

Wabtec Corp.

Largest pipeline in 5 yrs sets up well; Loco facility tour shows scalability; PO to \$156

Reiterate Rating: BUY | PO: 156.00 USD | Price: 139.53 USD

Analyst meeting highlights core growth optyps for WAB

Yesterday (Feb 27), we attended Wabtec's analyst meeting and facility tour of its Ft. Worth locomotive manufacturing plant. CEO Rafael Santana reiterated that the company has its strongest pipeline in 5 years. The company detailed various locomotive propulsion technologies/fueling options it is working on (and reversibility), its goal to shed \$110 million in non-core low margin revenues in 2024, and new Tier IV orders that have materialized and are blending in with mods. The tour also highlighted its potential for scalability as backlogs build, and we saw the depth of its management team.

Locomotive blends provide near term ESG opportunities

CTO Eric Gebhardt detailed that in 2H24, Wabtec will have a solution to allow 20% bio-diesel and up to 100% renewable diesel mixes into existing locomotives (Tier III, Tier IV), which can reduce carbon emissions by 60%. The key is it's reversable if a customer can't find renewables and can switch back to diesel. It is testing joint-use hydrogen engines, with 50% energy content from hydrogen, allowing a mix of bio, renewable, and hydrogen, which can reduce emissions by 80%. Reversibility is key for customers.

Shedding non-core assets

CFO John Olin detailed WAB's move to eliminate \$110 million in below average margin revenues (1% of '23 base), half of which is in Transit, as it focuses on profitable growth.

New Orders begin to trickle in

Last year, Wabtec received 110 new locomotive orders from BNSF Railway in North America, after a few years of near zero new builds. It also built 10 newbuilds for CN last year, while it added 600 locomotive mods for Union Pacific and 200 for CSX, driving its backlog to its highest level in 5 years (since the GE-T merger). It noted 60% of revenues are recurring, but only 20%-30% in Digital, a segment it looks to scale. Digital offerings provide customers the best return on investment, but is discretionary spending.

No earnings update; Reit Buy, Raise PO to \$156

We maintain our 2024 and 2025 EPS estimates of \$6.75 and \$7.65, as WAB did not provide an earnings update. However, we increase our PO to \$156 (from \$150), on a 23.5x target on our 2024 EPS estimates (from 22.1x), given increased confidence in our target for low teens growth this year and next, slightly above its 15x-21x hist range.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.87	5.94	6.75	7.65	8.55
GAAP EPS	3.47	4.54	5.46	6.32	7.19
EPS Change (YoY)	14.1%	22.0%	13.6%	13.3%	11.8%
Consensus EPS (Bloomberg)			6.77	7.58	8.60
DPS	0.60	0.68	0.80	0.92	1.04
Valuation (Dec)					
P/E	28.7x	23.5x	20.7x	18.2x	16.3x
GAAP P/E	40.2x	30.7x	25.6x	22.1x	19.4x
Dividend Yield	0.4%	0.5%	0.6%	0.7%	0.7%
EV / EBITDA*	22.9x	18.2x	15.6x	14.1x	12.8x
Free Cash Flow Yield*	3.5%	4.0%	5.6%	6.1%	6.7%

* For full definitions of *IQmethod*SM measures, see page 5.

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	150.00	156.00

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Stock Data

Price	139.53 USD
Price Objective	156.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-7
52-Week Range	91.89 USD - 138.97 USD
Mrkt Val (mn) / Shares Out (mn)	25,199 USD / 180.6
Free Float	99.0%
Average Daily Value (mn)	165.19 USD
BofA Ticker / Exchange	WAB / NYS
Bloomberg / Reuters	WAB US / WAB.N
ROE (2024E)	11.4%
Net Dbt to Eqty (Dec-2023A)	32.8%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 28 February 2024 10:54AM EST

iQprofileSM Wabtec Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.2%	6.5%	7.2%	8.0%	8.6%
Return on Equity	8.8%	10.4%	11.4%	12.4%	13.0%
Operating Margin	12.7%	13.9%	15.1%	15.6%	16.1%
Free Cash Flow	889	1,015	1,419	1,529	1,692

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.4x	1.4x	1.4x
Asset Replacement Ratio	0.8x	0.8x	0.7x	0.6x	0.6x
Tax Rate	24.9%	25.0%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	34.1%	32.8%	31.3%	23.5%	15.3%
Interest Cover	5.7x	6.2x	6.7x	7.8x	9.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,362	9,677	10,102	10,627	11,195
% Change	6.9%	15.7%	4.4%	5.2%	5.3%
Gross Profit	2,583	2,982	3,127	3,324	3,503
% Change	6.6%	15.4%	4.9%	6.3%	5.4%
EBITDA	1,282	1,616	1,882	2,076	2,288
% Change	8.2%	26.1%	16.5%	10.3%	10.2%
Net Interest & Other Income	134	89	97	113	127
Net Income (Adjusted)	890	1,066	1,179	1,298	1,416
% Change	10.8%	19.8%	10.6%	10.0%	9.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	899	1,076	1,187	1,297	1,416
Depreciation & Amortization	479	531	657	720	788
Change in Working Capital	(109)	(97)	50	1	3
Deferred Taxation Charge	(17)	(112)	0	0	0
Other Adjustments, Net	(214)	(197)	(233)	(225)	(225)
Capital Expenditure	(149)	(186)	(241)	(264)	(289)
Free Cash Flow	889	1,015	1,419	1,529	1,692
% Change	-5.7%	14.2%	39.8%	7.7%	10.7%
Share / Issue Repurchase	(473)	(425)	(990)	(600)	(660)
Cost of Dividends Paid	(111)	(123)	(140)	(156)	(172)
Change in Debt	(30)	42	(375)	(250)	(250)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	541	620	475	938	1,488
Trade Receivables	1,519	1,684	1,892	1,986	2,093
Other Current Assets	2,267	2,551	2,538	2,558	2,578
Property, Plant & Equipment	1,429	1,485	1,003	607	168
Other Non-Current Assets	12,760	12,648	12,721	12,795	12,868
Total Assets	18,516	18,988	18,629	18,884	19,195
Short-Term Debt	251	781	781	781	781
Other Current Liabilities	3,216	3,275	3,519	3,635	3,764
Long-Term Debt	3,751	3,288	2,913	2,663	2,413
Other Non-Current Liabilities	1,151	1,120	1,120	1,120	1,120
Total Liabilities	8,369	8,464	8,333	8,199	8,078
Total Equity	10,147	10,524	10,295	10,684	11,117
Total Equity & Liabilities	18,516	18,988	18,629	18,884	19,195

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Rail Equipment

Company Description

Wabtec is one of the world's largest providers of technology-based products and services for the global freight rail and passenger transit industries. Its products are on most locomotives, freight cars, & transit cars and buses around the world. Wabtec has ops in more than 50 countries & its products are used in more than 100 countries. Nearly 60% of revs are from customers outside the U.S. Headquartered in Pittsburgh, Wabtec's roots trace back to the Westinghouse Air Brake Co., founded in 1896.

Investment Rationale

We believe its scaling International installed base, strong backlog conversion, as well as rebounding rail volumes will be more than offset the lagging effects of the tail rollout of Precision Scheduled Railroad (PSR) implementation. We are also positive on its Integration 2.0 efforts as it pulls costs from its operating model to improve its Transit margins.

Stock Data

Average Daily Volume 1,183,931

Quarterly Earnings Estimates

	2023	2024
Q1	1.28A	1.47E
Q2	1.42A	1.66E
Q3	1.70A	1.78E
Q4	1.54A	1.85E

Analyst Meeting shows management depth

Yesterday (Tues, Feb 27), Wabtec hosted an analyst meeting and facility tour at its Ft. Worth plant. Management discussions included Rafael Santana, President & CEO, John Olin, EVP & CFO, Eric Gebhardt, EVP & Chief Technology Officer, Gina Trombley, EVP of Sales & Marketing, and Chief Commercial Officer, Greg Sbrocco, EVP Global Ops, Pascal Schweitzer, President of Transit, Rogerio Mendonca, President Freight Equipment, and Kristine Kubacki, VP IR. The discussions reviewed the progress Wabtec has made over the past few years since its GE Transportation acquisition, where it sees room to shed revenues with below average margin contributions, opportunities to continue to improve its manufacturing process with LEAN guidance, and where it can benefit from growth opportunities (digital, recurring revenues, new equipment orders).



Price objective basis & risk

Wabtec Corp. (WAB)

Our \$156 PO is based on an 23.5x target P/E multiple on our 2024e EPS, above its 9-year historical 15x-21x range on forward earnings (which was normalized, and historically on cash EPS, though before its Feb 2019 GE-T acquisition would have been fairly similar) as we assign a premium to its target multiple given increased confidence on its actualization of backlog and International sale growth.

Downside risks to our PO are a quicker decline in rail volumes/economic activity, delayed replacement capex from the railroads, shrinking government budgets for Transit projects or increasing austerity measures, increased warranty claims on its equipment, and improved parts that delays replacement of equipment.

Upside risks to our PO are larger than expected synergy gains from its GE-T merger, a rapid rebound in rail carloadings, and accelerated rail capex spend on technology and upgrade investments from positive train control. Additionally, increased government expenditures for eco-friendly rail projects could provide upside potential.

Analyst Certification

I, Ken Hoexter, 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.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Norfolk Southern	NSC	NSC US	Ken Hoexter

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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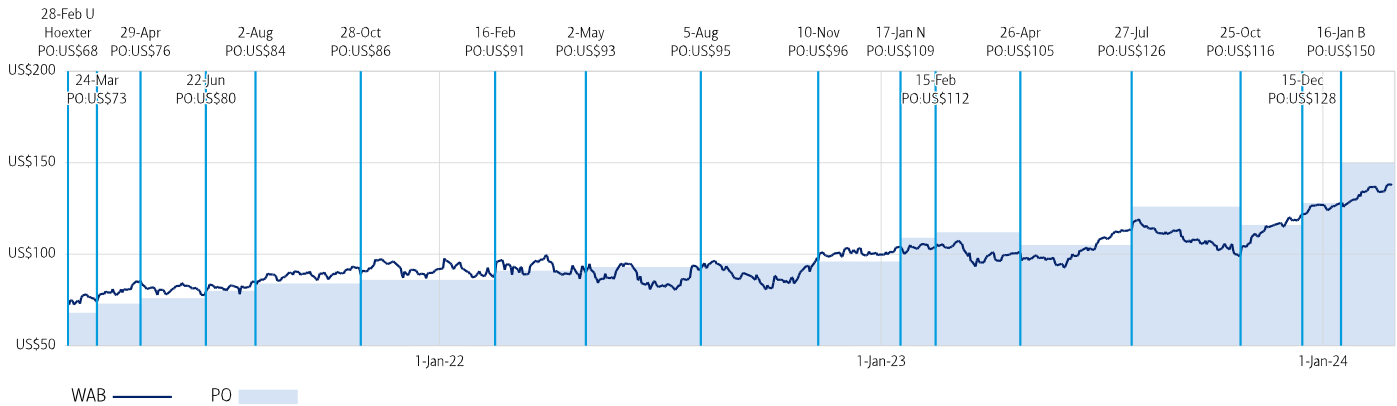
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Wabtec (WAB) Price Chart



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.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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