

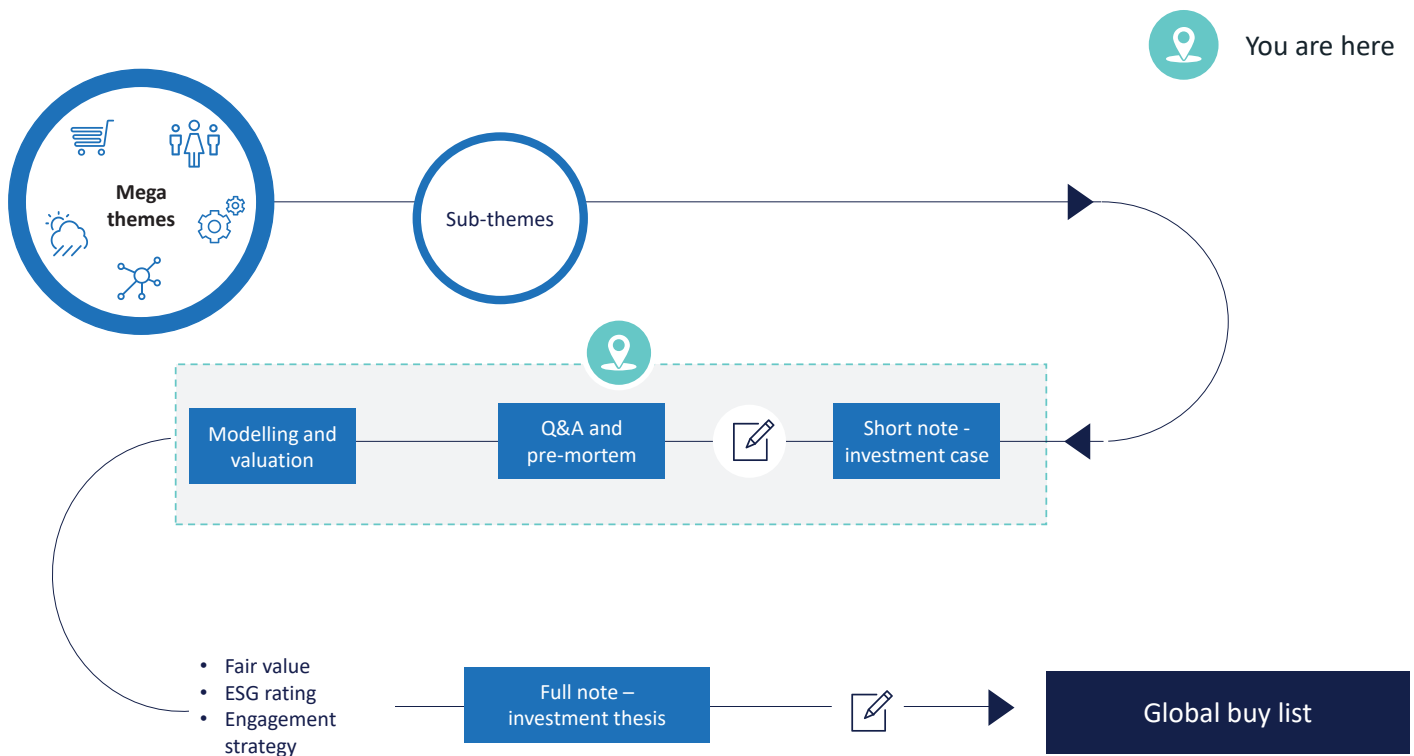
Narrowing the Universe: thematic investment in practice

Ben McEwen




Stock selection

Research process




Climate Change Analyst – an introduction

WHO MY SON THINKS I AM




WHO MY FRIENDS THINK I AM



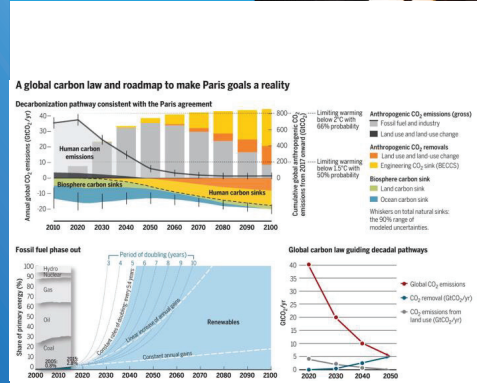
WHO I THINK I AM

“The argument is over. Anyone that doesn't believe that climate change is happening **DOESN'T BELIEVE IN SCIENCE.**”

LEONARDO DICAPRIO
ACTOR, ACTRIST AND UNITED NATIONS ENVIRONMENTAL PROGRAM AMBASSADOR OF PEACE
Source: <http://bit.ly/1v95mWT>



WHO I REALLY AM



Why a focus on climate change?

“A Decade Left”

“Changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset.

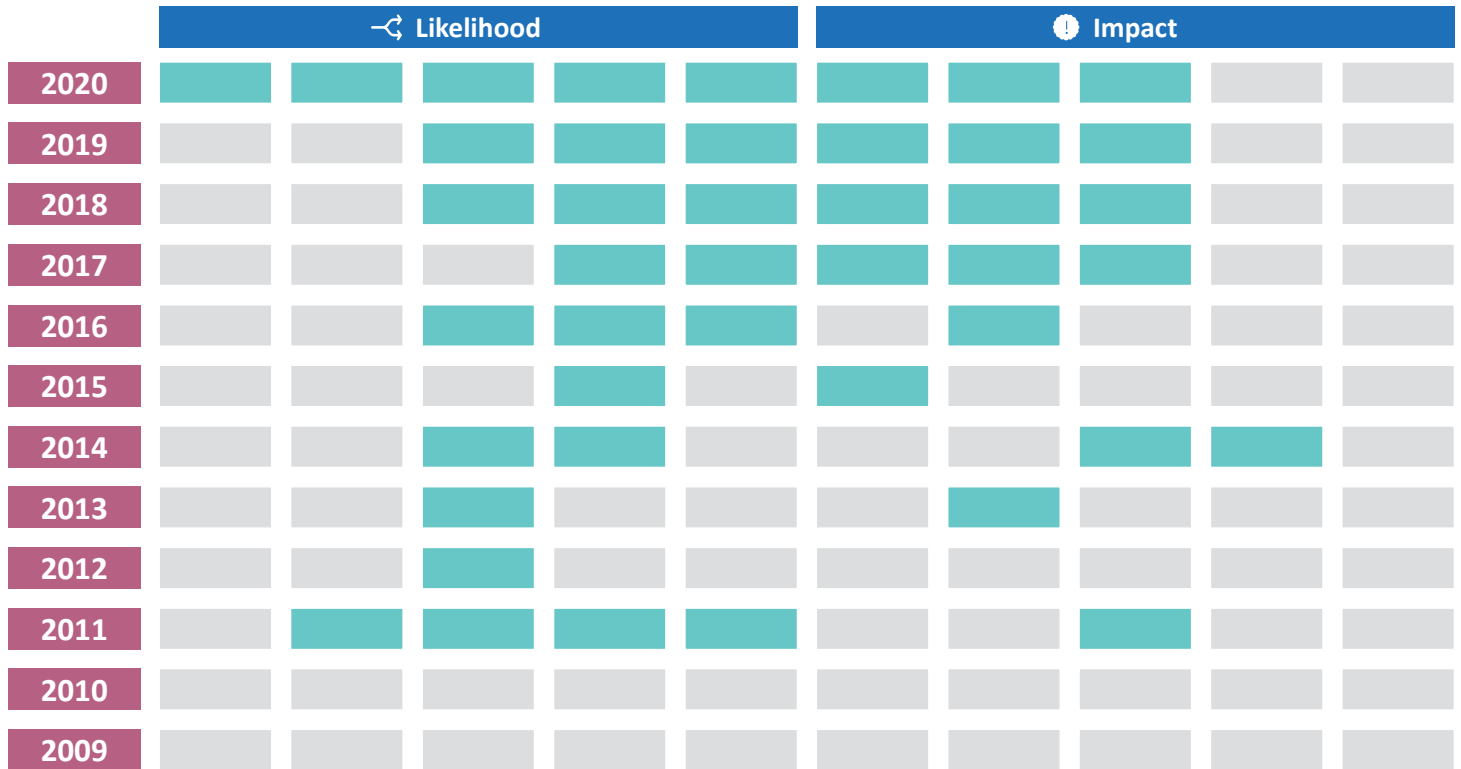
Firms that align their business models to the transition to a net zero world will be rewarded handsomely. Those that fail to adapt will cease to exist”.

Mark Carney, Governor Bank of England 2019



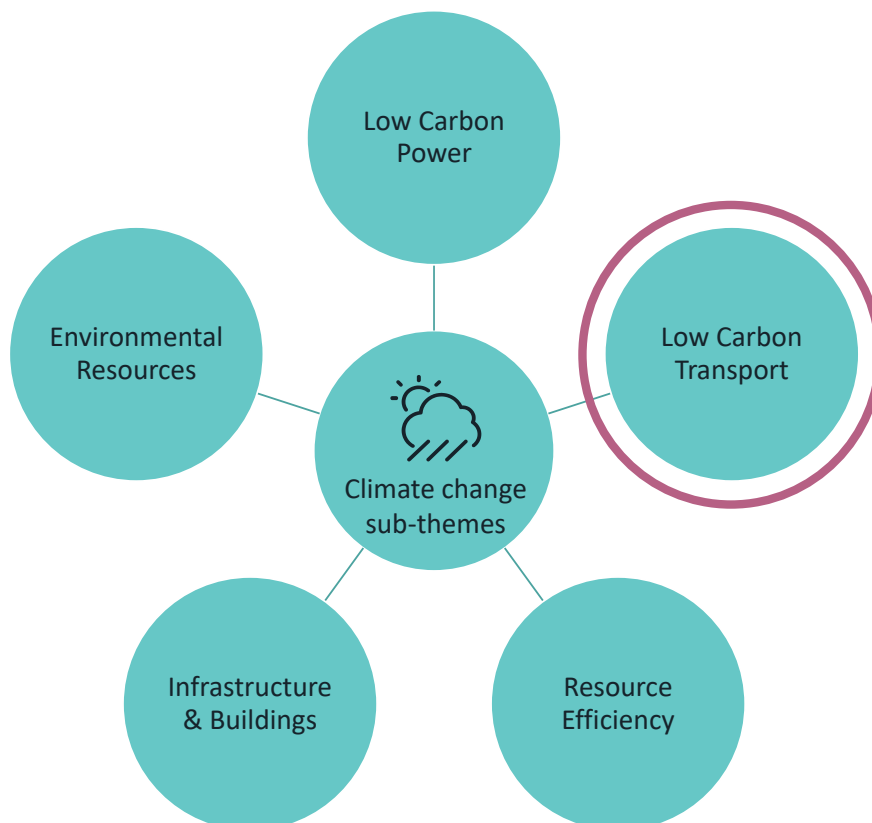
World Economic Forum – Environmental Risks Dominate

Environmental risks are now the likeliest and most impactful set of risks



Sarasin's climate change sub-themes

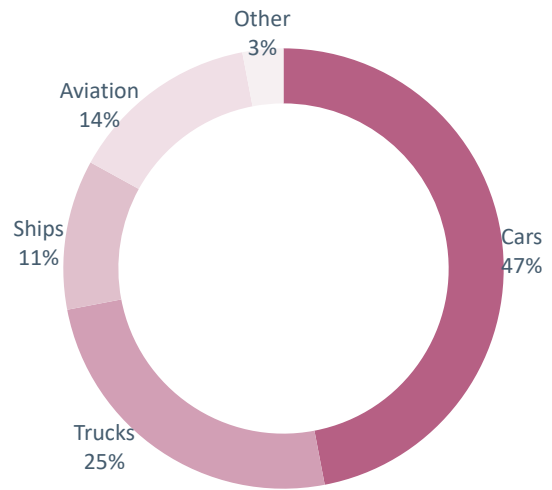
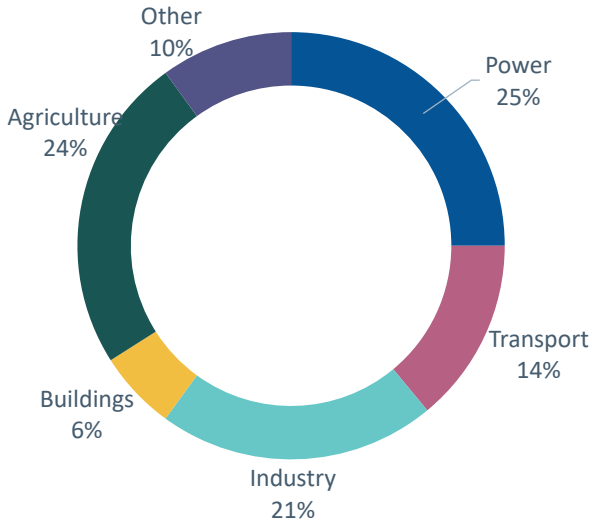
Five core themes



Why a focus on low carbon transport?

A Small(ish) problem now


 Transport represents 14% of global emissions

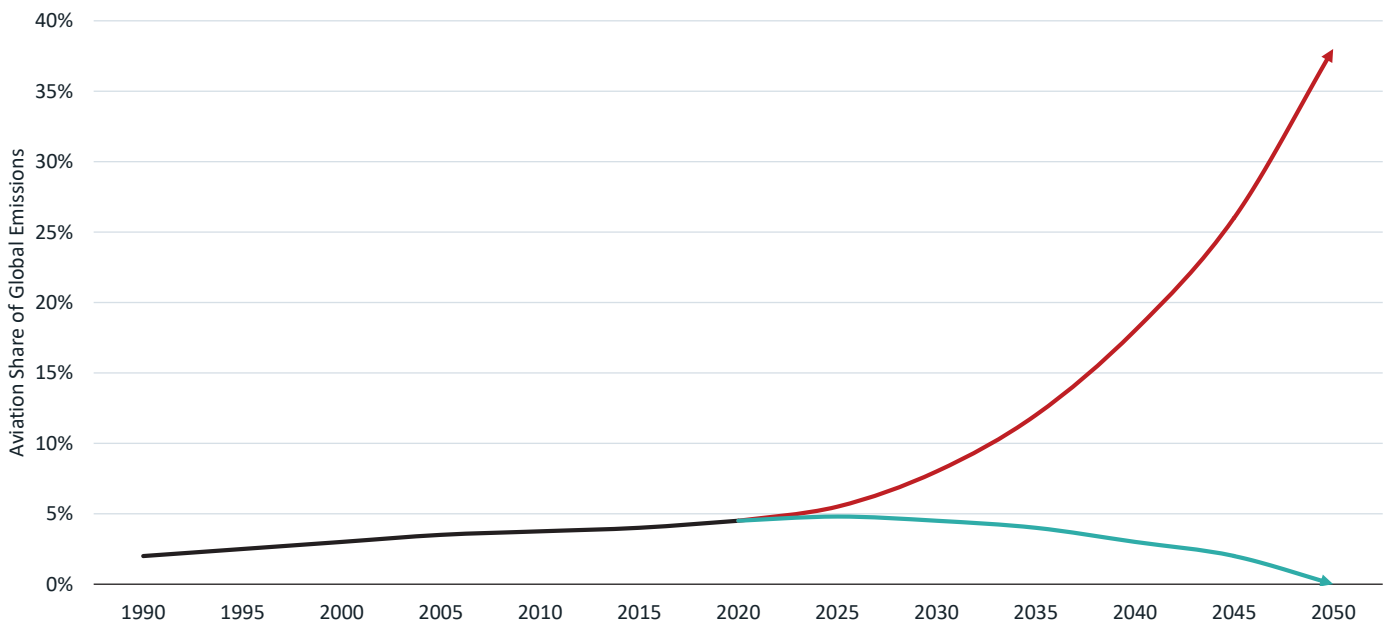


Statista & Bloomberg New Energy Finance

But a bigger problem tomorrow

Aviation emissions could rise dramatically

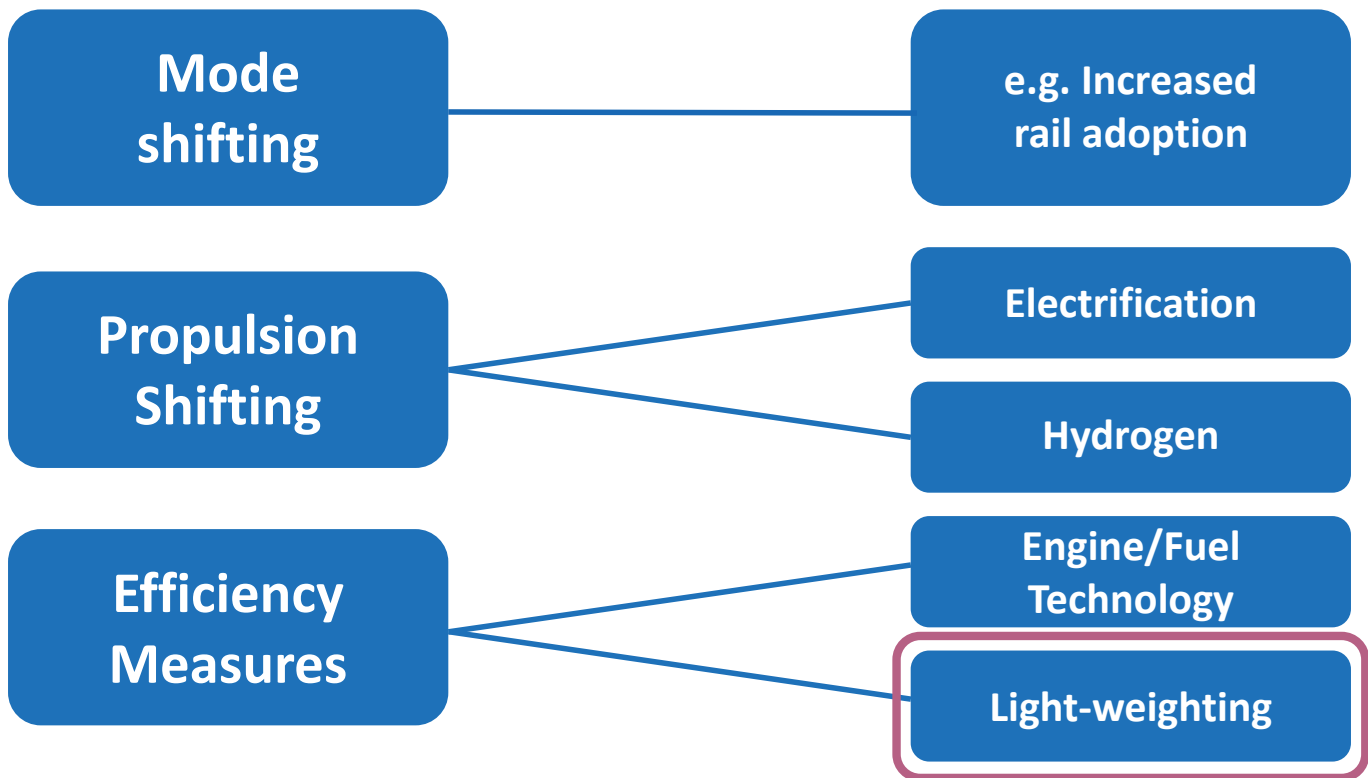
 Aviation's share of global emissions



IEA 2014, ICAO 2013b, IMO 2009, IMO 2014, van Vuuren, D. P. et al. 2011, Thomson et al. 2010, IATA 2013, IPCC 2014, ICAO 2010, ICS 2015

How will the low carbon transport theme develop?

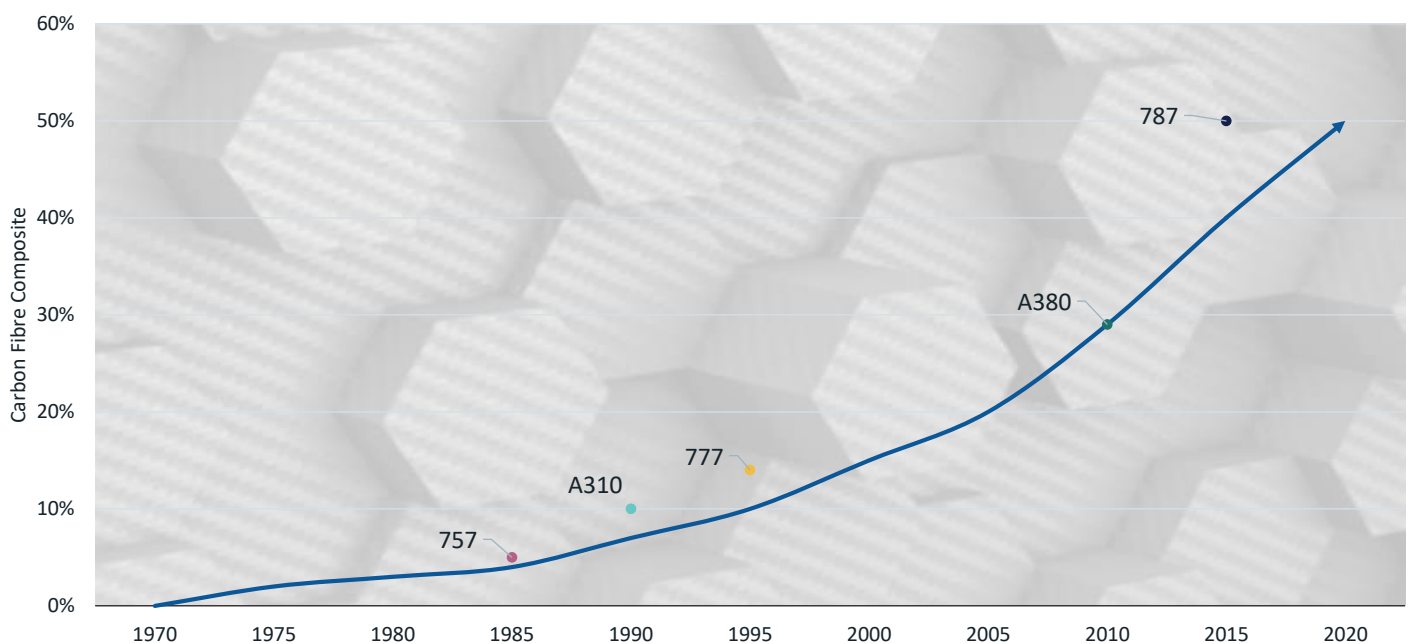
Analysing the sub-theme development



Question? How much of a modern plane is plastic?

50% of your plane is plastic and growing...

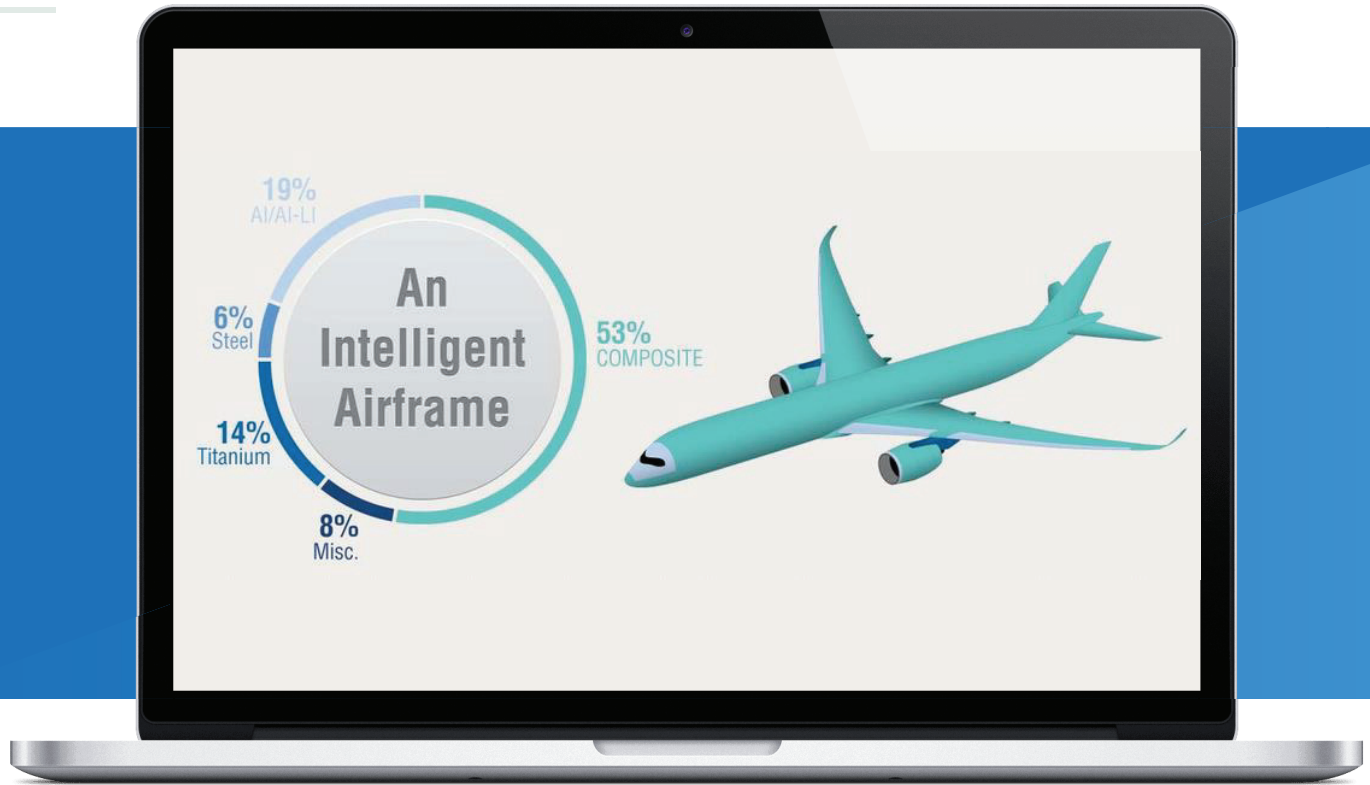
 The composite material research requirements of the aerospace industry



Source: EADS Deutschland GmbH, Corporate Research Centre

Desperately seeking lightness

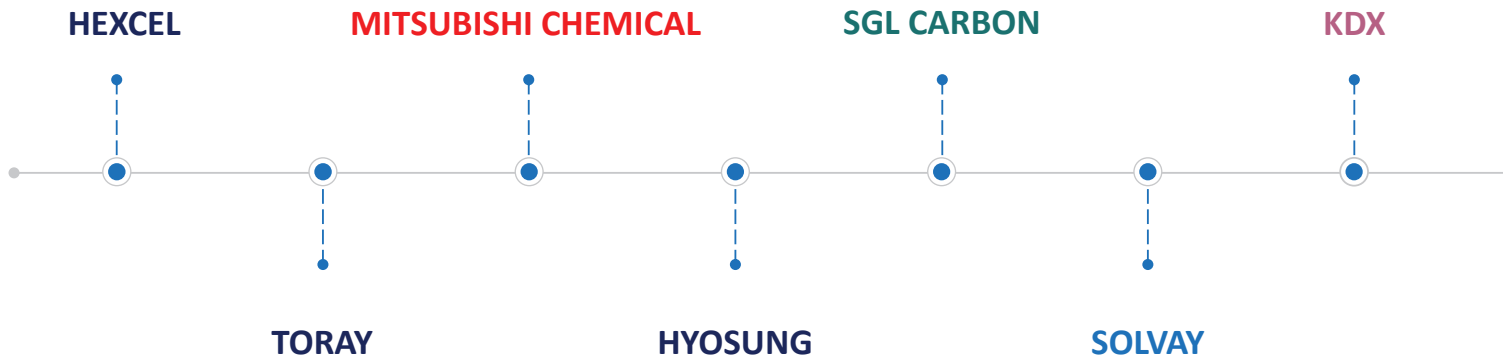
Materials used in a modern aircraft, the Boeing 787 Dreamliner



Concept of a Conducting Composite Material for Lightning Strike Protection

Who are the carbon fibre companies?

Not household names!



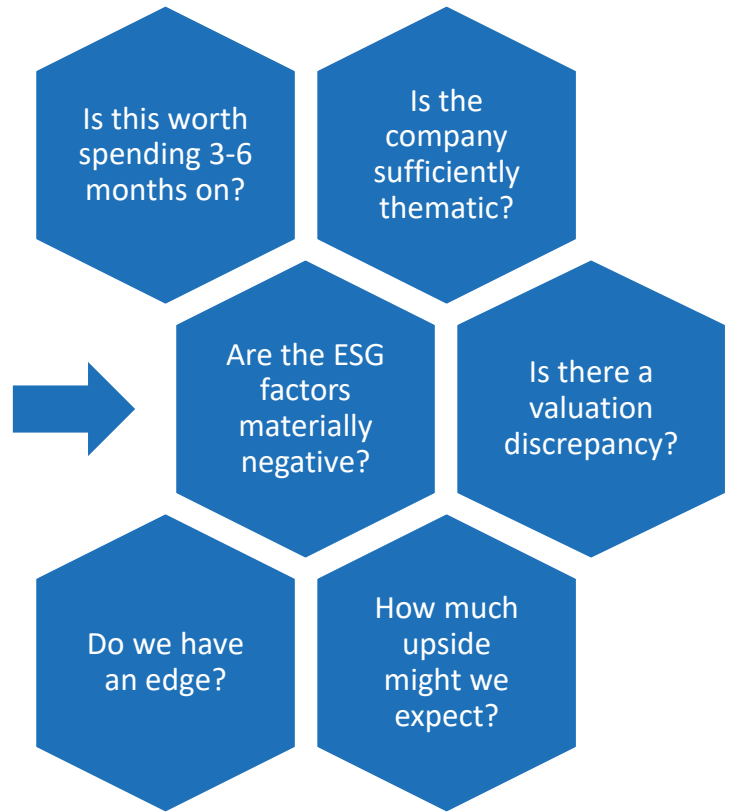
Short Note – making the investment case

What are we trying to answer?

SARASIN & PARTNERS

Hexcel short note

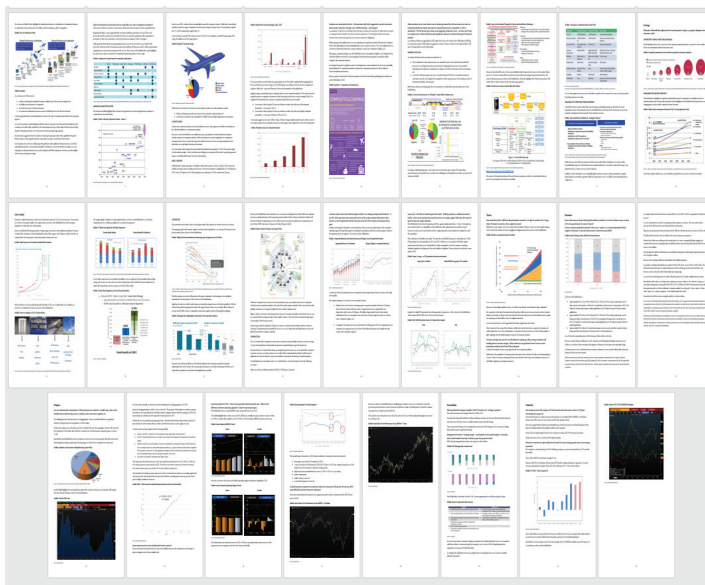
Ben McEwen
HXL US, \$5 billion market cap, ADV \$26 million
Sector: Materials
Current price: \$60.17
1.03% dividend yield
January 2019



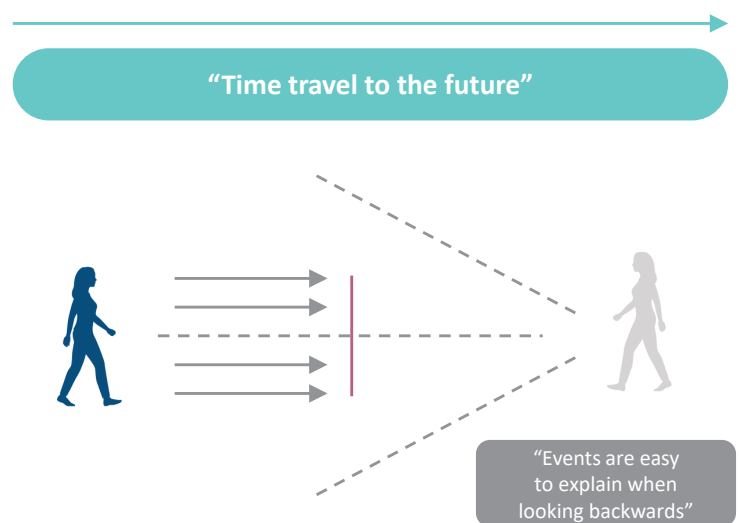
Q&A – Round 1...round 2...and pre-mortem

No shortcuts!

Q&A Round I & II

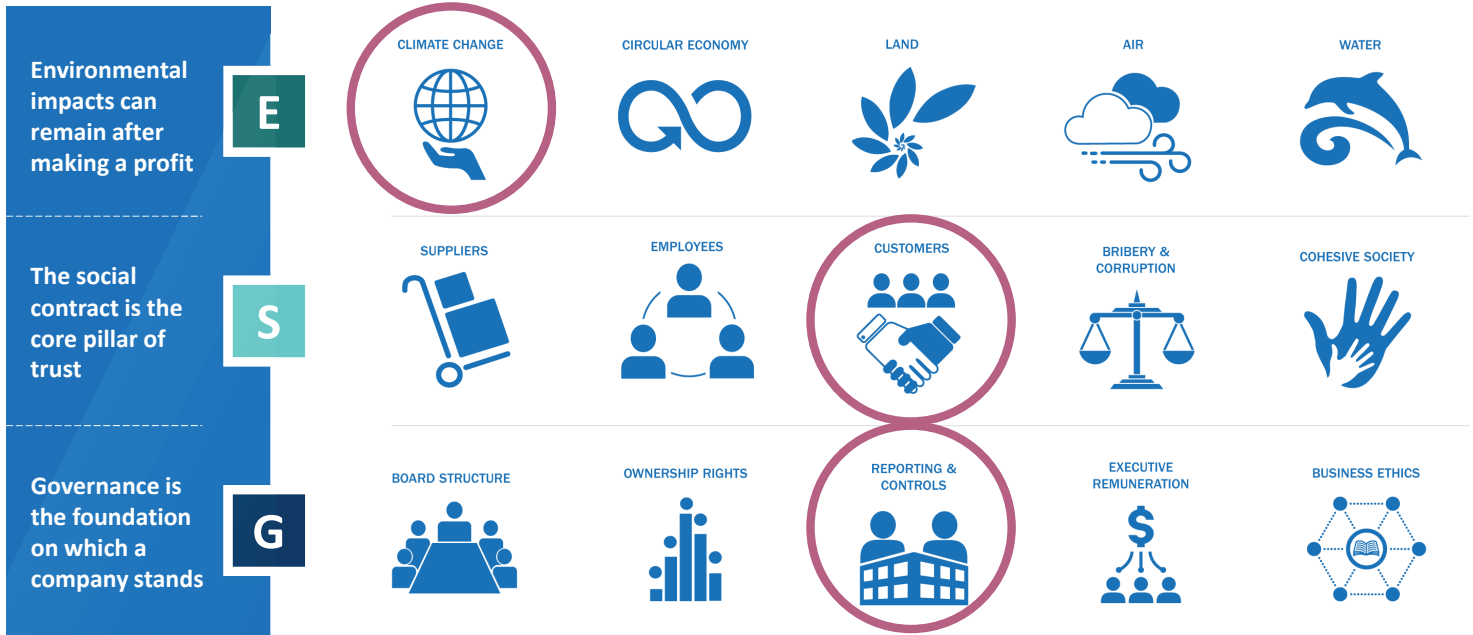


Pre-Mortem



ESG Integration

Harmful activities are not only undesirable but can result in investment risk

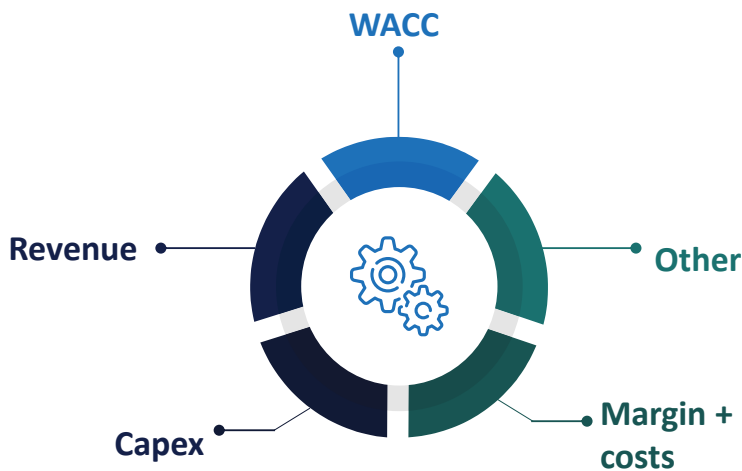


Modelling & Valuation

Integrating ESG factors into our modelling and valuation

How we integrate ESG

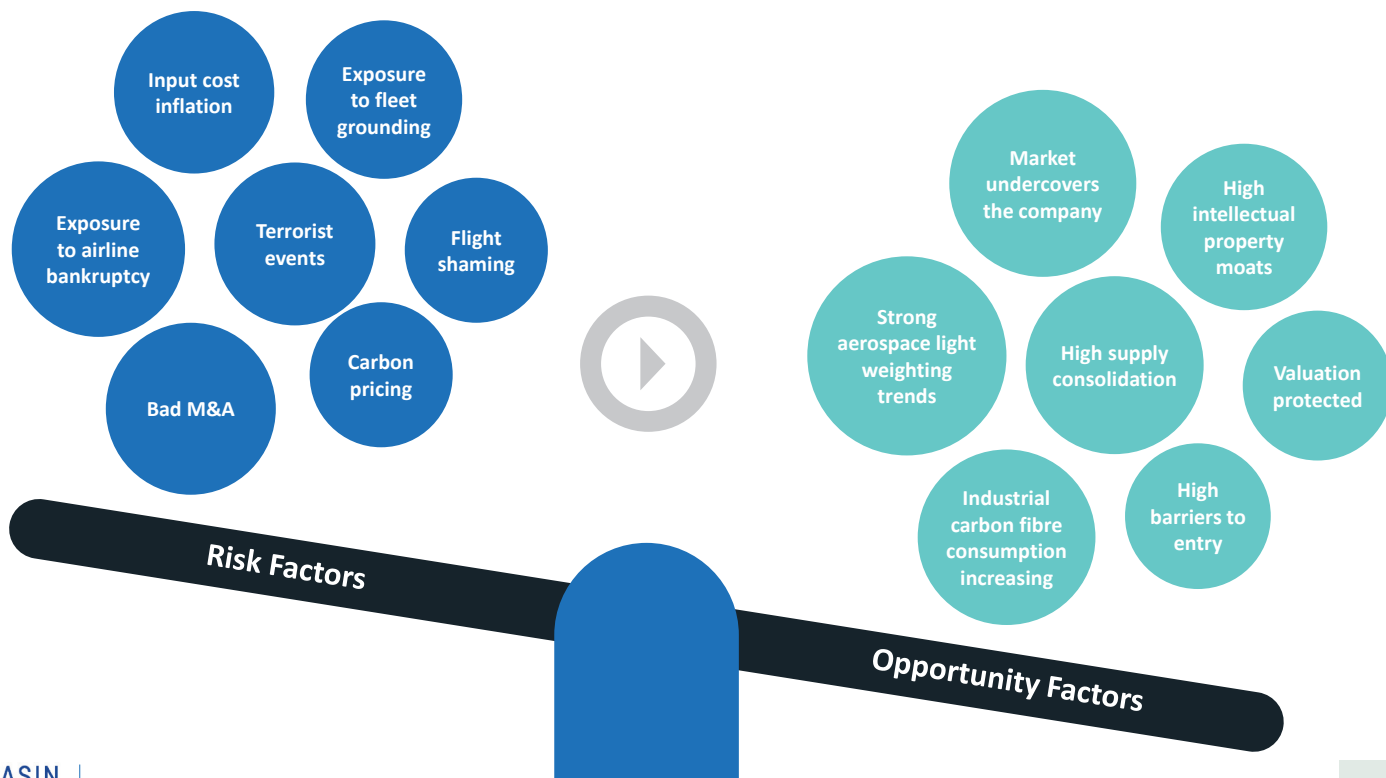
Factoring it into our models



Hexcel Corp Reported currency	USD m	FY18E Dec	FY19E Dec	FY20E Dec	FY21E Dec	FY22E Dec	FY23E Dec	FY24E Dec	FY25E Dec	FY26E Dec	FY27E Dec	FY28E Dec	FY29E Dec	FY30E Dec
Income statement														
Revenue		2,421	2,619	2,819	3,028	3,248	3,486	3,743	4,022	4,319	4,641			
Growth %		11.1%	7.7%	7.6%	7.4%	7.3%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.5%
Cash costs		(1,834)	(1,981)	(2,139)	(2,301)	(2,470)	(2,653)	(2,849)	(3,061)	(3,289)	(3,530)			
Growth %		8.7%	8.0%	8.0%	7.6%	7.4%	7.4%	7.4%	7.4%	7.4%	7.5%			
As a % of revenue		75.4%	75.6%	75.9%	76.0%	76.1%	76.1%	76.1%	76.1%	76.2%	76.2%			
EBITDA		588	639	690	726	778	824	884	944	999	1,059			
EBITDA margin		24.6%	24.4%	24.1%	24.0%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%			
Depreciation		(121)	(125)	(128)	(134)	(143)	(152)	(163)	(174)	(186)	(199)			
Growth %		0.5%	3.8%	2.3%	4.2%	6.7%	6.8%	6.8%	6.9%	7.0%	7.0%			
As a % of opening tangible fixed assets		6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%			
Amortization of intangibles inc. Goodwill (write-off) increase		(3)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)			
Growth %		-19.4%	-7.8%	-7.8%	-7.8%	-7.8%	-7.8%	-7.8%	-7.8%	-7.8%	-7.8%			
As a % of opening intangible assets		7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%			
EBIT		474	511	560	590	633	680	730	784	842	905			
Growth %		25.1%	7.7%	7.6%	7.4%	7.3%	7.3%	7.4%	7.4%	7.4%	7.5%			
EBIT margin		19.9%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%			
Interest expense (based upon start of year net debt)		(42)	(42)	(30)	(19)	(10)	(0)	11	23	36	51			
Interest rate on debt		4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%			
Profit before tax		436	471	530	571	623	680	741	807	879	959			
Tax		(95)	(104)	(115)	(127)	(138)	(151)	(166)	(178)	(193)	(210)			
Tax rate		22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%			
Profit after tax		332	368	415	444	485	529	576	629	686	749			
Growth %		21.6%	10.4%	12.6%	7.3%	9.2%	8.1%	9.0%	8.9%	8.9%	8.9%			
Net income		332	366	405	444	485	529	576	629	686	749			
Net income margin		13.6%	14.0%	14.4%	14.7%	14.9%	15.2%	15.4%	15.6%	15.6%	15.6%			
Dividends		(65)	(72)	(79)	(87)	(97)	(103)	(112)	(122)	(133)	(145)			
Growth %		22.3%	10.4%	10.6%	9.7%	9.2%	9.1%	9.0%	8.9%	8.9%	8.8%			
Dividends per share (USD)		0.67	0.73	0.81	0.89	0.97	1.06	1.16	1.26	1.37	1.48			
Growth %		22.3%	10.4%	10.6%	9.7%	9.2%	9.1%	9.0%	8.9%	8.9%	8.8%			
Dividend payout ratio vs EPS		17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%			
Retained earnings		272	301	332	356	388	426	474	516	562	614			
EPS (USD)		3.73	4.11	4.65	4.99	5.45	5.84	6.48	7.06	7.68	8.36			
Growth %		22.3%	10.4%	10.6%	9.7%	9.2%	9.1%	9.0%	8.9%	8.9%	8.8%			
Capex vs consensus		4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%			
Number of shares (m)		89	89	89	89	89	89	89	89	89	89			
Growth %		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
NOPLAT		369	397	428	459	493	529	568	610	656	704			
Growth %		25.1%	7.7%	7.6%	7.4%	7.3%	7.3%	7.4%	7.4%	7.4%	7.5%			
Reported profit after tax		332	366	405	444	485	529	576	629	686	749			
Reported EPS		3.73	4.11	4.65	4.99	5.45	5.84	6.48	7.06	7.68	8.36			

Full note & investment thesis

Balancing risks vs opportunities



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What does it mean?

Fair value, rating, ESG, skew

What does it mean?



Fair Value: \$85.00 | Rating: 2 | ESG Rating: C

SARASIN & PARTNERS

Sarasin Spring Seminars 2020

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