

HEICO Corporation

Positive start to FY2024 with EPS beat on commercial aftermarket & lower taxes

Maintain Rating: BUY | PO: 220.00 USD | Price: 198.98 USD

1QFY24 Adj. EPS of \$0.82 beats consensus \$0.73

HEICO reported 1Q24 Adj of \$0.82 vs. BofAe: \$0.57 vs. BBG: \$0.73. The beat was attributed to lower than anticipated tax expense, as well as strong growth in both Flight Support Group (FSG) and Electronic Technologies Group (ETG). We expect the tone of the call to set the baseline for the market's reaction. We look forward to hearing management's view on what to expect from FSG with Wencor for the year, in addition to when to expect ETG's margins to recover. We maintain our Buy rating, as we expect HEI will continue to benefit from strong Commercial Aftermarket demand.

Aftermarket demand driving FSG growth

For FSG, sales in the quarter were \$619mn (up 12% organically and up 66% including Wencor). The double-digit organic growth was driven by continued strong demand for aftermarket replacements parts, repair, overhaul, and services. Operating margins of 22% vs. BofAe: 19%, were down slightly (50bps Y/Y), attributed to acquisition costs. The FSG results indicate Wencor is performing ahead of expectations, and although down the margins were very strong.

ETG strong topline while margins face headwinds

For ETG, sales were \$286mn (up 12% Y/Y), driven by acquisition related revenue, and organic growth in aerospace products. The growth was slightly offset by organic sales declines in electronics, medical, and commercial space products. Operating margins of 19.3% vs. BofAe: 22.9%, declined 282bps Y/Y. The margin impact was attributed to unfavorable sales mix leading to lower efficiencies, as well as increased R&D expenses. We note this quarter marks the first time since 1Q 2013, where ETG's margins were below 20%. However, HEI does expect a recovery in margins with SG&A softening, and increased demand spurred from the new product R&D.

Exhibit 1: HEI Quick-take vs. Expectations

HEICO reported 1Q24 Adj of \$0.82 vs. BofAe: \$0.57 vs. BBG: \$0.73

Quick-take of results vs. Expectations:	
Adj. EPS	1Q24: \$0.82 vs. BofAe: \$0.57 vs. BBG: \$0.73 vs. 1Q23: \$0.67 (1Q24 up 22.1% Y/Y)
Revenue	1Q24: \$896mn vs. BofAe: \$877mn vs. BBG: \$891mn vs. 1Q23: \$621mn (1Q24 up 44.4% Y/Y)
Operating Profit Margin	1Q24: 20.1% vs. BofAe: 19.0% vs. 1Q23: 20.8%
Revenue by segment	Flight Support Group - FSG: 1Q24: \$619mn vs. BofAe: \$615mn vs. 1Q23: \$371mn Electronic Technologies Group - ETG: 1Q24: \$286mn vs. BofAe: \$270mn vs. 1Q23: \$255mn Intersegment sales: 1Q24: \$-8mn vs. BofAe: \$-8mn vs. 1Q23: \$-5mn
FCF	1Q24 Actual: \$98mn vs. BofAe: \$67mn vs. BBG: \$103mn vs. 1Q23: \$66mn (increased 49.3% Y/Y)

Source: BofA Global Research, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

26 February 2024

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Stock Data

Price	198.98 USD
Price Objective	220.00 USD
Date Established	13-Jun-2023
Investment Opinion	B-1-7
52-Week Range	153.63 USD - 200.64 USD
Mrkt Val (mn) / Shares Out (mn)	27,574 USD / 138.6
Free Float	77.1%
Average Daily Value (mn)	75.05 USD
BofA Ticker / Exchange	HEI / NYS
Bloomberg / Reuters	HEI US / HEI.N
ROE (2024E)	14.0%
Net Dbt to Eqty (Oct-2023A)	64.8%
ESGMeter™	Medium

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Timestamp: 26 February 2024 06:48PM EST

Price objective basis & risk

HEICO Corporation (HEI)

Our PO of \$220 is based on a 2.4x relative P/FCF multiple to the S&P 500 on CY25 estimates. Historically, HEI has traded between 0.9x and 2.6x NTM relative P/FCF multiple (excluding outlier period in 2013). In our view, a relative multiple above HEI's 5-year 1.92x average, fairly factors in HEI's unique market positioning, strong management execution and a sound balance sheet.

Downside risks are a longer-than-expected economic slowdown, which would likely lower original equipment manufacturer (OEM) production rates and demand for air travel, higher oil prices, which would likely derail air traffic growth and, therefore, aircraft demand, less acceptance of PMAs from the airline community, a change in acquisition strategy and integration.

Upside risks are increased M&A due to the company's acquisitive history, faster growth in sales, a stronger-than-expected commercial aero recovery, better-than-expected margins, a greater acceptance of parts manufacturer approval (PMA) parts by airlines and lessors.

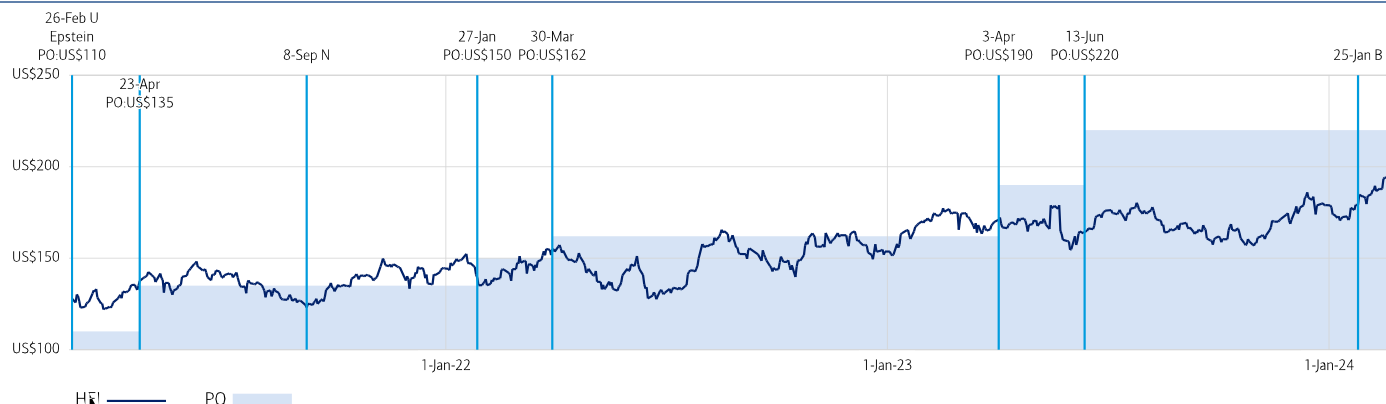
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HEICO (HEI) Price Chart



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

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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

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%

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