

AECOM

Strong start out of the gate

Reiterate Rating: BUY | PO: 100.00 USD | Price: 88.75 USD

Reports positive Q1 – reaffirms FY2024 guidance

ACM reported a strong set of results: adj EPS of \$1.05 increased 25% YoY (9% better than consensus of \$0.96), adj EBITDA of \$251mn increased 14% YoY on net service revenue (NSR) growth of 7% YoY, operating margin expanded +100bps YoY. Bright spots included: design backlog up 9%, International margin of 10.6% (+230bps YoY), Americas margin up 10bps to a new high (off a tough comp), FCF of \$87mn (+4% YoY). ACM reaffirmed its FY24 guidance: NSR growth 8-10%, adj op margin +90bps YoY, EBITDA \$1.065-1.105bn (+13% midpoint), adj EPS \$4.35-455 (+20% midpoint). In our view, first impression ACM is likely running in line to slightly ahead of its FY midpoint based on Q1.

Showing discipline w/ CM: -ve backlog, but +ve long-term

Total backlog of \$39bn was down 3% YoY and 2% QoQ, largely due to CM (with design backlog up). Specifically, CM had two projects removed from the backlog as ACM did not see them meeting its risk criteria and strategically chose not to chase projects in such a high-demand backdrop. We see this as a sign of the ‘new AECOM’ not trying to grow for growth’s sake (i.e., drive a higher backlog) and building further credibility on responsible growth. For example, while total backlog is down 3% on a YoY basis, we believe gross profit in backlog likely up mid to high single digits (CM is 90% pass through business).

2024 pipeline: indications that momentum supports ‘25

Design backlog (\$21.8bn) increased 9% YoY to a new record, driven by a record win rate. We sense that 2024 is not ‘peak’ in terms of project activity for AECOM – early stages of pipeline are increasing (front end, early stage discussion), suggesting more runway ahead. Infrastructure funding remains a bright spot into 2024 with ARTBA stating that contract awards (leading indicator of future infrastructure work) reaching new records. We look to the call for more color around the multi-year pipeline on 8am EST call.

Buy: FCF remains underrated story: ~\$2bn by 2026

We update our estimates for Q1 and raise our PO to \$100 (\$95) based on 13x 2024E EV/EBITDA, as the solid start to the year with the design backlog warrants a higher multiple (vs 12.5x prior). We reiterate our Buy rating and continue to believe the FCF visibility on a multi-year basis remains the underrated part of the long-term story (see report: [Investor Day Takeaways](#)).

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.47	3.70	4.40	5.05	5.65
GAAP EPS	2.73	0.79	4.40	5.05	5.65
EPS Change (YoY)	23.0%	6.6%	18.9%	14.8%	11.9%
Consensus EPS (Bloomberg)			4.46	5.06	5.83
DPS	0.45	0.18	0.20	0.22	0.24
Valuation (Sep)					
P/E	25.6x	24.0x	20.2x	17.6x	15.7x
GAAP P/E	32.5x	112.3x	20.2x	17.6x	15.7x
Dividend Yield	0.5%	0.2%	0.2%	0.2%	0.3%
EV / EBITDA*	14.6x	13.6x	12.1x	11.1x	10.5x
Free Cash Flow Yield*	4.7%	4.7%	5.2%	5.7%	6.2%

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

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12655734

Timestamp: 06 February 2024 05:00AM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	95.00	100.00

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Stock Data

Price	88.75 USD
Price Objective	100.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	74.40 USD - 94.01 USD
Mrkt Val (mn) / Shares Out (mn)	12,544 USD / 141.3
Free Float	99.5%
Average Daily Value (mn)	63.05 USD
BofA Ticker / Exchange	ACM / NYS
Bloomberg / Reuters	ACM US / ACM.N
ROE (2024E)	25.2%
Net Dbt to Eqty (Sep-2023A)	39.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

CM: Construction Management

-ve: negative

+ve: positive

iQprofileSM AECOM

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.9%	11.7%	13.3%	13.7%	13.7%
Return on Equity	19.1%	22.1%	25.2%	25.4%	24.0%
Operating Margin	5.9%	5.9%	6.3%	6.4%	6.5%
Free Cash Flow	586	591	655	711	772

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.3x	1.3x	1.3x	1.2x
Asset Replacement Ratio	0.7x	0.6x	0.9x	0.9x	1.0x
Tax Rate	22.7%	22.6%	23.7%	23.8%	23.9%
Net Debt-to-Equity Ratio	39.7%	39.5%	19.8%	15.2%	-8.9%
Interest Cover	8.5x	8.0x	7.9x	8.7x	9.4x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	13,148	14,378	15,667	16,759	17,784
% Change	-1.4%	9.4%	9.0%	7.0%	6.1%
Gross Profit	848	945	1,098	1,212	1,311
% Change	6.2%	11.5%	16.1%	10.4%	8.2%
EBITDA	900	964	1,085	1,175	1,252
% Change	8.5%	7.1%	12.5%	8.3%	6.6%
Net Interest & Other Income	(91)	(106)	(122)	(123)	(123)
Net Income (Adjusted)	495	519	606	668	725
% Change	17.4%	4.8%	16.9%	10.2%	8.5%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	389	111	606	668	725
Depreciation & Amortization	171	176	158	142	128
Change in Working Capital	134	50	(15)	(14)	5
Deferred Taxation Charge	23	(136)	0	0	0
Other Adjustments, Net	(3)	495	46	46	46
Capital Expenditure	(128)	(105)	(140)	(132)	(132)
Free Cash Flow	586	591	655	711	772
% Change	0.4%	0.9%	10.9%	8.5%	8.7%
Share / Issue Repurchase	(446)	(340)	(225)	(600)	(1)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(39)	(46)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,172	1,260	1,647	1,758	2,531
Trade Receivables	2,318	2,544	2,772	3,429	3,847
Other Current Assets	2,333	2,365	1,352	892	774
Property, Plant & Equipment	428	383	364	354	358
Other Non-Current Assets	4,888	4,681	4,681	4,681	4,681
Total Assets	11,139	11,233	10,816	11,115	12,191
Short-Term Debt	49	89	89	89	89
Other Current Liabilities	5,356	5,761	4,914	5,098	5,403
Long-Term Debt	2,157	2,113	2,113	2,113	2,113
Other Non-Current Liabilities	973	886	886	886	886
Total Liabilities	8,534	8,850	8,003	8,187	8,492
Total Equity	2,605	2,384	2,811	2,925	3,695
Total Equity & Liabilities	11,139	11,233	10,814	11,112	12,187

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

Company Sector

Engineering & Construction

Company Description

AECOM is a premier global engineering and design firm with a leading market position both in the US and globally. AECOM is ranked as the second largest architectural & engineering design firm in the world. Key end markets include Transportation, Environmental, Facilities, and Government services.

Investment Rationale

AECOM is pivoting to a lower risk, professional services model via several strategic actions. We like the strategy, although there are still several initiatives to execute in the medium term amidst a slowing global growth backdrop.

Stock Data

Average Daily Volume

710,449

Quarterly Earnings Estimates

	2023	2024
Q1	0.84A	1.05A
Q2	0.92A	1.05E
Q3	0.94A	1.15E
Q4	1.01A	1.15E

Price objective basis & risk

AECOM (ACM)

Our \$100 PO is based on 13x our 2024E EBITDA. This multiple is moving more in line with professional services/design peers and defensive/infrastructure related peers given AECOM's improving balance sheet (net leverage of 1.1x, net debt free in 18 months) and portfolio transformation into a professional services firm. We believe the growth outlook is recovering given potential for infrastructure, transportation, and environmental spending initiatives.

Downside risks to our PO are 1) weaker-than-expected global construction growth, particularly public spending in the US, 2) higher-than-expected headwind from COVID-19, 3) shortfall in execution around CS divestiture or hitting FCF conversion target.

Upside risks to our PO are 1) stronger-than-expected infrastructure spending by local, state, and federal agencies, 2) higher-than-forecast cost savings from the restructuring program, 3) better-than-expected free cash flow generation.

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
	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



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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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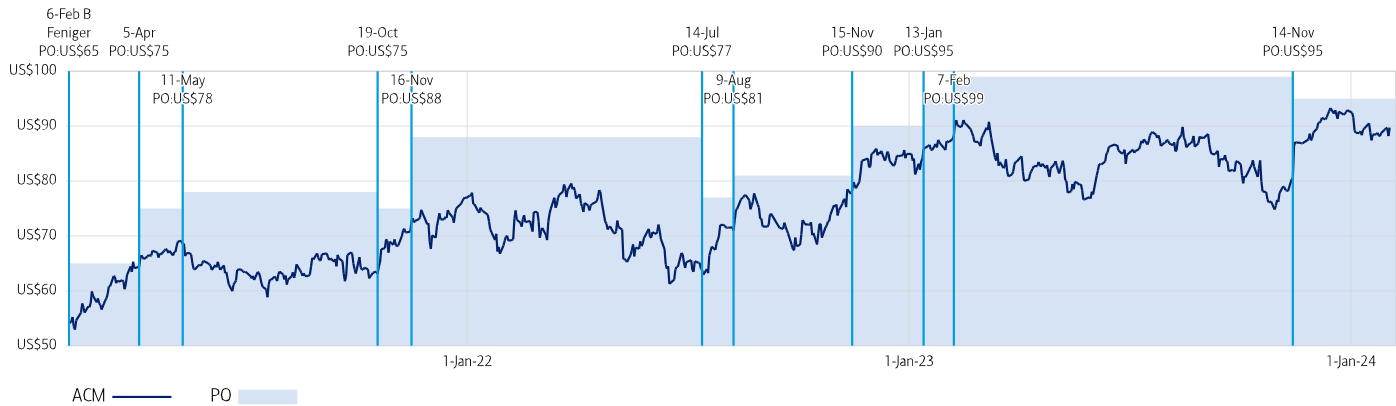
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AECOM (ACM) Price Chart



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: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

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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