

Visteon

VC displays solid quarter; outlook consistent with BofA – 4Q:23 first take

Maintain Rating: BUY | PO: 165.00 USD | Price: 119.06 USD

4Q:23 beat on tax and good operating performance

Visteon's (VC) 4Q:23 operating EPS of \$1.91 was above our estimate of \$1.71 but below consensus of \$2.09. This excludes a non-cash tax benefit of \$313mm associated with a tax valuation allowance, or \$11.10 per share, that VC includes in adjusted EPS. On an operating basis, results were better than we had projected driven by a favorable gross margin, while revenues and operating expenses were mostly in line. Specifically, VC reported 4Q:23 net sales of \$990mm (BofAe \$992mm, consensus \$1,047mm), which were down 7% YoY on a reported basis. Excluding recoveries, sales grew 1% YoY. Adj. EBITDA of \$117mm came in ahead of our \$108mm forecast and was up YoY from \$103mm in 4Q:22, driven by good operating performance, cost and commercial discipline, and the timing of project spending. This performance resulted in an EBITDA margin of 11.8% (BofAe 10.9%) and gross margin of 13.1% (BofAe 11.9%), both better than our estimates. Also notable, VC booked another \$1.4bn in gross new business wins in 4Q:23 after achieving \$5.8bn through the first three quarters and enabling it to achieve/exceed its target of \$7bn+ this year.

2024 guidance consistent with BofA; 2026 target lowered

VC provided its 2024 financial outlook, which is slightly below BofA on revenues but above on EBITDA at the midpoint. VC is guiding for 2024 revenue of \$4.0bn-\$4.2bn (BofAe \$4.27bn, consensus \$4.30bn) and adj. EBITDA of \$470mm-\$500mm (BofAe \$478mm, consensus \$497mm), which implies an adjusted EBITDA margin of ~11.8% at the midpoint (BofAe 11.2%, consensus 11.6%). VC expects adj. FCF of \$155mm-\$185mm (BofAe \$211mm, consensus \$198mm). The guidance assumes that customer production declines 1% YoY, but growth over market is expected to still be a solid 10% to 12%, supported in part by a sizable number of launches. Separately, VC lowered its 2026 sales target to \$5bn from the \$5.5bn provided at its Investor Day in March 2023. Our discussions suggest that this was largely expected by investors heading into the quarter. VC still expects to achieve an adj. EBITDA margin of 13.5%, implying 2026 EBITDA of ~\$675mm (BofAe \$623mm).

Balance sheet in good shape, good FCF generation

VC has one of the strongest balance sheets in our supplier coverage, finishing 4Q:23 with roughly \$518mm of cash on its balance sheet and total debt of \$336mm, for a net cash position of \$182mm and net cash/LTM EBITDA of (0.4)x, versus (0.3)x at the end of 3Q:23. The company generated \$57mm in adjusted free cash flow in the quarter (\$55mm on a reported basis), which compares to \$141mm in 4Q:22.

Maintain Buy; compelling valuation, exposure to mega-trends

We maintain our Buy rating on VC, which is largely predicated on our view that it is one of the fastest growing auto suppliers and its product portfolio is leveraged to key industry mega-trends, including digitalization and electrification. VC should also benefit from the timing of the auto cycle, with what we believe is a multi-year cyclical recovery under way. These factors and recently positive trends in raw material costs should contribute to higher earnings.

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Timestamp: 20 February 2024 08:37AM EST

20 February 2024

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Stock Data

Price	119.06 USD
Price Objective	165.00 USD
Date Established	22-Jan-2024
Investment Opinion	C-1-9
52-Week Range	108.66 USD - 171.66 USD
Mkt Val (mn) / Shares Out	3,405 USD / 28.6 (mn)
Free Float	98.8%
Average Daily Value (mn)	30.93 USD
BofA Ticker / Exchange	VC / NAS
Bloomberg / Reuters	VC US / VC.QQ
ROE (2023E)	26.3%
Net Dbt to Eqty (Dec-2022A)	-22.1%
ESGMeter™	High

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LTM: last 12 months

UAW: United Auto Workers

Exhibit 1: VC YoY comparison and variance versus BofAe

VC reported 4Q:23 adjusted EBITDA of \$117mm versus BofAe of \$108mm

Results	YoY Change			Actual versus BofAe		
	4Q:23	4Q:22	YoY Δ	Actual	BofAe	Variance
Revenue	\$990	\$1,064	-7%	\$990	\$992	0%
Gross Profit	\$130	\$114	14%	\$130	\$118	10%
Adjusted Operating Income	\$79	\$60	32%	\$79	\$68	15%
Adjusted Net Income	\$366	\$38	863%	\$366	\$49	652%
Adjusted Continuing Operations EPS	\$13.01	\$1.32	883%	\$13.01	\$1.71	662%
Adjusted EBIT	\$92	\$74	24%	\$92	\$82	13%
Adjusted EBITDA	\$117	\$103	14%	\$117	\$108	8%
Margins						
Gross Margin	13.1%	10.7%	240bps	13.1%	11.9%	120bps
Adjusted Operating Margin	8.0%	5.6%	230bps	8.0%	6.9%	110bps
Adjusted EBIT margin	9.3%	7.0%	230bps	9.3%	8.2%	110bps
Adjusted EBITDA Margin	11.8%	9.7%	210bps	11.8%	10.9%	90bps
SG&A % sales	5.2%	5.1%	10bps	5.2%	5.0%	20bps

Note: 4Q:23 adjusted EPS included \$11.10 associated with a tax valuation allowance.**Source:** Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk**Visteon (VC)**

Our PO of \$165 is based on an EV/EBITDA multiple of 10x on our 2024 estimates, which is consistent with a P/E multiple of roughly 20x. This is slightly above the mid-point of where the stock has traded (6-12x) since 2016, excluding the Covid-19 period. Our assumed multiple is a premium to the current trading multiple of 7x for the suppliers in our coverage and our average assumed multiple of 8x underlying our POs, given VC's growth-over-market is above most suppliers and in consideration of its exposure to key mega-trends.

Downside risks: 1) intense competition that is likely to heat up further as suppliers aggressively position their product portfolio to benefit from high growth markets, 2) inability to maintain a technological edge amidst the rapidly evolving auto sector, 3) inability to win new business across its product lines, or gain higher content per vehicle on new business wins, 4) inability to drive growth-over-market and margin expansion as expected, 5) UAW strike a near-term risk to volumes and earnings.

Upside risks: 1) Stronger-than-expected recovery in automotive sales/production, 2) higher-than-expected content per vehicle across newer product areas, 3) market share gains with new product launches, 4) successfully achieve 2026 growth and margin targets, 5) shareholder-friendly actions, such as M&A and share repurchases.

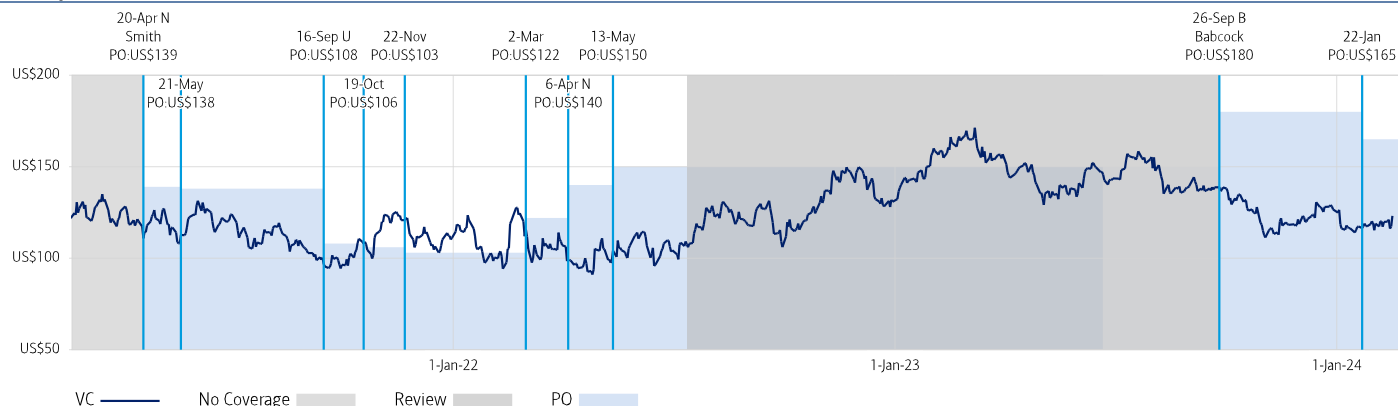
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Visteon Corp (VC) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

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

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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