

WEX Inc.

WEX Bank filing sparks some credit concern headed into 4Q print

Maintain Rating: BUY | PO: 260.00 USD | Price: 207.25 USD

WEX Bank results add credit risk to 4Q reporting

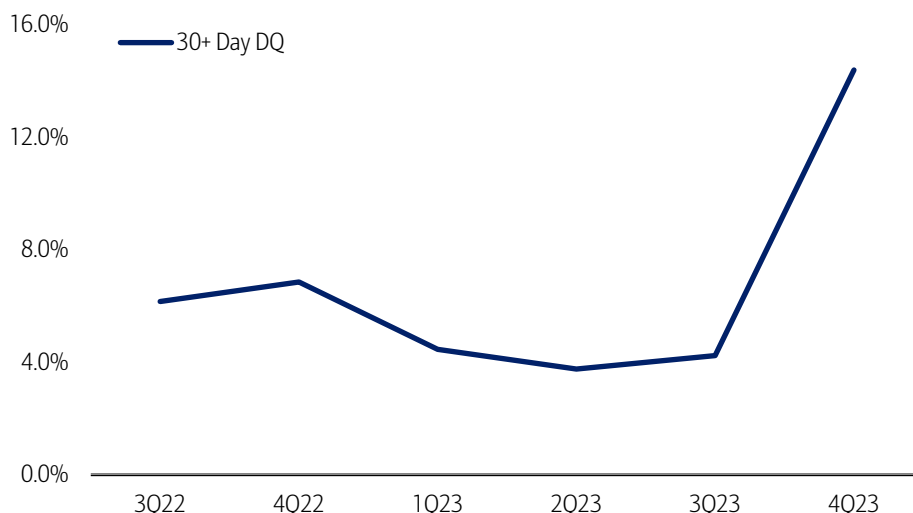
Data from WEX Bank's regulatory filings with the Federal Financial Institutions Examinations Council suggests that delinquencies (DQ) increased sharply in 4Q (see Exhibit 1). We calculate that the 30+ DQ rate at WEX Bank increased to 14.4% as of December 31, 2023, up from 4.2% in 3Q and 7.5% in 4Q22. While it is difficult to perfectly reconcile WEX Bank's regulatory filings to WEX's GAAP reporting, we think that the weaker credit results at WEX Bank could be an indication that provision for credit losses at WEX will be higher in 4Q23 and could put 4Q estimates at risk. We note that in 2022, WEX Bank's delinquencies increased, as did credit losses and provisions at WEX (see Exhibit 2).

Potential downside to 4Q results on Thursday

Credit weakness would be a negative surprise at WEX, as it has been calling out improvements in delinquency rates and credit performance due to machine learning enhancements in recent quarters. WEX reports 4Q23 results pre-market on February 8, and we forecast 4Q EPS of \$3.66, at the low end of guidance and below consensus of \$3.73 (see the report, [FLT/WEX 4Q Preview 31 January 2024](#)), though we acknowledge that there could be additional downside risk due to credit.

Exhibit 1: WEX Bank DQ rate increased sharply in 4Q23

30+ delinquency rate



Source: BofA Global Research, WEX Bank Federal Financial Institutions Examination Council Call Report

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Maintain Buy rating on long-term fundamentals

While we are concerned about the near-term credit outlook/performance, we maintain our Buy rating on WEX. WEX should benefit from a soft landing and improving freight data. The Benefits and Corporate Payments verticals should also continue to see healthy growth. With the shares currently trading at about a 13/12x PE multiple on 2023/24e EPS, we view valuation as relatively undemanding.

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05 February 2024

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Stock Data

Price	207.25 USD
Price Objective	260.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-1-9
52-Week Range	161.95 USD - 210.95 USD
Mrkt Val (mn) / Shares Out (mn)	8,857 USD / 42.7
Free Float	99.3%
Average Daily Value (mn)	57.63 USD
BofA Ticker / Exchange	WEX / NYS
Bloomberg / Reuters	WEX US / WEX.N
ROE (2023E)	36.4%
Net Dbt to Eqty (Dec-2022A)	128.1%
ESGMeter™	Medium

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DQ: delinquency

Exhibit 2: Delinquencies increased sharply in 4Q23 at WEX Bank, potentially a sign of higher credit provisions at WEX

WEX Bank call report DQ data and WEX reported provision expense / reserve rate

Call report	Total loans	30-89 DQ	90+ DQ	Non-accrual	30+ DQ	GAAP Provision Expense	Reserve rate
4Q23	\$3,049,443	\$417,379 13.7%	\$21,501 0.7%	\$2,948 0.1%	\$438,880 14.4%		
3Q23	\$3,628,553	\$136,375 3.8%	\$17,480 0.5%	\$2,867 0.1%	\$153,855 4.2%	\$9,400	2.43%
2Q23	\$3,243,038	\$102,263 3.2%	\$19,715 0.6%	\$3,809 0.1%	\$121,978 3.8%	\$22,700	3.00%
1Q23	\$2,999,248	\$105,465 3.5%	\$28,334 0.9%	\$5,207 0.2%	\$133,799 4.5%	\$45,400	3.35%
4Q22	\$2,948,587	\$170,688 5.8%	\$31,494 1.1%	\$4,797 0.2%	\$202,182 6.9%	\$58,041	3.25%
3Q22	\$3,439,417	\$179,464 5.2%	\$32,566 0.9%	\$3,838 0.1%	\$212,030 6.2%	\$54,030	2.60%
2Q22	\$4,011,395	\$119,644 3.0%	\$37,841 0.9%	\$2,344 0.1%	\$157,485 3.9%	\$42,186	2.21%
1Q22	\$3,413,823	\$85,225 2.5%	\$32,174 0.9%	\$2,002 0.1%	\$117,399 3.4%	\$25,640	1.94%

Source: BofA Global Research, WEX Bank Federal Financial Institutions Examination Council Call Report, company reports (provision expense / reserve rate)

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Exhibit 3: Our estimates are below the street and at the low end of 4Q23 guidance

4Q23 BofAe versus consensus

EPS	BofAe		Consensus	
	\$3.66		\$3.73	
Income Statement	Revenue	(YoY)	Revenue	(YoY)
Mobility Revenue	334.6	-9%	341.7	-7%
Corporate Payments Revenue	125.4	13%	132.5	20%
Benefits Revenue	188.4	34%	181.1	29%
Total Revenue	648.4	5%	655.1	6%
Operating Income (Adjusted)	249.5	5%	257.8	8%
Net Income attr. Shareholders	158.8	4%	161.3	6%
Key Metrics		(YoY)		(YoY)
Payment Processing Gallons of Fuel	3,574	-1%	3,590	-1%
Average US Fuel Price	3.72	-14%	3.87	-11%
Corporate Payments Purchase Volume	24,210	42%	23,414	37%
Benefits Purchase Volume	1,539	12%	1,533	12%

Source: BofA Global Research, Visible Alpha

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Price objective basis & risk**WEX Inc. (WEX)**

We calculate our price objective of \$260 based on 14.5x our 2025 non-GAAP EPS estimate. Our PE multiple is a 20% discount to the S&P, which we view as warranted given fuel exposure and potential for business cyclicity slightly offset by WEX's strong fundamentals and favorable long-term trends.

Downside risks to our price objective are 1) weakening macro environment reduces

demand for trucking/fuel, 2) increased competition, 3) large fluctuations in fuel prices/foreign exchanges rates, 4) travel volumes remain muted.

Analyst Certification

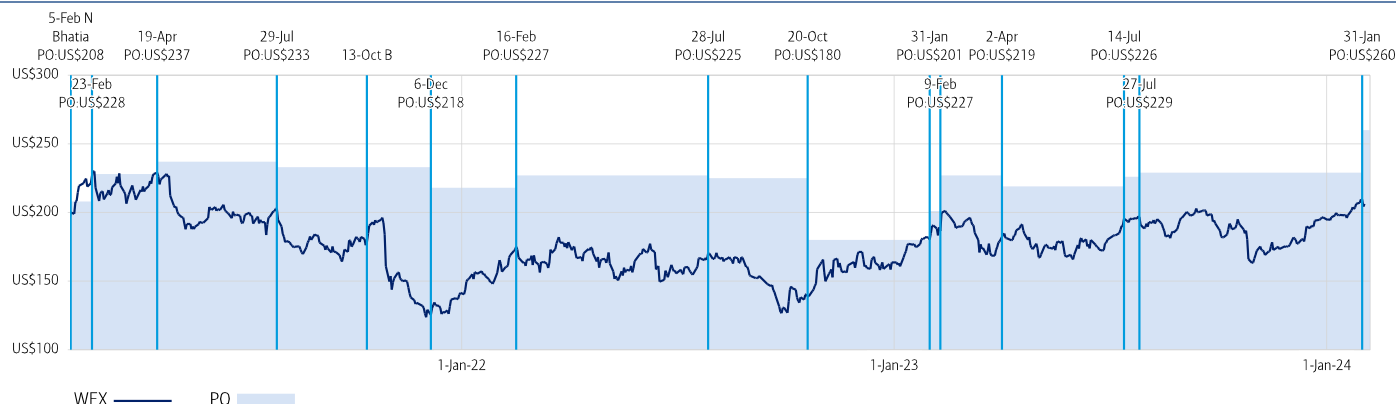
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WEX Inc. (WEX) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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