

BorgWarner

# A low-voltage quarter and conservative outlook – 4Q first take

Maintain Rating: BUY | PO: 52.00 USD | Price: 33.83 USD

## Lighter revenue and Air Management drive 4Q miss

BWA reported 4Q:23 adj. operating EPS of \$0.90, below our estimate of \$0.98 and consensus \$0.94. The miss was largely driven by lower sales and weaker margins, especially for Air Management. Total revenue of \$3.52bn (BofAe \$3.76bn) increased about 6% YoY, which still appears to have been weighed down by the relative shift towards ICE from EVs. Total consolidated operating income of \$332mm was also above BofAe of \$369mm, which translated to an operating margin of 9.4% (BofAe 9.8%), hindered by lower sales.

## 2024 outlook predicated on flat to down production outlook

BWA released its 2024 outlook. Revenue is expected to come in at \$14.4bn-\$14.9bn (BofA \$15.2bn/consensus \$15.3bn), with e-Product sales projected to grow to \$2.5bn-\$2.8bn from \$2.0bn in 2023. We note that BWA's outlook is conservatively predicated on the assumption of -2.5% to flat global production volumes (weighted on BWA's geographical exposure). The company also assumes that global EV penetration expands to ~15% from ~12% in 2023. Adjusted operating margin is expected to come in at 9.2%-9.6% (BofA 10.4%/consensus 9.8%). The company notes that adjusted operating margin is negatively affected by the acquisition of the electric hybrid systems business of Eldor, which represents a headwind of 30-40bps. Adjusted EPS guidance is \$3.65-\$4.00 (BofA \$4.30/consensus \$4.24). Other 2024 items include operating cash flow of \$1,325m-\$1,375m, capex \$800m-\$850m, free cash flow of \$475m-\$575m, and tax rate of ~25%.

## Segments mixed with Air Management underwhelming

BWA's Air Management sales of \$1.88bn were light (BofAe \$2.02bn), with weak segment margin of 15.2% (BofAe 17.3%), which resulted in a lower adjusted EBIT of \$287mm versus our estimate of \$349mm. e-Propulsion sales of \$542mm were below our estimate of \$622mm, with a segment margin of -3.0% (BofAe -1.2%), worse than our estimate, driving adjusted EBIT of -\$16mm versus our estimate of -\$8mm. Drivetrain & Battery Systems came in at \$1.13bn, below our \$1.16bn expectation, with segment margin of 12.8% above BofA of 11.5%.

## Volume on the way, maintain Buy

BWA reported light 4Q:23 results and provided an underwhelming outlook. However, we believe that BWA, in line with other suppliers, is overly cautious on industry production volumes for 2024, which are guided to be flat to negative, while we expect a small increase. We continue to believe that BWA is on the right path with its Charging Forward strategy, which, paired with fading disruptions in the auto industry and volume growth, should drive upside in results and the stock. We maintain our Buy rating.

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### Stock Data

Price	33.83 USD
Price Objective	52.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-1-7
52-Week Range	31.63 USD - 47.05 USD
Mkt Val (mn) / Shares Out (mn)	8,102 USD / 239.5
Free Float	99.4%
Average Daily Value (mn)	78.07 USD
BofA Ticker / Exchange	BWA / NYS
Bloomberg / Reuters	BWA US / BWA.N
ROE (2023E)	10.0%
Net Dbt to Eqty (Dec-2022A)	31.4%
ESGMeter™	High

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BWA = BorgWarner

EV = Electric Vehicle

FCF = Free Cash Flow

ICE = Internal Combustion Engine

**Exhibit 2: BWA YoY and variance table versus BofAe**

BWA reported 4Q:23 adjusted operating EPS of \$0.90 versus BofAe of \$0.98

	Actual 4Q:23	Actual 4Q:22	Var YoY%	Actual 4Q:23	BofA 4Q:23	Var vs BofA
<b>Income Statement</b>						
Net sales	3,522	3,317	6.2%	3,522	3,760	-6.3%
COGS	2,863	2,678	6.9%	2,863	3,068	-6.7%
Gross profit	659	639	3.1%	659	692	-4.8%
SG&A	318	319	-0.3%	318	323	-1.6%
Restructuring expense	-	-	nm	-	-	nm
Other operating expense, net	9	(1)	nm	9	-	nm
Operating income	332	321	3.4%	332	369	-9.9%
Diluted EPS	0.90	0.94	-4.3%	0.90	0.98	-8.4%

	Actual 4Q:23	Actual 4Q:22	Var bps	Actual 4Q:23	BofA 4Q:23	Var bps
<b>Margins</b>						
Gross margin	18.7%	19.3%	-60 bps	18.7%	18.4%	30 bps
Operating margin	9.4%	9.7%	-30 bps	9.4%	9.8%	-40 bps

	Actual 4Q:23	Actual 4Q:22	Var YoY%	Actual 4Q:23	BofA 4Q:23	Var vs BofA
<b>Segments</b>						
Revenue						
Air management	1,882	1,809	4.0%	1,882	2,021	-6.9%
e-Propulsion	542	545	-0.6%	542	622	-12.8%
Drivetrain & Battery Systems	1,130	990	14.1%	1,130	1,157	-2.4%
Inter-segment eliminations	(39)	(27)	44.4%	(39)	(40)	-2.5%
Total	3,515	3,317	6.0%	3,515	3,760	-6.5%

<b>Adjusted Operating Income</b>						
Air management	287	280	2.5%	287	349	-17.7%
e-Propulsion	(16)	1	-1700.0%	(16)	(8)	110.8%
Drivetrain & Battery Systems	145	119	21.8%	145	133	9.4%
Corporate	(84)	(84)	0.0%	(84)	(105)	-20.0%
Total	332	316	5.1%	332	369	-9.9%

<b>Margins</b>						
Air management	15.2%	15.5%	-20 bps	15.2%	17.3%	-200 bps
e-Propulsion	-3.0%	0.2%	-310 bps	-3.0%	-1.2%	-170 bps
Drivetrain & Battery Systems	12.8%	12.0%	80 bps	12.8%	11.5%	140 bps
Corporate	215.4%	311.1%	-9570 bps	215.4%	262.5%	-4710 bps
Total	9.4%	9.5%	-10 bps	9.4%	9.8%	-40 bps

Source: Company filings, BofA Global Research estimates. Var = variance.

BofA GLOBAL RESEARCH

**Price objective basis & risk****BorgWarner (BWA)**

Our price objective of \$52 is based on an EV/EBITDA multiple of roughly 7.0x on our 2024 estimates, which we believe reflects the higher growth trajectory on which the company positioned itself after the spin-off of the Fuel Systems and Aftermarket segments in July 2023.

Downside risks: 1) relaxed fuel-efficiency regulations, 2) increased competition in the turbocharger industry, 3) a longer than expected decline or flatline in US/global automotive volumes, 4) a continued rise in raw material costs, 5) slower electric vehicle adoption.

Upside risks: 1) strength in global auto production volumes, particularly in North America, 2) faster adoption of electric and hybrid vehicles, 3) BWA regains lost investor confidence through continued execution and performance.

## Analyst Certification

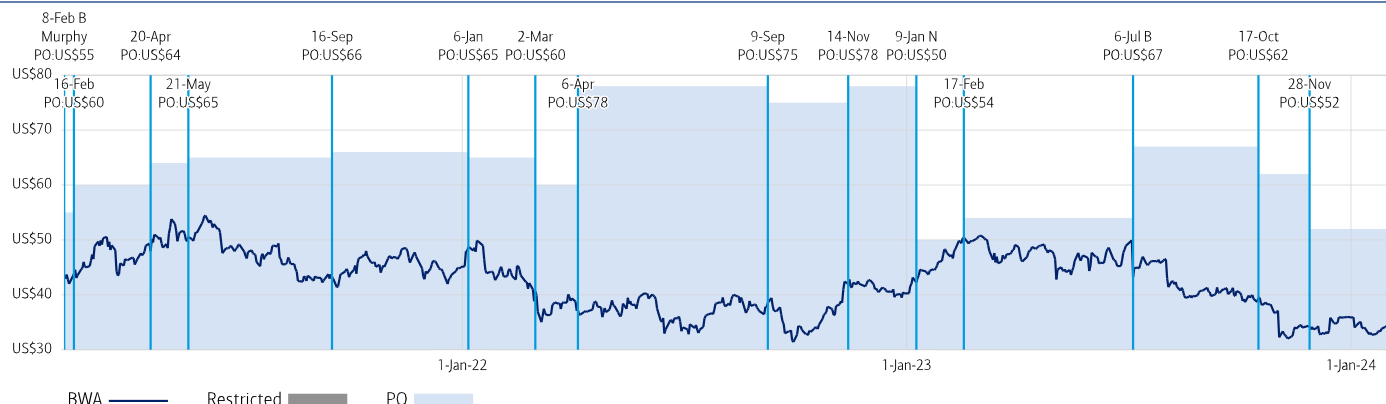
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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