

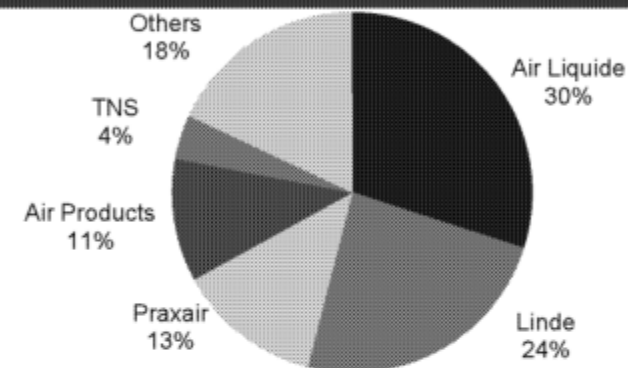
20 **Linde – Tim Jones, BUY, close €186.1, €227 tgt, 22% upside.**

- Key driver #1: **improving gas industry fundamentals** from cost efficiencies, investment discipline, consolidation and end-market stabilisation. Capex to sales has fallen from c14% in 2012/13 to c12% in 2016, and consolidation should drive price discipline and margin expansion.
- Key driver #2: **macro tailwinds**. Improvements in Europe and Asia (c60% of Linde Gas), and continued strength in the US, should provide support to a later-cycle business from 2018 onwards. Industry growth should improve from 2015-16's 2%.
- Key driver #3: **Praxair merger** will create a global leader in the gas industry. Our analysis of the combined firm suggests large synergies (\$1.2bn – over 20% of pro-forma EBIT – of which \$1bn is cost savings and \$200m capex savings).
 - The key logic is **diversification** (geographical and end-user), given complementary regional and end-market exposures.
- Anti-trust risks should be manageable, with divestments of \$2.5-3bn. Demand for these assets is likely high.
- We forecast **€4.3bn net income in 2020**, implying a fair value of €245/share using peer multiples. We discount this back, implying our €227 target.
- Trades on 21.6x 2018E P/E, in line with peers.
- Catalysts: greater visibility on merger execution and timing

Related DB Research:

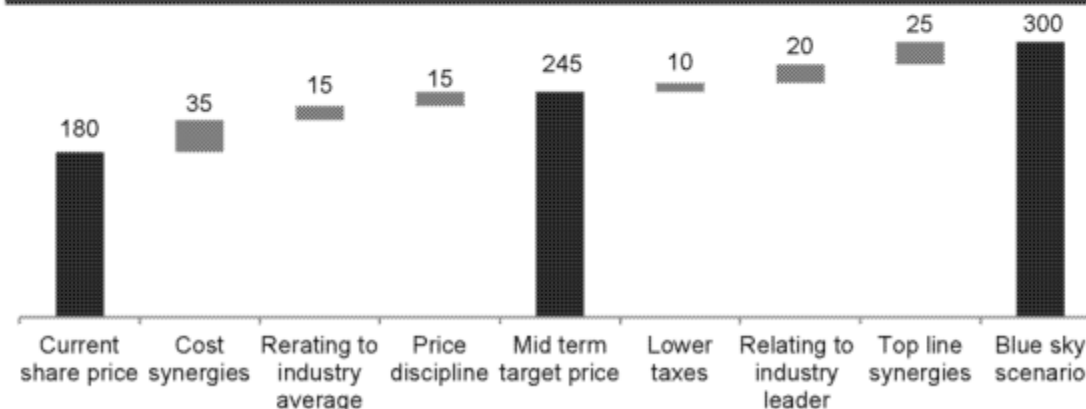
[Linde - Gases growth accelerating, Still on track to E245, BUY \(Jones\)](#)
[Pan European Chemicals: 2018 Outlook: A "super" sector \(Jones\)](#)

Linde-Praxair combination a clear market leader



Source: Deutsche Bank estimates, Spiritus Consulting. TNS = Taiyo Nippon Sanao. Data includes share of sales from associate participations and JVs. Note: Air Liquide includes Airgas acquisition

Linde-Praxair price target bridge



Source: Deutsche Bank, Company Data