

## Terex Corp.

# Stumbles: doesn't necessarily 'stick the landing' - 2024 is ultimately a call on 2025

Reiterate Rating: UNDERPERFORM | PO: 56.00 USD | Price: 64.35 USD

## Underwhelming Q4: doesn't necessarily 'stick the landing'

TEX reported an underwhelming Q4 that was a bit messy: adj operating profit \$132mn came in 7% below consensus, mostly due to AWP. This miss follows last quarter where TEX revised down its AWP margin guide for 2023: 13.8% to 13.3% vs finishing 12.8%. Additionally, this was the first time in several quarters to see results feature some 'call outs' and 'adjustments'. To be clear, these adjustments are one-time in nature, TEX still expanded Q4 total operating margin 100bps YoY on flat revenue growth, and delivered record FY23 EPS of \$7.06, up 63% YoY – a far cry from the 'old Terex' days. That said, a slight slip up on execution at an uncertain time (Monterrey facility, CEO leadership change, slowing EU, non-res cycle concerns) is likely to be an overhang in the near-term.

## 2024: guidance of 'flattish' EPS, at the midpoint...but

TEX is guiding to a flattish 2024: adj EPS \$6.85-\$7.25 (midpoint flat YoY), sales of \$5.1-5.3bn (midpoint +1% YoY), op margin 12.8-13.1% up vs 2023 (12.7%) yet offset by higher tax rate. See page 2 for more segment details. Preliminary takeaways on 2024: AWP revenue guide feels conservative (-1% to +3% YoY – yet bookings remain strong), margin ramp a bit 2H weighted, Europe slowing & mix impact likely weighing on MP.

## ...ultimately the call is mostly on how TEX builds into '25

Clear theme across Machinery world (ex Ag, Trucks) - 2024 is ultimately 'flat' given positives (mega projects, infrastructure) offsetting cyclical slowdown. The key for TEX is how orders build to dictate 2025. AWP: backlog \$2.6bn (-9% YoY – but 3x historical norms), bookings \$850mn (flat YoY) yet book to bill above 1x – look to see how order season unfolds as capacity rises. MP: backlog of \$767mn (-35% YoY), book bill below 1x – strong NA demand (TEX sees this carry through to 2025) offsetting softer Europe.

## FCF misses guide but balance sheet robust – what is next?

TEX generated \$366mn of FCF in FY23, slightly missing its target (\$375mn). That said, TEX still generating strong FCF (2024 guide \$325-375mn) and balance sheet is likely to flip net cash (net leverage 0.4x). This begs the question – what is TEX's next phase given a likely bias towards growth? We update our estimates post Q4 and lower our PO to \$56 (\$57) keeping our valuation methodology intact (8x 2024e EPS). Reiterate U/P rating as we struggle to see upside as peak narrative is in play given risks to AWP cycle into 2025.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.33	7.06	7.05	6.50	7.00
GAAP EPS	4.33	7.56	7.05	6.50	7.00
EPS Change (YoY)	41.0%	63.0%	-0.1%	-7.8%	7.7%
Consensus EPS (Bloomberg)			7.09	6.79	7.53
DPS	0.52	0.66	0.73	0.78	0.84
Valuation (Dec)					
P/E	14.9x	9.1x	9.1x	9.9x	9.2x
GAAP P/E	14.9x	8.5x	9.1x	9.9x	9.2x
Dividend Yield	0.8%	1.0%	1.1%	1.2%	1.3%
EV / EBITDA*	10.8x	7.1x	6.8x	7.2x	6.8x
Free Cash Flow Yield*	3.5%	7.6%	8.0%	12.5%	7.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 09 February 2024 05:30AM EST

09 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	57.00	56.00
2024E Rev (m)	5,198.4	5,202.9
2025E Rev (m)	4,959.7	4,965.4
2026E Rev (m)	NA	5,170.3
2024E EPS	7.15	7.05
2026E EPS	NA	7.00

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### Stock Data

Price	64.35 USD
Price Objective	56.00 USD
Date Established	9-Feb-2024
Investment Opinion	C-3-7
52-Week Range	41.89 USD - 65.64 USD
Mkt Val (mn) / Shares Out (mn)	4,382 USD / 68.1
Free Float	97.3%
Average Daily Value (mn)	43.50 USD
BofA Ticker / Exchange	TEX / NYS
Bloomberg / Reuters	TEX US / TEX.N
ROE (2024E)	25.3%
Net Dbt to Eqty (Dec-2023A)	15.1%
ESGMeter <sup>TM</sup>	High

ESGMeter<sup>TM</sup> 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"](#).

NA: North America

MP: Materials processing

AWP: Aerial work platform

TEX: Terex

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# iQprofile<sup>SM</sup> Terex Corp.

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.9%	23.1%	19.3%	15.4%	14.4%
Return on Equity	26.2%	33.8%	25.3%	18.9%	17.0%
Operating Margin	9.5%	12.7%	13.0%	12.6%	12.9%
Free Cash Flow	152	332	350	549	328

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	1.0x	1.6x	1.0x
Asset Replacement Ratio	2.3x	2.3x	2.2x	2.0x	2.1x
Tax Rate	18.1%	18.2%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	39.9%	15.1%	-2.7%	-23.8%	-30.9%
Interest Cover	8.9x	11.7x	11.2x	10.4x	11.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,418	5,152	5,203	4,965	5,170
% Change	13.7%	16.6%	1.0%	-4.6%	4.1%
Gross Profit	871	1,181	1,212	1,167	1,220
% Change	15.0%	35.5%	2.7%	-3.7%	4.6%
EBITDA	467	708	739	694	737
% Change	23.5%	51.6%	4.4%	-6.1%	6.2%
Net Interest & Other Income	(53)	(63)	(60)	(60)	(60)
<b>Net Income (Adjusted)</b>	<b>300</b>	<b>482</b>	<b>479</b>	<b>440</b>	<b>474</b>
<b>% Change</b>	<b>38.0%</b>	<b>60.6%</b>	<b>-0.7%</b>	<b>-8.2%</b>	<b>7.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	300	482	479	440	474
Depreciation & Amortization	47	56	65	70	70
Change in Working Capital	(138)	(115)	(1,689)	192	(61)
Deferred Taxation Charge	0	0	1,640	(14)	(10)
Other Adjustments, Net	52	36	0	0	0
Capital Expenditure	(110)	(127)	(145)	(139)	(145)
<b>Free Cash Flow</b>	<b>152</b>	<b>332</b>	<b>350</b>	<b>549</b>	<b>328</b>
<b>% Change</b>	<b>-35.1%</b>	<b>119.1%</b>	<b>5.5%</b>	<b>56.7%</b>	<b>-40.3%</b>
Share / Issue Repurchase	(101)	(61)	(40)	0	0
Cost of Dividends Paid	(36)	(43)	0	0	0
Change in Debt	97	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	304	371	681	1,230	1,557
Trade Receivables	548	0	1,021	952	992
Other Current Assets	1,110	1,875	1,659	1,514	1,575
Property, Plant & Equipment	466	570	650	719	794
Other Non-Current Assets	691	801	801	801	801
<b>Total Assets</b>	<b>3,118</b>	<b>3,616</b>	<b>4,812</b>	<b>5,216</b>	<b>5,718</b>
Short-Term Debt	2	3	3	3	3
Other Current Liabilities	997	1,116	1,874	1,838	1,867
Long-Term Debt	774	620	620	620	620
Other Non-Current Liabilities	165	204	204	204	204
<b>Total Liabilities</b>	<b>1,937</b>	<b>1,943</b>	<b>2,701</b>	<b>2,665</b>	<b>2,694</b>
<b>Total Equity</b>	<b>1,181</b>	<b>1,672</b>	<b>2,111</b>	<b>2,551</b>	<b>3,025</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,118</b>	<b>3,616</b>	<b>4,812</b>	<b>5,216</b>	<b>5,718</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Construction Machinery

## Company Description

Terex Corp. manufactures equipment for the construction, mining, and cement and aggregates markets. Its two main segments are Aerial Work Platforms and Material Processing after completing several large divestitures in recent years. Sales are roughly 58% North America, 22% Europe, 14% Asia Pacific, and 6% ROW.

## Investment Rationale

Terex has taken positive steps to rationalize the less profitable and low return portions of its portfolio. While TEX is executing well and the valuation range could re-rate higher over the long-term, we believe some of the cyclical tailwinds that underpinned a robust three-year earnings cycle (tight supply/demand, fleet replacement needs, pricing) are starting to fade. We see evidence that EPS is likely to peak (and fall in 2025) as the cycle matures.

## Stock Data

Average Daily Volume 676,028

## Quarterly Earnings Estimates

	2023	2024
Q1	1.60A	1.47E
Q2	2.32A	2.17E
Q3	1.75A	1.78E
Q4	1.41A	1.62E

## Q4 results

### **AWP: misses Q4 – demand remains steady into 2024**

AWP reported Q4 sales of \$660mn (-1.8% YoY), 1.3% below BofAe and 1% below consensus. Operating margin of 9.8% (+180bps YoY) missed our forecast by 220bps as strict cost control partially offset Monterrey start up inefficiencies. TEX provided 2024 AWP sales outlook of \$2.9bn-\$3bn (vs consensus of \$3bn) (-1% to +3% YoY) and margin of 13.4%-13.7% (up 60-90bps YoY). In 4Q23 AWP backlog increased +8% QoQ to 2.64bn (-9% YoY). Book to bill remains above 1x. According to TEX, AWP growth in 2024 is likely to be more a function of supply rather than demand, meaning growth will depend on how quickly TEX can get capacity online. TEX is committed to increase margins through cost reductions from their new Monterrey facility – committed to 200bps op margin improvement in 2025. TEX expects to return to normal seasonality in 2024 and expects a slight increase in national accounts in North America because of the increased exposure to megaprojects.

### **MP: some slowdown in Europe offset by strength in NA**

MP sales were \$555mn (+0.8% YoY), 1% below BofAe and roughly in-line with consensus. Operating margin of 15.8% (flat YoY) was 40bps above consensus of 15.4%. TEX provided 2024 MP guide: i) sales of \$2.2-2.3bn (-1% to +3% YoY) and ii) operating margin of 15.6%-15.9% (down 40-70bps YoY). MP backlog of \$767mn is down 14% QoQ and -35% YoY with book to bill below 1x. TEX expects MP backlogs to be flattish in 2024 driven by strong demand in NA, partially offset by softening in EU. Utilization rates remain healthy. In 4Q23, improved lead times have allowed dealers to return to more normal delivery patterns with inventories more normal. Moving forward TEX expects i) Concrete to grow, driven by infrastructure and construction spending and ii) Fuchs to struggle as it is tied to scrap prices and more EU based, iii) strong growth in Environmental (albeit, yet weighs on mix), and North America aggregates – biggest driver – to remain healthy into 2025.



## Price objective basis & risk

### Terex Corp. (TEX)

Our PO of \$56 is based on 8x 2024e EPS, near the low end of the historical range (6-18x), as we are likely nearing a peak on Access equipment. In prior cycles, we typically see a low multiple ascribed to Terex's peak earnings - which we believe could be playing out in 2024. While the company is executing well and possesses a strong balance sheet, we believe some cyclical tailwinds (tight supply/demand, fleet replacement needs, pricing) are starting to fade.

Upside risks are 1) stronger and longer than expected recovery in Aerial Work Platforms underpinned by secular and cyclical drivers in construction, 2) better than expected growth opportunities in Material Processing, 3) higher reset of margin targets in the future, 4) bigger than expected capital redeployment.

Downside risks are 1) supply chain disruptions and manufacturing inefficiencies with production transitions, 2) rates are higher for longer and weigh on construction activity, 3) inability to price for higher inputs, 4) higher capacity in certain markets overwhelm the pricing environment.

## Analyst Certification

I, Michael Feniger, 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

**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

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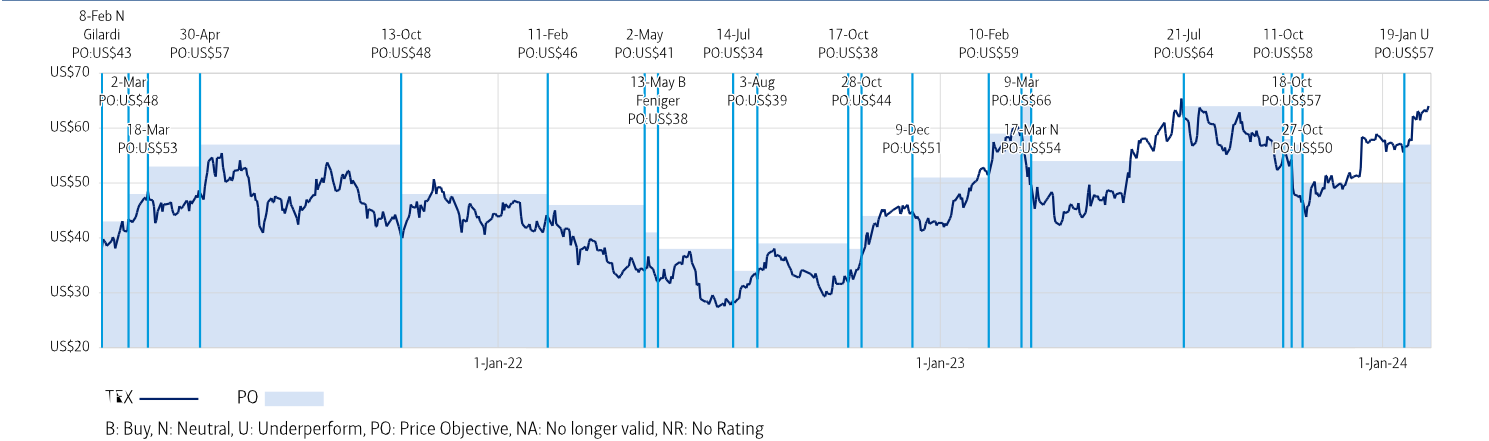
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Terex Corp. (TEX) Price Chart



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

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

<sup>R2</sup> 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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