

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## Rating Changes

[Pinnacle West Capit](#) | BUY | PNW US | Mkt Cap:USD8,753mn | Julien Dumoulin-Smith

## Upgrade to Buy: The Road to a Long Improving ROE &amp; Investment Cycle

- Upgrading Pinnacle West Capital Corp. (PNW) from Neutral to Buy, reflecting an improving regulatory environment in Arizona.
- We highlight three actions addressing regulatory lag, helping PNW close the gap between earned vs allowed: 12% on '26 est.
- Updated valuation target to \$80 from \$71, revised EPS est. '24-'26 are above consensus, materially so in 2026 ( 6%).

## PO Raised

[Alcoa](#) | NEUTRAL | AA US | Mkt Cap:USD5,466mn | Lawson Winder

## Q1'24 preview: increase EBITDA estimate on higher aluminum pricing, lift PO to \$32

- We now see Q1'24 adjusted EBITDA of \$121m (vs. \$97m prior), mainly on higher aluminum prices. BofAe is in line with BBG cons.
- AA entered into an agreement to acquire AWC. We see strong logic, simplified governance and greater operational flexibility.
- We raise PO to \$32 but reiterate Neutral rating given transaction-related EPS dilution and near-term operational uncertainty.

[ASE -ADR](#) | BUY | ASX US | Mkt Cap:USD21,904mn | Brad Lin

## Fast growing advanced packaging and better demand, Lift PO

- We raise PO to NT\$170 and 2024/25E earnings estimates by 1%/2% to factor in better demand and expanding advanced packaging.
- The improving industry inventory level bodes well for ASE's business momentum.
- We now expect a better upside for ASE in advanced packaging thanks to clients' diversification needs and higher AI demand.

18 March 2024

Equity  
United States

Investor Support  
BofAS

## Today's Events: Economic Indicators

N/A

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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.

**[BAT](#) | BUY | BTI US | Mkt Cap:USD66,683mn | Joffrey Bellicha Meller**  
**Share buyback = Unlocking the value pack.**

- BAT announced the disposal of 3.5% of its 29% ITC stake (now 25.5%), which generated c.£1.5bn in net proceeds.
- The group will return net proceeds to shareholders through a share buyback program (of which £700m in 2024) ending in 2025.
- We add £700m SBB in 2024, reduce SBB in 2025 from £1bn to £800m, leads to higher EPS ests. Reiterate Buy, increase PO to £30.

**[Constellation](#) | BUY | STZ US | Mkt Cap:USD52,332mn | Bryan Spillane**  
**Feb quarter end earnings preview – LW, STZ, GIS, MKC & CAG**

- Over the next few weeks, we expect LW & STZ earnings to be most incremental given GIS, MKC and CAG all recently presented...
- at the CAGNY conference at the end of Feb where all three reiterated FY24 outlooks (see takeaways here).
- See inside for our thoughts ahead of earnings for LW, STZ, GIS, MKC & CAG.

**[CoStar](#) | BUY | CSGP US | Mkt Cap:USD37,552mn | Heather Balsky**  
**Homes.com is a likely beneficiary of the NAR settlement**

- On Friday, shares were up 8% on the announcement that the National Assoc. of Realtors settled a series of anti-trust lawsuits
- The NAR will eliminate its rules on commissions, which we think is a positive outcome for Homes.com's sales & share capture
- We are raising our PO to \$111 on this incremental tailwind and increased optimism around its 2024 commercial business growth

**[Darden Restaurants](#) | BUY | DRI US | Mkt Cap:USD20,534mn | Sara Senatore**  
**Restaurants Weekly: Sweet on automation**

- For the week ended 3/15, the S&P Restaurant Index underperformed the market.
- Chart of the week: Quantifying automation benefits.
- Our restaurants valuation and KPI sheets can be found on page 6.

**[Eaton Corp PLC](#) | BUY | ETN US | Mkt Cap:USD128,812mn | Andrew Obin**  
**Closer look at key growth verticals: data center, grid, & more**

- Eaton's Technology Showcase last week focused on the company's key growth drivers. Investor focus is on data centers & grid.
- While these end markets are growing, Eaton emphasized growth in eMobility, residential, industrial, & aerospace as well.
- We update our data center infra market forecast. We see AI adoption driving a 14% market-wide CAGR over 2023-2026E.

**[Rocket Companies](#) | UNDERPERFORM | RKT US | Mkt Cap:USD24,271mn |****Mihir Bhatia****Consumer Finance Tidbits: Issue 24-06**

- In Tidbits notes, we highlight interest data points and news across the Consumer Finance and Mortgage sectors.
- In this edition, we highlight high income spending trends, CFPB late fee rule updates, and more.
- Also, see inside for our Consumer Finance dashboard, comp table, and a comparison of our forecasts versus consensus.

**[Sigma Lithium](#) | BUY | SGML US | Mkt Cap:USD1,431mn | Steve Byrne****Chem Weekly: Helium supplies increasing, MDI pricing up, lithium inventories rise**

- Global helium supplies expected 50% in 5yrs, Amur causes reversal of price increases, call with helium expert on Wednesday
- European MDI prices are up, as supply has tightened and benzene price inflation is overcoming continued soft demand
- Lithium carbonate inventories in China 14% this month, Lithium Americas to receive \$2bn loan from DOE, SGML PO rises to \$29

**[Taiwan Semi Mfg Co](#) | BUY | TSM US | Mkt Cap:USD626,521mn | Brad Lin****Structural positive on advanced nodes with AI, raise PO to NT\$880**

- Raise Buy PO to NT\$880 on structural advanced node demand - critical for greater AI computing power and power saving needs.
- Lift industry leading-edge foundry rev fcst to 22% CAGR in '23-25E. INTC contribution to rise to 3%/6% in '24/25E w/ CPU tile
- We believe TSMC's valuation should catch up with SOX and deserves a re-rating since it is indispensable in the AI era.

**[Triple Flag](#) | BUY | TFPM US | Mkt Cap:USD2,707mn | Lawson Winder****Examining the gold price implied in the equities + gold price leverage by company**

- We highlight recent gold price strength ( 18% since 5-Oct-23 low) while noting the gold equities have underperformed.
- We explore what spot gold price our coverage universe is pricing in on a NAV basis and an EV/EBITDA basis.
- We update our TFPM, FNV, WPM and SSRM models. We increase pit PO on TFPM and lower our PO on FNV. Maintain all ratings.

**[Vertiv](#) | BUY | VRT US | Mkt Cap:USD28,327mn | Andrew Obin****Updating industry forecast on more AI, raising PO to \$90**

- We forecast a 14% CAGR (2023-26E) for the data center infrastructure market, above our previous Oct. 2023 forecast.
- We raise Vertiv estimates and forecast a 12% revenue CAGR (2023-26E), reflecting Vertiv's 25% mix of non-data center revenue.
- Next generation of AI chips could use even more power, and Vertiv's content is largely proportional to electricity usage.



## PO Lowered

[Caribou](#) | BUY | CRBU US | Mkt Cap:USD485mn | Geoff Meacham

### Thoughts on remaining 4Q23 SMid Biotech updates

- Over the last few months, the broader SMid cap biotech space has been dynamic as investors reassess investment risks
- We update our estimates on CRBU following 4Q results and refresh our view on TSBX and ABOS ahead of the companies reporting

[Franco-Nevada](#) | BUY | FNV US | Mkt Cap:USD22,009mn | Lawson Winder

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[Nike](#) | NEUTRAL | NKE US | Mkt Cap:USD121,284mn | Lorraine Hutchinson

### 3Q preview: Searching for a catalyst to kickstart a revision cycle

- We forecast 3Q EPS of \$0.50, which includes a 23c cost from the previously discussed restructuring charges
- We think GM guide this year is safe and forecast 3Q gross margin of 45% with some opportunity for upside
- Remain Neutral-rated, momentum with innovation, wholesale, and China are needed to spark a positive EPS revision cycle

[Origin Materials](#) | NEUTRAL | ORGN US | Mkt Cap:USD76mn | Steve Byrne

### Asset-light strategies reduce risk but present value drops, Reiterate Neutral

- To accelerate the path to commercialization, Origin is pursuing a partnering/licensing approach to build the next plant
- ORGN has developed a novel technology to produce PET-based caps and closures, with modest capex and gross margin in 2025
- Valuations for 7 publicly traded sustainable plastic startups have steadily declined in the last 2 yrs. Our PO drops to \$0.60

[Redfin Corp](#) | UNDERPERFORM | RDFN US | Mkt Cap:USD717mn | Curtis

Nagle

### Commission changes coming soon: NAR embraces bold changes for settlement

- NAR announced agreement for multiple broker commission lawsuits, proposes rule prohibiting offers of broker compensation. §
- Settlement accelerates the timeline and suggests significant changes to commission sharing practices as soon as this year.
- Lowering ZG PO to \$56 on potentially lower buy-side commission pool (& reduced agents) & Redfin to \$5.5 on higher competition.

[Soho House & Co Inc](#) | BUY | SHCO US | Mkt Cap:USD978mn | Shaun Kelley  
**Q4 Earnings Review: Miss and lower guidance, but core membership intact**

- Soho House & Co. reported Q4 revenues of \$291M, below our \$307M and the Street's \$304M
- Given development challenges, Soho House now plans on opening 2-4 houses per year vs. 5-7 prior
- Despite fewer house openings, management reiterated their target of >210k members by YE24

[Turnstone](#) | BUY | TSBX US | Mkt Cap:USD77mn | Geoff Meacham  
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[Zillow A](#) | NEUTRAL | ZG US | Mkt Cap:USD10,768mn | Curtis Nagle

[Zillow C](#) | NEUTRAL | Z US | Mkt Cap:USD10,768mn | Curtis Nagle  
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## Significant EPS Change

[AlloVir](#) | UNDERPERFORM | ALVR US | Mkt Cap:USD89mn | Jason Zemansky

[Werewolf Therap.](#) | BUY | HOWL US | Mkt Cap:USD262mn | Jason Zemansky  
**SMid Biotech 4Q23 Wraps: HOWL and ALVR**

- We provide 4Q takeaways from names in our coverage universe: HOWL and ALVR
- HOWL's 4Q earnings were mixed, GAAP EPS ahead of cons ( \$0.09) even as revs missed (-\$3.1M), with focus on clinical progress
- ALVR's 4Q GAAP EPS came in below cons (-\$0.10) as the print prompted more questions than answers regarding future directions



[Goosehead](#) | **UNDERPERFORM** | GSHD US | Mkt Cap:USD2,814mn | Joshua Shanker

**The impact of decelerating growth on current and future cash flow generation**

- Non-cash comp, initial franchise fee payments and contingent commissions cause a mismatch between earnings and cash flows
- While core earnings/cash flow generation modestly improved in 2023, it appears to have come at the expense of growth
- We forecast the company will miss 2024 revenue guidance and are also adjusting our EPS forecast downward

## Buy Reiterations

### Consumer Discretionary

[Visteon Corp](#) | **BUY** | VC US | Mkt Cap:USD3,182mn | John Babcock  
**Automotive Industry**

- The accompanying valuation framework is one of the most important fundamental factors when buying or selling Auto stocks.
- This report also includes a snapshot of current US Auto industry metrics, including sales, inventory, pricing and Econ data.
- BofA Global Auto Summit on March 26-27, and will include fireside chats w/OEMs, suppliers & dealers and key topic panels.

### Consumer Staples

[McCormick](#) | **BUY** | MKC US | Mkt Cap:USD18,392mn | Peter Galbo

[Lamb Weston Holdings](#) | **BUY** | LW US | Mkt Cap:USD14,850mn | Peter Galbo  
**Food and Beverages**

- Over the next few weeks, we expect LW & STZ earnings to be most incremental given GIS, MKC and CAG all recently presented...
- at the CAGNY conference at the end of Feb where all three reiterated FY24 outlooks (see takeaways here).
- See inside for our thoughts ahead of earnings for LW, STZ, GIS, MKC & CAG.

### Communication Services

[T-Mobile US](#) | **BUY** | TMUS US | Mkt Cap:USD201,758mn | David Barden  
**1Q Preview: Raising sub estimate, on track for full year guidance**

[AT&T](#) | **BUY** | T US | Mkt Cap:USD121,908mn | David Barden  
**1Q Preview: Raising sub estimate, on track for full year guidance**

- We update our TMUS estimates heading into the quarter. Overall, we are raising our sub estimate but trimming rev. & EBITDA
- We expect 505k post-paid phone net adds vs the Street at 481k as TMUS leverages its value-add services to attract consumers
- Mgmt. is happy with a 400k FWA net add run-rate going forward, down from 500k, as the company focuses on revenue extraction

## Health Care

[Merck & Co.](#) | BUY | MRK US | Mkt Cap:USD307,767mn | Geoff Meacham

### Sotatercept label expectations: thoughts ahead of FDA decision

- We thought to address investor concerns on sotatercept's upcoming FDA decision and label expectations
- We expect the approval to be on time, and the label will include a monitoring requirement (lab test every three weeks)
- Black box is unlikely while REMS is a possibility (50/50), but neither should impact adoption

## Industrials

[Telus International](#) | BUY | TIXT US | Mkt Cap:USD2,221mn | Cassie Chan

### Payments, Processors & IT Services

- On March 18-19, we will host our virtual Payments Symposium, including thematic panels and public private company sessions.
- Buy-rated ACN reports on March 21, Neutral-rated DLO reports on March 18.
- Our top picks for 2024 are ACN in IT Services, AXP in Consumer Finance, and FIS/SQ/GPN in Payments.

## Materials

[Wheaton Precious](#) | BUY | WPM US | Mkt Cap:USD20,125mn | Lawson

### Winder

### North American Precious Metals Weekly

- We highlight recent gold price strength ( 18% since 5-Oct-23 low) while noting the gold equities have underperformed.
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# Macro & Strategy

## [Global Wave](#) | Nigel Tupper

### Ride the Wave

- The signal from the Global Wave remains positive for the third month as macro data globally continues to strengthen.
- Earnings globally are now rebounding in tandem with the Global Wave, suggesting 2024 could be an earnings-led recovery.
- After previous trough signals, the best performers were Media, Semis, Software, Diversified Financials, and Tech Hardware.

## [Housing Watch](#) | US Economics

### 2024: A year of lower rates and higher supply

- In 2023, the housing market was characterized by sky-high mortgage rates and resilient demand that outpaced supply.
- 2024 should be a better year for activity, although it should take some time for inventory to catch up to demand.
- We expect the housing market to gradually find a new equilibrium as the Fed begins to cut interest rates in June.

## [Liquid Insight](#) | Global Rates & Currencies Research

### A new look at EGB spread categories

- Does the current mix of macroeconomic data support a change in the compositions of the core/semi-core/periphery categories?
- The Netherlands is "more core" than Germany, Belgium "more semi-core" than France. Portugal may migrate vs Spain
- 2025 projections support the current general spread tightening trend. France and Austria may decorrelate

## [High Frequency Monitor](#) | Nigel Tupper

### Healthy breather

- Globally, the Quality style performed best last week as global equities took a breather after seven positive weeks.
- Our short-term Tactical Indicators remain positive as copper jumped, global credit spreads narrowed, and volatility fell.
- A rising Global Wave and a global earnings recovery continue to support a positive view on equities and cyclical.

## [What's priced in](#) | Claudio Irigoyen

### BANREP, BANXICO, BCB and CNB will likely cut this week; CBC and CBT on hold

- Czechia's CNB will likely cut 50bp on March 20. We expect Brazil's BCB to cut 50bp on March 20.
- Taiwan's CBC will likely remain on hold on March 21. We forecast Türkiye's CBT to remain on hold on March 21.
- Mexico's BANXICO will likely cut 25bp on March 21. We expect Colombia's BANREP to cut 50bp on March 22.



**Emerging Insight | GEMs FI Strategy & Economics****Central Asia in focus: a push for stability**

- New growth targets imply KZT stability/appreciation long term. NBK to stay on hold until at least 3Q24 or clarity on fiscal
- UZS to stay on its 4-5% annual depreciation track. Slowing inflation creates incentives for continued policy approach
- We remain long UZS until early April; bullish bias for KZT due to high carry, but global is not supportive for the trade

**Global Macro Watch | Global Economics Rates & FX****Known Unknowns Mar 18 – Mar 22**

- Fed (on hold, median dots unchanged); BoJ (to exit NIRP/YCC); BoE, Norges, SNB (all on hold). ECB Watchers conference.
- CPI in Japan, Canada, Euro area (F). GDP in New Zealand, Norway. US, Euro area, UK PMIs. Germany ZEW, IFO. GD
- EM central bank meetings including Brazil, Türkiye, Mexico, Indonesia, Colombia, Czechia, Taiwan. Mexico, South Africa CPI.

**Systematic Flows Monitor | Global Equity Derivatives Rsch****Trend followers gradually decreasing S&P 500 & NASDAQ-100 longs**

- Cracks growing in CTA S&P 500 and NASDAQ-100 longs
- Trend followers could have more USD to sell; Gold and Copper are buys
- Delta-hedgers appear moderately long SPX gamma between 5000 - 5300

**Mexico Watch | Carlos Capistran****Banxico preview – Banxico likely to cut 25bp in a split decision**

- We expect Banxico to cut 25bp on March 21, to put the policy rate at 11.00%. The decision is likely to be split.
- We expect Banxico to maintain an upside bias on inflation. We do not expect forward guidance on future cuts.
- We expect this to be the beginning of a gradual cutting cycle. The risk is that the cut is postponed to May.



# CREDIT

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[Credit Market Strategist](#) | Yuri Seliger

## It gets better before it gets worse

- We look for the ICE BofA IG index to set new YtD highs in March and into April, potentially reaching into the 80s on spread.
- Such a technically driven rally would bring IG spreads close to post-GFC highs, limiting further upside.
- We are bearish longer term as growth and interest rate uncertainties related to the Fed cutting cycle remain elevated.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> 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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