

AALBERTS NV Stock Analysis – Interesting Business Compounder

Here is the start of my search for value investing 10 baggers or more!

Aalberts stock analysis summary:

- **Just EUR 5 billion market capitalization on interesting niche business growth.**
- **Exposed to water, flow measurements, piping etc.**
- **Growth strategy organic and M&A, usually a good thing with niche businesses.**
- **Maybe high now, but is often volatile due to business cycles, then is the time to watch it.**
- **Can it be a 10 bagger? Yes, but more likely from the 20 EUR starting point we had in March 2020. To watch.**

AALBERTS NV Stock Price Analysis – AMS: AALB

Aalberts stock price (AMS: AALB) looks promising because when you see a long-term stock price chart that goes up, it is the first sign of a good business. The market cap is still just 5 billion EUR which means there is plenty of room for growth.

Aalberts NV

45,38 EUR

+0,33 (0,73%) ↑

3 May, 13:13 CEST · Disclaimer

AMS: AALB

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1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



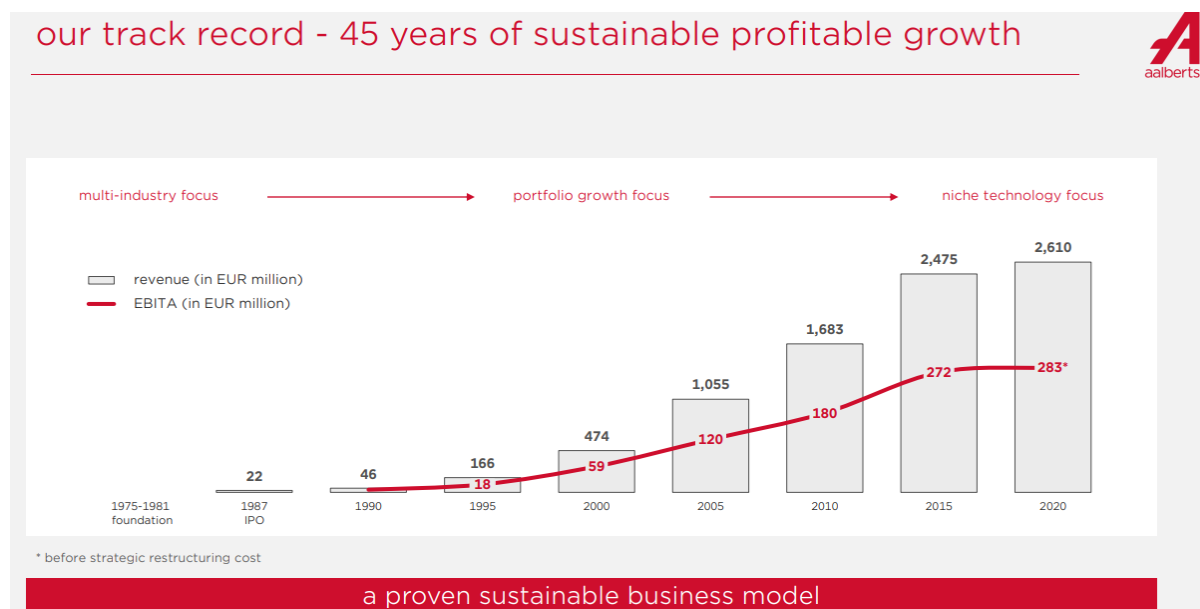
Open	45,20	Mkt cap	5,02B	Prev close	45,05
High	45,48	P/E ratio	42,87	52-wk high	46,30
Low	44,85	Div yield	1,32%	52-wk low	21,15

Aalberts stock price historical chart

However, the above chart also indicates the high volatility of the stock price. From 2007 to 2009 the stock crashed 75%, 30% in 2018 and more than 50% in the COVID flash crash of 2020.

The key to deal with such volatile stocks is to know the business well and understand it in depth. That is what will allow to strike when the market gives an amazing opportunity.

It is funny how the stock price actually follows the business development over the long-term, revenues have stagnated since 2015 and so did the stock since 2017. Let's see if the business can continue to grow as it did in the past through smart acquisitions as it is normal that all business growth comes in cycles. Also, acquisition often take time to create value but in niche businesses it is often smart to do them.



Aalberts stock analysis – historical business development – Source: [Aalberts IR 2020 Presentation](#)

To address the stagnation the company has started a restructuring plan that should lead to net income benefits in 2021.

operational excellence and portfolio optimisation

- we accelerated the action plan as presented during our Capital Markets Day
 - » focused, clustered and simplified organisation
 - » reduced overhead in all segments
 - » reduced net working capital structurally
 - » many projects implemented to optimise our operations
- strategic restructuring projects
 - » led to a one-off full year SRC of EUR 51 million in 2020
 - » annual benefit of approx. EUR 50 million, partly 2020, fully 2021
- further optimised portfolio following our divestment programme

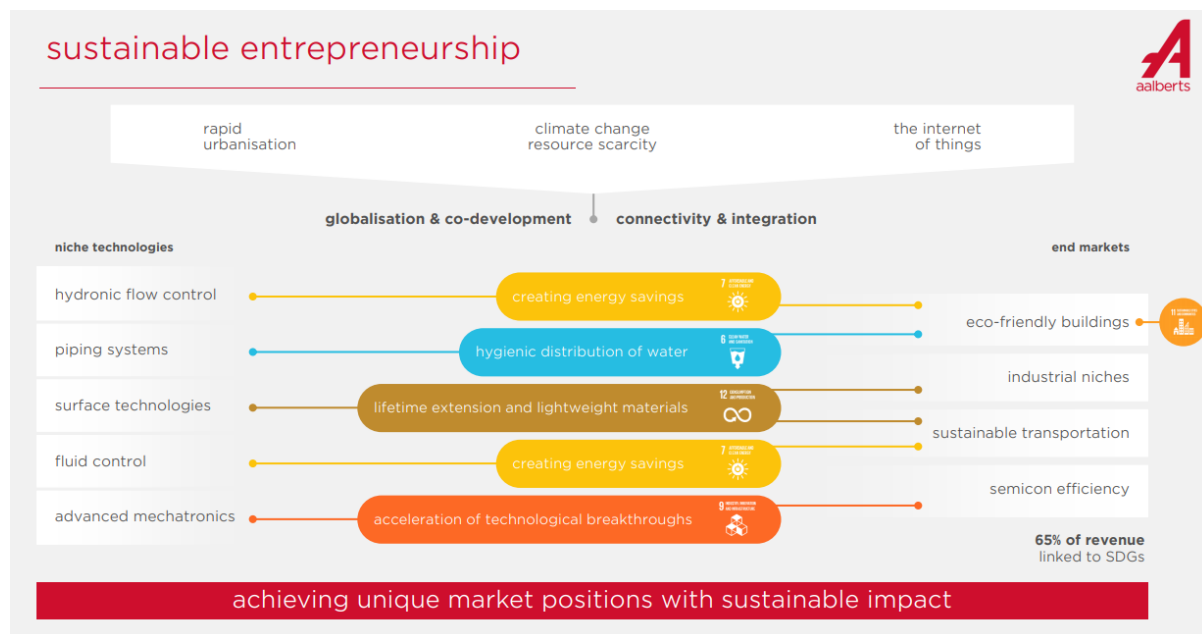
acceleration of the action plan as presented during Capital Markets Day

Aalberts stock analysis – restructuring – Source: [Aalberts IR 2020 Presentation](#)

Let's take a deeper look into the business.

Aalberts NV Business Overview

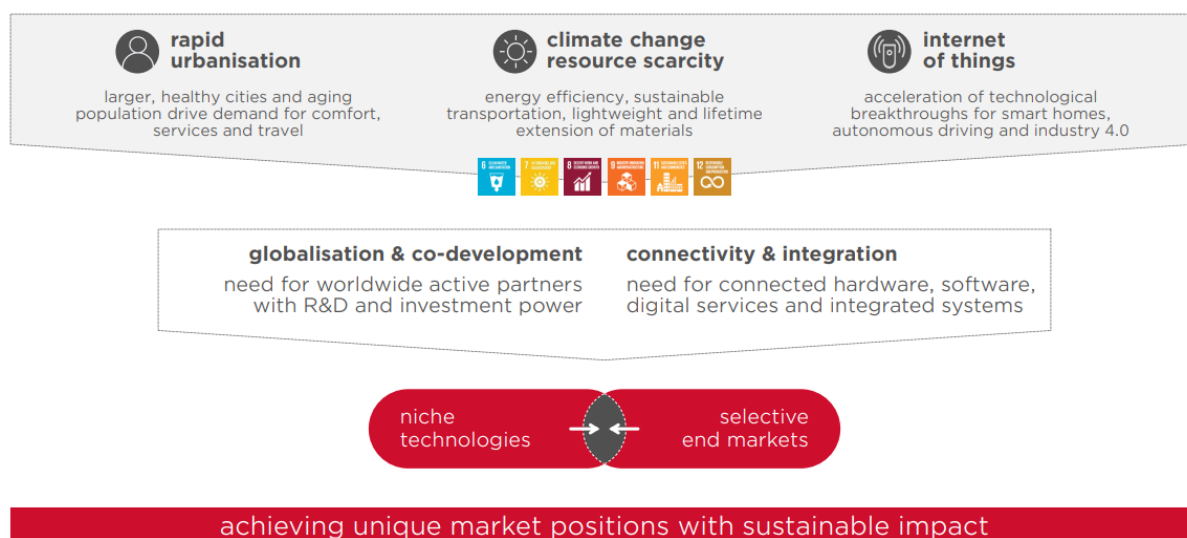
Aalberts is in business of piping systems, surface technologies, hydronic flow control, fluid control and advanced mechatronics.



Aalberts stock analysis – business exposure – Source: [Aalberts IR 2020 Presentation](#)

All these sectors are closely related to current megatrends like sustainability, water, ecology, urbanization and low CO2 emissions.

mega trends shaping our future



Aalberts stock analysis – sector exposure – Source: [Capital markets day](#)

The current business situation seems stable and improving after the COVID-19 pause.

overview end markets and regions



eco-friendly buildings

- recovered well from lower level 2Q
 - » due to innovations, reopening distribution channels, increase customer demand and inventory level
 - » continued in 2H
- orderbook increased to record level at year-end

sustainable transportation

- faced difficult circumstances 2Q due to customer shutdowns, inventory reduction
- after reopening customer locations, gradual recovery end of May for fluid control, followed by surface technologies
- 2H business further recovered due to increased demand and inventory level

semicon efficiency

- performed very well, strong growth
- new co-development projects initiated
- ended the year with record orderbook

industrial niches

- activities increased gradually in 4Q
 - » except for beverage dispense, worldwide lockdowns resulted in difficult market situation

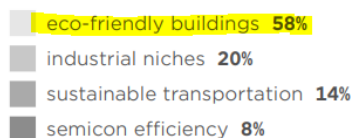
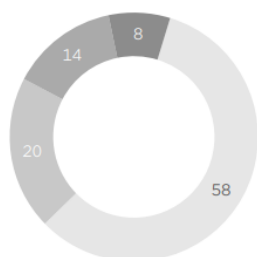
eco-friendly buildings and semicon efficiency record orderbook at year-end
sustainable transportation and industrial niches gradual recovery in 2H20

Aalberts stock analysis – business exposure – Source: [Aalberts IR 2020 Presentation](#)

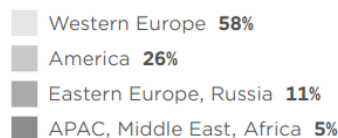
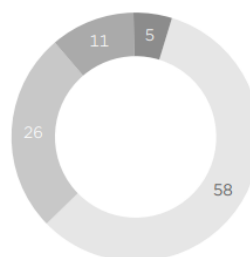
The revenue split is still largely from western Europe with 58% but there is also opportunity abroad as emerging market urbanization is big.

overview end markets and regions

revenue per end market (in %)



revenue per region (in %)



Aalberts stock analysis – revenue – Source: [Aalberts IR 2020 Presentation](#)

The piping segment looks positive.

organic growth, innovation and capital allocation

piping systems

- continued sales and capacity expansions of connection technology, including new innovations
- valve technology product lines expanded
 - » new patented full flow valve and balancing valve successfully launched
- start of digital piping design services with dedicated team
 - » engineer optimised integrated piping system
 - » number of projects strongly increasing
- alignment organisation utilising combined strength is making progress
- supply chain North America consolidated and optimised; Europe optimising new assembly and distribution centres
- reduction of working capital showed good results

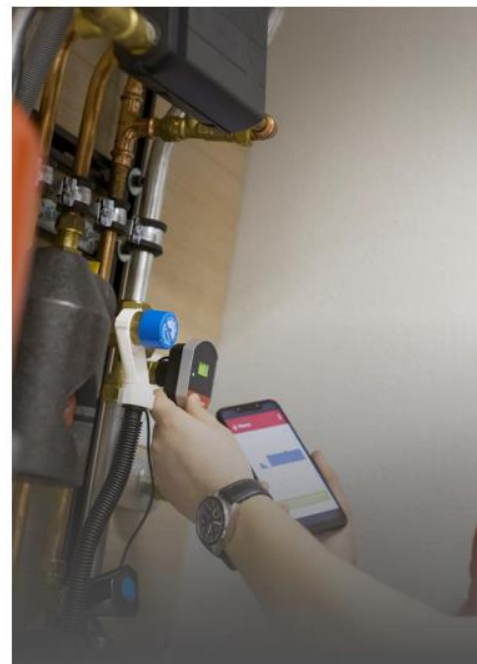


Aalberts stock analysis – piping – Source: [Aalberts IR 2020 Presentation](#)

Measuring flow, there is a new facility coming.

hydronic flow control

- continued implementation newly launched product lines, increased innovation rate
- scored many projects incl. long-term contracts for data information and remote control
 - » still a small part of revenue but fast-growing
 - » giving opportunity to gain more projects
 - » digital platform enables us to measure data to optimise energy efficiency for our customers
- digital marketing and R&D capacity strengthened
- strategy to align competence centres to unified focused organisation with less overhead accelerated
- new manufacturing, distribution facility in progress
- water supply and district energy performed well
 - » new composite gate valve for underground water and gas applications launched successfully
 - » expanded machining, assembly capacity full flow valve for district energy, eco-friendly buildings



Aalberts stock analysis – flow control – Source: [Aalberts IR 2020 Presentation](#)

advanced mechatronics

- excellent year, realising strong growth
- able to deliver service to our customers despite preventive measures we had to install
- many new co-development programmes were started, especially in our high purity fluid systems
 - » strongly expanding our engineering capacity
- vibration isolation activity expand facility further to facilitate growth
- within ultra-precision frames we are optimising operations after capacity expansions of last years, delivering record orderbook
- aligned organisation, creating focused strategy and culture with local entrepreneurship
- focus on specialised technologies, co-development projects in combination with our investment power, makes us well positioned for fast growth



Aalberts stock analysis – mechatronics – Source: [Aalberts IR 2020 Presentation](#)

The strategy of the business is in line with the past strategy that did relatively well for investors. They will continue focusing on organic revenue growth but also on acquisitions.

outlook

- we will drive our **organic revenue growth** and innovation initiatives and increase our capital expenditure
- we continue the strategic restructuring projects and inventory reduction programme and further improve our portfolio to realise our strategic objectives
- we will continue to strengthen our market positions and **niche technologies with bolt-on acquisitions**

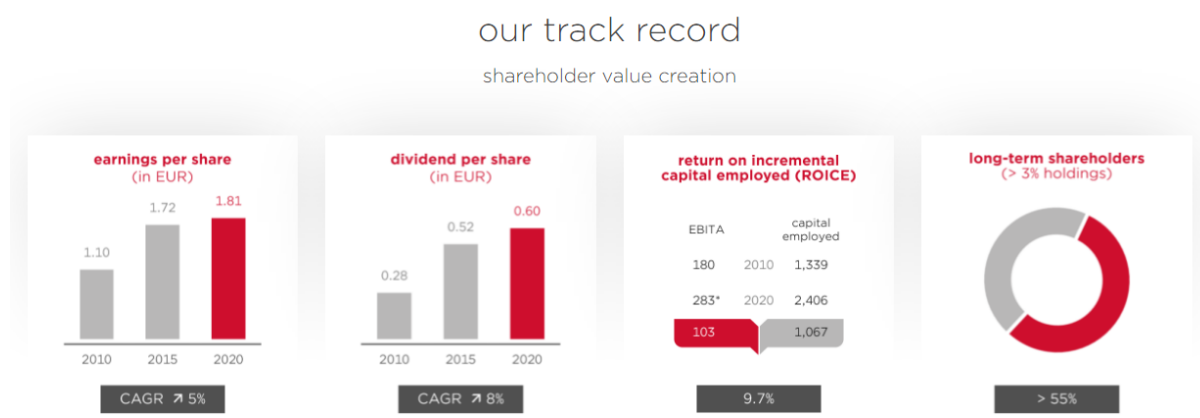


Aalberts stock analysis – business outlook – Source: [Aalberts IR 2020 Presentation](#)

All in all, an interesting business is a somewhat boring industry. I don't think there are many Harvard graduates that can't wait to go into the piping business. But boring industries and boring businesses are where Peter Lynch says we should look for our 10-baggers. Let's look at the fundamentals and make a valuation.

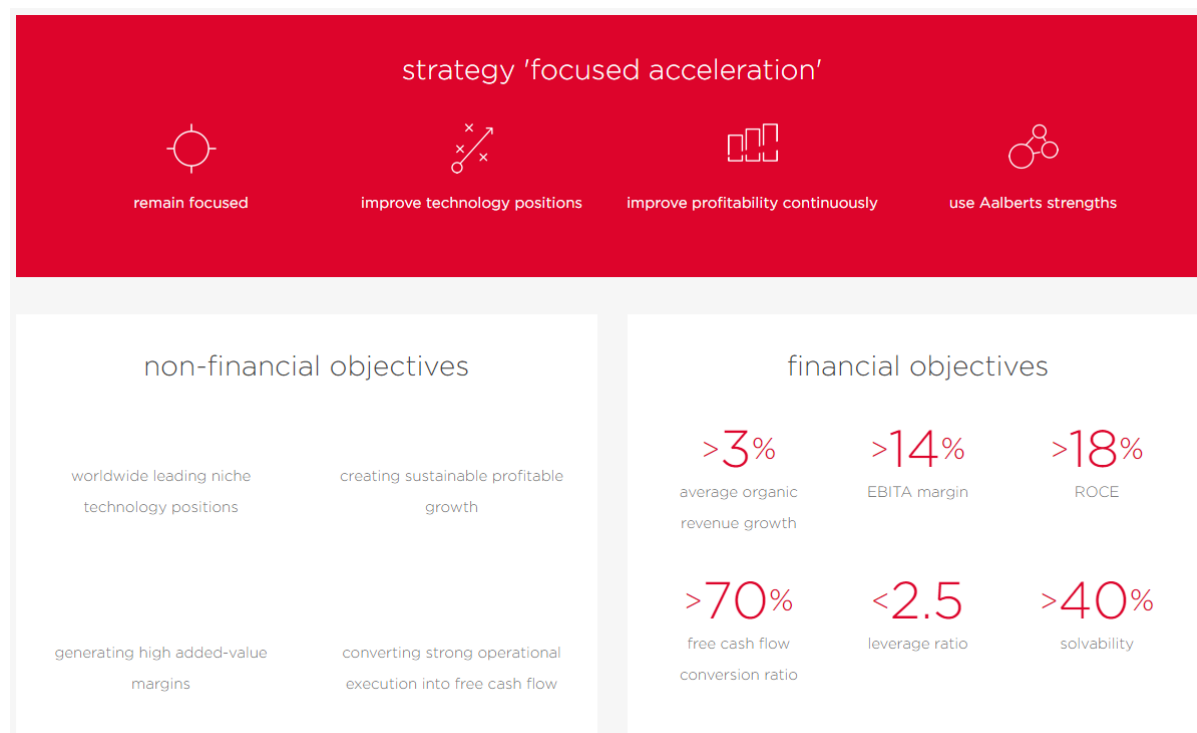
Aalberts NV Stock Analysis – Fundamentals

The company did really well over the past, they doubled the dividend over 10 years and if they do it again, that is already good.



Aalberts stock analysis – fundamentals – Source: [Aalberts IR](#)

Their objective is to have a return on invested capital of above 18%. If they can achieve that over the long-term, then 18% will likely be also the investment return from investing in Aalberts stock, that is how investing works. Of course, it is not easy to achieve ROIC of above 18%, but it makes it interesting to follow.



Aalberts stock analysis – financial objectives – Source: [Aalberts IR](#)

In 2020 revenues have declined as the world was blocked, but the company still made good profits and what is key; free cash flows of 339 million EUR. That leads to a 6.7% free cash

flow yield which is not bad for the economic circumstances in 2020. (me and the company have a different way of looking at cash flows – discussed below)

Aalberts highlights



revenue (in EUR million)	2,610 -8%	added-value (% of revenue)	61.6 2019: 62.8
EBITA (in EUR million)	283* -22%	EBITA % (% of revenue)	10.8* 2019: 12.8
net profit before amortisation (in EUR million)	200* -25%	earnings per share before amortisation (in EUR)	1.81* -25%
capital expenditure (in EUR million)	95 -36%	ROCE (before IFRS 16 in %)	12.5* 2019: 15.1

* before strategic restructuring cost

- o limited number of COVID-19 infections; continued operations in a safe way
- o revenue EUR 2,610 million; organic decline 7.0%
- o **orderbook at year-end 9.3% higher than last year**
- o EBITA amounted to EUR 283* million; as a % of revenue 10.8*
- o net profit before amortisation EUR 200* million; per share EUR 1.81*
- o **strong free cash flow of EUR 339 million**
- o net debt (before IFRS 16) reduced with **24% to EUR 444 million**
- o continued investments and innovations; capital expenditure EUR 95 million
- o acceleration strategy: one-off full year strategic restructuring cost of EUR 51 million with an annual benefit of approx. EUR 50 million

Aalberts accelerates strategy and continues investments and innovations

Aalberts stock analysis – 2020 financials – Source: [Aalberts IR 2020 Presentation](#)

They used that cash flow to lower long-term debt by 200 million and paying a dividend, that is something remarkable and the balance sheet doesn't look stretched at all.

condensed consolidated balance sheet



in EUR million	31.12.2020	31.12.2019
total non-current assets	2,263	2,383
total current assets	992	1,083
total assets	3,255	3,466
total equity	1,806	1,838
total non-current liabilities	588	793
total current liabilities	861	835
total equity and liabilities	3,255	3,466
net debt (before IFRS 16)	444	588
leverage ratio (before IFRS 16): net debt / EBITDA (12-months-rolling)	1.1	1.3
net working capital	399	490
days net working capital	55	61
solvability (total equity as a % of total assets)	55.5	53.0
return on capital employed (before IFRS 16)	12.5*	15.1

* before strategic restructuring cost (SRC)

net debt (before IFRS 16) reduced with 24%; leverage ratio reduced to 1.1

Aalberts stock analysis – balance sheet – Source: [Aalberts IR 2020 Presentation](#)

If I look at the actual cash flows, they managed to create 222 million EUR for shareholders when we adjust for interest costs, taxes and lease payments. That is a 4.4% yield, but still good considering the 2020 environment.

condensed consolidated cash flow statement



in EUR million	2020	2019	delta
EBITDA	379.3	493.4	(114.1)
result on sale of equipment / changes in provisions	12.5	(13.1)	25.6
changes in working capital	61.9	(15.2)	77.1
cash flow from operations	453.7	465.1	(11.4)
purchase of property, plant and equipment	(104.6)	(139.3)	34.7
purchase of intangible assets	(10.4)	(13.7)	3.3
free cash flow	338.7	312.1	26.6
finance cost paid	(22.2)	(20.2)	(2.0)
income taxes paid	(53.9)	(67.1)	13.2
acquisition/disposal of subsidiaries	(7.8)	(110.6)	102.8
change of non-current borrowings	(131.5)	(5.9)	(125.6)
lease payments	(38.2)	(34.7)	(3.5)
dividends paid	(88.5)	(82.9)	(5.6)
settlement of share based payment awards and other	(3.8)	(0.2)	(3.6)
net increase/(decrease) in cash and current borrowings	(7.2)	(9.5)	2.3

strong cash flow from operations

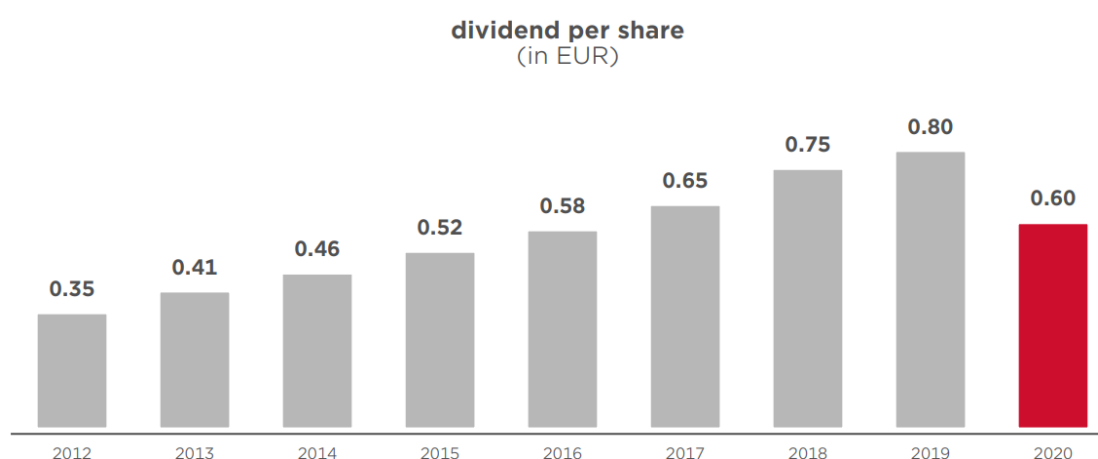
Aalberts stock analysis – balance sheet – Source: [Aalberts IR 2020 Presentation](#)

I feel that in good years these guys can make 300 million EUR in FCF which is something interesting and certainly gives room for dividend payments, especially as they are lowering the debt. When the debt is low, such M&A niche companies usually focus on making a new acquisition, that leads to higher revenue growth and higher dividends down the road.

Aalberts Dividend

Aalberts dividend has been steadily growing up till 2020. But when the cash flows return, I would not be surprised in higher dividends in 2021.

dividend proposal



we propose a cash dividend of EUR 0.60 per share (2019: EUR 0.80)

Aalberts stock analysis – balance sheet – Source: [Aalberts IR 2020 Presentation](#)

I will use the 0.8 EUR dividend as starting basis for my valuation as I think the company will be able to find the approximately 100 million necessary for that. Anyway, from a cash flow perspective, the dividend seems relatively stable, with declines in bad times when the management it seems does things conservatively.

Aalberts NV Stock Valuation – Dividend and cash flow

As the dividend is what they give me, I'll make first a valuation based on that, it keeps things simple and easy but of course isn't perfect.

The dividend valuation tells me the stock should crash 50% to give me a 10% return and some margin of safety. It might actually happen but the valuation is distorted because of the current low yield. If I apply the current low yield also to the future for AALB, the stock is fairly priced as we can see below in scenario 2.

		Terminal Value											Growth rate			
1																
2	AALBERTS	LINK														
3																
4		STOCK VALUE LIST!A1														
5	Scenario 1	Dividend	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	8%	next 5 years	
6	normal case	0.80	0.86	0.93	1.01	1.09	1.18	1.27	1.37	1.48	1.60	1.73	31.98	8%	5 to 10 years	
7		10%)	0.79	0.77	0.76	0.74	0.73	0.72	0.70	0.69	0.68	0.67	12.33	10%	Discount rate	
8		INTRINSIC VALUE											19.57	20.0	Terminal multiple	
9																
10													Terminal Value	Growth rate		
11	Scenario 2	Dividend	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	12%	next 5 years	
12	best case	0.80	0.90	1.00	1.12	1.26	1.41	1.55	1.71	1.88	2.06	2.27	82.57	10%	5 to 10 years	
13		10%)	0.81	0.83	0.84	0.86	0.88	0.88	0.88	0.88	0.88	0.88	31.83	10%	Discount rate	
14		Present value sum											40.43	40.0	Terminal multiple	
15																
16													Terminal Value	Growth rate		
17	Scenario 3	Dividend	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years	
18	worst case	0.80	0.84	0.88	0.93	0.97	1.02	1.07	1.13	1.18	1.24	1.30	18.62	5%	5 to 10 years	
19		10%)	0.76	0.73	0.70	0.66	0.63	0.61	0.58	0.55	0.53	0.50	7.18	10%	Discount rate	
20		Present value sum											13.43	15.0	Terminal multiple	
21																
22		Scenario	Probability	PV	Part											
23		Scenario 1 (normal case)	0.6	19.57	11.74											
24		Scenario 2 (best case)	0.2	40.43	8.09											
25		Scenario 3 (worst case)	0.2	13.43	2.69											
26				Sum	22.52											
27																
28	Disclaimer: This is just for educational purposes and not for investing advice!															
29																
30	MADE BY	STOCK MARKET RESEARCH PLATFORM														
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AALB stock valuation – dividend – Source: [Sven Carlin Research Platform](#)

For me it is risky to base my investment on the assumption that the market will still be happy with a dividend yield below 2% by 2030.

If I apply a free cash flow analysis, the 220 million in FCF amount to approximately 2 EUR per share of FCF. I add up the present value of the dividends by assuming a 45% pay-out ratio.

If FCF growth 8% per year and the terminal multiple on the FCF remains as the current is around 20, the intrinsic value comes to 31.64 EUR.

In the best-case scenario, we get close to 50 EUR, but the growth ahead has to be constantly in the lower teens, year in and year out, which is very hard and, in my view, the current price doesn't justify the risks.

AALBERTS		LINK											Terminal Value	Growth rate	
STOCK VALUE LIST!A1														2030	
Scenario 1	FCF PER SHARE	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	8%	next 5 years	
normal case	2.00	2.16	2.33	2.52	2.72	2.94	3.17	3.43	3.70	4.00	4.32	79.96	8%	5 to 10 years	
	10%)	0.09	0.09	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.07	30.83	10%	Discount rate	
	INTRINSIC VALUE	31.64											20.0	Terminal multiple	
Scenario 2	FCF PER SHARE	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	12%	next 5 years	
best case	2.00	2.24	2.51	2.81	3.15	3.52	3.88	4.26	4.69	5.16	5.68	103.21	10%	5 to 10 years	
	10%)	0.92	0.93	0.95	0.97	0.98	0.98	0.98	0.98	0.98	0.98	39.79	10%	Discount rate	
	Present value sum	49.47											20.0	Terminal multiple	
Scenario 3	FCF PER SHARE	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years	
worst case	2.00	2.10	2.21	2.32	2.43	2.55	2.68	2.81	2.95	3.10	3.26	46.54	5%	5 to 10 years	
	10%)	0.86	0.82	0.78	0.75	0.71	0.68	0.65	0.62	0.59	0.57	17.94	10%	Discount rate	
	Present value sum	24.97											15.0	Terminal multiple	
Scenario	Probability	PV	Part												
Scenario 1 (normal case)	0.6	31.64	18.99												
Scenario 2 (best case)	0.2	49.47	9.89												
Scenario 3 (worst case)	0.2	24.97	4.99												
	Sum	33.87													

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AALB stock valuation – dividend – Source: [Sven Carlin Research Platform](#)

But, if the stock crashes 50%, and we have seen that it is possible for it to happen, this could be an interesting opportunity. It goes on my watch list and then if it ever does reach my conservatively measured intrinsic value, I will take a deeper look.

Aalberst NV Stock Investing Risk & Reward

For now, AALB is a bit exuberantly priced as the stock price reflects my intrinsic value calculation that I get in an exuberant scenario. This means that the upside is limited while the risks are high. It is not a situation I like to be in.

Also, from a business perspective, I am aiming at higher returns than a 1.7% dividend yield. Even if the dividend growth 8% every year, by 2030 my yield on cost would just be 10% which is again risky.