

## Trex Company, Inc.

# No dec(k)eleration into 2024 and guidance looks conservative; Raise PO and EPS

Reiterate Rating: BUY | PO: 105.00 USD | Price: 94.86 USD

## TREX 4Q in-line and initiates full year guidance in-line

TREX reported adj. EPS roughly in-line with our forecast and ahead of consensus. TREX initiated 2024 guidance of revenues in the range of \$1.215B-\$1.235B and EBITDA margin of 30.0%-30.5%. We slightly lower our above consensus 2024E by -2%, but raise our 2025E EPS forecast by 2%. We raise our PO to \$105 (from \$103), still based on 25X '25E EV/EBITDA. Reiterate Buy.

## 1Q revenue guide is way ahead; 2H looks conservative

TREX guided to 1Q revenue of \$360M-\$370M (mid-point 19% above consensus) which was well above our forecast of \$346mm (see preview - [Reiterate Buy on AZEK/TREX: expect TREX to beat 4Q and guide 1Q above consensus](#)). 1Q includes a ~\$60-80M shift in early buy from 4Q23 to 1Q24 (in-line with prior guidance). We think the full year revenue guidance is conservative given: 1) implies just flattish YoY growth in 2H24 (based on our math) vs. 4Q sell-through (distributor sales to dealers) growth of mid-single digit % (unchanged from 3Q), and 2) Management is assuming sell-out outpaces sell-in and repair & remodel market is flat to down low-single digits. Trex's composite decking continues to outperform other building product categories (growing YoY off an exceptionally high base) due to the continued conversion from wood.

## We also see upside to incremental margin

TREX's guidance implies roughly 37% incremental margins at the mid-point, which we believe is conservative. Importantly, Trex's margin initiatives are still in the early stages/sustainable longer term including production optimization and efficiency, line upgrades, energy efficiency, and raw material processing improvements (recycling) - see report [TREX investor day: outlook for double-digit growth against a higher base](#). Trex remains well positioned competitively as the highest volume and lowest cost producer in composite decking. Mgmt noted that they can offset normal inflation on materials (~2%) with continuous improvement programs. TREX expects 20-30bps of SG&A leverage for the full year as operating leverage offsets continued R&D and marketing investments.

## 4Q23 roughly in-line with BofA; ahead of consensus

TREX reported 4Q23 adjusted EPS of \$0.20 (vs. consensus \$0.19) and slightly below our forecast of \$0.21. Resi revenue increased 8% YoY, but resi EBITDA margin fell ~550bps due to headwinds from an early buy timing shift.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.80	1.86	2.37	2.76	3.19
EPS Change (YoY)	-16.0%	3.7%	27.3%	16.5%	15.5%
Consensus EPS (Bloomberg)			2.29	2.70	3.38
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	52.8x	50.9x	40.0x	34.4x	29.7x
EV / EBITDA*	33.4x	32.3x	26.5x	23.0x	20.4x
Free Cash Flow Yield*	0.4%	2.2%	0.1%	1.7%	2.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

26 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	103.00	105.00
2024E EPS	2.41	2.37
2025E EPS	2.71	2.76
2026E EPS	3.10	3.19

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### Stock Data

Price	94.86 USD
Price Objective	105.00 USD
Date Established	26-Feb-2024
Investment Opinion	C-1-9
52-Week Range	44.90 USD - 95.45 USD
Mrkt Val (mn) / Shares Out (mn)	10,319 USD / 108.8
Free Float	99.3%
Average Daily Value (mn)	81.90 USD
BofA Ticker / Exchange	TREX / NYS
Bloomberg / Reuters	TREX US / TREX.N
ROE (2024E)	30.5%
Net Dbt to Eqty (Dec-2023A)	0.5%
ESGMeter <sup>TM</sup>	Medium

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"](#).

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 26 February 2024 09:52PM EST

# iQprofile<sup>SM</sup> Trex Company, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	27.6%	28.0%	28.9%	25.6%	24.2%
Return on Equity	32.3%	32.8%	30.5%	27.1%	25.2%
Operating Margin	24.3%	24.9%	26.7%	27.5%	28.3%
Free Cash Flow	40	223	15	173	215

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.9x	0.9x	1.1x	1.1x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	25.2%	25.6%	25.5%	25.5%	25.5%
Net Debt-to-Equity Ratio	40.5%	0.5%	-1.2%	-11.7%	-17.6%
Interest Cover	NA	NM	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,106	1,095	1,280	1,439	1,600
% Change	-7.6%	-1.0%	16.9%	12.5%	11.1%
Gross Profit	404	449	543	621	697
% Change	NA	NA	NA	NA	NA
EBITDA	312	323	393	454	511
% Change	-13.8%	3.2%	21.8%	15.6%	12.3%
Net Interest & Other Income	0	0	5	5	5
<b>Net Income (Adjusted)</b>	<b>201</b>	<b>203</b>	<b>258</b>	<b>299</b>	<b>341</b>
<b>% Change</b>	<b>-18.8%</b>	<b>0.8%</b>	<b>27.3%</b>	<b>16.0%</b>	<b>14.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	201	203	258	299	341
Depreciation & Amortization	0	0	0	0	0
Change in Working Capital	(58)	116	(75)	(24)	(24)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	73	70	52	58	58
Capital Expenditure	(176)	(166)	(220)	(160)	(160)
<b>Free Cash Flow</b>	<b>40</b>	<b>223</b>	<b>15</b>	<b>173</b>	<b>215</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Share / Issue Repurchase	(397)	(17)	0	(40)	(100)
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	12	2	117	250	365
Trade Receivables	98	41	140	158	175
Other Current Assets	176	129	123	134	146
Property, Plant & Equipment	590	709	877	979	1,081
Other Non-Current Assets	57	51	51	51	51
<b>Total Assets</b>	<b>934</b>	<b>933</b>	<b>1,309</b>	<b>1,573</b>	<b>1,819</b>
Short-Term Debt	222	6	106	106	106
Other Current Liabilities	69	86	104	109	114
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	125	125	125	125	125
<b>Total Liabilities</b>	<b>415</b>	<b>216</b>	<b>335</b>	<b>339</b>	<b>344</b>
<b>Total Equity</b>	<b>518</b>	<b>717</b>	<b>974</b>	<b>1,234</b>	<b>1,474</b>
<b>Total Equity &amp; Liabilities</b>	<b>934</b>	<b>933</b>	<b>1,309</b>	<b>1,573</b>	<b>1,819</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Building Products

## Company Description

TREX is the largest manufacturer of residential composite decking and railing in the US and a leading manufacturer of commercial railing and staging systems. TREX products are sold through both distribution and retail channels and are stocked at over 6,700 locations. Beginning in 2023, TREX will operate in one reportable segment, Residential. In 2022, the Residential segment generated 96% of total revenue while the Commercial segment generating the remaining 4%.

## Investment Rationale

We rate TREX shares Buy. Following channel destocking, we believe TREX is well positioned for long-term material conversion away from wood to composite decks and continued gross margin expansion.

## Stock Data

Average Daily Volume 863,328

## Quarterly Earnings Estimates

	2023	2024
Q1	0.38A	0.74E
Q2	0.71A	0.79E
Q3	0.57A	0.61E
Q4	0.20A	0.22E

**Exhibit 1: TREX 4Q23 earnings compared to BofA forecasts**

TREX earnings were roughly in line with our forecasts

Income Statement	YoY Change			Variance vs BofAe		
	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Sales (\$ mm)	\$192	\$196	2%	\$193	\$196	1%
Gross Margin	34.1%	36.1%	199 bps	37.0%	36.1%	-91 bps
SG&A % of Sales	15.8%	21.7%	594 bps	21.5%	21.7%	22 bps
Operating Margin	18.3%	14.4%	-395 bps	15.5%	14.4%	-113 bps
EBITDA Margin	24.1%	21.0%	-305 bps	21.7%	21.0%	-70 bps
Pre-tax Margin	18.3%	15.7%	-265 bps	15.9%	15.7%	-21 bps
<b>Operating EPS</b>	<b>\$0.23</b>	<b>\$0.20</b>	<b>(13.4%)</b>	<b>\$0.21</b>	<b>\$0.20</b>	<b>(4%)</b>
<b>Adjusted EBITDA</b>	<b>\$46.2</b>	<b>\$41.1</b>	<b>(11.0%)</b>	<b>\$42.0</b>	<b>\$41.1</b>	<b>(2%)</b>
Segment Results	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
<b>Sales</b>						
Residential	\$181	\$196	8.4%	\$193	\$196	1%
Commercial	\$11					
<b>Segment adjusted EBITDA</b>						
Residential	\$48	\$41	(14.3%)	\$42	\$41	(1%)
Commercial	(\$2)					
<b>Segment adjusted EBITDA margin</b>						
Residential	26.6%	21.0%	-554 bps	21.5%	21.0%	-49 bps
Commercial	(15.3%)					

Source: BofA Global Research estimates, Company Data

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**Exhibit 2: TREX Income Statement**

We expect TREX's EPS to increase in 2024/2025

YE 12/31	2024E				2023	2024E	2025E
	3/30/2024	6/29/2024	9/29/2024	12/30/2024	12/31/2023	12/31/2024	12/31/2025
	1QE	2QE	3QE	4QE			
<b>Net Sales</b>	<b>\$370.0</b>	<b>\$385.1</b>	<b>\$319.0</b>	<b>\$205.5</b>	<b>\$1,094.8</b>	<b>\$1,279.6</b>	<b>\$1,439.4</b>
Cost of sales	209.1	214.5	183.4	129.9	646.2	736.9	818.7
<b>Gross Profit</b>	<b>\$161.0</b>	<b>\$170.6</b>	<b>\$135.6</b>	<b>\$75.6</b>	<b>\$448.6</b>	<b>\$542.8</b>	<b>\$620.7</b>
Selling, general & administrative	53.7	55.8	47.9	44.4	176.2	201.7	224.3
Impairment of long-lived assets	-	-	-	-	-	-	-
<b>Operating income</b>	<b>\$107.3</b>	<b>\$114.7</b>	<b>\$87.7</b>	<b>\$31.2</b>	<b>\$272.4</b>	<b>\$341.0</b>	<b>\$396.4</b>
Interest expense	(1.3)	(1.3)	(1.3)	(1.3)	0.0	(5.0)	(5.0)
<b>Earnings before income taxes</b>	<b>\$108.6</b>	<b>\$116.0</b>	<b>\$89.0</b>	<b>\$32.5</b>	<b>\$272.4</b>	<b>\$346.0</b>	<b>\$401.4</b>
Income tax expense	27.7	29.6	22.7	8.3	69.8	88.2	102.4
<b>Earnings from continuing operations</b>	<b>\$80.9</b>	<b>\$86.4</b>	<b>\$66.3</b>	<b>\$24.2</b>	<b>\$202.6</b>	<b>\$257.8</b>	<b>\$299.0</b>
Gain (Loss) from discontinued operations	-	-	-	-	-	-	-
<b>Net income attributable to TREX</b>	<b>\$80.9</b>	<b>\$86.4</b>	<b>\$66.3</b>	<b>\$24.2</b>	<b>\$202.6</b>	<b>\$257.8</b>	<b>\$299.0</b>
Non-recurring items	-	-	-	-	2.8	-	-
GAAP Net Income	\$80.9	\$86.4	\$66.3	\$24.2	\$205.4	\$257.8	\$299.0
Diluted EPS (GAAP)	\$0.74	\$0.79	\$0.61	\$0.22	\$1.89	\$2.37	\$2.76
<b>Diluted EPS (Cont. Ops.)</b>	<b>\$0.74</b>	<b>\$0.79</b>	<b>\$0.61</b>	<b>\$0.22</b>	<b>\$1.86</b>	<b>\$2.37</b>	<b>\$2.76</b>
<b>Adjusted Common Shares Outstanding:</b>							
Diluted	108.8	108.8	108.8	108.8	108.8	108.8	108.3
Dividend per share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
YoY growth in Dividend/share	0.0%	0.0%	0.0%	0.0%	nm	nm	nm
<b>EBITDA Calculation</b>							
<b>Net income (loss)</b>	<b>\$80.9</b>	<b>\$86.4</b>	<b>\$66.3</b>	<b>\$24.2</b>	<b>\$202.6</b>	<b>\$257.8</b>	<b>\$299.0</b>
Interest income, net	(1.3)	(1.3)	(1.3)	(1.3)	0.0	(5.0)	(5.0)
Depreciation and amortization	13.0	13.0	13.0	13.0	50.2	52.0	58.0
Impairment of long-lived assets	-	-	-	-	-	-	-
Income tax (benefit)	27.7	29.6	22.7	8.3	69.8	88.2	102.4
<b>(=) Adjusted EBITDA</b>	<b>\$120.3</b>	<b>\$127.7</b>	<b>\$100.7</b>	<b>\$44.2</b>	<b>\$322.6</b>	<b>\$393.0</b>	<b>\$454.4</b>
<b>Margins</b>							
Gross Margin	39.4%	39.5%	40.0%	39.8%	41.0%	42.4%	43.1%
SG&A % Sales	12.9%	12.5%	12.5%	13.1%	16.1%	15.8%	15.6%
Operating Margin	29.0%	29.8%	27.5%	15.2%	24.9%	26.7%	27.5%
EBIT Margin	29.0%	29.8%	27.5%	15.2%	24.9%	26.7%	27.5%
<b>Adjusted EBITDA Margin</b>	<b>32.5%</b>	<b>33.2%</b>	<b>31.6%</b>	<b>21.5%</b>	<b>29.5%</b>	<b>30.7%</b>	<b>31.6%</b>



**Exhibit 2: TREX Income Statement**

We expect TREX's EPS to increase in 2024/2025

YE 12/31		2024E				2023	2024E	2025E
Incremental Adjusted EBITDA Margin	39.2%	37.5%	34.1%	31.9%		(90.2%)	38.1%	38.4%
Incremental Gross Margin	50.7%	49.6%	55.9%	51.1%		(398.2%)	50.9%	48.8%
Pre-tax Margin	29.3%	30.1%	27.9%	15.8%		24.9%	27.0%	27.9%
Net Margin	21.9%	22.4%	20.8%	11.8%		18.5%	20.1%	20.8%
Tax rate	25.0%	25.0%	25.0%	25.0%		25.6%	25.5%	25.5%
<b>YoY % Change</b>								
Sales	55.0%	8.0%	5.0%	5.0%		(1.0%)	16.9%	12.5%
Gross Profit	70.5%	9.0%	6.7%	7.1%		11.0%	21.0%	14.4%
Operating Profit	88.4%	9.5%	6.3%	11.1%		1.4%	25.2%	16.2%
Adjusted EBITDA	74.7%	9.1%	5.4%	7.6%		3.2%	21.8%	15.6%
Pre-tax Profit	97.5%	12.1%	6.8%	5.9%		1.4%	27.0%	16.0%
Net Income	96.6%	12.2%	6.2%	10.3%		0.8%	27.3%	16.0%
EPS	96.9%	12.2%	6.1%	10.3%		3.7%	27.3%	16.5%
<b>YoY BPS Change</b>								
Gross Margin	10 bps	20 bps	0 bps	20 bps		445 bps	144 bps	71 bps
SG&A % Sales	-10 bps	0 bps	-3 bps	0 bps		385 bps	-33 bps	-18 bps
Operating Margin	514 bps	42 bps	33 bps	83 bps		60 bps	177 bps	89 bps
EBIT Margin	514 bps	42 bps	33 bps	83 bps		60 bps	177 bps	89 bps
EBITDA Margin	367 bps	35 bps	12 bps	52 bps		121 bps	125 bps	86 bps
Pre-tax Margin	631 bps	111 bps	48 bps	14 bps		59 bps	216 bps	85 bps
Net Margin	463 bps	84 bps	23 bps	56 bps		33 bps	164 bps	63 bps
Tax rate	0 bps	0 bps	0 bps	0 bps		44 bps	-14 bps	0 bps

Source: BofA Global Research estimates, Company Data

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## Price objective basis & risk

### Trex Company, Inc. (TREX)

Our \$105 PO is based on a 25X 2025E EV/EBITDA multiple, which is slightly above TREX's trailing 5-year average (22X), given a favorable growth outlook and a lower rate backdrop. We believe EV/EBITDA is the most appropriate metric for valuing the building product companies.

Upside risks to our PO: 1) an acceleration in residential repair & remodeling and outdoor living spending, 2) a faster than expected conversion from wood decks to composite decks, 3) faster than expected share gains, 4) stronger than anticipated pricing, and 5) continued consumer preference towards enhancing the overall outdoor living space.

Downside risks to our PO: 1) a slowdown in residential repair & remodeling spending, 2) a slower than expected conversion from wood decks to composite decks, 3) market share loss, 4) a mix shift in consumer preferences away from outdoor living, 5) a slowing US economy and 6) rising interest rates.

## Analyst Certification

I, Rafe Jadrosich, 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 - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
<b>NEUTRAL</b>				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
	Smith Douglas Homes Corp.	SDHC	SDHC US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

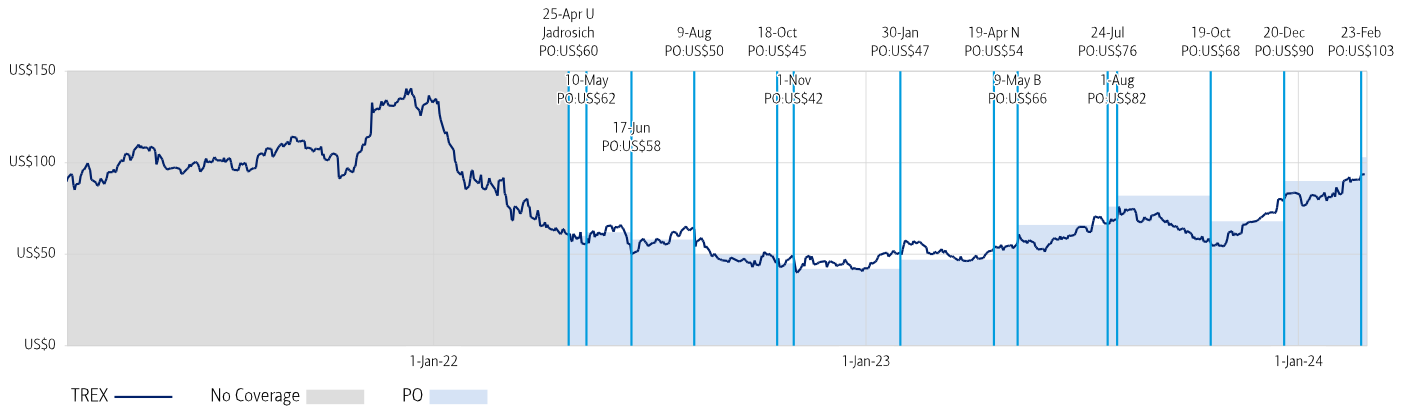
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### Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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