

ASSA ABLOY

Sweden

Manufacturing & Services/Security

BUY

February 2, 2015

Company description

Formed in 1994, currently with a staff of 43'000 employees, Assa Abloy is the largest global supplier of intelligent **lock and security** solutions with leading positions in areas such as access control, identification technology, entrance automation & hotel security.

Assa operates in mature and **emerging markets**, with an overweight in the European market with a sales share of 44%, followed by N. America(32%), Asia(17%),Australia(4%), S. America(2%) and Africa(1%).

Its main **competitors** are Ingersoll-Rand (USA), Stanley Black&Decker (USA), Dorma (Germany), Kaba (Switzerland) and Hörmann (Germany).

The Group is divided in two divisions: the **Regional** division which manufactures and sells mechanical and electromechanical locks; and the **Global Technology** division which comprises three departments: 1)Secure Identification, which is divided in: a) Biometrics, b) Government ID (green cards, national ID, passports), c)RFID (tracking of bags, animals, etc.) and d) Digital readers, 2)Access Control (digital door locks) and 3)Hospitality.

Assa's business strategy is based on innovation, organic

Recent developments

11 Dec 2014: Assa acquires Digi Electronic Lock (620 employees), the leading digital door lock manufacturer in China. Keylock is the leading brand in China for digital door locks with a comprehensive product range for the mid to low segments.

01 Dec 2014: Assa signs an agreement to acquire DDIS Limitada (240 employees), a leading supplier of locks, padlocks and steel doors to the Chilean market.

07 Nov 2014: Assa Abloy's Mobile Access Solution debuts at select Starwood Hotels around the world. It uses standard mobile device technologies to create a solution that is universally accessible, easy to deploy, and simple to manage.

Upcoming events:

05 Feb. 2015: Release of Year-end Report 2014

Investment conclusion

With 29% of total sales (44% of lock sales) now comprising electromagnetic and digital locks, we believe that Assa is in a good position to capture organic growth through conversion from mechanical to more advanced solutions (Entrance Automation).

We believe Security Doors are set to grow slightly faster given the large exposure to inland in China. Global Technologies will grow fastest, with Biometrics, Government ID and mobile hotel locks growing specially fast, with the main improvement in Entrance Automation. While mechanical locks in the developed countries are likely to decline.

Acquisitions are an embedded part of Assa's strategy with 200 companies being now part of the group since its inception. Through strong cash generation, Assa has been able to add 11% p.a. in acquired growth in 1994-2014 and 9% in 2010-14. Looking ahead, we believe it is fair to assume acquisitions will add 5-7 p.p. to sales and 4 p.p. to EBIT.

In conclusion we believe Assa has valuation potential and we expect the share to continue to perform in mid and long-term.

Performance



	1m	3m	12m
Absolute perf.	8.9%	15.9%	38.9%
OMX Stockholm	7.7%	12.6%	22.6%
30 Index perf			

Market data

Share price (SEK), as of feb 2, 2015:	448.7
52-wk range:	313.2-456.4
Mkt cap (SEK m):	168'073.2
Nb of shares issued:	351.68m
Bloomberg ticker:	ASSAB:SS
Isin:	SE0000255648

Financial summary (In mio SEK) & Valuation

	2012	2013	2014e	2015e
Sales	46'619	48'481	56'558	63'848
Op. Income	7'431	6'831	9'115	10'498
Net Income	5'158	4'772	6'347	7'530
EPS	7.64	7.22	7.82	9.23
DPS (per SEK)	5.1	5.7	6.3	7
Div. yield (%)	2.1%	1.7%	1.5%	1.5%
P/E	17.42	26.30	26.23	22.33

Source: Bloomberg

Equity rating—Bloomberg consensus

		Nb of analysts
Buy	26.9%	7
Holds	57.7%	15
Sells	15.4%	4