

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

BASF SE

The origins of the world's largest chemical company BASF go back to 1865, when the Mannheim entrepreneur Friedrich Engelhorn founded Badische Anilin- & Soda-Fabrik AG together with eight other partners. His discovery that profits can be significantly increased by putting the entire production process from raw materials to finished product in one place remains a distinguishing feature of BASF to this day. Twelve divisions grouped into six segments manage 54 global and regional business units and develop strategies for 86 product areas at 6 'Verbund' sites, 355 production sites and 70 research locations, serving customers worldwide and in virtually all sectors. Consequently the Group, which generated sales of €63 billion and operating earnings (EBIT) of €6 billion in 2018, is dependent on the general economic situation. However, BASF is not a pure cyclical play. Even in the crisis year of 2009, it achieved an operating profit of €4 billion. Thanks to sound financing, debt service is low, allowing BASF to pursue an ambitious dividend increase policy. A distribution of €2.9 billion, or €3.20 per share, is planned for May 2019. This corresponds to a dividend yield of 5%. The stock market valuation is currently only €62 billion. Low water levels on the Rhine, the downturn in car sales and the US trade dispute led to a decline in profits in 2018. Things are expected to pick up again in the course of 2019. In November 2018, the new CEO Martin Brud-

ermüller gave the Group a new strategic orientation with leaner structures, greater customer proximity and improved productivity.

There are two further reasons for our purchase: BASF subsidiaries Wintershall and DEA are currently in the process of merging to form Europe's largest independent gas and oil producer. BASF will own 73% of the shares in the joint venture, ahead of the value-enhancing flotation scheduled to take place in the second half of 2020. Wintershall's earnings after tax of €0.8 billion are now only shown separately as discontinued operations in BASF's earnings after tax. Revenues of €4 billion and EBIT of €2 billion are no longer included in the figures. Furthermore, BASF is the hidden winner from Bayer's controversial takeover of Monsanto. Bayer was obliged to divest parts of its agricultural business. BASF made a timely move and now has a competitive and fast-growing agricultural chemicals business with sales of €6 billion. The portfolio includes Liberty Link, a product developed by Bayer which competes with Monsanto's Roundup weed killer. While Bayer bought itself an avalanche of lawsuits, industry experts say that Liberty Link is the more effective product and is sure to generate higher returns. Experts are already forecasting sales of €0.5 billion, strong growth and a 40% profit margin.

Sincerely yours



J. Henrik Muhle



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