

## Amphenol

# Solid executing drives beat in 4Q; well positioned for growth in 2024; PO to \$115

Reiterate Rating: BUY | PO: 115.00 USD | Price: 100.66 USD

## Rev/EPS beat on strong execution, incremental margins

APH reported Rev/EPS of \$3.3bn/\$0.82, beating both guidance of \$3.1bn/\$0.76 (midpoint) and Street ests of \$3.2bn/\$0.77. Reported growth was up 3% y/y in USD and down 1% y/y organic. Mgmt noted a rebound in the challenged non-Artificial Intelligence (AI) applications in IT Datacom, an end-market that has been weak over the past few qtrs. Operating margin (OM) came in at 21.2% and reflected strong upside conversion on the higher sales levels. Reiterate Buy given strong execution and improving margins.

## Slightly lower 1Q outlook vs. Street (conservative)

APH guided 1Q24 rev/EPS at \$3.07bn/\$0.72 (midpoint) vs. cons. est. of \$3.1bn/\$0.73. The company announced the close of 4 M&A deals during 4Q (LID Tech, TPC Wire & Cable, Airmar, and PCTEL) totaling ~\$325mn in annual revenue from the Industrial, Autos, and Info Tech end-markets. Mgmt expects Military, Auto, IT Datacom, and Mobile devices to decline q/q in 1Q and for Commercial Air and Industrial to be flat q/q. Broadband and Mobile Networks continues to be weak but are expected to see modest increases. Mgmt expects 2-4% topline growth y/y in Q1, mostly driven by recent M&A.

## FY23 saw muted organic growth; setup good into 2024

In FY23, growth in the commercial air (+36% organic growth), defense (+18% organic growth), and automotive markets (+12% organic growth) were offset by moderations in the mobile networks (-32% organic decline), IT datacom (-13% organic decline), mobile devices (-10% organic decline), industrial (-7% organic decline) and broadband markets (-7% organic decline). Despite smartphones offsetting declining sales in tablets, laptops, and wearables, the mobile devices market is expected to decline ~35% due to a seasonal sequential decline. For the Industrial market, APH expects sales for F1Q24 to remain flat as the benefit of acquisitions offset the modest organic sequential decline.

## Raising EPS Estimates, PO moves to \$115

Our PO moves to \$115 on 32x our revised C25E EPS of \$3.61 (prior 32x C24E EPS). APH returned \$241mn to shareholders in 4Q23 (\$126mn in dividends and \$115mn buybacks); APH generated \$739mn FCF in the quarter and \$842mn in Operating Cash Flow.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.01	3.01	3.34	3.61	3.90
GAAP EPS	3.07	3.10	3.34	3.61	3.90
EPS Change (YoY)	21.9%	0%	11.0%	8.1%	8.0%
Consensus EPS (Bloomberg)			3.25	3.66	3.87
DPS	0.81	0.85	0.88	0.88	0.88
Valuation (Dec)					
P/E	32.5x	32.5x	29.3x	27.1x	25.1x
GAAP P/E	31.9x	31.6x	29.3x	27.1x	25.1x
Dividend Yield	0.8%	0.9%	0.9%	0.9%	0.9%
EV / EBITDA*	20.2x	20.2x	18.4x	17.1x	15.9x
Free Cash Flow Yield*	3.0%	3.6%	3.7%	3.6%	3.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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24 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	115.00
2024E Rev (m)	13,295.9	13,567.8
2025E Rev (m)	14,251.4	14,548.5
2026E Rev (m)	NA	15,608.5
2024E EPS	3.27	3.34
2025E EPS	3.52	3.61
2026E EPS	NA	3.90

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### Stock Data

Price	100.66 USD
Price Objective	115.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	72.00 USD - 99.93 USD
Mrkt Val (mn) / Shares Out (mn)	60,226 USD / 598.3
Free Float	99.4%
Average Daily Value (mn)	267.21 USD
BofA Ticker / Exchange	APH / NYS
Bloomberg / Reuters	APH US / APH.N
ROE (2024E)	23.3%
Net Dbt to Eqty (Dec-2023A)	34.0%
ESGMeter <sup>TM</sup>	High

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"](#).

# iQprofile<sup>SM</sup> Amphenol

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.8%	14.9%	15.3%	15.3%	15.2%
Return on Equity	27.7%	24.1%	23.3%	22.5%	21.6%
Operating Margin	20.7%	20.7%	21.1%	21.2%	21.3%
Free Cash Flow	1,740	2,081	2,177	2,096	2,256

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.3x	1.2x	1.1x	1.1x
Asset Replacement Ratio	1.0x	0.9x	0.9x	0.9x	0.9x
Tax Rate	24.4%	24.0%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	45.2%	34.0%	18.8%	7.1%	-3.5%
Interest Cover	20.3x	18.6x	20.5x	22.0x	23.7x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,623	12,555	13,568	14,548	15,608
% Change	16.1%	-0.5%	8.1%	7.2%	7.3%
Gross Profit	4,028	4,084	4,455	4,776	5,124
% Change	18.4%	1.4%	9.1%	7.2%	7.3%
EBITDA	3,000	3,001	3,296	3,536	3,796
% Change	16.7%	0%	9.8%	7.3%	7.4%
Net Interest & Other Income	(119)	(110)	(98)	(98)	(98)
<b>Net Income (Adjusted)</b>	<b>1,866</b>	<b>1,871</b>	<b>2,083</b>	<b>2,248</b>	<b>2,428</b>
<b>% Change</b>	<b>20.6%</b>	<b>0.2%</b>	<b>11.3%</b>	<b>8.0%</b>	<b>8.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,866	1,871	2,083	2,248	2,428
Depreciation & Amortization	393	406	432	453	475
Change in Working Capital	(193)	150	50	(185)	(196)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58	27	0	0	0
Capital Expenditure	(384)	(373)	(388)	(420)	(451)
<b>Free Cash Flow</b>	<b>1,740</b>	<b>2,081</b>	<b>2,177</b>	<b>2,096</b>	<b>2,256</b>
<b>% Change</b>	<b>53.9%</b>	<b>19.6%</b>	<b>4.6%</b>	<b>-3.7%</b>	<b>7.6%</b>
Share / Issue Repurchase	(731)	(585)	(585)	(585)	(585)
Cost of Dividends Paid	(477)	(501)	(498)	(498)	(498)
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,373	1,475	2,568	3,581	4,753
Trade Receivables	2,631	2,618	2,633	2,763	2,900
Other Current Assets	2,475	2,742	2,690	2,843	3,008
Property, Plant & Equipment	1,204	1,315	1,271	1,238	1,214
Other Non-Current Assets	7,643	8,376	8,376	8,376	8,376
<b>Total Assets</b>	<b>15,326</b>	<b>16,526</b>	<b>17,537</b>	<b>18,801</b>	<b>20,252</b>
Short-Term Debt	3	354	354	354	354
Other Current Liabilities	2,673	2,799	2,811	2,910	3,016
Long-Term Debt	4,575	3,984	3,984	3,984	3,984
Other Non-Current Liabilities	981	964	964	964	964
<b>Total Liabilities</b>	<b>8,232</b>	<b>8,100</b>	<b>8,112</b>	<b>8,211</b>	<b>8,317</b>
<b>Total Equity</b>	<b>7,094</b>	<b>8,427</b>	<b>9,426</b>	<b>10,591</b>	<b>11,935</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,326</b>	<b>16,526</b>	<b>17,538</b>	<b>18,801</b>	<b>20,252</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Connectors, Passive Components & Distribution

## Company Description

Amphenol (APH) is the world's second-largest maker of electronic and electrical connectors. APH is the world's leader in high-performance environmental connectors (mainly for military and commercial aircraft). APH has expanded its communications offering to include interconnect products for handsets and communications infrastructure. APH is the world's second-largest producer of coaxial cable used in the cable television (CATV) industry.

## Investment Rationale

Amphenol is a leader in the connector industry with a track record of consistent execution, high ROIC and operating margins (20%+) that approaches the low end of software companies despite very conservative accounting standards. We expect strong organic growth over the next few years, primarily driven by high-single to low-double-digit growth in Auto and Industrial, augmented by M&A and subsequent operating leverage.

## Stock Data

Average Daily Volume 2,654,563

## Quarterly Earnings Estimates

	2023	2024
Q1	0.69A	0.74E
Q2	0.72A	0.80E
Q3	0.78A	0.87E
Q4	0.82A	0.93E

# End-market guidance vs results

**Figure 1: Company guidance and results by end-market**  
IT Datacom, Auto amongst other end markets delivered upside to mgmt guidance in F4Q23

Market	% of total sales	y/y change % (USD)	y/y change % (organic basis)	q/q change %	Last qtr guidance
Military	12%	18%	15%	4%	flat
Commercial aerospace	3%	25%	23%	1%	modest decline
Industrial	23%	-4%	-12%	1%	moderate slightly
Automotive	24%	16%	12%	8%	flat
Mobile devices	11%	-3%	-3%	9%	moderate in high single digits
Mobile networks	3%	-26%	-34%	-6%	decline mid to high single digits
IT tech & data comms	20%	6%	5%	6%	flat
Broadband	4%	-31%	-32%	-12%	modest increase

**Source:** Company Reports  
**Note:** Last qtr guidance refers to December Qtr guidance provided on C3Q call

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# Model

**Figure 2: APH Income Statement**

We model F24 rev at \$14bn

(\$ in millions except EPS)

	2023E				2024E								
	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E	2021A	2022A	2023A	2024E	2025E
Sales	2,974	3,054	3,199	3,328	3,097	3,288	3,515	3,668	10,876	12,623	12,555	13,568	14,548
COGS	2,031	2,062	2,151	2,227	2,096	2,209	2,359	2,448	7,475	8,595	8,471	9,113	9,772
<b>Gross profit</b>	<b>943</b>	<b>992</b>	<b>1,049</b>	<b>1,100</b>	<b>1,001</b>	<b>1,079</b>	<b>1,156</b>	<b>1,220</b>	<b>3,402</b>	<b>4,028</b>	<b>4,084</b>	<b>4,455</b>	<b>4,776</b>
SG&A	346	368	382	394	361	390	412	428	1,226	1,421	1,490	1,592	1,693
<b>Operating earnings</b>	<b>597</b>	<b>624</b>	<b>667</b>	<b>706</b>	<b>640</b>	<b>688</b>	<b>744</b>	<b>792</b>	<b>2,176</b>	<b>2,607</b>	<b>2,594</b>	<b>2,863</b>	<b>3,083</b>
Interest Exp	(36)	(35)	(34)	(35)	(35)	(35)	(35)	(35)	(116)	(129)	(140)	(140)	(140)
Other Income	4	6	9	11	11	11	11	11	(0)	10	29	42	42
<b>Pretax earnings</b>	<b>565</b>	<b>595</b>	<b>643</b>	<b>682</b>	<b>615</b>	<b>664</b>	<b>719</b>	<b>767</b>	<b>2,060</b>	<b>2,489</b>	<b>2,484</b>	<b>2,765</b>	<b>2,985</b>
Taxes	136	143	154	164	148	159	173	184	501	608	596	664	716
Rate	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Minority interest	4	5	4	5	4	5	5	5	11	15	17	19	21
<b>Net income</b>	<b>426</b>	<b>447</b>	<b>484</b>	<b>513</b>	<b>463</b>	<b>500</b>	<b>542</b>	<b>578</b>	<b>1,548</b>	<b>1,866</b>	<b>1,871</b>	<b>2,083</b>	<b>2,248</b>
<b>Diluted EPS (incl FAS123)</b>	<b>\$0.69</b>	<b>\$0.72</b>	<b>\$0.78</b>	<b>\$0.82</b>	<b>\$0.74</b>	<b>\$0.80</b>	<b>\$0.87</b>	<b>\$0.93</b>	<b>\$2.47</b>	<b>\$3.01</b>	<b>\$3.01</b>	<b>\$3.34</b>	<b>\$3.61</b>
Diluted Shares Outstanding	620	618	622	622	623	623	623	623	625	621	621	623	623
<b>GAAP EPS</b>	<b>\$0.71</b>	<b>\$0.74</b>	<b>\$0.83</b>	<b>\$0.83</b>	<b>\$0.74</b>	<b>\$0.80</b>	<b>\$0.87</b>	<b>\$0.93</b>	<b>\$2.51</b>	<b>\$3.07</b>	<b>\$3.10</b>	<b>\$3.34</b>	<b>\$3.61</b>
Dividend per shares	\$0.21	\$0.21	\$0.21	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.58	\$0.81	\$0.85	\$0.88	\$0.88
Payout	31%	29%	27%	27%	30%	27%	25%	24%	23%	27%	28%	26%	24%
<b>As % of Revenue</b>													
Cost of Sales	68.3%	67.5%	67.2%	66.9%	67.7%	67.2%	67.1%	66.7%	68.7%	68.1%	67.5%	67.2%	67.2%
Gross Profit	31.7%	32.5%	32.8%	33.1%	32.3%	32.8%	32.9%	33.3%	31.3%	31.9%	32.5%	32.8%	32.8%
SG&A	11.6%	12.0%	11.9%	11.8%	11.7%	11.9%	11.7%	11.7%	11.3%	11.3%	11.9%	11.7%	11.6%
Operating Earnings	20.1%	20.4%	20.8%	21.2%	20.7%	20.9%	21.2%	21.6%	20.0%	20.7%	20.7%	21.1%	21.2%
Int. Exp.	-1.2%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.0%	-1.0%	-1.1%	-1.0%	-1.1%	-1.0%	-1.0%
Other Income	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.0%	0.1%	0.2%	0.3%	0.3%
Pretax Earnings	19.0%	19.5%	20.1%	20.5%	19.9%	20.2%	20.5%	20.9%	18.9%	19.7%	19.8%	20.4%	20.5%
Minority interest	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Net Income	14.3%	14.6%	15.1%	15.4%	15.0%	15.2%	15.4%	15.8%	14.2%	14.8%	14.9%	15.3%	15.5%
<b>Year-Over-Year Growth</b>													
Sales	1%	-3%	-3%	3%	4%	8%	10%	10%	26%	16%	-1%	8%	7%
Cost of Sales	0%	-3%	-4%	1%	3%	7%	10%	10%	26%	15%	-1%	8%	7%
Gross Profit	2%	-1%	-1%	6%	6%	9%	10%	11%	28%	18%	1%	9%	7%
SG&A	3%	3%	4%	9%	4%	6%	8%	9%	21%	16%	5%	7%	6%
Operating Earnings	1%	-4%	-4%	5%	7%	10%	12%	12%	32%	20%	-1%	10%	8%
Int. Exp.	28%	15%	2%	-6%	-3%	0%	4%	0%	0%	11%	9%	0%	0%
Other Income	141%	143%	254%	209%	156%	88%	14%	0%	-111%	-2600%	194%	43%	0%
Pretax Earnings	0%	-4%	-3%	6%	9%	12%	12%	13%	34%	21%	0%	11%	8%
Minority interest	0%	33%	13%	34%	22%	-2%	12%	10%	7%	36%	20%	10%	7%
Net Income	1%	-4%	-3%	7%	9%	12%	12%	13%	34%	21%	0%	11%	8%

Source: Company Reports, BofA Global Research Estimates

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## Price objective basis & risk

### Amphenol (APH)

Our \$115 PO for the shares of APH assumes the stock trades to 32x our C2025E EPS. A 32x multiple compares to the historical range of 17x to 29x, with the average being 21x. In our opinion, APH deserves a premium multiple relative to peers given its very conservative accounting. We think the company should continue to generate cash flow from operations (by targeting L/T incremental margins of 25% or more) on a consistent basis that it could use for further acquisitions, debt pay down, or to repurchase stock. Without completing any acquisitions, we believe debt would continue to decline as a percentage of capital.

Downside risks to achieving our PO are a slower recovery of end markets (although APH's diverse customer base and product set provides an offset), slower military spending, and slower recovery in the demand for high-end information technology. Raw materials also remain a risk as APH consumes a significant amount of gold, copper and resin.

## Analyst Certification

I, Wamsi Mohan, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan



## iQmethod<sup>SM</sup> 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 &amp; 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

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

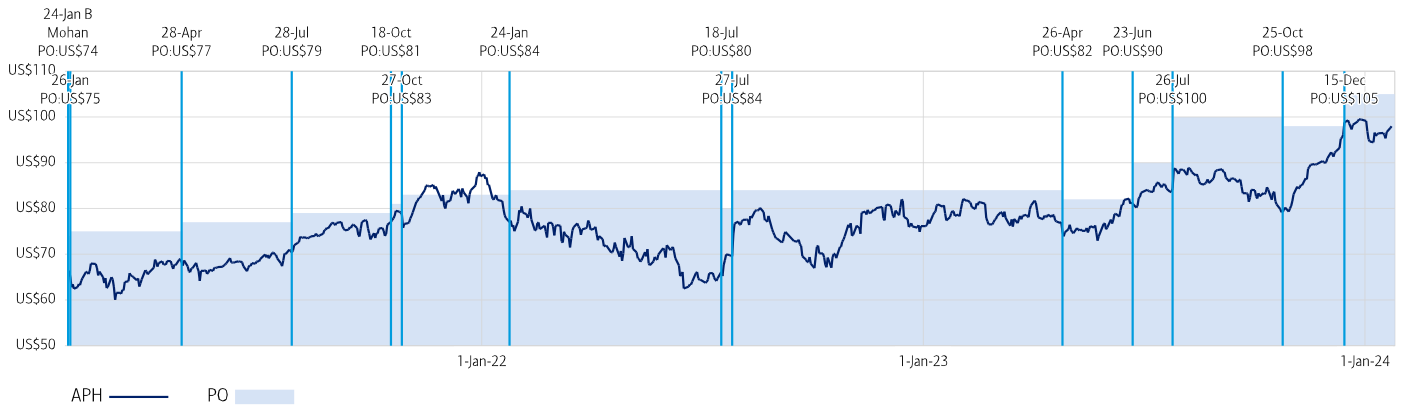
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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