

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## Initiations &amp; Reinstatements

[Fractyl](#) | BUY | GUTS US | Mkt Cap:USD362mn | Jason Gerberry**Initiate Buy on novel diabetes treatment alternatives to chronic GLP1 therapy**

- We initiate coverage on Fractyl with Buy and \$26 PO. GUTS is a pre-commercial medtech/biotech developing diabetes treatments
- Revita (endoscopic device) is in pivotal testing with topline data in 4Q which could support approval in multi-bn T2D market
- Rejuva (GLP1 gene therapy) is positioned for first-in-human trial in 2025, early (preclinical) but large upside potential

[Magnolia](#) | BUY | MGY US | Mkt Cap:USD4,012mn | Noah Hungness**Improved inventory visibility extends long term FCF, initiate at Buy, PO \$25**

- We initiate coverage of Magnolia Oil & Gas at Buy with a PO of \$25 assuming 10 yrs of inventory & l/term \$70WTI/\$4HH
- We see competitive upside vs SMID cap peers where continued resource assessment is the catalyst for share outperformance
- Potential to add 10 years of inventory is an upside case from successful delineation that can add 25% to our assessed value

## Rating Changes

[Altice USA, Inc.](#) | NO RATING | ATUS US | Mkt Cap:USD1,129mn | Jessica Reif Ehrlich**Moving to No Rating on ATUS as CHTR reportedly weighs takeover**

- Bloomberg has reported that Charter is weighing a takeover of Altice USA
- While there are some benefits to a deal (contiguous footprints/synergies, fiber), we do not imagine CHTR would pay a premium
- We move to No Rating on ATUS as its shares are no longer trading on fundamentals given press reports on potential takeover

27 February 2024

Equity  
United StatesInvestor Support  
BofAS

## Today's Events: Economic Indicators

1. 8:30 Durable Goods Orders
2. 8:30 Durables Ex Transportation
3. 8:30 Core Capital Goods Orders
4. 8:30 Core Capital Goods Shipments
5. 9:00 Case-Shiller HPI (yoy)
6. 10:00 Consumer Confidence

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**QuickNotes is a list of today's Global Research activities. Please use the links to read the full Research report before making investment decisions. The reports also contain important disclosures.**

**Sprouts Farmers Mkt | BUY | SFM US | Mkt Cap:USD6,107mn | Robert Ohmes**

**Upgrade to Buy: Differentiation driving sales & EPS upside; Raise PO to \$70**

- We upgrade SFM to Buy (from U/P) & raise PO to \$70 given continued support for improving customer traffic, higher margins ...
- & reaccelerating store growth. We believe SFM has moved beyond traffic challenges that followed changes in its promo...
- strategy, with now higher margins & a regrowing customer base. Following strong 4Q earnings, we raise 24E EPS 15c to \$2.90.

**PO Raised**

**Beigene | NEUTRAL | BGNE US | Mkt Cap:USD15,341mn | Bo (David) Li**  
**Establishing leadership in hematology globally; raise PO to US\$171.4**

- In 2023, Beigene booked total/product revenue of US\$2,459mn/2,190mn, representing a 73.7%/74.5% YoY increase.
- Its Brukinsa/Tislelizumab/Pamiparib booked total revenue of US\$1,290.4mn/536.6mn/6.7mn, a 128.5%/26.9%/22.1% YoY increase.
- Given its robust development in global market, we lift PO to US\$171.4 from US\$163.0 and reiterate Neutral.

**Coca-Cola Europ | BUY | CCEP US | Mkt Cap:USD32,762mn | Bryan Spillane**  
**Manilla Coke**

- CCEP announced the closure of its deal to acquire the Philippines' bottler, which grants the company access to a large...
- ...fast-growing market with opportunity to structurally improve margin in our view. The setup into FY24 should also be...
- ...fairly easy considering lapping against poor summer weather in Europe and SKU exits across the portfolio. Reiterate Buy.

**Domino's Pizza | BUY | DPZ US | Mkt Cap:USD15,979mn | Sara Senatore**  
**4Q23: Traffic momentum continues to build**

- US traffic drivers gain traction, should help international over 2024. See upside to supply chain, co-op margin dollars.
- F24 down as faster US partly offsets int'l. Raise PO to \$550 on multiple expansion, rolled-fwd estimates.

**Hims & Hers | BUY | HIMS US | Mkt Cap:USD2,110mn | Allen Lutz**  
**Value of the brand continues to grow and resonate with consumers**

- HIMS continues to differentiate itself from other digital health peers and we expect this trend to continue.
- HIMS expects 2027 EBITDA margins will be "at least in the low to mid-teens", which will drive earnings revisions much higher.
- We see a long pathway for growth and operating leverage ahead. Reiterate Buy.

**Janux | BUY | JANX US | Mkt Cap:USD697mn | Alec Stranahan**  
**Pipeline updates early, but add credence to TRACTr competitiveness**

- Investor event highlighted a pair of positive readouts, that while early, show promising setup especially for 2H24 updates
- JANX007 data robust on both efficacy/safety, company should explore higher dose and look to provide RECIST responses
- JANX008 showed one PR, continuation of good tumor response data is key for derisking in our view

**NXP Semiconductors | BUY | NXPI US | Mkt Cap:USD70,023mn | Vivek Arya**  
**Soft landing = robust takeoff, raise PO to \$300 for top auto semi pick**

- Reiterate Buy on top autos/industrial semi pick NXPI, raise PO to \$300
- NXPI positioned well to maintain resiliency near term in cycle downturn, grow above market with autos inflection long-term
- Strong growth coinciding with resilient margin profile, less capex intensive operating model

**SunRun | BUY | RUN US | Mkt Cap:USD2,499mn | Julien Dumoulin-Smith**  
**SunRun off to the races; 4Q23 print derisks volume, FY24 run rate cash guide**

- Reiterate Buy; shares down on further capital market activity in sector. We're confident in FCF inflection still. Watch IRA
- FY24 guide beats Street and BofA; flat MW deployments vs. Street/BofA down 5-10%; run rate 4Q24 cash guide reiterated
- PO still \$20 (\$9/sh PowerCo and \$11/sh DevCo); see 4Q23 print as derisking story with maturity extension, growth affirmed

**Trex Company, Inc. | BUY | TREX US | Mkt Cap:USD10,319mn | Rafe Jadrosich**  
**No dec(k)eleration into 2024 and guidance looks conservative; Raise PO and EPS**

- Trex reported 4Q23 EPS ahead of consensus driven by better revenue and GM. Raise 2025E EPS 2% and PO to \$105; Reiterate Buy.
- 1Q24 revenue guidance 19% above Street, while 2H (flat revenues) guide looks conservative. Sell-through up MSD% in 4Q.
- We see upside to TREX's 2024 EBITDA margin guidance of 30.5% on our expectations for better revenue growth.

**Ulta Beauty | NEUTRAL | ULTA US | Mkt Cap:USD29,252mn | Lorraine Hutchinson**  
**4Q Preview: Expect F24 guidance in line with algorithm**

- We remain Neutral as we think long term sales opportunities are balanced by near-term comp and margin pressure
- We think mgmt could guide F24 margins somewhat more cautiously to reflect continued SG&A investment and normalized promos
- Our 3% F24 comp is in line with cons; we are encouraged by pipeline of newness but increased competition remains a pressure



**[Welltower](#) | BUY | WELL US | Mkt Cap:USD50,742mn | Joshua Dennerlein**  
**U.S. REITs valuation comp sheet**

- In this report we compare key valuation metrics for the REITs and different subsectors within / outside our coverage universe
- We plan to update the data that follows on a weekly basis

## PO Lowered

**[Galapagos](#) | NEUTRAL | GLPG US | Mkt Cap:USD2,405mn | Jason Gerberry**  
**4Q EPS wrap: FGEM, GLPG, RLAY**

- We summarize takeaways from EPS prints within our coverage universe: GLPG, RLAY, FGEM
- GLPG: minor setbacks in CAR-T programs; oncology- timeline tweaks for oncology, I&I - discontinued SLE given competitions
- RLAY: timeline intact, 2H breast cancer data remains focus; FGEM: roxa-AZN rights pipeline updates immaterial

**[Kosmos Energy](#) | BUY | KOS US | Mkt Cap:USD2,650mn | Matthew Smith**  
**Duration differentiates – inflection to drive recognition**

- Capex nudged higher, hopefully for the last time. Platform for growth largely set.
- Last pieces of the puzzle to fall into place across 2Q-3Q24. Free cash inflection then visible at long last.
- We see our c.25% FCF yield for 2025e offering compelling value given clear asset longevity advantage. Reiterate Buy.

**[Relay](#) | BUY | RLAY US | Mkt Cap:USD1,333mn | Jason Gerberry**  
**4Q EPS wrap: FGEM, GLPG, RLAY**

- We summarize takeaways from EPS prints within our coverage universe: GLPG, RLAY, FGEM
- GLPG: minor setbacks in CAR-T programs; oncology- timeline tweaks for oncology, I&I - discontinued SLE given competitions
- RLAY: timeline intact, 2H breast cancer data remains focus; FGEM: roxa-AZN rights pipeline updates immaterial

**[Sasol Limited](#) | BUY | SSL US | Mkt Cap:USD4,729mn | Sashank Lanka**  
**Positioning for an FCF inflection in 2H FY24**

- We lower our FY24E/25E EPS by 7%/3% as we increase ending net debt, resulting in higher interest expenses. New PO: ZAR 281.
- Sasol's dividend policy reset due to mismatch between EPS and FCF. Update expected at FY24 results, linking dividends to FCF.
- Catalysts: 1) improving chemicals cycle leading to an inflection in FCF and 2) gradual operational recovery. Reiterate Buy.

**Unity** | BUY | U US | Mkt Cap:USD15,656mn | Michael Funk**4Q23 Wrap: Pruning for growth**

- U has largely completed its strategic review; exiting Weta/Luna and materially de-emphasizing Professional Services.
- Non-strategic businesses did \$283mn in '23 rev at an Adjusted EBITDA loss; core operations well positioned to reaccelerate.
- We lower our estimates to reflect the impact of U's strategic review and guidance; lower PO to \$45, implying 11x EV/CY25ERev.

**Significant EPS Change****Agora** | BUY | API US | Mkt Cap:USD228mn | Daley Li**4Q23 results in-line with non-GAAP breakeven; 1Q24 guidance below; rev to recover in 2Q24**

- 4Q23 rev up 3% QoQ to US\$36mn (in-line with guidance) with non-GAAP breakeven; 1Q24E guidance implies 7-12% YoY rev decline.
- We expect sequential rev recovery from 2Q24E and better full-year profitability in FY24E, despite rev pressure in 1Q24E.
- Given soft 1Q24E rev guidance, we cut FY24-25E rev est. by 5-8%. Maintain Buy on strong net-cash and improving profitability.

**PowerSchool** | BUY | PWSC US | Mkt Cap:USD4,562mn | Koji Ikeda**Mixed 4Q results but long-term thesis still attractive; Reiterate Buy, \$30 PO**

- Mixed 4Q, revs miss while EBITDA beat. 2024 guide suggests good pipeline visibility and EBITDA margin expansion
- Rev miss due to deal slippage, but is confident deals will close. New AI products could be good growth drivers over MT
- Reiterate Buy, \$30 PO, based on 25.4x EV/CY24E EBITDA

**Si-Bone** | BUY | SIBN US | Mkt Cap:USD832mn | Craig Bijou**Another beatable initial guide sets stage for 2024**

- Q4 rev of \$38.9m ( 22% y/y) slightly ahead of preA range (\$38.5-38.7m); FY23 rev growth of 31% on strong underlying metrics
- FY24 rev guide \$162-165m vs Street's \$162m; implies 17-19% rev growth, same starting point as last year; Q1 rev 2% below cons
- More operating leverage coming: EBITDA breakeven close; we model flip to positive EBITDA in 4Q24 and positive for FY25



## Buy Reiterations

### Energy

[APA Corp](#) | BUY | APA US | Mkt Cap:USD9,538mn | Doug Leggate

**APA connecting the dots on the logic of the Callon deal; Buy**

- APA expects Callon transaction to close on April 1st as the time period for a second request from FTC has passed
- Permian presentation shows how APA expects to drive value on CPE's acreage where we see upside to \$150m in annual synergies
- Retain Buy rating on APA as it now has capacity to raise synergy target once the Callon deal is closed. PO unchanged at \$49

[ONEOK Inc](#) | BUY | OKE US | Mkt Cap:USD44,454mn | Indraneel Mitra

**Solid 4Q, Conservative '24 guide; Discretionary cash abundant**

- 4Q EBITDA was 3% above cons and EBITDA guidance is a conservative \$5.9bn-\$6.3bn. Top end is achievable and detailed in note
- '24 is a heavy capex year w/ WesTex / Elk Creek expansions and MB6 spend. Expect OKE to generate FCFaD of >\$1.5bn in 2 years
- Key topic for conference call will be realization of commercial synergies from butane blending and batching longer term

### Financials

[Assurant](#) | BUY | AIZ US | Mkt Cap:USD9,301mn | Grace Carter

**U.S. Insurance**

- We hosted the 32nd annual BofA Financials last week in Miami which included 27 insurance companies.
- Reserve adequacy for the 2016-19 AYs remained top of mind for investors regarding commercial lines.
- Personal lines discussed the litigation environment and pivot to growth; Capital return and flows were key themes in life.

### Health Care

[Intuitive Surgical](#) | BUY | ISRG US | Mkt Cap:USD136,699mn | Travis Steed

**da Vinci 5 brings underappreciated market expansion with Xi trades**

- Xi's traded-in with dV5 launch can be re-deployed to new market segments (many smaller US hospitals/ASCs do not have robots).
- 2,000 Xi's redeployed over 3-5 years opens another 200-500k procedures (100-250/system) or 3-5 points of procedure growth/yr.
- This trade-in cycle much different with leases. More total trades and newer systems traded in at low cost base.

**Addus | BUY | ADUS US | Mkt Cap:USD1,416mn | Joanna Gajuk**  
**Beat on much better margins as Personal Care continues to outperform**

- Adj EBITDA was 6% above consensus on much better margins and slightly higher revs. Better Personal Care offset worse Hospice.
- Personal Care revs beat on pricing; SS revs 11%, well above growth in other settings.
- ADUS bullish on the deal outlook. We raise our ests for the beat. Reiterate Buy.

**Elanco Animal Health | BUY | ELAN US | Mkt Cap:USD8,013mn | Michael Ryskin**  
**Solid initial FY24 guide with core business stabilizing; room for upside from launches**

- 4Q sales came in ahead; Adj EBITDA and EPS below. FY24 guide brackets Street excluding contributions from new launches
- Legacy business trends improving; product launches represent potentially significant upside to initial outlook once on market
- Tweak ests; reiterate Buy and \$18 PO. Setup for ELAN continues to look favorable ahead of pivotal FY24 product launches

**Envista | BUY | NVST US | Mkt Cap:USD3,757mn | Allen Lutz**  
**Announces CEO succession plan**

- After market close, Envista announced a plan to determine a successor for CEO
- Process expected to be completed this year and CEO Amir Aghdaei will remain as CEO until a successor is appointed

## Industrials

**Dycom | BUY | DY US | Mkt Cap:USD3,576mn | Alexander Waters**  
**4Q preview: Wireline investments continue, BEAD progressing at state level**

- DY to report FY4Q24 on Wednesday, February 28th, before market open and plans to host its quarterly call at 9am ET
- Expect DY to discuss 1) FY1Q25 guide, 2) telco/cable wireline initiatives, 3) mgn expansion, and 4) the current state of BEAD
- Customers remain positive on continued wireline investment in 2024 and locations passed will likely prove flat +/- y/y

**HEICO | BUY | HEI US | Mkt Cap:USD27,574mn | Ronald J. Epstein**  
**Positive start to FY2024 with EPS beat on commercial aftermarket & lower taxes**

- HEI reported 1Q24 Adj of \$0.82 vs. BBG: \$0.73. The beat was attributed to lower than anticipated tax expense & segment growth
- FSG results indicate Wencor is performing ahead of expectations, and although down, margins were very strong.
- For the first time since 1Q 2013, ETG's margins were below 20%.



**[Volaris](#) | BUY | VLRS US | Mkt Cap:USD810mn | Rogerio Araujo**  
**Mixed 4Q23 results; strong 2024 guidance reiterated**

- Revenue was 5% above BofAe, while EBITDAR -3% and Adj. EBIT -4% vs our estimates.
- This was a mix of higher ancillary revenue and stronger-than-expected (one-off?) costs.
- 2024 guidance reiteration confirms optimism ahead. We see VLRS at 4.8x Adj EV/EBITDAR. Maintain Buy.

## Real Estate

**[American Homes 4Rent](#) | BUY | AMH US | Mkt Cap:USD14,774mn | Jeffrey Spector**  
**U.S. REITs**

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**[Prologis, Inc.](#) | BUY | PLD US | Mkt Cap:USD125,577mn | Camille Bonnel**  
**U.S. REITs**

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## Macro & Strategy

**[Collateral Thinking](#) | Neha Khoda**  
**Earnings at an inflection point**

- Despite rates reaching Nov highs, credit market conditions remain very strong, with HY Bs setting a new post GFC record.
- A first look at Q4 earnings suggests that EBITDA growth might be at an inflection point, with Q1 potentially reaching 5%.
- Continued profit recovery could justify tight HY spreads, and facilitate a loan risk rally.

**[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall**  
**Flow momentum in two areas continues: Comm. Services stocks, small cap ETFs**

- Last week, BofA Securities clients were net buyers of US equities (single stock ETFs, with bigger inflows into the former).
- Communication Services stocks led sector inflows and have seen 17 straight weeks of inflows while Tech led sector outflows.
- Sentiment continues to get more positive on small caps (small cap ETF inflows in 23 of last 24 weeks).



**Liquid Insight | Global Rates & Currencies Research****Connecting (to) the dots**

- The market will likely struggle to price <75bps of cuts in '24 unless the data justify a move higher in Fed dots
- Recommend investors have patience on adding duration until 10s are closer to 4.50%
- February data, easy financial conditions, and later QT may present upside risks to rates

**FX Watch | Shusuke Yamada****USD/JPY may face policy resistance in spring**

- Rising outward FDI by Japan Inc. and foreign equity investment by retail investors remain negative for JPY over long-term.
- But near-term risk/reward does not favor USD/JPY's upside as yen short may meet policy resistance by BoJ, MoF.
- Normalization in YCC/QE could cause correction and risk of FX intervention by MoF may emerge with USD/JPY around 152.

**FX Quant Insight | Vadim Iaralov****EURJPY uptrend turning lower**

- Our models are bearish EURJPY with uptrend running out of steam. Skew and SDR options flows are bearish.
- Local Asia-hour investors did not chase weaker JPY last week.
- USD lacks trends notable trends with more signals coming from the crosses.

**Emerging Insight | GEMs FI Strategy & Economics****Philippines – Tax cuts may have to wait**

- Tax cuts on passive income meant to deepen financial markets may have to wait until 2028 due to current lack of fiscal space.
- 2028 goals: 50% debt-to-GDP and 3% deficit to GDP. These imply fiscal spending restraint, and may blunt GDP growth.
- Consumption, sporadic investment spending would be the key drivers of our below-consensus 2024/25E GDP estimate of 5.4/5.5%.



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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>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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