Linde PLC is the largest industrial gas company worldwide, and its primary products are atmospheric gases (oxygen, nitrogen, argon, and rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty gases, and acetylene). The business was formed through the merger of Praxair and Linde AG in 2018. Approximately two-thirds of Linde's business consists of contractual fixed payments to resilient end-markets.

Highlights:

Name	Ticker	Yield	Growth	D + G
Linde plc	LIN	1.31%	10.00%	11.31%

Linde, the largest industrial gas company worldwide, is well-positioned in the blue and green hydrogen industries, expecting this business to quadruple over the next decade. Their business model, which includes passing inflation onto customers and contractual fixed payments, provides significant protection during economic downturns. Despite potential risks from weak demand and sluggish volume growth, we believe Linde's solid capital allocation, clean-energy projects, and growth in the hydrogen sector make it a resilient investment.

Bull Case:

- ***Price/Cost Productivity Provide Margin Insulation*** - LIN continues to see strong merchant pricing across all regions, even as variable costs moderate. We think this drove most of the YoY expansion in operating margin. LIN was asked multiple times about price momentum going forward, and we believe the company is carefully monitoring local conditions to ensure prices can outpace rising costs. We were particularly pleased with operating margin performance in the EMEA region, which was up 3.5% YoY on better price/cost and ongoing focus on cost structure.
- ***Hydrogen Growth Driven by Decarbonization* -** Linde is considered one of the leading companies in both the blue hydrogen and green hydrogen sectors. According to their management, they currently generate more than $2 billion in hydrogen sales, accounting for approximately 6% of their group sales, and they expect this business to quadruple over the next 10 years.
- ***Clean Energy Tailwinds* -** Linde has achieved significant success in securing and advancing numerous clean-energy projects in recent years. Through these projects, Linde is assisting its customers in decarbonizing their operations and transitioning to more sustainable practices. Looking ahead, the total opportunities in this space are projected to surpass $50 billion over the next decade. These opportunities, along with the backlog of projects that Linde has already secured, serve as a substantial cushion against future macro uncertainties. They provide a solid foundation for Linde's future growth and stability in an evolving market focused on clean energy solutions.

Bear Case:

- ***Slowing Volume Growth*** - LIN saw overall volumes down 1% YoY, with some weakness showing up in chemicals and electronics. Some of the chemical's weakness was related to US Gulf Coast customer turnarounds, and should recover in 2H. European chemical customers are likely to remain soft, though we note these are typically on-site customers subject to take-or-pay minimums. On the electronics front, wafer starts are expected to trough in Q2 (or perhaps Q3), which we believe is leading to some softness in consumables, pulling sales to this end market down 2% sequentially. Key customer TSMC could experience some delays in new fab start-ups, but we note meaningful gas volumes are still needed during the ramping phase, and much of this volume is related to on-site contracts.
- ***Weak Demand from On-Site Customers* -** Many on-site customers are adapting their operations to accommodate slower economic conditions. On-site customers make up approximately 26% of the group's revenue. The contracts for on-site product supply are typically long-term agreements spanning 10-20 years, with minimum purchase obligations and provisions for price escalation. Consequently, while volume growth may be impacted, we believe that the challenges can be managed effectively due to the minimum purchase requirements and price provisions in place.
- ***Sluggish EMA Growth* -** Considering the weak economy in Europe, it is not surprising to observe some softness in Linde's EMEA volumes, particularly in the on-site business segments like chemicals and energy sectors. However, there has been a slight improvement in the on-site business for Linde. On the other hand, the Merchant and Packaged Gas markets have remained relatively stagnant, as this segment is more closely tied to overall industrial activities in Europe.

Overall Thesis:

LIN continues to leverage productivity initiatives, new projects, and pricing to drive bottom-line growth. We are increasingly excited about Clean Energy opportunities, where LIN has potential to expand its presence in carbon capture and blue/green hydrogen. We believe the company is focused on driving improving returns and disciplined capital allocation, with LIN's strong balance sheet and cash flow funding organic and inorganic growth opportunities while returning substantial cash to shareholders.

We remain attracted to Linde's ability to grow earnings following the Praxair/Linde merger and see upside to synergies and increased pricing power. We also believe Linde is attractively valued at current prices given its defensible business model.