

Payments, Processors & IT Services

FLT/WEX 4Q Preview

Price Objective Change

WEX shares underperform on falling fuel prices

Since the end of 3Q, shares for FleetCor (FLT) are up 16.7% and WEX Inc (WEX) 11.7%. While up nicely, WEX has trailed the S&P 500 which has appreciated 14.9% over the same period. While the market has gotten the benefit of a soft landing becoming more consensus, intra-quarter commentary on a challenging freight backdrop has persisted and oil prices have not been supportive. That said, freight demand appears to be improving and geopolitical risks and OPEC+ production cuts could lead to oil price swings. We think the biggest focus in 4Q will be 2024 guidance and while we expect FLT to report mid-teens EPS growth, we think WEX outlook could be at risk, due to lower fuel prices. We remain constructive on both companies' long-term fundamentals.

Unleaded and diesel down in 4Q – oil outlook lowered

Crude and Brent prices fell 21% and 13% respectively in 4Q following the spike driven by the Israel-Hamas conflict. BofA's Global Commodity Research team attribute the weakness to slower economic growth and rising oil supply from non-OPEC countries. Although geopolitical risks remain and OPEC+ can still cut production, they have reduced the Brent forecast to \$80/bbl from \$90/bbl previously (See: [Can \(geo\)politics Trump fundamentals? 07 January 2024](#) and Exhibit 2). Additionally, gas prices fell from \$3.82 to \$3.11 in 4Q alone (Exhibit 3). This could be a source of downside to 4Q estimates particularly for WEX which is more sensitive to fuel prices.

Freight recession in '23, trough may be behind us

Some signs imply that the freight market will be more constructive prospectively. Despite truck tonnage being down 1.7% in 2023, per ATA's index, December tonnage increased 2.1% m/m on a seasonally adjusted basis. December figures are also 2.6% above 2023 trough levels (April). FreightWaves data shows that the OTRI is rising, which signals tighter capacity, and tender volumes are above January 2023 levels.

4Q Expectations

FLT: Our 4Q revenue/EPS estimate of \$967M/\$4.51 compares to consensus at \$969M/\$4.49 (Exhibit 4). We forecast lower Fuel and Other revenue, partially offset by higher Brazil revenue and a slightly lower share count. In our conversations, investors remain mostly focused on forward guidance compared to the strategic review that dominated conversations in 2023. We expect '24 EPS to be back-half weighted and are forecasting FY24 at \$19.60 vs. consensus at \$19.48. We think investors want to see a return to at least mid-teens EPS growth in 2024 (BofAe/consensus at approx. 15%).

WEX: We forecast 4Q revenue/EPS of \$648M/\$3.66 below consensus at \$6.55/\$3.73, near the low end of guidance at \$650M/\$3.65. The weakness is primarily driven by fuel prices, as our estimates point to an average fuel price of \$3.72, below guidance at \$3.83. The difference could drive a miss on Fuel revenue, but in our forecast, this is partly offset by Benefits upside. One risk going into the print is forward guidance may be lackluster, as we estimate average fuel prices at \$3.42 YTD, well below consensus at \$3.74. This drives our full-year 2024 forecast to \$15.70 EPS vs. street at \$16.22. Aside from fuel, we expect a focus on Corporate Payments growth and take rates.

See Exhibit 1 and page 3 for PO changes.

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OTRI: Outbound Tender Reject Index

See inside for details on FLT and WEX PO and estimate changes

Exhibit 1: Raising price objectives

New vs old POs

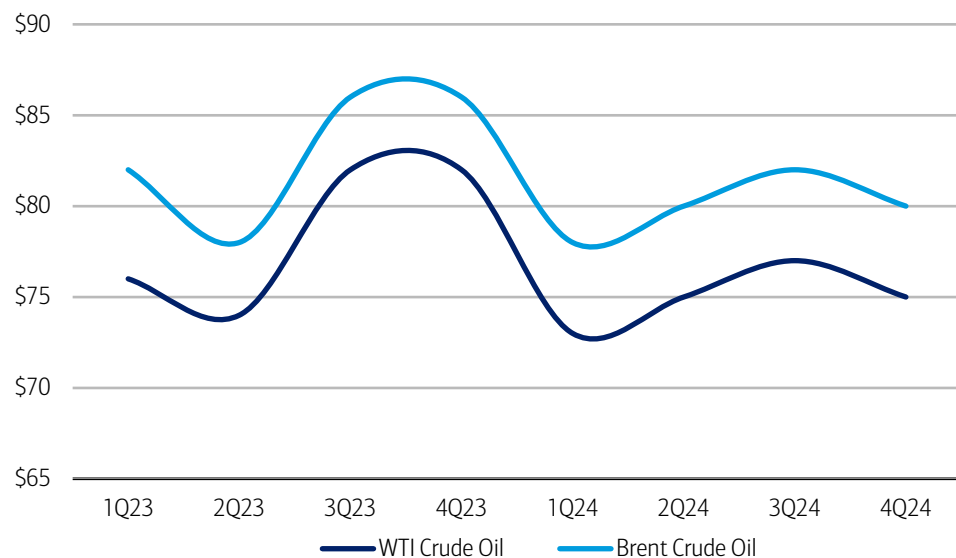
Ticker	New PO	Old PO
FLT	\$331	\$288
WEX	\$260	\$229

Source: BofA Global Research

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Exhibit 2: Oil price forecasts were revised downward, but we expect a lift in 2H24

BofA WTI and Brent forecasts

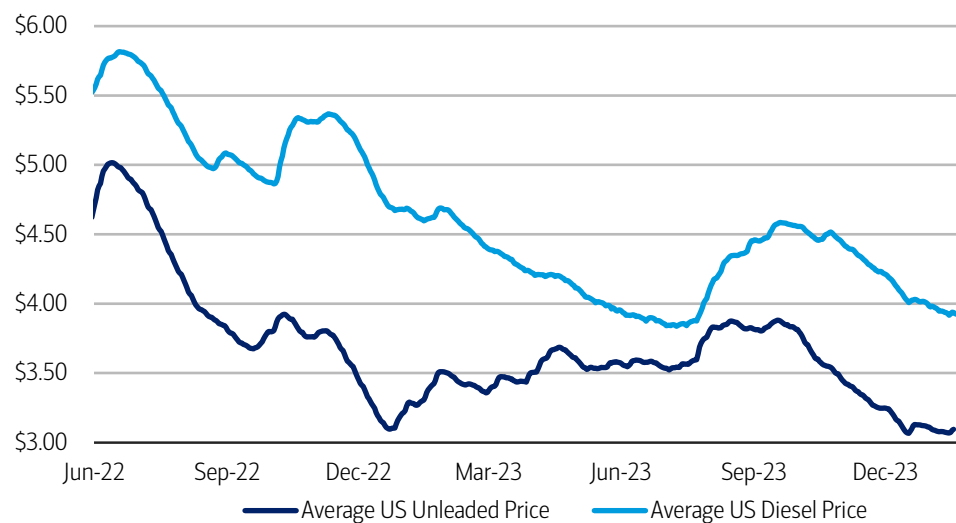


Source: BofA Global Research estimates

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Exhibit 3: Diesel and unleaded prices declined quickly in 4Q23

Daily average US unleaded and diesel prices



Source: AAA

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4Q BofAe vs consensus

FleetCor (FLT) reports earnings

For FLT, we tweak our 4Q23/2024 EPS estimate to \$4.51/\$19.60 from \$4.54/\$19.89 as we account for lower fuel prices partially offset by better OpEx control. We increase our PO to \$331 from \$288 based on a 14.5x multiple to 2025e EPS (14.5x 2024e prior) as we roll-forward our PO to be based of 2025e. A 14.5x multiple is a 20% discount to the S&P 500, which we view as warranted given fuel exposure and potential for idiosyncratic risks, offset by solid fundamentals and capital deployment upside potential.

Exhibit 4: FLT 4Q estimates

BofAe vs consensus

EPS	4Q			
	BofAe \$4.51		Consensus \$4.49	
Income Statement	Revenue	(YoY)	Revenue	(YoY)
Fuel Cards	368.4	5%	371.8	6%
Corporate Payments	258.3	28%	257.3	27%
Tolls	139.4	43%	133.8	37%
Lodging	137.4	15%	135.4	14%
Other	63.9	-4%	67.5	2%
Total Revenue	967.4	9%	969.4	0%
OpEx	528.8	5%	527.2	5%
Net Income	331.8	11%	331.2	10%
Volumes		(YoY)		(YoY)
Fuel Transactions	120.9	1%	119.8	0%
Corporate Payments	37,782	26%	38,021	27%
Tolls	6.8	8%	6.7	7%
Lodging	9.0	0%	9.0	0%

Source: BofA Global Research estimates, Visible Alpha

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For WEX, we adjust our 4Q23/2024 EPS estimate to \$3.66/\$15.70 down from \$3.67/\$15.91 as we account for lower fuel prices. We increase our price objective to \$260 from \$229 prior based on a 14.5x multiple to 2025e EPS (14.5x 2024e prior). A 14.5x PE multiple represents a 20% discount to the S&P 500, which we as warranted given fuel exposure and business cyclicity, somewhat offset by strong fundamentals.

Exhibit 5: WEX 4Q estimates

BofAe vs consensus

EPS	BofAe \$3.66		Consensus \$3.73	
	Revenue	(YoY)	Revenue	(YoY)
Income Statement				
Mobility Revenue	334.6	-9%	342.0	-7%
Corporate Payments Revenue	125.4	13%	132.5	20%
Benefits Revenue	188.4	34%	181.1	29%
Total Revenue	648.4	5%	655.4	6%
Operating Income (Adjusted)	249.5	5%	257.9	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%	3.88	-11%
Corporate Payments Purchase Volume	24,210	42%	23,414	37%
Benefits Purchase Volume	1,539	12%	1,533	12%

Source: BofA Global Research estimates, Visible Alpha

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Exhibit 6: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
FLT	FLT US	FleetCor	US\$ 296.93	B-1-9
WEX	WEX US	WEX Inc.	US\$ 209.59	B-1-9

Source: BofA Global Research

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Investment Rationale

WEX Inc.

We rate WEX a Buy. We believe that WEX has a robust and differentiated product set and a large addressable market, which sets the company up to deliver mid- to high-teens EPS growth over the medium term.

Price objective basis & risk

FleetCor Technologies Inc. (FLT)

We calculate our price objective of \$331 based on a 14.5x multiple to our 2025 non-GAAP EPS estimate. Our PE multiple is approximately a 20% discount to the S&P, which we view as warranted given fuel exposure and potential for idiosyncratic risks, slightly offset by FleetCor's strong fundamentals and upside potential from capital deployment.

Downside risks to our price objective are 1) weakening macro environment reduces demand for trucking/fuel, 2) increased competition, and 3) large fluctuations in fuel prices/foreign exchanges rates.

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

I, Mihir Bhatia, 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.

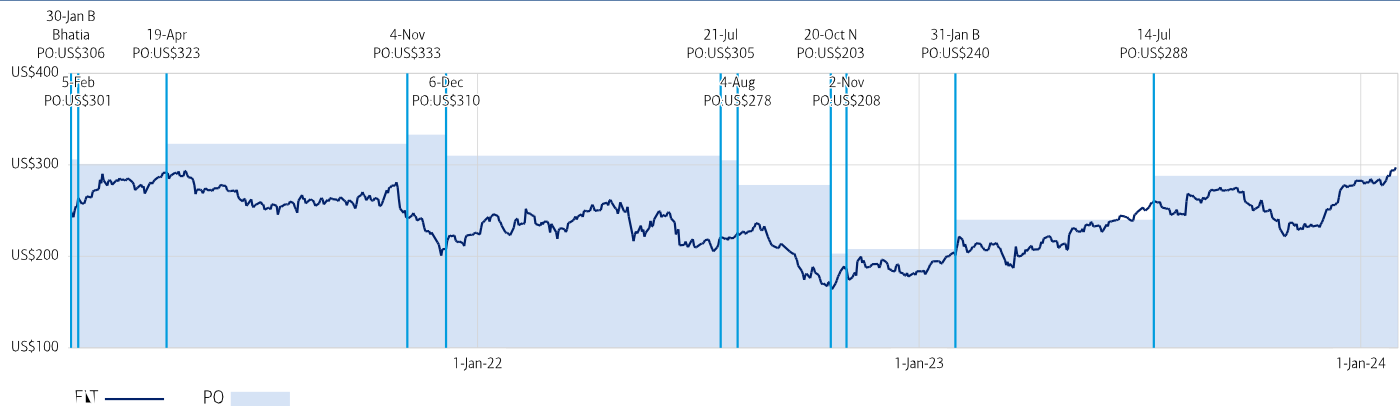
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BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
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	Synchrony Financial	SYF	SYF US	Mihir Bhatia
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	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
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	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
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	Coinbase	COIN	COIN US	Jason Kupferberg
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	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

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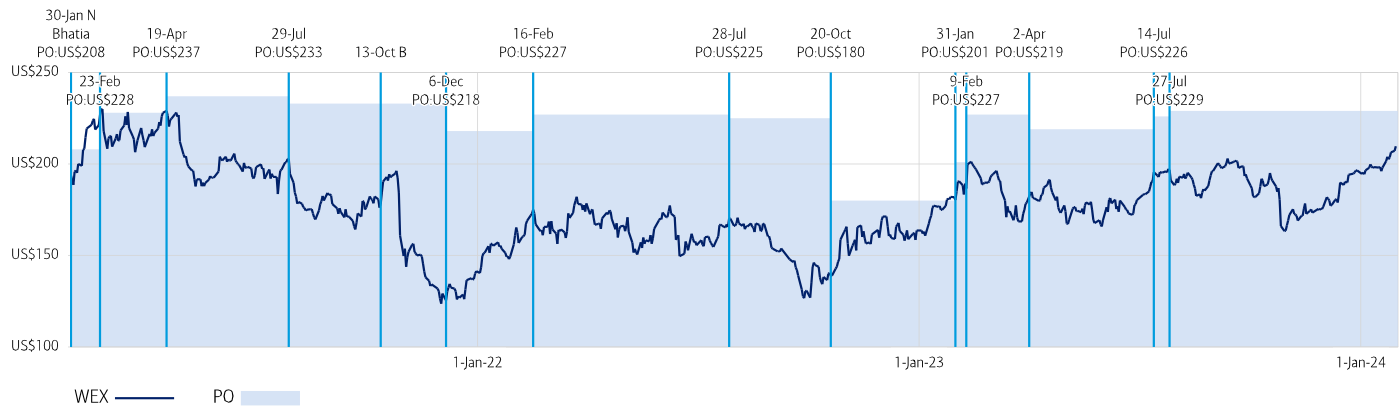
FleetCor (FLT) Price Chart



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.

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

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)

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%

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