

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## PO Raised

[Axis Capital](#) | BUY | AXS US | Mkt Cap:USD4,635mn | Joshua Shanker**4Q23 includes \$425mn charge for net adverse prior-year loss development**

- AXIS preannounced a 4Q23 charge for adverse prior-year loss reserve development of \$425mn
- We believe a charge of some material magnitude like this one was expected, given new management's comments
- In our view, a material overhang on the stock has been removed with this preannouncement

[Axsome](#) | NEUTRAL | AXSM US | Mkt Cap:USD4,236mn | Jason Gerberry**Sleep survey: Xywav still standing, AXS12 interesting but niche + orexin TPP**

- We highlight takeaways from 25 physician sleep medicine survey indicating JAZZ's Xywav narco share likely stable thru YE'24
- Physicians viewed AXSM's AXS-12 for narcolepsy as niche and a candidate for combination use with other narcolepsy treatments
- Early to mid-stage orexin receptor 2 agonist class profile framing suggests that CV more concerning than visual disturbance

[BILL](#) | BUY | BILL US | Mkt Cap:USD7,999mn | Brad Sills**Channel points to stable trends: expect upside to conservative Q2 guide**

- Steady deal activity in F2Q24; macro holding in Q1
- BofA Institute data suggests TPV largely held in; expect upside to conservative transaction rev guide (\$93mn vs. \$89mn base)
- Believe model derisked; see path back to 30% growth by F2Q25. Reiterate Buy, raising PO to \$90

24 January 2024

Equity  
United StatesInvestor Support  
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## Today's Events: Economic Indicators

1. 9:45 S&P Global US manufacturing PMI
2. 9:45 S&P Global US services PMI

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**QuickNotes is a list of today's Global Research activities. Please use the links to** read the full Research report before making investment decisions. The reports also contain important disclosures.

**Canadian Natl | NEUTRAL | CNI US | Mkt Cap:USD82,468mn | Ken Hoexter**  
**Targets ~10% EPS growth, led by mid-single digit vol growth (2H ramp); PO \$131**

- Posts adj. 4Q23 EPS of C\$2.02, above our C\$1.93 target/Street's \$1.99. Core ops beat; 2024 targets imply 2H ramp
- Sets 10% '24 EPS growth target with mid-single digit RTM growth, service gains, & op leverage balanced by \$200m cost headwind
- PO to \$131 (from \$128) on 22x our '24 EPS (from 21x). Lower 2024/2025 EPS 2%/1% to C\$8.00/C\$9.00, from C\$8.20/C\$9.05

**Ericsson | UNDERPERFORM | ERIC US | Mkt Cap:USD20,186mn | Didier Scemama**

**RAN market not out of the woods yet – 4Q23 review**

- Q4 below css; no formal Q1 guide but likely below css. PO slightly raised on higher cash. Re-iterate U/P
- Risks: declining RAN market, opex, Enterprise, Open RAN
- Likes: Cost reduction execution, new CFO, market share gains in North America

**General Electric | BUY | GE US | Mkt Cap:USD141,337mn | Andrew Obin**  
**The final countdown: raising 2024 estimates as Vernova spin-off nears**

- Raising our '24E adj. EPS to \$4.36 and FCF to \$6.1bn. Our more detailed Aerospace & Vernova estimates are inside the report.
- GE Vernova is heading into the early April spin-off with positive momentum in Onshore Wind, Grid Solutions, and Gas Power.
- On a like-for-like basis, 2024 GE Aerospace guidance included prior consensus at high-end, but we view this as conservative.

**HubSpot | BUY | HUBS US | Mkt Cap:USD30,433mn | Brad Sills**  
**Channel checks suggest macro pressure easing, though still lingering**

- Channel suggests that Q4 deal activity has improved slightly from Q3 levels from somewhat easing macro pressure.
- Expect healthy 23% (20% cc) billings growth in an upside case, versus our 19% (17% cc) base case.
- Expect 17% FY24 rev guide, consistent w/ Q4 guide, given lingering macro. Reiterate Buy/top pick on reaccel exiting macro.

**Intuitive Surgical | BUY | ISRG US | Mkt Cap:USD130,763mn | Travis Steed**  
**The future starts now**

- New system now official (widely expected) but what it brings still under-appreciated.
- ISRG's 2024 sales force meeting was titled "the future starts now" where it trained reps on dV5
- Value the future; too early to not own the best 5 year product cycle in medtech. Reiterate Buy.

**[KLA Corp](#) | BUY | KLAC US | Mkt Cap:USD84,187mn | Vivek Arya**  
**CQ4 LRCX/KLAC preview: 1H stabilization, 2H recovery**

- Reiterate Buys and raise POs on KLAC/LRCX ahead of Q1 report. KLAC our top semicap pick on leading-edge, DRAM exposures
- KLAC levered to leading-edge strength, C1H'24 implied flattish guide achievable. LRCX also exposed to memory recovery upside
- Semicaps trading at premium vs. historical, but justified by expected 2H24 WFE recovery and structural global reshoring

**[Logitech](#) | BUY | LOGI US | Mkt Cap:USD13,795mn | Didier Scemama**  
**“Cautious” tone despite strong results**

- LOGI beat/raised but remains cautious on FY25. PO remains unch on lower FY26 ests but higher multiple. Reit Buy. A top pick
- Likes: Market share gains, Pot'l upcoming M&A, CMD in May to provide FY25E outlook, Lower FY24E capex
- Risks: Uncertain FY25E outlook more likely in prolonged U-shape recovery, GM headwinds in Q4, no further inventory reduction

**[Netflix](#) | BUY | NFLX US | Mkt Cap:USD215,422mn | Jessica Reif Ehrlich**  
**A New Tag Team**

- NFLX reported very strong 4Q results including the largest 4Q net adds ever of 13.1mn (vs our 9mn est).
- We raise our CY24 rev/op. income/FCF forecasts to \$39.52bn/\$9.5bn/\$6.01bn (from \$39.51bn/\$9.2bn/\$5.33bn prev.).
- We reiterate our Buy rating and raise our price objective (PO) to \$650 (from \$585).

**[PACCAR Inc](#) | NEUTRAL | PCAR US | Mkt Cap:USD52,970mn | Michael Feniger**

**Strong finish – can we start to look through to 2025 already?**

- PCAR's Q4 underscores its higher EPS power: Q4 gross margin of 19.4% vs Q418 14.2% on similar 50-51k unit delivery figure.
- Near-term debate to focus on sustainability of margin, but bigger story is if PCAR can start to grow earnings again in 2025
- Early truck commentary hints at downturn (capex down, fleet age normal). Maintain Neutral: strong execution vs cautious cycle



**[Toast](#) | NEUTRAL | TOST US | Mkt Cap:USD9,046mn | Jason Kupferberg**  
**'24 guide a bigger question mark than 4Q results; reiterate Neutral**

- We believe TOST's 4Q ests are largely safe; US restaurant spending data for 4Q and BAC data for Jan MTD is somewhat mixed
- Initial '24 guide could represent modest potential risk more to top-line ests than adj. EBITDA
- Maintain Neutral on best-in-class restaurant tech, but elevated competition and limited SaaS ARPU growth re-acceleration

**[United Airlines](#) | BUY | UAL US | Mkt Cap:USD15,259mn | Andrew Didora**  
**Continuing to execute despite external challenges; reiterate Buy**

- UAL shares were 5% after a solid 4Q23 earnings beat and 2024 EPS outlook
- We lower our 1Q24 estimate to \$(0.53) from \$(0.18) on the MAX 9 grounding, but raise our '24 EPS forecast to \$9.97 from \$8.42
- We reiterate our Buy rating, and raise our PO to \$60 (from \$56), still based on 5.0x our 2024 EBITDAR

**[Webster Financial Co](#) | BUY | WBS US | Mkt Cap:USD8,594mn | Brandon Berman**

**Stock price reaction doesn't resemble positive message**

- WBS 4Q missed est due to lower NIM but mid-point of FY24 outlook implies cons PPNR est intact
- Surprised by stock price reaction; felt positives outweighed negatives during earnings call shrs trade at 22% discount
- Raise our 2024e EPS by 3% to \$6.03 primarily on higher revenue growth. Increase PO to \$61 and reiterate Buy rating

## PO Lowered

**[D.R. Horton](#) | BUY | DHI US | Mkt Cap:USD49,144mn | Rafe Jadrosich**  
**Disappointing F1Q24, but backward looking as housing market thaws**

- DR Horton reported F1Q EPS 2% below consensus on lower gross margin and delivery ASP. Reiterate Buy but lower PO to \$158.
- Net orders grew 35% YoY, roughly in-line with normal seasonality. DHI raised its delivery and revenue outlook slightly.
- We expect DHI's ROE and margins to remain above long-term average in F2024. Valuation still attractive relative to ROE.

**[Invesco](#) | NEUTRAL | IVZ US | Mkt Cap:USD7,170mn | Craig Siegenthaler**  
**4Q23E: Improving net flows vs. continued decline in fee rate; Reducing EPS**

- IVZ reported improved/solid organic growth while its fee rate continues to decline; expect these trends to continue in '24
- Reducing EPS and PO on lower operating margin but modestly increasing LT organic growth forecasts after 4Q23 results
- Reiterate Neutral: Forecast 5% '24 organic growth driven by ETFs & fixed income and modest improvement in operating margin

[NorthWestern Energy](#) | BUY | NWE US | Mkt Cap:USD2,893mn | Julien

Dumoulin-Smith

**4Q23 Preview: New name, same game for NorthWestern as capex accelerates**

- Reiterate Buy; we like the setup with positive regulatory datapoints and improving growth with further capex upside.
- Updated estimates for incremental capex; forecast solid balance sheet with minimal incremental equity
- PO to \$55; still see in line P/E multiple to peers; implies mid-teens upside. Modestly above Street on '24 Outlook

## Significant EPS Change

[Texas Instr.](#) | NEUTRAL | TXN US | Mkt Cap:USD158,336mn | Vivek Arya

**No quick recovery but CHIPS Act could support cash flows**

- Q4 below, Q1 guide-down on extended weakness; Reiterate Neutral, maintain PO at \$175
- Likes: strong position to benefit from CHIPS Act grants, offsetting depreciation headwinds
- Risks: EPS weighed down near-term on depreciation headwind from elevated capex, insourcing competition in China

## Buy Reiterations

Communication Services

[Match Group](#) | BUY | MTCH US | Mkt Cap:USD10,787mn | Curtis Nagle

**See inline 4Q23 & '24 guide; Tinder trends & Match valuation have yet to inflect**

- Match to report 4Q on Jan 30th AMC. Expect Rev./EBITDA of \$862mn/\$309mn (higher end of guided range).
- Tinder yet to inflect but trends may be stabilizing, turnaround a mgmt. priority and would boost valuation.
- We maintain our Buy rating on attractive valuation (currently at 9x EV/2025 EBITDA) and potential of improving payer trends.

[T-Mobile US](#) | BUY | TMUS US | Mkt Cap:USD204,164mn | David Barden

**4Q Heads Up: TMUS reporting Thursday AMC; call 4:30 PM ET**

- T-Mobile will report 4Q and FY2023 results on Thursday, January 25, after market close and host a call at 4:30pm ET.
- TMUS will provide 2024 guidance for adj. EBITDA, postpaid net adds, and capex when it reports 4Q results.
- We believe TMUS will guide to industry-best FCF growth for 2024E driven by peer leading EBITDA growth and stable capex.



## Consumer Discretionary

**[H World Group](#) | BUY | HTHT US | Mkt Cap:USD10,475mn | Ronald Leung**  
**4Q23 ops data: 120% domestic RevPAR recovery beat; FY23 openings at 1,641**

- 4Q23 blended RevPAR recovery at 120% vs. 2019 level beat; Oct/Nov/Dec'23 RevPAR recovery was 120%/117%/123%
- FY23 gross openings stood at 1,641 (ahead of mgmt. guide of 1,400) and closures was 785, resulting in net openings of 856
- HTHT is trading at 8.5x 2024E EV/EBITDA; We believe risks of RevPAR slowdown have been largely priced in and reiterate Buy

## Consumer Staples

**[Procter & Gamble](#) | BUY | PG US | Mkt Cap:USD400,506mn | Bryan Spillane**  
**Four-tified sales, margins drive upside**

- PG's delivered 2Q EPS upside as earlier than expected efficiency and commodity tailwinds benefitted gross margin
- We view the 2H24 setup favorably, with strong underlying sales in key geographies offsetting softness in China and...
- ...emerging markets, and enough gross margin flexibility to fund reinvestment. Reiterating Buy, \$175 PO.

## Energy

**[APA Corp](#) | BUY | APA US | Mkt Cap:USD9,934mn | Doug Leggate**  
**Solid pre-earnings supplement may be viewed as a positive; Buy**

- Adjusting for updates from APA's most recent 8-K our 4Q23 eps is unchanged at \$1.34 but
- noteworthy is APA's net debt falling to \$5.1bn while buying back 3.2mm shares which we see helped by the sale of KNTK shares
- Items to watch into 4Q results: updates on Egypt workovers and additional disclosures on plans to acquire CPE

**[Baker Hughes](#) | BUY | BKR US | Mkt Cap:USD31,719mn | Saurabh Pant**  
**4Q largely neutral amidst ebbing LNG cycle**

- 4Q EBITDA 1% vs. Cons as higher margins offset lower revs; 4Q FCF 45% vs. Cons & BKR returns 65% of '23 FCF to shareholders
- Total 4Q orders fell 19% QoQ from an exceptionally strong 3Q level coming in 4% below Cons, but IET book/bill of 1.1x healthy
- We see 4Q result as neutral, stock reaction hinges on mgmt. outlook; Maintain Buy on steady execution & underappreciated IET

[Halliburton Company](#) | BUY | HAL US | Mkt Cap:USD31,664mn | Saurabh Pant  
**Resilient NAM and Strong INTL**

- We see HAL's resilient NAM franchise & its stronger-than-ever- INTL business driving robust FCF and cash returns in 2024-25
- We tweak 2024E/25E EBITDA by -1%/-1% to \$5.41/\$6.05bn (-1%/-0% vs. Cons) on slightly lower NAM with limited further downside
- We reiterate our \$43 PO & Buy rating on HAL's 1) resilient NAM, 2) underappreciated INTL, 3) strong FCF, & 4) cheap valuation

## Financials

[East-West](#) | BUY | EWBC US | Mkt Cap:USD10,603mn | Ebrahim Poonawala  
**Stock still undervalued, reiterate Buy**

- EWBC reported 4Q23 EPS of \$2.02 vs. BofA/cons. \$1.91/\$1.95 ests, with the beat driven by stronger PPNR, lower credit costs
- NII guide could weigh on the stock at the open but not thesis changing, credit quality resilient, capital levels strong
- Bank with above average growth potential, best-in-class returns, top notch execution trading at a discount; Reit. Buy rating

## Industrials

[CACI International](#) | BUY | CACI US | Mkt Cap:USD7,568mn | Mariana Perez Mora  
**Defense Services**

- Two thirds of national security defense services names outperformed the S&P 500 in 4Q23 (excluding KBR and CACI).
- Despite the recent continuing resolution (CR) extension into March, we ultimately do expect to have a budget this year
- Within the services space, we highlight Booz Allen Hamilton (BAH) as our top 2024 pick and Palantir (PLTR) as a wildcard pick

# Macro & Strategy

[The LatAm Feedbaker](#) | David Beker

**Locals constructive in BZ but external scenario dominates discussions**

- We spent the last two days visiting Brazil local clients in Rio. Sentiment is constructive but BZ lacks domestic catalysts.
- Consensus trades are long BRL, US soft landing, quality. Discussions on easing pace acceleration in BZ appear to be over.
- External scenario takes the spotlight (Fed, US elections, China). Fiscal and monetary policy are main domestic discussions.



**[Active managers' holdings update](#) | Savita Subramanian****Positioning makes a strong case for banks, dividends, and why it's time to pick stocks**

- We see macro and micro cases for US large cap banks, and positioning is extreme - exposure dropped 12ppt in avg. fund in '23.
- Pick stocks: less eyeballs, more alpha, active share falling but idiosyncratic risk rising, public cheap vs. private.
- The talk vs. the walk: sentiment and surveys improving, but positioning on many measures smacks of skepticism/risk-off.

**[Rates Technical Advantage](#) | Paul Ciana****Countertrend Q1 underway**

- US 10y yield in corrective wave B up to 4.25-4.50% in Q1. Modest upside risk to early spring yield peak, turn, summer drop.
- US 10Y yield seasonals say up in Feb-Apr, peaks May, down thru Sept. In Year 4 of Pres. cycle, 10y yield up Apr-May 71% of...
- ...time, down Jun-Jul. Since 2020, Mondays lean bearish 10Y. Golden cross signal favors buying a dip in US 2y for Feb bounce.

**[Liquid Insight](#) | Global Rates & Currencies Research****ECB Preview: one more pushback on early market pricing**

- On hold with more pushback on early market cuts. We stick to first cut in June, with risks of faster action thereafter.
- We like payer spreads top left for delayed cuts vs pricing, received 2y1y €str for neutral rate closer to 1% than 2%.
- ECB pushback against market pricing EUR positive, but without sustained impact.



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Neutral	≥ 0%	≤ 30%
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