Georg Fischer - Following Up The Buyer Of Uponor

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Wolf Report

Summary

- Georg Fischer AG acquired Uponor, becoming the world leader in Water & Flow solutions.
- Georg Fischer operates in multiple fields, with over 60% of revenues from water, making it a significant player in the industry.
- The company's valuation is considered attractive with a fair value PT of around 90 CHF, making it a potential "BUY" opportunity.

Abstract Aerial Art/DigitalVision via Getty Images

Dear readers/followers,

In this article, I'll follow up on the articles I've done on the Finnish water company Uponor. The company, which once was a significant stake in my investment portfolio with a very good RoR, was acquired this year/end of last year by the Swiss company Georg Fischer AG (OTC:FCHRF). This unfortunately ended my investing history in the company, but of course in turn opened the door to investing in Georg Fischer instead.

In my last article, I clarified my initial position on the company and my consideration and rating of the business as a "BUY". I also gave the company a PT of 90 CHF for the native. You can view this article, and its performance (which hasn't been all that great) here.

In this article, I'll update my thesis on Georg Fischer, and show you why I consider the company to be interesting. It goes beyond that Georg Fischer, with the acquirement of Uponor, has become the **world leader** in Water & Flow solutions, but it's certainly related to this.

This is a relatively undercovered company. My latest article was the first article on the company, and there haven't been any other articles on the company since. It's also not that big a company in terms of market cap or the like, and the yield isn't all that high. So if you decide to invest here, be sure that you understand what you are investing in so that your expectations are "in line" for what the company can actually deliver.

Let's see what we have here.

Uponor to Georg Fischer - Water is life

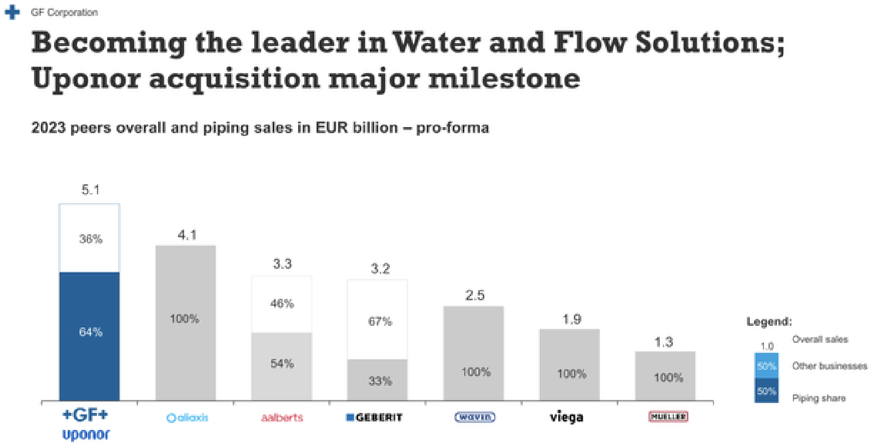
If you recall my work on Uponor, you'll recall that it was one of those investments where I in a relatively short time managed a triple-digit RoR. Uponor and Data response from Norway, are two good examples of companies that I didn't want to see go private or traded away - but they both were. Investing in Georg Fischer is also a good idea, but I preferred investing in Uponor.

Georg Fischer works in a multitude of fields. If there's one thing I like about Swiss companies, it's their ages and traditions, and this one is no different. Over two centuries worth of traditions, it's worked for much of that time to deliver piping systems, known today as GF Piping, and this is still at the heart of what the company does to this day.

Georg Fischer IR

This is a four-segment industrial player with Uponor with just over 5B CHF of annual revenues. With over 60% of revenues from water, it's fair to also call Georg Fischer a "water company". The closest peer to this company in terms of water tech would be Aliaxis, but there's over €1B worth of sales difference between #1 and #2 here.

105 production sites, 187 companies, and almost 20,000 employees make up Georg Fischer. Piping systems, machining, casting, and flow make this company interesting, and what makes it different from many others I write about is that over 50% of the company's sales are from **outside** of Europe. Here is the company's current market profile for water/flow solutions as of July of 2024 - which is the reason why I bought the company in the first place.



Georg Fischer IR

Its production facilities are found in every continent - even offices in Africa and Australia, as well as New Zealand. In the past 3 years, the company has increased sales by over 300M CHF, improved its ROIC by over 6%, taken on quite a bit of debt (from 0.11x to 2.96x) to pay for some of the M&A's it has been doing, and increased its number of employees. It's a company that's currently at the beginning of something.

It's move into Water and Flow tech is a recognition of the importance of this segment in the next 50-100 years - for the following reasons. These are by the way also the reasons why I focus heavily on water investments where I can, and where I can find them.

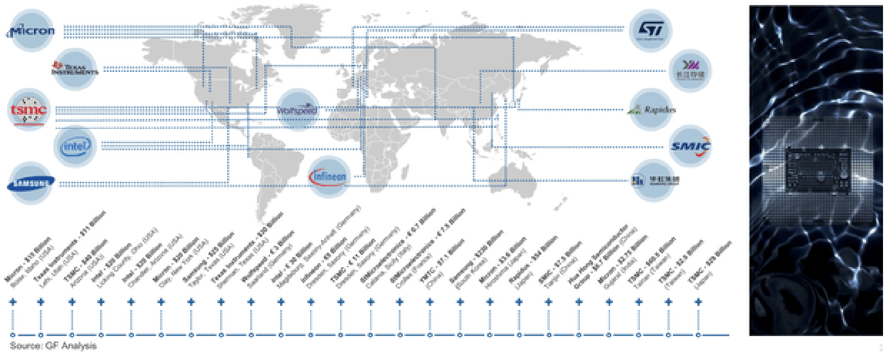
First off, an obvious rise in demand for clean and safe drinking water. There's an expected global demand increase of 40% - and by 2030, the current water demand will increase supply by that 40% (Source). Secondly, the regulation increases for water work and flow tech. Increased regulatory requirements will "remove" smaller players from the field and pool over time here because compliance costs will make this segment unworkable for smaller players (PFOA, PFOS, UWWTD). There's a very clear expected growth for water and wastewater treatment applications directly correlated to population and urbanization increase - and **this is what Georg Fischer works within these segments.**

That's not even mentioning the application in specific industries, which have extremely high demands for very specialized water treatment and applications.

Georg Fischer IR

So, how much money is involved here, you might be asking?

Well, put it like this - there are **0.6 trillion USD worth of projects announced and planned in terms of construction over the next few years.**



Georg Fischer IR

So while the company's other segments are certainly interesting to me, and I have no doubt that they too will deliver good results, it's the water segments that have me interested in Georg Fischer - and the fact that more or less every industrial segment out there needs water treatment, wastewater treatment - and this is what the company does. Recovery of water will also become an ever-increasing important thing.

I consider myself extremely lucky to live in an area that is one of the few areas in the world that will not have water shortages over the next few centuries - Sweden's water reserves are massive, and while the infrastructure needs updating, that's about the extent of it. Not all areas are as fortunate as this.

For the latest results, Georg Fischer has done fairly well for itself - but the real upside is probably a few years in the future. The current mid-year/2Q24 results show a resilient piping market, good growth in Flow, and decent casting solutions, but a weak machining solutions market.

It goes to show you that the company is more volatile than Uponor was. Sakes are growing, EBITDA margin is expanding slightly, but EBIT is down slightly. The company is now generating close to a run rate of CHF1B worth of EBIT. Integration of Uponor is still ongoing, but going to plan - and the company's improvement program is also in "full swing". By full swing, by the way, I mean the fact that the company has seen operational cost reductions upwards of 50M CHF, and is executing on better NWC as well.

Synergies for the integration of Uponor are already "beating" initial estimates.

Georg Fischer IR

Thus, my positive estimates and expectations for Georg Fischer sort of materialize.

One of the more interesting things that Georg Fischer is working on and planning is the company's large-scale projects in desalination. This will be a major part of actually delivering clean water to many regions - and the company is moving to a project designed to deliver water to over 4M people in Algeria, working with its prefabricated models.

Overall, I believe the case for Georg Fischer to be a very strong one at the right price, and I believe the valuation is still good enough to where you could "Buy" the company and see a very good upside.

Let me show you what I mean.

Georg Fischer Valuation - Good as long as we stay below 90 CHF native

The company has actually moved down slightly since my last article and trades at roughly 62 CHF native at this particular time, which comes to 18.5x P/E native. I'm willing at this time to give the company a premium of 21-22x P/E due to significant growth expectations (over 15% per year for the next few years). The dividend yield of 2% here is just a bonus, but a decent one.

Even estimating the company below its 10-year average of 17-18x, this growth means that you can find an upside here. Even at just 17.4x, which I consider the lowest target being relevant here, we find an upside of 15% per year, or a total RoR of almost 40% - and that's really estimating the company at a low multiple (Source: FAST Graphs Paywalled Link).

The bullish scenario here comes to an upside of around 30% per year, with a total RoR of around 90%. At such a valuation, we're talking estimating at around 23x P/E. The truth of the matter I believe lies somewhere in between these two. I believe Georg Fischer will, as a result of improving margins, volumes and better market conditions, definitely see growth and continued premiumization. Up to 20x P/E is conservatively possible, as I see it. This means the annualized RoR could be between 15-22% per year, which is more than enough for me to be interested.

You don't just have to take my word for it, either.

Georg Fischer is estimated to be worth between 70-95 CHF, with a current average of 78 CHF. 5 out of 6 analysts are at a "BUY" or equivalent rating, and the only difference here seems to be how much the company is expected to grow. (Source: Paywalled TIKR.com Link).

Because I expect plenty of growth from this segment and from this company, I choose to go fairly "high" here.

The relevant ADR that we look at here is FCHRF. Unfortunately, this is an extremely illiquid and thinly traded ADR. Investing in Georg Fischer outside of the native ticker is very tricky, and it's not something I would invest in. Many brokers, including IBKR, offer native trading of Swiss shares, and that's the route I would go. Otherwise, FCHRF is a native 1:1 ADR, which means that my share **price target for the ADR comes to $103/share.**

I see the following risks to this thesis.

Risks for Georg Fischer AG

The main risk to this company that I can see is the continued volatility of the non-water segments. It seems very clear to me that the water segment represents a large upside, with plenty of order flow and plenty of future projects being offered to the leading water company on the globe here. However, the company's other segments are businesses I expect to continue correlating more strongly to macro, which means a bit of continued up and down.

Beyond this, there are not many risks I can identify that would "put me off" this company. My thesis for Georg Fischer as it stands today is as follows.

Thesis

> Georg Fischer AG is a Swiss-based world and market leader in the areas of pipes and water technology. It supplies sectors such as semiconductors, industrials, chemicals, and automotive businesses. Aside from water and pipes, it also works in casting and mechanical industrial segments. I would characterize it as an attractive potential investment, at least at the right price.
>
> Georg Fischer doesn't have the best yield, nor a solid IG-rating - but besides that, it has very solid and stable trends, and the current forecasts allow for outperformance at the right rating and price target.
>
> I consider the company to have a fair value PT of around 90 CHF. For that reason, I view the company as a "BUY" here. The PT for the ADR here is, because of that, at $103/share.

Remember, I'm all about:

1. Buying undervalued - even if that undervaluation is slight, and not mind-numbingly massive - companies at a discount, allowing them to normalize over time and harvesting capital gains and dividends in the meantime.

2. If the company goes well beyond normalization and goes into overvaluation, I harvest gains and rotate my position into other undervalued stocks, repeating #1.

3. If the company doesn't go into overvaluation, but hovers within a fair value, or goes back down to undervaluation, I buy more as time allows.

4. I reinvest proceeds from dividends, savings from work, or other cash inflows as specified in #1.

Here are my criteria and how the company fulfills them (italicized).

> *This company is overall qualitative.*
>
> *This company is fundamentally safe/conservative & well-run.*
>
> *This company pays a well-covered dividend.*
>
> This company is currently cheap.
>
> *This company has a realistic upside based on earnings growth or multiple expansion/reversion.*

This means that the company fulfills each one of my criteria except one, the cheap state of the price, making it relatively clear why I view it as a "BUY" here.

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