

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[Celsius Holdings Inc](#) | NEUTRAL | CELH US | Mkt Cap:USD13,803mn |

Jonathan Keypour

Cooling off: Downgrading to Neutral as uncertainties skew risk/reward profile

- We downgrade shares of CELH to Neutral from Buy seeing a more balanced risk/reward profile as the company pushes to take...
- ...shelf space and market share in 2024, balanced by uncertainty in where growth will level out against tough comps and...
- ...stepped-up competition. Our 2024 market share analysis worksheet is available upon request. Maintaining \$65 PO.

[Cummins Inc](#) | UNDERPERFORM | CMI US | Mkt Cap:USD33,230mn | Michael

Feniger

In a tough(er) spot: Downgrade to Underperform

- We downgrade CMI to U/P. This is more of a relative view given consensus earnings expectations are a bit higher vs peers:
- While we see tailwinds (data centers, cost savings), NA truck production likely falls 20% & rising caution around hydrogen.
- CMI is in a strong financial position yet a recent resolution of a regulatory claim is a likely headwind to 1H24 cash flow.

[GFL Environmental](#) | NEUTRAL | GFL US | Mkt Cap:USD12,157mn | Michael

Feniger

Downgrade to Neutral post the rally: 2024 a pause to a solid long-term story

- We downgrade GFL Environmental to Neutral as shares approach our PO following the rally.
- In our view, GFL reigniting the growth engine for 2024 (investing in sustainability projects, M&A) is positive long-term...
- ...yet likely weighs on valuation near-term given the acute investor focus around leverage & seasonal FCF profile.

19 January 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.

[PACCAR Inc](#) | NEUTRAL | PCAR US | Mkt Cap:USD50,017mn | Michael

Feniger

2024 Year Ahead: Darkest before dawn yet Machines likely to rise in the end

- Be nimble: we see a challenging start to the year - headwinds finally catch Machinery (backlogs fall, EPS momentum fades)...
- ...But retain some exposure: lead indicators turn 2H Fed cuts = multiple expansion into 2025 on a much higher 'trough EPS'.
- Stocks: Top picks are URI & VMC. Downgrade CMI and TEX to Underperform. Downgrade GFL to Neutral. Upgrade PCAR to Neutral.

[Teekay Tankers](#) | BUY | TNK US | Mkt Cap:USD1,976mn | Ken Hoexter

Year Ahead 2024: Disruptions extend tanker super-cycle, Raise TNK to Buy

- Red Sea turmoil sets the stage for 2024 shipping, ton-mile impact to offset uncertain macro. See rates higher for longer.
- Crude tanker orderbook supportive, yet cautious on product tanker orderbook at 12% of fleet. Rates to hold above breakeven.
- Upgrade TNK to Buy as we see peak tanker rates holding, PO to \$72. Remain Neutral STNG yet see rising rate potential.

[Terex Corp.](#) | UNDERPERFORM | TEX US | Mkt Cap:USD3,856mn | Michael

Feniger

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PO Raised

[AGCO Corp](#) | NEUTRAL | AGCO US | Mkt Cap:USD8,688mn | Michael Feniger

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[Birkenstock](#) | NEUTRAL | BIRK US | Mkt Cap:USD8,663mn | Lorraine Hutchinson

A strong quarter and solid outlook justify premium multiple

- Remain Neutral; we think BIRK's best-in-class growth and margin profile is fairly reflected in the stock's premium valuation
- 4Q (Sept) adj EBITDA beat our est by 8mn EUR; mgmt provided F24 outlook of 17-18% ccy sales growth, 30% adj EBITDA margin
- We continue to expect outsized growth in APMA and DTC aided by the expanded capacity efforts with the new factory opening

[Caterpillar Inc](#) | BUY | CAT US | Mkt Cap:USD144,502mn | Michael Feniger
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[e.l.f. Beauty](#) | BUY | ELF US | Mkt Cap:USD8,511mn | Anna Lizzul
2024 Household, Personal Care & Beauty Primer

- Key themes for HPC companies: 1) legacy HPC grapples with return to volume growth and potentially greater investment spend...
-2) Consumer Health emerges with the separation of KVUE and HLN and global category sales increased 8% in 2022...
- ...3) Beauty & personal care continues to see HSD growth with outperformance in fragrance and sun care.

[Evergy](#) | NEUTRAL | EVRG US | Mkt Cap:USD10,896mn | Julien Dumoulin-Smith

2024 EPS preview: Growth should track in line with new target

- 2024 EPS guidance to come on the Q4 call, we see small miss vs. expectations at \$3.82 vs. \$3.84 Street consensus
- Kansas legislation proposed to add PISA and use actual equity layer, early days but positive sign
- Move PO to \$51 on latest refresh, reiterate Neutral given modest upside inclusive of div yield

[First Horizon Corp.](#) | BUY | FHN US | Mkt Cap:USD3,321mn | Ebrahim Poonawala

Solid execution on display, reiterate Buy

- FHN shares outperformed peers (by 400bp) on better than expected 4Q23 results, mgmt's upbeat messaging on FY24 outlook



- Near-term tailwind from declining deposit costs, exposure to counter cyclical businesses, capital flexibility...all positives
- Revise FY24/25e EPS higher 9.5/ 1.8% to \$1.42/\$1.50 on higher rev. outlook, lower credit costs. PO to \$17; Reit. Buy rating

[J.B. Hunt Trans](#) | BUY | JBHT US | Mkt Cap:USD20,593mn | Ken Hoexter
Intermodal momentum led by surprise 4Q peak; Coiled spring in wait; PO to \$216

- Posted 4Q adj. EPS of \$1.86, above our \$1.70 target/Street's \$1.74; excludes \$0.39/sh claims accrual charge. Intermodal beat.
- Noted surprise 4Q Intermodal peak w/ positive mix; Intermodal 1H24 volume growth aided by easier comps, shr gain potential
- PO to \$216 (from \$212) on 26.5x our 2024e EPS as profits bounce back vs 2023 trough; Increase 2025 EPS 1% to \$10.35.

[Norwegian Cruise](#) | NEUTRAL | NCLH US | Mkt Cap:USD7,449mn | Andrew Didora
Leisure: Cross-sector themes and outlook for 2024

- We breakdown key themes for 2024 across leisure subsectors
- For 2024, we have more constructive views on the cruise recovery and multigenerational leisure entertainment concepts
- We are more cautious on timeshare given overearning risk and on toys following the backlog of toyetic movies released in '23

[Oshkosh](#) | UNDERPERFORM | OSK US | Mkt Cap:USD6,880mn | Michael Feniger
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[Royal Caribbean](#) | NEUTRAL | RCL US | Mkt Cap:USD32,101mn | Andrew Didora

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PO Lowered



Envista | BUY | NVST US | Mkt Cap:USD4,124mn | Allen Lutz**Model Update**

- We are adjusting our 4Q'23 and FY24-FY26 estimates to reflect recent commentary
- We are reducing our 4Q'23 estimates to meet at lower-end of the FY23 EBITDA margin guide and lowering our FY24-FY26 outlook
- We continue to view NVST as well positioned to drive growth after macro/distro challenges pass. Maintain Buy with PO to \$29

Exelon Corp | NEUTRAL | EXC US | Mkt Cap:USD35,194mn | Paul Zimbardo
Recalibrating the Growth Rate Down to 5-7% - but not lower. Discount is fair.

- Expect EXC to lower the long-term EPS CAGR to 5-7% (6%) from 6-8% (7% or better) with 4Q23 earnings after adverse IL update.
- Increasing equity issuance to \$300-\$350Mn per year with \$600Mn 2024-2025, up from \$425Mn guidance. \$1Bn 2026-2028 total.
- Shares are fairly valued at a 5-7% discount given the weaker credit metrics with 12-13% FFO/Debt forecasted prospectively.

Humana Inc | BUY | HUM US | Mkt Cap:USD51,079mn | Kevin Fischbeck
Industry mispriced 2024, but the Market is acting like it can't be fixed in 2025+

- HUM revised down its expectations for 2023, disappointed on 2024 enrollment growth and warned margin pressure could continue.
- We are now lowering our 2024 estimates and price objective, which assumes 125bps MLR increase, in-line with peer commentary.
- While 2024 clearly disappointed, we now see a high confidence case for 15% EPS growth in 2025 and beyond.

KeyCorp | BUY | KEY US | Mkt Cap:USD11,032mn | Ebrahim Poonawala
Light at the end of the tunnel

- Stock underperformed on the back of mgmt's FY24 NII guidance, reversing some of the recent outperformance (since 10/31)
- We revise our FY24e EPS by -11% to \$1.16 on a lower NII outlook. FY25e EPS - 1.5% to \$1.72, PO to \$16
- Despite a disappointing update, the core elements supporting our positive thesis on the stock remain in place; Reiterate Buy

Progressive Corp | BUY | PGR US | Mkt Cap:USD99,448mn | Joshua Shanker
ALL 4Q23 cat announcement well-below expectations; positive for PGR and TRV

- Allstate's preannouncement of a mere \$68mn in 4Q23 cat losses suggests a very profitable 4Q23 to U.S. personal lines
- Adverse development also preannounced argues that current pricing still underestimates the past loss trend
- From uneven cash flow production in 2022 and 2023, we expect better years in 2024 for both Progressive and Allstate

Significant EPS Change

[Playa Hotels](#) | UNDERPERFORM | PLYA US | Mkt Cap:USD1,123mn | Shaun Kelley

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Buy Reiterations

Consumer Discretionary

[Amazon.com](#) | BUY | AMZN US | Mkt Cap:USD1,561,249mn | Justin Post
Bull/Bear debate: AWS in focus, investors expecting more retail leverage to come

- We hosted an Amazon bull/bear debate: Topics included: 1) AWS revenue expectations and quarterly cadence;
- 2) N.A. retail margin drivers & expectations; 3) potential headwinds to retail margin expansion; and 4) ad opportunity.
- Investor feedback suggested expectations for '24 retail margins above Street, with AWS rev. acceleration ests. more in line.

Financials

[M&T Bank](#) | BUY | MTB US | Mkt Cap:USD21,208mn | Ebrahim Poonawala
Operating from a position of strength

- Stock outperformed on better than expected 4Q23 results and FY24 NII guidance which was inline with expectations
- Mgmt. attributed the rise and elevated level of criticized loans to its proactive efforts to identify potential problem areas
- Stock offering an attractive risk/reward given conservative B/S mgmt and significant capital flexibility; Reiterate Buy

Industrials

[Sensata](#) | BUY | ST US | Mkt Cap:USD5,210mn | Wamsi Mohan
IT Hardware Industry

- For the Dec qtr we expect a potential beat in rev at APH and largely inline for TEL and ST
- For March qtr we could see guides below consensus for revs for APH and TEL
- We see APH as best positioned in 2024. Reiterate Buy.



[Parker Hannifin](#) | BUY | PH US | Mkt Cap:USD61,617mn | Andrew Obin
Industrials/Multi-Industry

- We look back at the 2023 federal fiscal year to analyze how our coverage interacted with the US government
- We look at government contracts awarded, lobbying spend, issues our lobbied on, and regulations companies commented on
- In the 2023 federal fiscal year in our coverage HON, GE, PH, JCI, and ETN received the most contract awards

[WNS Holdings Ltd](#) | BUY | WNS US | Mkt Cap:USD2,946mn | Kunal Tayal
Stabilizing volume trends; GenAI related risks still negligible

- Q3 rev. decline of 2.3%qoq cc in-line with mgt. expectations on account of known headwinds, retained mid-point of FY24 guide.
- Volumes seeing signs of stabilization; healthy pipeline & reversal of unusual headwinds make for growth acceleration in FY25.
- Company reaffirmed that risks from GenAI remain negligible; we see scope for recouping lost ground on valuations. Reit. Buy.

Information Technology

[Amphenol](#) | BUY | APH US | Mkt Cap:USD57,857mn | Wamsi Mohan
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[TE Connectivity Ltd.](#) | BUY | TEL US | Mkt Cap:USD40,544mn | Wamsi Mohan
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- For March qtr we could see guides below consensus for revs for APH and TEL
- We see APH as best positioned in 2024. Reiterate Buy.

[Seagate](#) | BUY | STX US | Mkt Cap:USD17,565mn | Wamsi Mohan
HAMR'ing ahead into F2Q24 earnings

- STX recently announced launch of Mozaic 3 platform which will power its flagship Exos line of data center HDDs.
- We model rev, margins, and EPS inline with company guidance & consensus but see potential to deliver upside.
- PO stays at \$87, estimates unchanged. Reiterate buy.

Macro & Strategy

[Global Economic Weekly](#) | Claudio Irigoyen

All good on the retail front

- Data this week continues to show that the US economy continues heading to a very soft landing.
- Activity in the Euro area remains subpar, and the market is pricing more aggressive cuts than the ECB is willing to validate.
- More monetary and fiscal support should be underway in China in light of recent data weakness.

[US Economic Weekly](#) | US Economics

Ignore retail sales, the economy is cooling

- December retail sales was more noise than news, as changes in seasonal factors overwhelmed any real change in spending.
- We look for another month of subdued PCE inflation in December, with headline and core rising by only 0.2%, respectively.
- In the advance estimate of 4Q US GDP, we expect the BEA to report that the economy grew by 1.5% q/q saar.

[Japan Watch](#) | Izumi Devalier

BoJ preview: Not there yet

- We expect the BoJ to keep all key targets & its guidance unchanged at Tuesday's MPM. But we still see NIRP/YCC exit in April.
- Rates: BoJ may introduce a funds-supplying operation, but it would not be a swing factor for the JGB market.
- FX: A cautious BoJ is unlikely to boost JPY sustainably in 2024; Equity: Status quo BoJ likely to sustain 2024 market rally.

[Malaysia Watch](#) | Kai Wei Ang

Below expectations 4Q23 raises growth risks

- 4Q23 advance GDP below expectations at 3.4%; 2023 GDP at 3.8% slightly below official point estimate of 3.9%.
- Focus for 2024 turning more towards growth, with tail-risk to inflation from subsidy reforms seemingly capped for now.
- Higher risk of rate cut, but base case remains for BNM to keep policy rate at "slightly accommodative" 3% for some time.

[Korea Watch](#) | Benson Wu

Call takeaways: Discussion on monetary policy with Senior Research Fellow at KIF

- We hosted a conference call with Senior Research Fellow at KIF, and discuss Korea's latest macro trends & monetary outlook
- He expects GDP to grow 2.1% in 2024 with better export recovery but a weaker domestic demand; CPI to be at 2.8/2.4% in 1H/2H
- Expert sees 2 cuts (25bp each) likely in 2024, where BoK's decision mostly dependent on inflation & financial stability



[Small/Mid Cap Strategy Year Ahead](#) | Jill Carey Hall**2024: Small caps are just getting started**

- 5 reasons to buy SMID: 1) bottoming profits, 2) macro support, 3) better breadth, 4) valuations; 5) less risk in big sectors.
- But stick with Value & "SMEARNERS", not low quality/growth. Cyclical > defensives. Other themes inside: election, M&A & more.
- "Buy small caps" isn't yet consensus - flows/sentiment improving but positioning still light.

[Europe Economic Weekly](#) | BofA Euro Economics**The goalpost keeps moving**

- Challenging week for market pricing of early cuts in Europe. We still think pricing is overdone absent unforeseen new shocks.
- ECB: no policy change expected next week. We stick to June for first cut but risks are for faster action thereafter.
- Norges Bank: likely on hold next week. Economy is stagnating but price pressures remain high. First cut likely in September.

[Thematic Investing](#) | Thematic Investing**AI for everything at CES 2024**

- We attended CES 2024 in Las Vegas, with >20 meetings/events for investors to see disruptive innovation transforming our world
- What's new? AI moving from concept to commercial, embedded in everything: future cars, robots, devices and appliances
- Evolution of compute, data, AI accelerating tech from digital to physical across mobility, industrial, health, and energy

[Global FX weekly](#) | Claudio Piron**Destination unknown**

- Markets finally pricing risks, but still expect too many cuts. Baseline remains despite correction.
- CBs next week. ECB, BoJ, BoC, Norges. All on hold, all cautious.
- Sell-off offers opportunities in EM. FX more idiosyncratic now. Sell USD/KRW. Short COP.

[FX Viewpoint](#) | Michalis Rousakis**FX flows & positioning in 2023**

- 2023 ended neutral USD, long rest G10, short EM FX. Q4 USD selling only partly offset buying earlier and reflected EM demand.
- G10: Long NOK, short CHF, light overall. Officials followed the USD trends.
- EM: Short LatAm & Asia, neutral EMEA. Q4: Inflows in Asia and EMEA, selling in LatAm.

EM Alpha | Abhay Gupta**Indonesia / Philippines – Long IDR vs PHP**

- We recommend long IDR vs PHP on favorable risk-reward if political uncertainty eases while BI may cap upside in USDIDR.
- Fundamental and portfolio flows in Indonesia have been more supportive while PHP's elevated NEER may limit gains.
- Risk to the trade from risk-off moves and a drop in energy commodities which may improve PHP's terms of trade over IDR.

The Flow Show | Michael Hartnett**Rising Suns & Setting Suns**

- Nikkei at 34-year high on yen depreciation, structural UW & ABC "anywhere but China" global liquidity, China at 2008 GFC lows
- Wall St price action in Jan sloppy but investor sentiment bullishly skating to where puck is going...lower Fed funds rate
- World maps resized by Biden & Trump posts on X show geopolitical contrast in their focus on Japan, China & Mexico

GEMs Flow Talk | Jane Brauer**EXD ETFs joining the rest of the asset class after a positive 2023**

- Migration from active to passive funds continues with 1% inflows to ETFs and 13% outflows from active managers in 2023.
- There were significant ETF inflows in 4Q23 so long as EM debt prices were rising, but once they leveled off, inflows stopped.
- We think most of the inflows we saw from ETF buyers were driven by short term tactical trading, rather than long term calls.

Asia Economic Weekly | Helen Qiao**India: FY25 budget preview – Continued consolidation**

- Despite poll pressure, we expect government to achieve their FY24 fiscal deficit target of 5.9% of GDP.
- Higher than budgeted tax & non-tax revenue to offset divestment shortfall, higher subsidy bill & other revenue expenditure
- See FY25 fiscal deficit to consolidate further to 5.3% of GDP. Capex focus to continue. Market borrowings mostly unchanged.

India Viewpoint | Aastha Gudwani**FY25 Union budget preview: Continued consolidation**

- Despite poll pressure, we expect government to achieve their FY24 fiscal deficit target of 5.9% of GDP.
- Higher than budgeted tax & non-tax revenue to offset divestment shortfall, higher subsidy bill & other revenue expenditure.
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Asia Pac Derivatives | Lars Naeckter**Asia equity futures roll preview: Jan 2024**

- Roll longs in MSCI Singapore, HSTECH and MSCI Taiwan early
- Roll longs in NSE Nifty and GIFT Nifty late as they trade rich relative to history

Morning Meeting Notes | Investor Support**QuickNotes**

- QuickNotes includes reports published overnight by BofA Global Research.
- Topics include initiating/reinstating coverage, rating changes, PO changes, company.

Morning Market Tidbits | US Economics**A new higher interest rate regime?**

- The US neutral rate has risen but driven by the rebound in LFPR and not productivity. So, the rise in r may be short-lived.
- Dec retail sales came in above consensus driven by a shift in seasonal factors, which will most likely get offset in Jan.
- Headline import prices were unchanged on the month, which was above expectations for a 0.5% decline.

US Rates Watch | US Rates Research**MMF portfolio update: record inflows in '23, set to slow in '24**

- MMFs saw a record \$1.1tn inflows in 2023 with inflows set to continue but at a slower pace in 2024
- MMF yields have come down 3-4bps YTD driven by market pricing of Fed cuts
- MMF WAM is diverging with prime funds 7 days shorter than their peak but gov't funds still at recent highs

Credit

Asian Credit Strategy | Joyce Liang**Asia credit weekly spotlight (week of 11 to 17 January)**

- WoW, Asia HY -16bp to 586bp, Asia IG -5bp to 119bp; US\$3.2bn fixed supply; US\$85mn Axx outflow; LTM default rate unchg. at 7.5%
- Baidu denied military testing AI news; TSMC expects '24 sales up 20-25%; Chindata to call '26 note; GLP to repay two notes
- China prop: supports developers' financing, Logan restructuring plan; tender offers: BPCLIN, LMIRT; refi: Greenko, ReNew, Fosun

Asian Credit | Joyce Liang**China HY property weekly: What has happened and what to watch**

- WoW, China HY property tightened 137bp to 2,721bp, Asia non-China HY 1bp to 448bp; China IG property -13bp to 449bp
- What happened: support on developers' financing, Guangzhou approved urban refurbishment plan, Logan restructuring plan
- What to watch for: further policy support, sales performance update, state-backed onshore issuance, and restructuring plans

Disclosures

Important Disclosures

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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