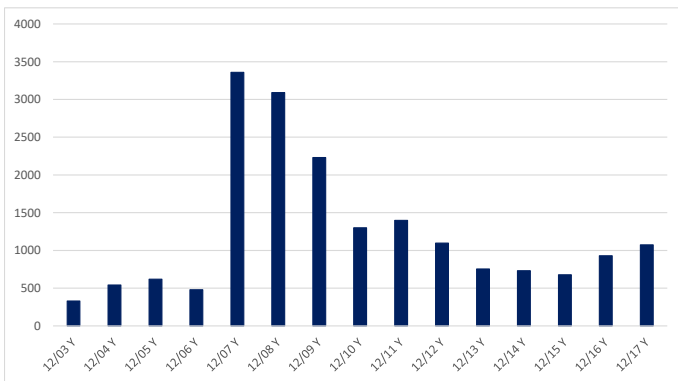
CAPEX



CAPEX / non current assets



NET DEBT



NET DEBT / EBITDA

