OUR BUY-RATED GLOBAL STOCKS

The favoured ten for private clients

Radhika Singla/Kevin McKay

After examining our analysts' buy-rated global stocks, we have identified ten of them which we particularly like over the next 12 months or so for private clients:

- **ASML Holding NV (ASML.NA):** ASML Holding is a Dutch multinational company that develops, manufactures and markets photolithography projection systems used in integrated circuit semiconductor manufacturing. ASML has grown rapidly to become the world's third largest semiconductor equipment company and the largest manufacturer of photolithography scanner systems. The company's product portfolio includes lithography systems, metrology and inspection systems and refurbished systems. Its computational lithography and patterning control software solutions enable customers to attain high yield and better operational performance. ASML's products cater to logic chip manufacturers, foundries, and NAND-flash memory and DRAM memory chip makers. The company markets, sells and services its products through a network of facilities, and service and technical support specialists. It has a business presence in Asia, Europe and the US.

  We see ASML as being well-placed for steady growth after the company upgraded its targets out to 2030. The company also intends to conduct a share buyback of EUR12 billion through to year-end 2025, which should also benefit EPS. ASML has delivered a confident message for future growth with insights into enhanced demand and wafer capacity expansion plans over the next few years. Our strong conviction in ASML is also supported by faster digital transformation trends and increased demand on the back of the rise of Artificial Intelligence of Things (AIoT). We rate ASML a BUY on the basis of its longer-term earnings power and free cash flow (FCF) generation profile, while also being supported by its share buyback program.

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- **Beiersdorf AG (BEI.GR):** Beiersdorf is a multinational company that manufactures and retails personal-care products and pressure-sensitive adhesives. The firm operates through two segments: Consumer and Tesa. The Consumer segment concentrates on the international skin and body care markets, while the Tesa segment manufactures self-adhesive products for the healthcare industry and adhesive solutions for industrial customers. Beiersdorf's brands include some household names such as: Nivea, Elastoplast, Eucerin, Labello, La Prairie, and Tesa. It has a business presence across Europe, North America, Latin America, Africa, Asia and Australia. Beiersdorf is headquartered in Hamburg, Germany.

  We see Beiersdorf as a high quality market leader in skin care products and adhesive product solutions. We expect the company to continue to achieve steady growth in both its Consumer and Tesa segments, especially if recessionary risks increase in 2023. We see core brands like Nivea, La Prairie and Elastoplast as being standout growth performers in the group's portfolio. This should help Beiersdorf remain a solid defensive play into 2023 and beyond. We recommend Beiersdorf as a Buy on the basis it ticks the right boxes as a defensive/growth stock suitable for weathering difficult economic conditions.

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- **Compass Group PLC (CPG.LN):** Compass Group is the largest contract catering company in the world providing food and support services across 40 countries and 55,000 client locations worldwide. The group employs over 500,000 people and provides food and facilities management services to a wide range of clients including corporates, schools, hospitals, leisure facilities, and remote sites.

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The group's focus on food is leveraged to strong strategic trends around outsourcing and catering services. The food business is an attractive vertical where customers are more focused on quality and correspondingly less on price. We therefore view Compass as a beneficiary of the low-cyclicality nature of the food industry along with rising nutrition and general health awareness trends. The group also has proven its operational capabilities by delivering steady margin improvements in spite of high levels of new business deployments and increasing inflationary pressures. In addition, we also see the potential for further capital returns with an estimated £1.85 billion of excess capital as at September 2023 or possible larger bolt-on acquisitions. In our view, Compass Group is a quality defensive growth play that should benefit from operational efficiencies and strong organic growth.

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- **Johnson & Johnson (JNJ.US**): Johnson & Johnson is a multinational pharmaceutical company and market leader in the development, manufacture, and sale of products in the healthcare field. It operates through three main segments: Consumer Health, Pharmaceutical and MedTech. The Consumer Health segment includes products used in baby care, oral care, beauty, over-the-counter pharmaceuticals, women's health, and wound care markets. The Pharmaceutical segment focuses on therapeutic areas such as immunology, infectious diseases, neuroscience, oncology, pulmonary hypertension, cardiovascular and metabolic diseases. The MedTech segment offers products used in the orthopedics, surgery, cardiovascular, neurovascular, and eye health fields. Many of the company's brands carry the Johnson & Johnson name, such as Johnson & Johnson baby oil and Johnson & Johnson cotton buds for example. Other household names include bands like: BAND-AID, Listerine, Aveeno, Nicorette, Tylenol, Benadryl and Sudafed.

Johnson & Johnson is the largest pharmaceutical company in the world and it is delivering consistent growth through each of its three franchises. JNJ believes its Consumer Health segment should continue to benefit from strategic price increases, while Pharmaceutical should deliver above market operational sales growth as it marches towards its goal of US$60 billion by 2025. In addition, the recent acquisition of Abiomed sees JNJ execute on its strategy to invest in faster growing areas of MedTech, which will augment its Biosense Webster Electrophysiology franchise. All up, JNJ's market strength across all three of its franchises makes it an ideal defensive/growth play over the next few years.

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- **MercadoLibre (MELI.US):** MercadoLibre hosts the largest online e-commerce and payments ecosystem in Latin America with over 400 million active users. Latin America is a region with a population of over 650 million people and it has one of the fastest-growing internet penetration rates in the world. MELI is an internet-based platform that offers a user-friendly interface to match buyers and sellers, while collecting commissions on transactions concluded on its platforms across 18 countries including: Argentina, Brazil, Mexico, Colombia, Chile, Venezuela and Peru.

  MercadoLibre's main focus is to deliver compelling technological and commercial solutions that address the distinctive cultural and geographic challenges of operating an online e-commerce and payments platform in Latin America. We see this company as being very well-placed in this region to achieve those goals. In addition, MELI's various businesses continue to report solid growth and improved operating leverage while benefiting from strong consumer demand trends post-COVID. The company is also focused on increasing market share by investing heavily in the logistics/shipping network, while also enhancing its fintech business and further monetising its heavy user traffic via advertisements. We see MELI as a long-term growth story.

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- **Novo Nordisk (NOVOb.DC):** Novo Nordisk is a leading Danish healthcare and life sciences company specialising in treatments for diabetes, obesity, NASH haemophilia, CVD, and other growth disorders. Novo Nordisk employs 50,000 people in 80 offices globally and markets its products in 170 countries. It is the world's leading supplier of insulins and GLP-1s and notably exhibits stellar good laboratory practices in the fields of diabetes and obesity. Novo aims to further enhance its research and development (R&D) expertise in biologics and develop innovative therapeutics particularly in the area of hemophilia, obesity, NASH, and most recently, Alzheimer's disease.

Novo Nordisk has a growing and progressing pipeline of developing drugs including cagrilintide, Mim8, ziltievikizumab, and Alzheimer's semaglutide. We view its CagriSema and oral amycretin drugs as the most promising diabetes/obesity pipeline assets providing earnings visibility beyond 2035. We also see the Lilly/Novo GLP-1 duopoly continuing, with significant potential to provide expansion opportunities and further market penetration. All up, Novo Nordisk offers a superior and sustainable growth profile supported by its best-in-class diabetes care portfolio, a promising drugs pipeline, and innovative R&D.

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- **Pernod Ricard (RI.FO):** Pernod Ricard is the world's second-largest wine and spirits company engaging in the manufacture and wholesale of wines, spirits, and non-alcoholic beverages. The group generated sales revenue of an impressive €10.7 billion in FY22 via its comprehensive portfolio of over 200 premium brands available in 160 countries. About 40% of its profit comes from Asia, just over 33% from the Americas (of which the US is more than 20%), and the remaining 27% from Europe. Pernod Ricard's portfolio of brands has some well-known global names including Mumm, Chivas, Jameson, The Glenlivet, Malibu, Ballantine's, Absolut, Campo Viejo, Jacob's Creek, Brancott Estate,100 Pipers, Royal Stag, Kahlúa, and many more.

Since the COVID pandemic, there is a notable market shift in consumer trends towards convenience. This 'at-home' wine and spirits consumption is driving higher demand and margins compared to 'on premise' consumption. We believe that Pernod's breadth of portfolio and distribution capabilities positions it well to capitalise on this shift. In addition, the company's pricing power should allow it to defend margins in the face of current inflationary pressures. All up, we believe that the spirits industry, and Pernod Ricard in particular, offers investors an exposure to some of the highest organic sales and earnings growth in the beverages sector.

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- **Rentokil Initial (RTO.LN):** Rentokil is the world's largest pest control company offering the broadest and most advanced range of pest control solutions and services globally. It operates in over 80 countries across 1,800 local branches and employs over 19,000 qualified pest control specialists. The company through its various subsidiaries provides fully integrated facilities management and essential support services to government and commercial organisations across various markets including food processing, pharmaceutical, hospitality, retail, healthcare, education and residential sectors. Rentokil's services include pest control, hygiene, linen supplies, workwear, facilities management, and plants maintenance and rentals services worldwide.

Rentokil recently acquired Terminix Global Holdings, which is a leading US-based pest control company. This acquisition will further increase the combined-entity's market share and expand its global footprint to provide operational efficiencies and economies of scale. In this regard, we feel confident that Rentokil can significantly outperform management's synergy target of US$150 million, possibly doubling to US$300 million in synergy efficiencies over the next two years. Furthermore, its 'man in the van' businesses have a very strong focus on driving incremental volumes across its fixed costs by maximising sales and service productivity. All up, Rentokil's portfolio mix of defensive and resilient businesses provides strong cash flow generation and good organic growth opportunities along with earnings accretive acquisitions.

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- **Visa Inc (V.US):** Visa is the world's largest retail electronic payments network offering advanced technology to authorise, clear, and settle transactions for customers, businesses, and institutions across more than 200 countries. It provides financial institutions with product platforms including credit cards, debit cards, prepaid cards, and cash access programs. Its proprietary network, VisaNet, seeks to offer products and services that enables money movement ubiquity. In addition, Visa also offers consulting and analytics, fraud management and security services, merchant solutions, processing capabilities and other digital services.

This global payment-processing giant has a resilient business model underpinned by its dominant market position, barriers to entry, pricing power, operating leverage potential, and secular growth tailwinds, e.g. the global shift to electronic payments, digital commerce, emerging payments channels and B2B growth. We expect Visa to continue its growth trajectory by further capitalising its fintech partnerships, expanding its digital cashless technologies, and strengthening its innovative payment offerings. All up, Visa is a long-term growth story that is well set-up to deliver healthy double-digit earnings growth over the next few years.

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- **Vulcan Materials Company (VMC.US):** Vulcan Materials manufactures and supplies construction aggregates (crushed stone, sand and gravel) as well as aggregates-based construction materials (asphalt mix and ready-mixed concrete), primarily in the U.S. VMC is the nation's largest producer of construction aggregates, operating more than 350 active facilities across 20 American states. Aggregates and aggregates-based materials are used in nearly all forms of construction. In particular, large quantities of aggregates are used to build and repair infrastructure, such has roads, bridges, waterworks and ports, and to construct buildings both residential and non-residential. VMC's coast-to-coast footprint and strategic distribution network align with and serve the nation's growth centres.

As America's largest producer of aggregates, Vulcan is well-positioned to benefit from construction growth associated with the US$1.2 trillion infrastructure bill passed by the U.S. government in November 2021. This government spend should provide VMC with a tailwind for revenue growth while EBITDA margins also expand on strong operating leverage primarily due to strong pricing power. Aggregates are essential in infrastructure and construction and with superior operations and distribution systems, strong operating leverage and proven expertise, we feel VMC's prospects for growth are materially enhanced over the next few years.

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Note: refer to our latest company research and contact your adviser for more information

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