

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

PO Raised

[Amazon.com](#) | BUY | AMZN US | Mkt Cap:USD1,620,037mn | Justin Post**Double-good Q: AWS accelerating while also raising the L.T. retail margin bar; Buy**

- Upside Q with Rev/profit of \$170bn/\$13.2bn vs. Street at \$166.2bn/\$10.5bn; AWS grew 13%, clearing important acceleration bar.
- Outlook for AWS accel. in 1Q & LT retail margins above '18 levels key positives; Prime Video Ads another important driver.
- Raising 2025 EPS to \$5.30 from \$4.58 and Price Objective to \$204 using sum of parts analysis; remains top large cap stock.

[Automatic Data](#) | NEUTRAL | ADP US | Mkt Cap:USD102,192mn | Jason

Kupferberg

Weekly "Navigator"

- We are hosting an expert call on 2/5 at 10AM with a former Adyen exec to discuss the eCommerce payments market
- Neutral-rated PYPL reports on 2/7; focus will likely be on the '24 guide from new mgmt
- On 2/6, Buy-rated FI, U/P rated CTSH, Buy-rated JKHY, and U/P-rated WU report earnings

[Ball Corp](#) | UNDERPERFORM | BALL US | Mkt Cap:USD18,851mn | George

Staphos

Post C4Q: BALL, IP, WRK: Momentum should improve as year progresses

- BALL: Ests \$3.25 in '24 (was \$3.15), \$3.75 in '25 (was \$3.65); Volume price/cost help drive ests higher.
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02 February 2024

Equity

United States

Investor Support

BofAS

Today's Events: Economic Indicators

N/A

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QuickNotes is a list of today's Global Research activities. Please use the links to read the full Research report before making investment decisions. The reports also contain important disclosures.

[Cardinal Health Inc](#) | NEUTRAL | CAH US | Mkt Cap:USD25,904mn | Allen Lutz

Awaiting further execution across both segments

- CAHs operating performance in Pharma/Medical was weaker than expected, though core industry dynamics in pharma are a tailwind
- We wait for continued execution across both segments before becoming more constructive
- We reiterate our Neutral rating and increase our PO to \$115 based on 15x CY24 P/E

[Clorox](#) | NEUTRAL | CLX US | Mkt Cap:USD18,449mn | Anna Lizzul
FQ2 beats on volume restoration post-cybersecurity attack; Reiterate Neutral

- FQ2 results came in well ahead of expectations from the cyberattack recovery, with adj. EPS of \$2.16 ahead of our \$1.03.
- Visibility remains low on volume trends as CLX continues to regain distribution in FQ3 while U.S. pricing benefits wane.
- Overall, our F24 adj. EPS moves to \$5.61 vs. \$4.47 prior, primarily on the FQ2 beat. We reiterate our Neutral rating.

[Corteva](#) | NEUTRAL | CTVA US | Mkt Cap:USD38,058mn | Steve Byrne
Positive longer-term outlook, but near-term challenges; staying Neutral

- While Corteva's guide was consistent with our estimates, mgmt commentary addressed market concerns, largely in crop chems
- Our key near-term concerns are focused on pricing in both crop chemicals and seed mix. CTVA's 2025 outlook is constructive
- We see longer-term growth in Seed, supported by EU's new view on gene editing, which could be quite beneficial to Corteva

[Deckers](#) | BUY | DECK US | Mkt Cap:USD19,886mn | Christopher Nardone
Hurdling over another high bar; Reiterate Buy

- We reiterate our Buy following record 3Q results; expect innovation and newness will drive share gains at HOKA and UGG
- We are increasing our F25E EPS to \$30 to reflect higher UGG sales and a stronger margin forecast
- We expect stock will continue to o/p driven by consistency of beating results, dd sales growth, strong margins, clean b/s

[Gen Digital, Inc.](#) | BUY | GEN US | Mkt Cap:USD15,326mn | Jonathan Eisensohn
Mixed 3Q results, yet net adds continues to impress and LT outlook remains strong

- Mixed 3Q with strong net adds of 330k, but revs/EPS of \$951mn/49c slightly missed Street's ests. due to partner deal timing
- Bookings grew 4% YoY and reached \$1.0bn, suggesting healthy demand and pipeline; mgmt. noted that a \$900mn cash tax refund...
- ... becomes active in 4Q, which supports EPS growth through share buybacks and reduces net leverage to 3.5x from current 3.9x

[Meta Platforms](#) | BUY | META US | Mkt Cap:USD1,038,271mn | Justin Post
Solid 4Q, even better outlook; AI capabilities driving ad improvements

- Solid 4Q Rev/EPS beat; 1Q outlook above Street and suggests continued acceleration in ad revenues despite tougher comps.
- Raising estimates reflecting healthy user engagement and improving ad products. Raising '25 EPS 18% to \$24.06 & PO to \$510.
- Reiterate Buy given strong ad growth drivers in 2024, with potential for multiple expansion on evolving AI capabilities.

[NVIDIA](#) | BUY | NVDA US | Mkt Cap:USD1,568,112mn | Vivek Arya
Q4 Preview: measured, still notable beats, focus turns to GTC, raise PO to \$800

- NVDA set to report Feb-21; We expect 3-5% beat for FQ4/FQ1 as supply gains offset China restrictions; Raise PO to \$800
- AI demand remains in early stages, even as market shifts to inference, NVDA solidly positioned with diversified portfolio
- Valuation remains compelling (<1x PEG), see \$40 in EPS power by CY27E

[Parker Hannifin](#) | BUY | PH US | Mkt Cap:USD66,179mn | Andrew Obin
2QF24: Strong execution, margin drives EPS revisions

- PH had a strong quarter, coming in well above the Street on margin upside. We raise our adj. EPS estimates by 5%.
- This reflects the strong Q and raised guide. While industrial trends are bottoming, we still are waiting for destock to end.
- PH was up 8% vs S&P flat. We estimate 4% from positive earnings revisions and 4% re-rating. We see more re-rating upside.



[Revvity](#) | NEUTRAL | RVTY US | Mkt Cap:USD13,701mn | Derik De Bruin
FY24 outlook largely in-line, as industry headwinds offset transformation

- 4Q results slightly ahead of Jan. preannouncement; FY24 guide for 1-3% organic & \$4.65 EPS at midpt roughly in-line
- FY24 expected to ramp through the year, return to growth in 2H, OpM seen flat on return of variable costs. Mkts still shaky
- We update ests, raise PO to \$118; Reiterate Neutral as we await clarity on RVTY's ability to deliver on LT targets

[Royal Caribbean](#) | NEUTRAL | RCL US | Mkt Cap:USD32,532mn | Andrew Didora
Solid 2024 outlook with Icon now in service

- RCL posted a solid 4Q23 with EPS of \$1.25 hitting our estimate and ahead of Visible Alpha consensus of \$1.13
- RCL guided 1Q24 EPS of \$1.10-\$1.20, in line with our \$1.16 but nicely ahead of consensus at \$0.84
- Our Neutral rating is based on valuation, but we do raise our price objective to \$135 from \$126 on our updated estimates

[Tapestry Inc.](#) | BUY | TPR US | Mkt Cap:USD10,625mn | Lorraine Hutchinson
A stable core, with upside from a turnaround and deleveraging

- Reiterate Buy; we expect TPR's superior margin profile and strong cash flow generation to allow for rapid debt repayment
- We view TPR's low DD accretion forecast as achievable, assuming \$50mn in year-one synergies, and model 14% EPS accretion
- TPR will use its past learnings from unwinding the Coach wholesale business to adjust Kors' wholesale strategy

[The Hartford](#) | BUY | HIG US | Mkt Cap:USD26,188mn | Joshua Shanker
4Q23 offers firmwide EPS beat across most metrics

- Hartford operations delivered an earnings beat across most segments of the company in 4Q23
- Underwriting margins are near-best-ever in both Commercial P&C as well as Group Benefits
- 4Q23 asbestos claims have nearly eliminated the protection of the Berkshire Hathaway adverse development cover

[Tractor Supply](#) | UNDERPERFORM | TSCO US | Mkt Cap:USD25,396mn |**Jason Haas****4Q Recap: Comp pressure and weakness in discretionary categories continues**

- TSCO reported -4.2% comp in 4Q (vs. -4.3% consensus). 4Q EPS was \$2.28 compared to \$2.23 consensus and \$2.22 BofAe.
- TSCO expects revenue to be between \$14.7bn to \$15.1bn and EPS to be between \$9.85 to \$10.50 (-2.4% to 4.1% YoY).
- We're raising our PO from \$171 to \$173 still based on 18x '24 P/E which is within the company's historical range (10x-30x).

[Trane Technologies](#) | NEUTRAL | TT US | Mkt Cap:USD67,062mn | Andrew**Obin****4Q23; Commercial HVAC delivers; overall orders above expectations**

- TT's 4Q23 ops and bookings came in above expectations in 4Q23.
- Despite investor (and our) concerns the overall organic orders accelerated to 12% with growth across all regions.
- TT noted resi down worse than anticipated in the Q. Destocking is now expected to continue beyond '23.

PO Lowered**[Cheniere Energy Inc](#) | BUY | LNG US | Mkt Cap:USD38,836mn | Julien****Dumoulin-Smith****Cash generation remains compelling, regulatory turbulence aside – Reiterate Buy**

- Reiterate Buy ahead of 4Q23 earnings - expect focus on the call to be capital allocation optionality
- DOE permitting pause a potential headwind for the US market - still, see Cheniere as well equipped to handle
- Estimate revisions, commodity market to market, and discount rate changes all net to a slight reduction in PO

[Grocery Outlet](#) | BUY | GO US | Mkt Cap:USD2,468mn | Robert Ohmes**Bull/Bear: Valuation near all-time lows despite unique model & strong LT outlook**

- In this note, we cover key bull/bear cases for GO. Positives incl. GO comp sales & traffic outperforming peers, return to...
- ...10% annual unit growth & valuation near lows. Concerns incl. cost headwinds & lack of EPS upside relative to comp upside.
- We lower PO to \$33 & trim ests., but reiterate Buy on GO given its unique model, strong value prop & long-term growth horizon



Microchip | BUY | MCHP US | Mkt Cap:USD48,409mn | Vivek Arya**Darkest before dawn, Q sales reset to CY19 levels**

- Maintain Buy and lower estimates and PO to \$100 on extreme cuts to n-t outlook, yet de-risked vs peers
- Likes: Pricing stability, FCF generation, potential for increased buybacks
- Risks: PSP strategy unsuccessful, no near-term recovery catalyst in sight

Quest Diagnostics | BUY | DGX US | Mkt Cap:USD14,298mn | Derik De Bruin**Core operating margin expanding, but multiple headwinds temper EPS growth**

- DGX's 4Q sales and adj. EPS were 2% ahead of consensus on base business growth, but Adj.OpM was soft on one-time expenses
- FY24 sales guide roughly inline, but Adj. EPS pressured by several factors that are tempering margin expansion
- Lower ests and PO to \$150, but reiterate Buy rating on DGX as relative valuation remains attractive and lacks macro headwinds

WestRock | BUY | WRK US | Mkt Cap:USD10,098mn | George Staphos**Post C4Q: BALL, IP, WRK: Momentum should improve as year progresses**

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Significant EPS Change**Canada Goose** | UNDERPERFORM | GOOS US | Mkt Cap:USD1,430mn |**Alexander Perry****APAC strength helps offset softness in N. America & Europe**

- GOOS reported F3Q adj. EPS of C\$1.37 (vs. our C\$1.45) as DTC growth helped offset wholesale softness
- APAC growth was supported by reopening and weather tailwinds. N. America & Europe trends were challenging on warmer weather
- Trends shifted in Jan. as APAC DTC went negative on challenging calendar & N. America/EMEA benefitted from cold weather

Columbia Sportswear | UNDERPERFORM | COLM US | Mkt Cap:USD4,966mn**Alexander Perry****Difficult U.S. environment and warm weather pressure 4Q and 2024 outlook**

- COLM reported 4Q23 EPS of \$1.55 (vs. our \$1.95) as warm weather pressured cold weather categories
- We are lowering our C24 EPS to reflect ongoing wholesale softness
- We believe current Red Sea disruption is limited to 1-2 week shipment delays for European product

[Intl Paper Co](#) | **UNDERPERFORM** | IP US | Mkt Cap:USD11,961mn | George Staphos

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[M/A-Com](#) | **BUY** | MTSI US | Mkt Cap:USD5,762mn | Vivek Arya

Ignore NT cyclical headwinds, margin expansion drivers on track

- Reit. Buy and \$105 PO on NT industrial/telco pressures continuing but anticipated 2H'24 recovery. Datacenter ramp continues
- Likes: AI exposure on 400G/800G short-haul ramp in data centers, Defense now nearly 60% of I&D and helping offset Industrial
- Risks: WOLF RF run-rate lowered to \$30mn/qtr on industrial/telco weakness, near-term GM pressures, inventory remains elevated

Buy Reiterations

Communication Services

[Roblox Corp. Class A](#) | **BUY** | RBLX US | Mkt Cap:USD26,508mn | Omar

Dessouky

4Q23 Preview: my baby's all grown up! RBLX to initiate guidance, reduce volatility

- Effect of first FY & Qtrly guide likely underappreciated by market; should become apparent post print thru lower volatility
- Street CY24 Bookings too low, but buy-side likely conservative as well; BofA models Bookings 20% Y/Y w/upside bias
- Q4 focus on continued IT&S leverage, commentary on 1Q24 headcount cost leverage implications for margin expansion in CY24



Health Care

[Boston Scientific](#) | BUY | BSX US | Mkt Cap:USD94,960mn | Travis Steed Medical Technology

- Farapulse approval can drive BSX revenue/EPS higher; US TAVR update takes away some of the upside but not thesis changing.
- Farapulse growth \$250-\$425m in 2024 and \$400-\$600m in 2025. Negative from US TAVR is minimal in 2024 and \$100m-\$200m in 2025.
- We go over a lot of our thoughts on BSX TAVR below. We raise EW PO to \$84; raise BSX PO to \$70, and lower CNMD PO to \$100.

[Merck & Co.](#) | BUY | MRK US | Mkt Cap:USD320,250mn | Geoff Meacham Thoughts Post the 4Q call

- Merck reported solid 4Q driven by Keytruda. 2024 guidance looks beatable given bullish commentary on core/ new launches.
- Sotatercept, V116, HER3-DXd, and RSV antibody could drive upside performance in coming years

Industrials

[Dover Corp](#) | BUY | DOV US | Mkt Cap:USD22,999mn | Andrew Obin

Bookings turn up in 4Q23, with achievable 2024 guidance

- 4Q23 adj. EPS of \$2.45 was \$0.03 above consensus. Initial 2024 guidance of \$8.95-9.15 was below \$9.19 consensus.
- After 7 consecutive quarters of declines, bookings grew 2% y/y organically. We see less destocking headwinds in 2024.
- Raising our 2024 adj. EPS by \$0.03 to \$9.08, based on 2% y/y organic revenue growth and 80bp of margin expansion.

[WillScot](#) | BUY | WSC US | Mkt Cap:USD9,690mn | Sherif El-Sabbahy

Growing the empire: thoughts on the McGrath acquisition

- WSC's acquisition of MGRC will extend the firm's already vast lead in modular and storage rental. We see several benefits...
- ...Such as diversification (MGRC 33% Education), financial impact (accretive), and cross selling opportunities
- WSC has a proven track record of M&A (Mod Space, Mobile Mini). FCF allows for notable deleveraging post close. Reiterate Buy.

Information Technology

[Apple Inc.](#) | BUY | AAPL US | Mkt Cap:USD2,889,210mn | Wamsi Mohan

iPhone grows despite China weakness; 15 cycle up vs. 14; GM blowout; GenAI coming

- Mar qtr (F2Q) guidance implies mostly flat y/y revenues ex \$5mn in iPhone rev benefit in the year ago qtr (likely beats)
- Services guide implies some deceleration but key services areas remain strong. GMs strong and expected to sustain in F24
- Reiterate Buy. PO stays at \$225 on 32x (unchanged) C24 EPS



[TE Connectivity Ltd.](#) | BUY | TEL US | Mkt Cap:USD44,208mn | Wamsi Mohan

Quick take from investor call with CEO Terrence Curtin

- We hosted TEL CEO Terrence Curtin as part of our View From The Top CEO call series
- We walked away confident on the positive LT opportunity including content growth upside in EV, secular oppty in end mkts
- Expect solid margins to persist over time, As destocking ends the company should drive better growth

Macro & Strategy

[US 1](#) | US 1 Committee

Removing PCG from the US 1 List

[Latam Equity Quant](#) | David Beker

Waiting for rate cuts to save us

- Weak Ibov performance this week driven by lack of foreign flows into B3 and lower commodities prices.
- Valuations in LatAm remain discounted. Ibov ex-commodities trades at 11% disc vs hist. Mexbol, 4% disc vs hist.
- Global EM equity funds had nine weeks of inflows, but mostly into China.

[Global Economic Weekly](#) | Claudio Irigoyen

The waiting game

- The Fed's message was clear: we need to see more data to confirm the disinflation process is sustainable.
- While immaculate disinflation is the baseline scenario for the market, we take a look at upside inflation risks in the US.
- A reacceleration of inflation is still the most underpriced risk for an economy where final demand grew at 3% in 2H23.

[US Economic Weekly](#) | US Economics

The Fed has a communication problem

- Chair Powell stated that a March rate cut is unlikely because the Fed needs "greater confidence" in the inflation outlook.
- Despite the ambiguity that the Fed has created about its reaction function, we pushed out our first rate cut to June.
- The Fed managed to push back against the timing of the first cut but not the pace. Markets are pricing six cuts this year.

[Global Contenders & Defenders](#) | Nigel Tupper

Momentum surprise

- Many investors prefer stocks with strong earnings and weak prices but these are not usually subsequently the best performers.
- In January, the Global Contenders outperformed the Defenders by 6.1%.
- The four new Global Contenders this month are Rolls-Royce, Mazda Motor, D.R. Horton, and GoDaddy.

[Global FX Weekly](#) | Athanasios Vamvakidis**Despacito**

- Markets still pricing too many 2024 rate cuts. Both weaker data and Fed cuts needed for weak USD; it will take longer.
- G10 Themes: RBA preview, Japan Toshin, buy NOK/SEK. Short-term USD realized vol too low. Technicals positive for USD.
- Focus on RV in EM: short CZK/HUF, short PHP/IDR, long BRL/MXN. EM Themes: CEEMEA, IDR, Latam.

[The Flow Show](#) | Michael Hartnett**Forever Blowing Bubbles**

- "Tech States"...Magnificent 7 worth more than NY, Tokyo, LA, London, Paris, Seoul, Chicago, SF, Osaka, Shanghai...
- Optimal bubble strategy..."barbell" of bubble & very distressed assets (was EM in '99, China/small cap in '24)
- Hedge humiliated "hard landing" scenario with zero coupon bonds

[US Performance Monitor](#) | Savita Subramanian**Good start, bad breadth**

- S&P 500 rose 1.7% in January, but only 34% of stocks outperformed the index, a bottom 3rd percentile in history.
- The "Nifty 50" gained 3%, while the other 450 were flat. This is entirely consistent with earnings revisions YTD.
- Only five sectors were up. Growth outperformed Value, Momentum led, while Risk lagged. Small caps fell 3.9%.

[GEMs Flow Talk](#) | Jane Brauer**EXD inflows, but alas, driven by ETFs, not active managers**

- Active --> passive? Markets welcomed EXD fund inflows, but was total of 1.2% ETF inflows, and 0.2% active manager outflows
- January issuance is often large. Jan 2024 brought a big \$91bn gross and \$37bn net, mainly in EMEA.
- CZ got \$11bn inflows from foreign holders in Dec, its largest monthly inflow ever.

[High Quality & Dividend Yield](#) | Savita Subramanian**Screen for February**

- The High Quality & Dividend Yield Screen (HQ&DY) underperformed the S&P 500 by 0.5ppt in January on a total return basis.
- Automatic Data (ADP) and UnitedHealth Grp (UNH) were added. General Dynamics (GD) and Northrop Grumman (NOC) were deleted.
- The screen is intended for investors who prefer a consistent strategy that focuses on higher-quality investments.



Alpha Surprise | Savita Subramanian

Screen for February

- The ASM is a "Quantamental" model that screens for cheap out-of-consensus stocks using BofA analysts' EPS estimates.
- In January, ASM's price return (unch.) lagged the S&P 500 index (1.6%) but led an equal-weighted S&P 500 index (-0.8%).
- The Alpha Surprise Model is the most overweight the Comm. Svcs. and Utilities sectors.

Disclosures

Important Disclosures

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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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