

ESAB Corp

Progress marches ahead

Reiterate Rating: BUY | PO: 109.00 USD | Price: 99.12 USD

Performing vs targets: Improvements remain on track

The underappreciated growth vectors behind our [upgrade of ESAB in September](#) continue to drive outperformance in results. The Q4 print underscore the strength of EBX initiatives, new product introductions and Automation/Gas Control exposure. Cobot sales were up ~90% YoY and Gas Controls grew LDD. ESAB is on track to meet their 2028 targets, with ample capacity for M&A as FCF grows and leverage falls. ESAB's initial 2024 outlook is largely in line with consensus. Fabrication activity remains solid (some retail weakness), and ESAB expects positive volumes each quarter with LSD price (prices raised in Q1). Near-term Q1 faces some headwinds from severe weather and fewer working days.

Another strong quarter

ESAB reported another better-than-expected set of results in Q4 (EBITDA ex-Russia of \$125.8mn, 10% ahead of consensus), with EBITDA margin expanding 200bps YoY as ESAB continues to implement EBX initiatives/operational efficiencies. Americas organic growth was up 9% (driven by 8% price), while EMEA & APAC organic growth was flat, as 2% volume growth was offset by 2% lower price. Overall organic sales were up 4% in Q4. Notable strength persisted across the Middle East and India. ESAB ended the year with record FCF of \$305mn, up 39% YoY, and leverage fell to 1.9x (vs 2.7x 4Q22).

2024 outlook in line with consensus, no M&A included

ESAB provided initial 2024 outlook for 2024 of \$2.66-\$2.71bn in revenue (vs \$2.73bn consensus), EBITDA of \$495-\$515mn (vs \$505mn cons.), and EPS of \$4.65-\$4.85 (vs \$4.81 cons.). ESAB expects organic growth of 2.5-4.5%, about a 1% headwind from FX, and includes no contribution from M&A (we expect the firm to act on its robust pipeline but have not included M&A in estimates). FCF conversion is expected to be above 95%.

Adjusting estimates, PO to \$109

We lower our 2024/25E estimates 2-3% on updated outlook. Our EPS estimates decline further, on higher share count. We raise our PO to \$109 from \$91 on 14.25x 2024E EBITDA (vs 12.0x prior) as we feel progress vs long term targets and unique growth vectors warrant a higher multiple. Our framework remains at a notable discount (>4x) to larger peers Lincoln Electric and ITW and is in line with broader short cycle peer group.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.12	4.45	4.80	5.50	5.95
GAAP EPS	3.69	3.36	4.80	5.50	5.95
EPS Change (YoY)	-3.5%	8.0%	7.9%	14.6%	8.2%
Consensus EPS (Bloomberg)			4.82	5.25	5.73
DPS	0.10	0.22	0.25	0.28	0.31
Valuation (Dec)					
P/E	24.1x	22.3x	20.7x	18.0x	16.7x
GAAP P/E	26.9x	29.5x	20.7x	18.0x	16.7x
Dividend Yield	0.1%	0.2%	0.3%	0.3%	0.3%
EV / EBITDA*	17.4x	14.7x	14.0x	12.8x	12.2x
Free Cash Flow Yield*	2.9%	4.7%	5.5%	6.0%	6.4%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 01 March 2024 05:01AM EST

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	91.00	109.00
2024E Rev (m)	0	2,700.0
2025E Rev (m)	0	2,862.0
2026E Rev (m)	NA	2,976.5
2024E EPS	5.20	4.80
2025E EPS	5.75	5.50
2026E EPS	NA	5.95

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Stock Data

Price	99.12 USD
Price Objective	109.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-1-7
52-Week Range	54.49 USD - 99.96 USD
Mrkt Val (mn) / Shares Out (mn)	6,046 USD / 61.0
Free Float	93.6%
Average Daily Value (mn)	20.91 USD
BofA Ticker / Exchange	ESAB / NYS
Bloomberg / Reuters	ESAB US / ESAB.N
ROE (2024E)	16.4%
Net Dbt to Eqty (Dec-2023A)	55.6%
ESGMeter TM	NLA

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".

LDD/LSD: Low Double/Single Digit

iQprofileSM ESAB Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.0%	11.2%	11.1%	11.8%	12.3%
Return on Equity	13.1%	18.4%	16.4%	15.8%	15.2%
Operating Margin	15.5%	17.8%	17.5%	18.1%	18.4%
Free Cash Flow	174	282	333	360	384

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.4x	1.2x	1.2x
Asset Replacement Ratio	0.6x	0.6x	0.9x	0.7x	0.7x
Tax Rate	25.1%	23.6%	23.5%	24.0%	24.0%
Net Debt-to-Equity Ratio	82.6%	55.6%	23.7%	10.6%	-0.8%
Interest Cover	10.6x	5.5x	6.3x	7.1x	7.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,593	2,621	2,700	2,862	2,976
% Change	6.8%	1.1%	3.0%	6.0%	4.0%
Gross Profit	936	899	1,080	1,162	1,218
% Change	6.8%	-4.0%	20.2%	7.5%	4.8%
EBITDA	408	483	510	555	585
% Change	11.7%	18.2%	5.7%	8.8%	5.4%
Net Interest & Other Income	(38)	(85)	(75)	(73)	(70)
Net Income (Adjusted)	250	272	297	338	364
% Change	-2.6%	8.9%	9.4%	13.7%	7.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	273	291	304	338	364
Depreciation & Amortization	66	75	74	74	74
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(20)	(25)	0	0	0
Other Adjustments, Net	(105)	(10)	23	1	1
Capital Expenditure	(40)	(48)	(69)	(53)	(55)
Free Cash Flow	174	282	333	360	384
% Change	-19.1%	62.1%	18.1%	8.1%	6.6%
Share / Issue Repurchase	0	0	110	(100)	(100)
Cost of Dividends Paid	(6)	(13)	(16)	(17)	(19)
Change in Debt	1,220	(202)	(300)	(200)	(200)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	72	102	230	273	338
Trade Receivables	374	385	377	392	408
Other Current Assets	542	511	486	504	518
Property, Plant & Equipment	284	294	289	267	248
Other Non-Current Assets	2,481	2,537	2,537	2,537	2,537
Total Assets	3,754	3,829	3,918	3,973	4,048
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	602	620	593	607	617
Long-Term Debt	1,219	1,018	718	518	318
Other Non-Current Liabilities	545	543	543	543	543
Total Liabilities	2,366	2,181	1,854	1,668	1,478
Total Equity	1,388	1,648	2,064	2,306	2,570
Total Equity & Liabilities	3,754	3,829	3,918	3,973	4,048

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Industrial Machinery

Company Description

ESAB operates as a provider of Fabrication Technology. Its products include welding equipment, consumables, gas control equipment, digital solutions, and robotics. The products are used in cutting, joining and automated welding applications.

Investment Rationale

ESAB has a strong position across emerging markets and Europe, and is strong in filler metal in NA. ESAB is beginning to target the NA equipment market, add less cyclical and high margin products in adjacent markets (specialty gas), and is continuing to rationalize its footprint, all of which should allow it to compete more effectively and gain market share. Macroeconomic headwinds are fading, cons. estimates are low, and growth is underappreciated, and we view ESAB as a mispriced asset.

Stock Data

Average Daily Volume 210,926

Quarterly Earnings Estimates

	2023	2024
Q1	1.05A	1.08E
Q2	1.23A	1.28E
Q3	1.08A	1.24E
Q4	1.13A	1.20E

Price objective basis & risk

ESAB Corp (ESAB)

We value ESAB at \$109 per share on 14.25x 2024E EV/EBITDA, broadly in line with the short cycle 'PMI' peer group and at a two-turn discount to the industry leader. We find ESAB's valuation discount to the industry leader unwarranted given significantly higher leverage, lower scale, and lower margin.

Upside risks: Pick-up in global fabrication markets, faster-than-expected market share growth, increased demand for automation and specialty products, better-than-expected results from internal initiatives, accretive M&A.

Downside risks: Global recession, decline in manufacturing activity, failure to execute on rationalization/cost actions, rising interest rates.

Analyst Certification

I, Sherif El-Sabbahy, 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 - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

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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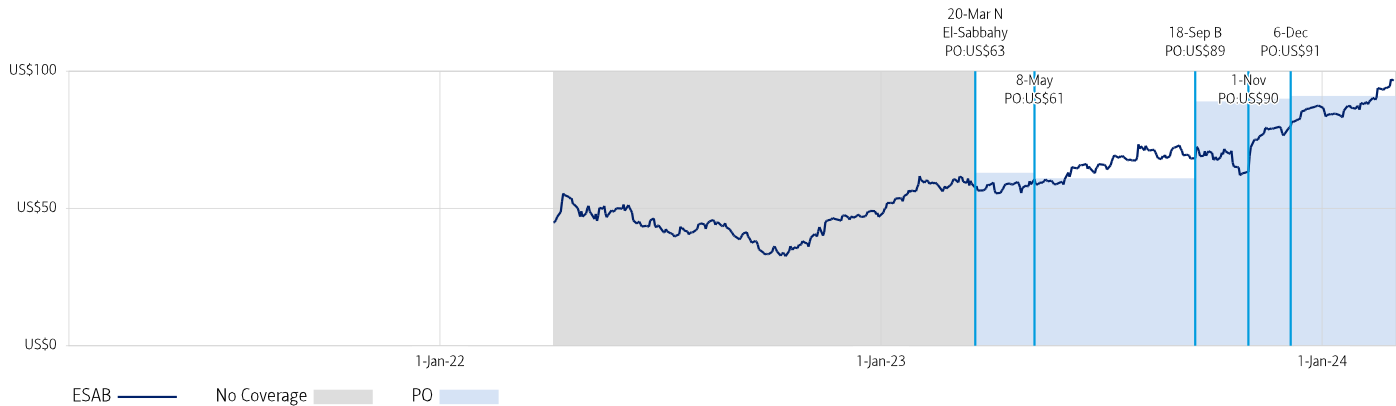
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ESAB Corp (ESAB) Price Chart



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Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

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%

^{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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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