

CNH Industrial NV

Case for Case: Story starting to come together

Reiterate Rating: BUY | PO: 15.50 USD | Price: 12.55 USD

Buy: idiosyncratic drivers beyond ag cycle coming through

In our view, the positive thesis on CNHI is starting to bear fruit: Ag EBIT margin up 50bps YoY on a sales decline of 8% YoY, implied decremental of ~20% in a volume downturn due to cost savings, no longer dual listed, FCF guidance of \$1.2-1.4bn with industrial net debt free and a low multiple. In our view, the Q4 result & outlook look relatively positive in light of other farm equipment OEMs (so far) around margins and dealer inventory management. There are still headwinds to CNH from the ag cycle (dealer inventories, weak farm income, risk of another down volume year in 2025), yet CNH is likely to emerge with stronger EPS power on the other side of the cycle. Buy.

2024 guide positive: took pain early + cost savings help

CNH expects net sales of industrial activities to be down -12% to -8% YoY. Adj EPS is expected to be in the range of \$1.50-\$1.60, in-line with cons of \$1.53. While the top line outlook of a downturn is in line with industry expectations, the EPS decline in 2024 is less severe (down 6-12% YoY) due to i) CNH likely took some pain in 2023 to manage inventories earlier, ii) cost savings: \$550mn of cost reductions by 2024 and plan to reduce SG&A by 10% to 15%, by the end of 2025. That said, '24 guide is a bit of a 'hockey stick' given weaker 1H (tackling inventories) vs 2H (cost savings show up).

Investor day: new targets, next step in the CNH story

CNH expects to host an investor day in May 2024. CNH reached its margin targets a year early – Ag 14.5-15.5% by 2024 (FY23 15.1%), Construction 5.5-6.5% by 2024 (FY23 6.1%) – that did not factor in much of its cost savings programs. CNH indicated that the ag cycle likely does not step down much further and perhaps flatlines going forward. After years of blocking & tackling (dual listing, supply chain, strikes, etc), we are curious what CNH EPS power (and incremental margins) look on the other side of the cycle.

Balance sheet a bit underrated post 'blocking & tackling'

In our view, the balance sheet more intriguing – industrial net debt free, expecting to generate \$1.2-1.4bn of FCF, trading at a significant discount to peers – as CNH is emerging as a cleaner story. We raise our estimates following Q4 and raise our PO to \$15.5 (\$13.50) keeping our valuation methodology intact (10x 2024 EPS).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.47	1.71	1.55	1.60	1.75
GAAP EPS	1.50	1.76	1.55	1.60	1.75
EPS Change (YoY)	14.8%	16.3%	-9.4%	3.2%	9.4%
Consensus EPS (Bloomberg)			1.53	1.56	1.61
DPS	0.30	0.40	0.40	0.40	0.40
Valuation (Dec)					
P/E	8.5x	7.3x	8.1x	7.8x	7.2x
GAAP P/E	8.4x	7.1x	8.1x	7.8x	7.2x
Dividend Yield	2.4%	3.2%	3.2%	3.2%	3.2%
EV / EBITDA*	7.9x	7.0x	8.0x	7.8x	7.2x
Free Cash Flow Yield*	9.1%	8.8%	11.4%	9.9%	10.7%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 15 February 2024 05:30AM EST

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	13.50	15.50
2024E Rev (m)	20,194.3	19,911.3
2025E Rev (m)	20,790.2	20,500.9
2026E Rev (m)	NA	21,346.1
2024E EPS	1.35	1.55
2025E EPS	1.45	1.60
2026E EPS	NA	1.75
2024E DPS	0.14	0.40

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Stock Data

Price	12.55 USD
Price Objective	15.50 USD
Date Established	15-Feb-2024
Investment Opinion	B-1-7
52-Week Range	9.77 USD - 17.06 USD
Mrkt Val (mn) / Shares Out (mn)	16,742 USD / 1,334.0
Free Float	66.5%
Average Daily Value (mn)	179.51 USD
BofA Ticker / Exchange	CNHI / NYS
Bloomberg / Reuters	CNHI US / CNHILN
ROE (2024E)	34.4%
Net Dbt to Eqty (Dec-2023A)	7.6%
ESGMeter™	High

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CNHI: CNH Industrial

OEM: original equipment manufacturer

iQprofileSM CNH Industrial NV

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.4%	15.0%	11.6%	11.3%	11.4%
Return on Equity	46.7%	45.6%	34.4%	30.6%	27.3%
Operating Margin	10.8%	11.6%	11.6%	11.7%	12.3%
Free Cash Flow	1,528	1,470	1,907	1,665	1,790

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.9x	1.2x	1.2x	1.1x
Asset Replacement Ratio	1.4x	1.8x	1.3x	1.7x	1.8x
Tax Rate	29.4%	22.1%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	2.4%	7.6%	1.1%	-13.3%	-24.1%
Interest Cover	11.4x	9.7x	9.7x	10.0x	10.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	21,541	22,080	19,911	20,501	21,346
% Change	21.0%	2.5%	-9.8%	3.0%	4.1%
Gross Profit	4,744	5,242	4,827	5,033	5,369
% Change	28.5%	10.5%	-7.9%	4.3%	6.7%
EBITDA	2,764	3,111	2,699	2,769	2,996
% Change	34.3%	12.6%	-13.2%	2.6%	8.2%
Net Interest & Other Income	(64)	(277)	(30)	(38)	(38)
Net Income (Adjusted)	2,004	2,313	1,936	1,988	2,158
% Change	14.7%	15.4%	-16.3%	2.7%	8.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,043	2,376	1,937	1,986	2,157
Depreciation & Amortization	331	381	381	381	381
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	38	(439)	0	0	0
Other Adjustments, Net	(407)	(181)	68	(57)	(78)
Capital Expenditure	(477)	(667)	(480)	(645)	(670)
Free Cash Flow	1,528	1,470	1,907	1,665	1,790
% Change	-44.0%	-3.8%	29.7%	-12.7%	7.5%
Share / Issue Repurchase	(20)	0	0	0	0
Cost of Dividends Paid	(423)	(538)	(546)	(542)	(539)
Change in Debt	(95)	(910)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,858	4,021	4,372	5,384	6,526
Trade Receivables	175	0	120	123	127
Other Current Assets	5,070	5,522	5,166	5,297	5,472
Property, Plant & Equipment	1,532	1,951	2,028	2,270	2,537
Other Non-Current Assets	6,244	7,747	7,769	7,791	7,813
Total Assets	17,879	19,241	19,454	20,865	22,475
Short-Term Debt	4,972	4,433	4,433	4,433	4,433
Other Current Liabilities	3,501	3,139	2,973	3,048	3,148
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	4,715	6,224	6,224	6,224	6,224
Total Liabilities	13,188	13,796	13,630	13,705	13,805
Total Equity	4,691	5,445	5,825	7,160	8,669
Total Equity & Liabilities	17,879	19,241	19,454	20,865	22,475

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Truck/Bus Manufacturers

Company Description

CNH Industrial is the world's second largest farm equipment company, with primary listing in the US and secondary listing in Milan. CNH Industrial is now a purer play agriculture and construction machinery producer after spinning off its commercial vehicle and engine business in early 2022.

Investment Rationale

CNH is a strong number two in global farm equipment behind leader DE. CNH has improved its balance sheet over the last 5-10 years. The core farm equipment business appears headed for a sustainable recovery over the next 12-18 months given improved US farmer economics and an emerging replacement cycle. Now that the spin of On Highway is completed, we see room for more upside as CNH executes on its core long term ag strategy.

Stock Data

Average Daily Volume 14,303,720

Quarterly Earnings Estimates

	2023	2024
Q1	0.35A	0.26E
Q2	0.52A	0.39E
Q3	0.42A	0.43E
Q4	0.42A	0.47E

Price objective basis & risk

CNH Industrial NV (CNHI)

Our 12-month price objective for CNH Industrial is \$15.50. Our PO is based on 10x 2024E EPS and near the lower end of the historical range (7-15x) given caution around farm equipment demand, high exposure to Europe, and rising inventories. We do not believe the very low end of the range is appropriate given significant cost savings, restructuring programs, and management initiatives to improve the company's overall profitability longer-term.

Upside risks to our PO could come from higher than expected earnings resulting from a stronger than expected grain market, further rerating than anticipated as CNH proves out its precision ag strategy and shares new financial targets, upside to Raven synergies, and accretive acquisitions.

Downside risks to our PO are a sudden reversal of soft commodity price momentum, a triggering of a renewed global downturn in farm equipment demand, supply chain disruption, and/or renewed concerns of global recession.

Analyst Certification

I, Michael Feniger, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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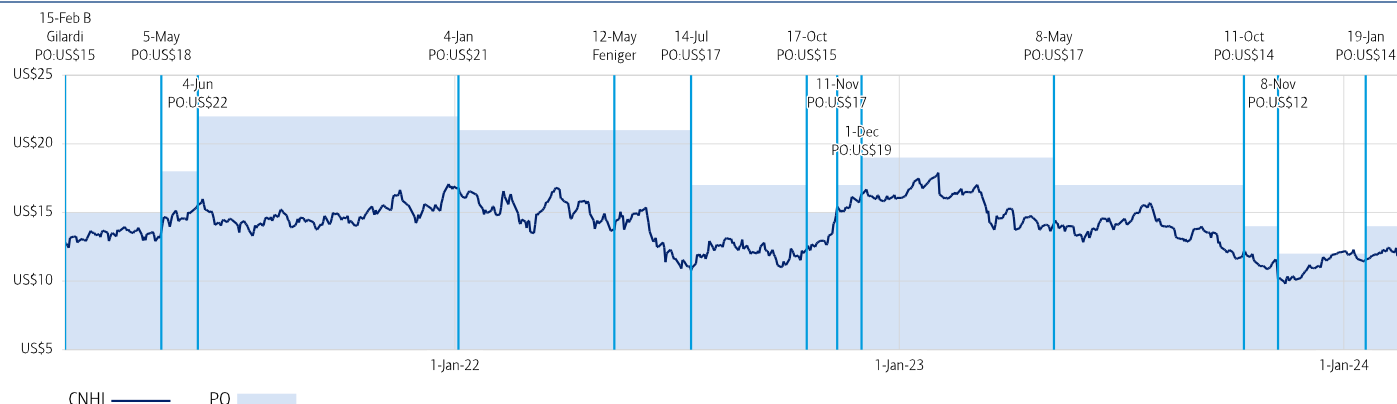
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Important Disclosures

CNH Industrial NV (CNHI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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