

## Industrials/Multi-Industry

## HVAC readacross from privately held Copeland earnings

Price Objective Change

**Resi destock may continue, potential for positive 2H**

On 7 March, Copeland (a privately held HVAC compressor manufacturer) held a call to discuss its 1Q24 earnings. Copeland was sold to Blackstone by Emerson in May '23, with the company retaining 40% equity ownership. Copeland is by far the largest supplier of compressors to the US HVAC industry. For Copeland, residential HVAC sales in the quarter were down ~10% and market units were down 30+% on continued destocking. Aftermarket was a tailwind, up 20%. Copelands' resi sales in the quarter compare to Trane and Carrier reporting sales down high-teens and Johnson Controls down >20%. Commentary of destocking continuing for another quarter is consistent with the commentary from the HVAC OEMs. Copeland expects resi volumes to be flat to down slightly in '24. 2H24 is expected to turn positive given the easy comps.

**European heat pump weakness continues**

Residential in Europe was down 28% in the quarter for Copeland, driven by the weak heat pump market. The heat pump market is being impacted by uncertainty regarding subsidy programs and regulations. The company expects the European heat pump market to be soft, but to uptick toward the end of the year as subsidies drive higher demand in 2H. Channel inventory levels in Europe were noted as still being too high. Copeland noted it watches subsidy applications as a leading indicator. The company highlighted the increase in German heat pump applications in December, which were up 30% y/y, (full year applications were down 69%). The uptick in application was also called out by Carrier during its 4Q23 earnings call. Carrier is modeling Viessmann's sales up mid-single digits in '24 with confidence that heat pump orders and sales will pick up in 2H24. We remain cautious on European heat pumps in '24 given negative headlines. We also note multiple announcements of layoffs/ reduced hours at the European heat pump manufacturers including: Daikin, Vaillant, Saunier Duval, Nibe, Stiebel Eltron, Groupe Atlantic.

**Commercial demand helped by backlog**

Copeland's commercial business was up high-single digit in the quarter. The '24 outlook for commercial varies by subsegment. For unitary/ light commercial, it was guided to be positive, but the outlook is mixed. Office was described as slowing and education as tailing off – backlog was explained as what is driving current momentum. In non-unitary, applied and data centers are expected to continue to be strong. Continued strength in commercial is consistent with commentary from Trane, Carrier, and Johnson Controls. We raise our Trane PO by \$10 to \$292, still reflecting 18x '25E EV/EBITDA. We raise our Johnson Controls PO to \$64 from \$60, now based on 11x EV/EBITDA from 10x prior, as peer multiples have expanded to 16x (vs. 15x previously). We rate Trane and Johnson Controls Neutral and Carrier Underperform.

07 March 2024

Equity  
Americas  
Industrials/Multi-Industry

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HVAC: heating, ventilation, and air conditioning

OEM: original equipment manufacturer

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Timestamp: 07 March 2024 02:26PM EST

**Exhibit 1: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CARR	CARR US	Carrier	US\$ 57.72	B-3-7
JCI	JCI US	Johnson Controls Int	US\$ 60.51	B-2-7
TT	TT US	Trane Technologies	US\$ 286.34	B-2-7

Source: BofA Global Research

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## Price objective basis & risk

### Carrier Global Corp. (CARR)

We base our \$55 price objective on 13x EV/EBITDA of our 2025 estimates. Our 13x target multiple is at a discount to peers, trading at 14x on 2024 estimates. We believe that the discount is warranted given the potential for destocking across res and non-res.

Upside risks to our price objective are: 1) continued solid execution in 2023, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

Downside risks to our price objective are: 1) slower-than-expected macro recovery, 2) inability to execute on announced cost savings plan, and 3) lost market share to competitors.

### Johnson Controls International PLC (JCI)

We base our \$64 price objective on 11x EV/EBITDA of our 2025 estimates. Our 11x target multiple is below the peer group average trading at 16x on 2024 estimates. We think the discount valuation is warranted given risk from slowdown in the non-residential cycle.

Downside risks to our price objective are 1) potential loss of market share to peer and building automation competitors, 2) execution risks, particularly on the cost takeout plan, and 3) risks from the aqueous film forming foam litigation.

### Trane Technologies PLC (TT)

We base our \$292 price objective on 18x 2025E EV/EBITDA . Our 18x target multiple is above the peer group average trading at 14x on 2024 estimates. We believe the premium is warranted given above-average performance.

Downside risks are 1) slower-than-expected macro recovery, 2) lower-than-expected productivity improvement and cost synergies, 3) loss of market share to competitors. Upside risks are 1) continued solid execution in 2024, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

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## US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

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## Important Disclosures

## Carrier (CARR) Price Chart



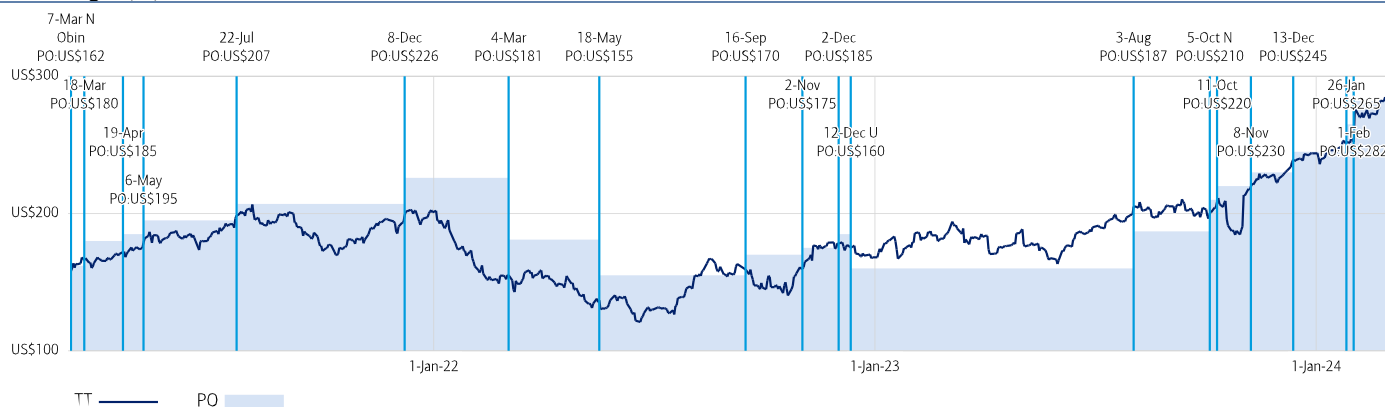
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Johnson Controls Int (JCI) Price Chart**

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

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**Trane Technologies (TT) Price Chart**

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**Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

**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%

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

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