

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## Initiations &amp; Reinstatements

[Commerce Bancshares](#) | NEUTRAL | CBSH US | Mkt Cap:USD6,005mn | Brandon Berman

**High quality franchise with minimal rate risk but sky-high premium; Initiate Neutral**

- Initiating coverage of Commerce Bancshares Inc (CBSH) with a Neutral rating and a \$55 PO
- Believe with its minimal int rate exposure, revenue diversity, & lower TTC losses, CBSH is well positioned to navigate risks
- However, we think the valuation is quite rich at 1.5X regional peers we see better risk/reward elsewhere

[DoubleVerify](#) | BUY | DV US | Mkt Cap:USD6,079mn | Omar Dessouky

**What do you get when you cross a rating agency with an AdTech firm? Initiate Buy**

- The Moody's of digital advertising; potential to become the yardstick that grades GOOGL, META, TikTok, TTD, etc effectiveness
- 20% 5y CAGR driven by unpenetrated TAM (5-10%) & > low-teens terminal end-market growth rate;likely duopoly market structure
- Initiate Buy. Current valuation 27x EBITDA, similar to info services (e.g. MCO, IT) that grow 1/3 as fast, appears too low.

[FNB Corp](#) | BUY | FNB US | Mkt Cap:USD4,894mn | Brandon Berman

**Today's growth at yesterday's valuation; Initiate Buy**

- Initiating coverage of FNB Corp/PA (FNB) with a Buy rating and a \$15 price objective ( 13.5% total potential return)
- FNB offers investors exposure to a high-growth, geographic diverse mid-cap bank, at a discount.
- The transformation in the bank, incl higher capital levels and tech investments, should result in further multiple expansion

11 January 2024

Equity  
United States

Investor Support  
BofAS

## Today's Events: Economic Indicators

1. 8:30 Initial Jobless Claims
2. 8:30 Consumer Price Index (yoy)
3. 8:30 CPI Ex Food & Energy (yoy)
4. 8:30 Consumer Price Index (mom)
5. 8:30 CPI Ex Food & Energy (mom)
6. 14:00 Monthly Budget Statement

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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.**

**Integral Ad Science | BUY | IAS US | Mkt Cap:USD2,265mn | Omar Dessouky**  
**Likely duopolist in the emerging digital ad verification market; Initiate Buy**

- The S&P of digital advertising; potential to become the yardstick that grades GOOGL, META, TikTok, TTD, etc effectiveness
- 15% 5y CAGR driven by unpenetrated TAM (5-10%) & > low-teens terminal end-market growth rate; likely duopoly market structure
- Initiate Buy. Current valuation below adtech avg despite better profitability and potential to become category leader

**Magnite | NEUTRAL | MGNI US | Mkt Cap:USD1,294mn | Omar Dessouky**  
**Differentiated AdTech player in a competitive market; Initiate at Neutral**

- Leading adtech vendor to CTV publishers (supply side) poised to benefit when programmatic advertising reaches a tipping point
- Barriers to entry & high switching cost creates moats in a technology niche where Google & Comcast have underinvested
- Initiate Neutral, we see potential for re-rating longer term if programmatic CTV accelerates and MGNI retains leadership

**Webster Financial Co | BUY | WBS US | Mkt Cap:USD8,770mn | Brandon Berman**  
**Missing the forest for the trees; Initiate at Buy**

- Initiating coverage of Webster Financial with a Buy rating and a \$60 price objective (implies 20% total potential return)
- Valuation overlooks its near best-in-class fundamentals (top-5 efficiency & ROTCE faster loan growth) for n/t headwinds
- Actions taken to reduce rate sensitivity underappreciated (NIM likely more stable from here) while credit concerns overdone

## Rating Changes

**Pentair plc | NEUTRAL | PNR US | Mkt Cap:USD12,634mn | Andrew Obin**  
**Margin expansion is a positive; Pool returns to growth; upgrade to Neutral**

- We are upgrading Pentair to Neutral from Underperform. We see earnings upside relative to the Street from margin expansion.
- We think the Pool segment will grow revenues in 2024 following 7 quarters of y/y declines & \$150mn of destocking headwinds.
- However, other cyclical concerns (e.g., commercial construction exposure) and restructuring risks keep us at Neutral.

**Vontier | BUY | VNT US | Mkt Cap:USD5,179mn | Andrew Obin**  
**Seeing the value in Vontier; upgrade to Buy**

- Upgrade VNT to Buy from Neutral with a \$40 price objective, based on 9.5x our 2025E EV/EBITDA.
- Growth markets now 3x size of US fuel dispenser revenue. Recent acquisitions are aiding growth in payments offerings.
- Raising our 2024E adj. EPS by \$0.08 to \$3.14 and 2025E by \$0.16 to \$3.51.

[Weibo Corporation](#) | UNDERPERFORM | WB US | Mkt Cap:USD1,478mn |

Miranda Zhuang

**Down to Underperform from Buy on vulnerability to macro & competition risks**

- Downgrade Weibo to U/P from Buy as it is more vulnerable to macro & competition; we expect ad growth to underperform peers.
- We also see other potential risk factors surrounding content, Alibaba's shareholding, lagging behind peers in AI.
- Cut 2024E topline to 5% YoY, and adjusted diluted EPS to -4% YoY due to share dilution. Cut PO to USD10 (5x 2024E P/E).

## PO Raised

[Affiliated Managers](#) | NEUTRAL | AMG US | Mkt Cap:USD5,015mn | Craig

Siegenthaler

**4Q23 Preview – Expect beats from asset managers vs. in-line for brokers/exchanges**

- We forecast strong 4Q23 financial results for both the Trads and Alts given the robust equity market backdrop
- Estimate in-line results for the Brokers & Exchanges and Broker EPS has negative revision risk from lower interest rates
- Continue to prefer Alts to Brokers; KKR, OWL, BLK, AB, TW and ICE remain our top picks

[AllianceBernstein](#) | BUY | AB US | Mkt Cap:USD3,560mn | Craig Siegenthaler

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[Amazon.com](#) | BUY | AMZN US | Mkt Cap:USD1,563,588mn | Justin Post

**2024 PM Level Outlook**

- 2024 should see more retail margin upside in 2024, aided by Prime Video ads, while AWS growth should close the gap to peers.
- Poss. multiple expanders: LaaS traction, de minimis legislation, new LLM model, ad traction moves LT margin ests. toward 10%.
- Top risk/overhangs: AWS growth vs Azure; elevated margin growth expectations; high 31x 2025 P/E; and very positive sentiment.



[Ameriprise Fin.](#) | BUY | AMP US | Mkt Cap:USD38,251mn | Craig

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[Autodesk](#) | NEUTRAL | ADSK US | Mkt Cap:USD51,288mn | Michael Funk

**Optimistic tone to start the year on BofA Software Bus Tour**

- We hosted the 2024 BofA Bus Tour with 10 public software companies and two private companies
- We noted no change in macro backdrop, though some optimism from companies focused on enterprise
- Tone from front office vendors most positive, namely CRM and ADBE, suggesting improving front office app spend environment

[BlackRock, Inc.](#) | BUY | BLK US | Mkt Cap:USD117,873mn | Craig

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[Elastic](#) | BUY | ESTC US | Mkt Cap:USD10,764mn | Koji Ikeda

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[Esperion](#) | NEUTRAL | ESPR US | Mkt Cap:USD313mn | Jason Zemansky

**Our day 2 conference takeaways: INSM, ESPR, and KURA**

- INSM re-emphasized the peak potential of its near-term pillars Arikayce (>\$1B); brensocatib (>\$5B); and TPIP (>\$2B)
- While absent many new insights, we liked ESPR's tone during its presentation, the team touting the upside of the settlement
- We thought Kura did a solid job framing its development strategy and NT clinical updates, with '24 shaping up to be pivotal



[KB Home](#) | NEUTRAL | KBH US | Mkt Cap:USD5,270mn | Rafe Jadrosich  
**F4Q beats; F2024 outlook roughly in-line, but could be conservative**

- F4Q EPS beats. Orders miss guidance, but quarter-to-date trend has improved with lower mortgage rates. Reiterate Neutral.
- KBH lowered its prior F2024 revenue guidance slightly, but still expects growth. Gross margin guide could be conservative.
- Raise EPS F24E for lower share count. We think shares are fairly valued trading at 1.15 forward price-to-book with 15% ROE.

[Marvell](#) | BUY | MRVL US | Mkt Cap:USD42,551mn | Vivek Arya  
**CES: Cloud AI solid, Auto muted, Edge AI work in progress**

- Cloud/infra AI still the best positioned, see momentum into next year. NVDA/MRVL discussions positive; raise MRVL PO to \$80
- Edge AI ramp ongoing with AI PCs (AMD/INTC) in the works. However, see ARM as better positioned for consumer AI devices
- Auto/industrials muted near-term on cyclical headwinds, but ADI/ON see no incremental read-across to CY24 from peer warnings



## PO Lowered

[Alibaba](#) | BUY | BABA US | Mkt Cap:USD189,256mn | Joyce Ju  
**Continue to execute strategic changes in Taobao Tmall; AIDC investment to step up**

- We expect BABA total revs 5% YoY and consolidated adj. EBITA 1% YoY in Dec quarter
- CMR is expected to be 1% YoY, w/ GMV up low-single-digit % YoY & monetization rate down YoY due to declined commission revs
- Reiterate Buy on attractive valuation, limited regulatory risk and best exposure to capture potential beta rebound

[Atlas Energy Solutio](#) | BUY | AESI US | Mkt Cap:USD1,578mn | Saurabh Pant  
**2024 Outlook: INTL/Offshore OFS shines bright in a dark macro**

- We believe 20% activity decline in '23 will flatten US oil production growth in '24, helping stabilize a worsening O&G macro
- NAM D&C capex -6% but INTL 12% in '24 with strong INTL/Offshore visibility to at least '25; we stick to INTL over NAM in OFS
- Our 40 page deep-dive into 10 key OFS themes supports SLB as top large-cap pick; WFRD, NOV, FTI as top mid-cap picks for 2024

[Avangrid](#) | UNDERPERFORM | AGR US | Mkt Cap:USD13,010mn | Paul Zimbardo

**Fireside Chat Feedback: Working to get on EPS growth track – starting with 2024**

- Productive CEO fireside chat as the company takes efforts to 'right the ship' but still a work in process. Underperform.
- Increasing EPS for NECEC contribution with elevated \$0.20-\$0.30 non-cash EPS in 2024-2025 before resetting to \$0.07 in 2026.
- We forecast another LT EPS guidance reset again for the company at a March 2024 Capital Markets Day.



[Cactus Inc.](#) | UNDERPERFORM | WHD US | Mkt Cap:USD3,225mn | Saurabh

Pant

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- NAM D&C capex -6% but INTL 12% in '24 with strong INTL/Offshore visibility to at least '25; we stick to INTL over NAM in OFS
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## Significant EPS Change

[Alamos Gold](#) | NEUTRAL | AGI US | Mkt Cap:USD5,000mn | Harmen Puri  
Solid finish to '23, higher costs/capex in '24-25 set to improve in '26 with Island

- AGI reported Q4'23 results and updated 3-year outlook. Q4'23 production 3% above BofAE, strong finish to 2023.
- 2024-2025 guidance shows higher costs/capex vs. prior guide but within range of expectations vs. BofAe.

- Island P3 expansion set to drive solid production growth and lower costs in 2026. Reiterate Neutral.

## Buy Reiterations

### Communication Services

[Vivid Seats](#) | BUY | SEAT US | Mkt Cap:USD1,234mn | Curtis Nagle

**2024 Year Ahead: Ecommerce looks like a winner with Wayfair leading the pack**

- Compared to 2023, we see a more constructive setup for SMID cap internet in 24 but see risk reward given valuation vs. growth
- We favor eComm & top picks are W & SEAT. We downgrade ZG to Neutral as housing priced in & commission suits are a headwind
- Themes include AI as sales & revenue driver, potential advertising headwinds, slowing consumer spend & convertible refis

### Consumer Discretionary

[Mercadolibre](#) | BUY | MELI US | Mkt Cap:USD80,701mn | Robert Ford Aguilar  
**5 themes, and over \$6bn in incremental earnings**

- We see large and easily identifiable opportunities across ads, logistics, bad debt, wallet funding, and other markets.
- These 5 themes suggest a cumulative \$9.5bn EBIT and \$6.4bn net income opportunity for MELI over the next 5 years.
- Some reinvestment likely, but we see considerable earnings power. Reiterate our Buy rating.

[Service Corp.](#) | BUY | SCI US | Mkt Cap:USD10,147mn | Joanna Gajuk  
**Visitations at SCI's locations: strong December after weaker Oct-Nov**



- Visitations at SCI's locations accelerated nicely in December, with particular strength at Rose Hills, high-end location.
- The strong Dec. followed somewhat slower Oct-Nov, resulting in the 4Q23 avg up 6% Q/Q and down 7% y/y.
- Y/Y trends in CA better than SCI overall, 15% above 2019. Reit Buy given attractive valuation and solid trends.

## Energy

**Occidental | BUY | OXY US | Mkt Cap:USD53,347mn | Doug Leggate**  
**OXY 8K trims estimates on transitory GoM production. Berkshire now owns 34%**

- After mkt close OXY released an 8-K that cut our 4Q23 EPS to \$0.69 on lower oil cut & higher domestic opex but...
- the bigger news is Berkshire Hathaway now has a passive holding of 34% of the outstanding shares
- Despite 4Q issues OXY's capacity to transfer debt to equity remains intact w/CrownRock expected to close in 1Q24

## Health Care

**Intuitive Surgical | BUY | ISRG US | Mkt Cap:USD128,051mn | Travis Steed**  
**Strong signal for 2024**

- We caught up with ISRG this morning post last night's solid preannouncement.
- Procedure guide well ahead; Bariatrics grew MSD in Q4 (vs DD in Q3).
- Nothing one time in strong US Q4 system number; seeing demand with procedure growth.

**AVITA | BUY | RCEL US | Mkt Cap:USD354mn | Lyanne Harrison**  
**Positive surprise in FY24 guidance**

- Positive surprise with FY24 rev guidance ahead of the Street ( 6.5%)
- TONE Study ahead of schedule, with enrolment now complete
- Stedical agreement allows AVITA to leverage salesforce for complimentary product

## Information Technology

[Adobe](#) | BUY | ADBE US | Mkt Cap:USD269,096mn | Brad Sills  
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[Intuit](#) | BUY | INTU US | Mkt Cap:USD170,397mn | Brad Sills  
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[NVIDIA](#) | BUY | NVDA US | Mkt Cap:USD1,352,228mn | Vivek Arya  
**CES: Cloud AI solid, Auto muted, Edge AI work in progress**

- Cloud/infra AI still the best positioned, see momentum into next year. NVDA/MRVL discussions positive; raise MRVL PO to \$80
- Edge AI ramp ongoing with AI PCs (AMD/INTC) in the works. However, see ARM as better positioned for consumer AI devices
- Auto/industrials muted near-term on cyclical headwinds, but ADI/ON see no incremental read-across to CY24 from peer warnings

[MongoDB](#) | BUY | MDB US | Mkt Cap:USD28,049mn | Brad Sills  
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## Macro & Strategy

[Technical Advantage](#) | Paul Ciana  
**First five trading day signals**



- The January Barometer starts by measuring the first five days (FFD) of the year to signal trend for January, Q1 and the year.
- Typically an equity theory, we recap 16 findings in FICC. The FFDs of 2024 favor higher Silver, Oil and \$COP in January & Q1.
- They favor lower \$JPY and €JPY in January. Higher US 2Y & 30Y yield in Q1. And higher Gold in January & YE24. All 16 inside.

### [Liquid Insight](#) | Global Rates & Currencies Research

#### Rates and FX vol – Recoupling in '24

- Rates vol has traded rich vs vol in other asset classes over the last couple of years
- Our outlook for '24 suggests the potential for vol in rates and FX space to recouple
- We see scope to express tail hedges in a relatively cheap FX vol space, outright or financed by selling rates vol

### [ESG Matters - US](#) | Dimple Gosai

#### Treading the dark waters of PFAS

- Tide of consumer awareness, shareholder activism, & lawsuits pose financial & reputational challenges to PFAS-exposed co's
- Expect various effective dates for PFAS laws in 2024, with implications for Materials, Industrials, Utilities, & more sectors
- Inside, we discuss the \$220B PFAS remediation opportunity and share 13 US stocks that are providing PFAS solutions

### [BofA on USA](#) | US Economics

#### 'Tis the season(al)

- Total BAC card spending per HH was up 0.2% y/y in Dec. We expect 1.1% & 0.7% gains in ex-auto & core control retail sales.
- However, we see a wide range of outcomes for retail sales. Seasonal adjustments could swamp the signal from the data.
- If the Dec print is outsized in either direction, there should be payback in Jan/Feb. Stepping back, spending looks healthy.

### [Emerging Insight](#) | GEMs FI Strategy & Economics

#### LatAm: Easing to neutrality and beyond

- We compare market-pricing of terminal rates in LatAm with our subjective assessment of neutral real rates
- With the exception of Chile, the market seems to be underpricing LatAm easing cycles across the board
- We keep receiving rates in Brazil and Colombia, but paying in Chile. We remain neutral in Mexico and have a long bias in Peru

[LatAm Equity Strategy](#) | Paula Andrea Soto

**Flows to know**

- Brazil local funds' AUM increased in 2023 despite outflows throughout the year.
- Flows into EM equity funds were positive last year, but most flows went into China.
- Foreign flows picked up in Brazil in the last 2M: R\$44bn. In 2023, we saw R\$60bn inflows.



# Disclosures

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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%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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