

AGCO Corp

Brazil bites – yet captured in 2024 expectations

Reiterate Rating: NEUTRAL | PO: 132.00 USD | Price: 122.19 USD

Q4 misses – guides to a down year (broadly expected)

AGCO reported Q4 results that came in below expectations (EPS \$3.78 vs cons \$4.02). Operating profit of \$405mn declined 13% YoY on a 2.5% sales decline, partly driven by a big step down in South America (operating profit fell 88% YoY - higher discounting, competitive pricing, reducing production). AGCO guided 2024 EPS of \$13.15, down 15% YoY, yet above consensus (\$12.91) as the market braced for a 'down year' following Deere's outlook last earnings season. AGCO's weak start to the year (Q1 EPS \$2.30, down 34% YoY), implies a gradual pick up as South America margin starts to normalize.

Brazil bites: tide turned fast

AGCO's South America turnaround is incredibly impressive: 2023 operating margin of 17.3% vs operating losses in 2018-19. That said, the tide has turned. Q4 adj operating margin of 3.8% impacted by a large dealer termination fee (\$13mn) and higher discounting to clear the channel to chase the weaker demand. SA dealer inventories are over 4 months for tractors and 6.5 months for combines vs targeted levels of 3 months. AGCO expects margin to ramp back up to mid-teens in 2H24 as production normalizes.

Europe: incredibly resilient in the eye of the storm

Q4 operating profit of \$367mn was up 15% on a slight revenue gain (+3%). AGCO is guiding retail sales to be down 5-10% in 2024, but FY operating margin flattish, partly helped by mix. The steadiness of Europe (~50% of operating profit) as global farm equipment demand rolls over provides a level of resiliency to the overall earnings profile.

Precision ag falls short yet TRMB to enhance the story

AGCO precision ag revenue increased 7% yet fell short of its target (\$750mn vs \$800-850mn). That said, acquisition of Trimble Ag (expected to close in 1H24) likely accelerates the next leg, yet a sharper slowdown on OEM business is an obstacle.

Neutral: downside capture in '24, yet the real risk is 2025

We leave our estimates broadly unchanged and maintain PO of \$132 based on 10x 2024e EPS. Reiterate Neutral – while farm equipment downturn is captured in 2024 expectations, risks linger (inventories, fleet age, farmer income) if extends beyond 2024.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.43	15.55	13.15	13.50	13.75
GAAP EPS	11.88	15.64	13.15	13.50	13.75
EPS Change (YoY)	19.7%	25.1%	-15.4%	2.7%	1.9%
Consensus EPS (Bloomberg)			13.12	12.92	12.72
DPS	5.42	6.11	6.22	6.34	6.48
Valuation (Dec)					
P/E	9.8x	7.9x	9.3x	9.1x	8.9x
GAAP P/E	10.3x	7.8x	9.3x	9.1x	8.9x
Dividend Yield	4.4%	5.0%	5.1%	5.2%	5.3%
EV / EBITDA*	6.5x	5.1x	5.7x	5.8x	5.7x
Free Cash Flow Yield*	4.9%	6.4%	10.4%	8.5%	8.6%

* For full definitions of *IQmethod*SM measures, see page 5.

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	13,484.5	13,607.1
2025E Rev (m)	13,551.6	13,714.9
2026E Rev (m)	NA	13,907.0
2024E EPS	13.25	13.15
2026E EPS	NA	13.75

Michael Feniger
Research Analyst
BofAS
+1 646 855 1923
michael.feniger@bofa.com

Sherif El-Sabbahy
Research Analyst
BofAS
sherif.el-sabbahy@bofa.com

Nandita Nayar
Research Analyst
BofAS
nandita.nayar@bofa.com

Blake Greenhalgh
Research Analyst
BofAS
blake.greenhalgh@bofa.com

Stock Data

Price	122.19 USD
Price Objective	132.00 USD
Date Established	19-Jan-2024
Investment Opinion	B-2-7
52-Week Range	109.81 USD - 140.46 USD
Mrkt Val (mn) / Shares Out (mn)	9,140 USD / 74.8
Free Float	83.0%
Average Daily Value (mn)	72.68 USD
BofA Ticker / Exchange	AGCO / NYS
Bloomberg / Reuters	AGCO US / AGCO.N
ROE (2024E)	20.1%
Net Dbt to Eqty (Dec-2023A)	17.1%
ESGMeter TM	Medium

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Timestamp: 07 February 2024 05:01AM EST

iQprofileSM AGCO Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.0%	20.9%	15.1%	14.5%	14.1%
Return on Equity	25.4%	27.3%	20.1%	18.6%	17.3%
Operating Margin	10.3%	12.0%	11.0%	11.0%	11.0%
Free Cash Flow	450	585	952	774	782

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.9x	1.5x	1.2x	1.2x
Asset Replacement Ratio	1.9x	2.2x	2.0x	2.0x	2.0x
Tax Rate	26.3%	19.7%	27.0%	27.0%	27.0%
Net Debt-to-Equity Ratio	17.3%	17.1%	6.6%	1.2%	-3.3%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,651	14,412	13,607	13,715	13,907
% Change	13.6%	13.9%	-5.6%	0.8%	1.4%
Gross Profit	3,001	3,777	3,430	3,440	3,477
% Change	16.7%	25.9%	-9.2%	0.3%	1.1%
EBITDA	1,577	2,021	1,799	1,785	1,805
% Change	21.5%	28.1%	-11.0%	-0.8%	1.2%
Net Interest & Other Income	(131)	(367)	(220)	(195)	(195)
Net Income (Adjusted)	931	1,165	983	1,006	1,021
% Change	18.5%	25.1%	-15.6%	2.3%	1.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	890	1,171	983	1,006	1,021
Depreciation & Amortization	270	288	300	280	280
Change in Working Capital	(294)	(113)	194	(13)	(19)
Deferred Taxation Charge	(58)	(264)	0	0	0
Other Adjustments, Net	31	21	(50)	(50)	(50)
Capital Expenditure	(388)	(518)	(475)	(450)	(450)
Free Cash Flow	450	585	952	774	782
% Change	8.9%	30.0%	62.8%	-18.8%	1.1%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(404)	(457)	(465)	(473)	(481)
Change in Debt	33	(129)	(150)	(150)	(150)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	790	596	903	1,023	1,145
Trade Receivables	1,221	1,605	1,491	1,503	1,524
Other Current Assets	3,729	4,140	3,884	3,920	3,978
Property, Plant & Equipment	1,591	1,921	2,156	2,386	2,616
Other Non-Current Assets	2,773	3,160	3,029	3,026	3,029
Total Assets	10,104	11,421	11,463	11,858	12,291
Short-Term Debt	196	15	15	15	15
Other Current Liabilities	3,892	4,329	4,090	4,124	4,183
Long-Term Debt	1,265	1,377	1,227	1,077	927
Other Non-Current Liabilities	868	1,044	985	993	1,007
Total Liabilities	6,221	6,764	6,318	6,210	6,133
Total Equity	3,883	4,657	5,145	5,649	6,159
Total Equity & Liabilities	10,104	11,421	11,463	11,858	12,291

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Agricultural Machinery

Company Description

AGCO (AG), the world's third-largest manufacturer of agricultural equipment, is a consolidator in the global agricultural equipment industry. AGCO reports 4 geographic segments: North America, South America, Europe/Africa/Middle East, and East Asia/Pacific. Its strongest market positions are in Europe and South America. AGCO markets its products under multiple brands.

Investment Rationale

AGCO should continue to enjoy another 1-2 good years of positive farm machinery demand driven by a healthy global agricultural economy, ongoing replacement demand and grower demand for more advanced precision technology. The company's stepped up focus on precision agriculture is paying off and resulting in higher margins across the business. We still see room for modest upside potential, but think the shares are approaching fair value.

Stock Data

Average Daily Volume 594,828

Quarterly Earnings Estimates

	2023	2024
Q1	3.51A	2.39E
Q2	4.29A	3.67E
Q3	3.97A	3.01E
Q4	3.78A	4.07E

South America: tide is turning

South America operating profit of \$16mn was down 88% on a revenue decline of 33%. Adj operating margin of 3.8% was down 1620bps YoY, worse than BofAe of 17%. Excluding a large dealer termination fee of \$13mn, margin was 7%. SA industry retail tractor sales decreased 8% in 2023, below AGCO's estimates of down 2% to 3%. AGCO guided retail sales down 10% in 2024, due to higher dealer inventories and weaker demand. SA dealer inventories are over 4 months for tractors and 6.5 months for combines vs targeted levels of 3 months. AGCO noted they reduced production and plan to continue managing levels to match demand. In 1Q factories are expected to be down significantly causing margins to be MSD in 1Q and then ramping back to mid-teen margins by 2H24.

Europe: resilient

Europe operating profit of \$367mn was up 15% on a revenue increase of 3.3%. Adj operating margin of 16.2% was up 170bps YoY, above BofAe of 12.5% by 370bps. AGCO is guiding retail sales to be down 5 to 10% in 2024. That said, they expect full year operating margins to remain roughly flat. Lower income levels are pressuring demand from arable farmers, while healthy demand from dairy and livestock producers is expected to dampen some of the decline.

North America: dealer inventories slightly elevated

North America operating profit of \$81mn increased 33% YoY on a revenue increase of 8.3%. Adj operating margin of 9% was up 170bps YoY, below BofAe of 9.9%. Operating income benefited from higher sales, due to positive net pricing and a favorable mix based on significant growth in Fendt products YoY. AGCO is guiding retail sales to be down 10% in 2024. Dealer inventories in NA stand at 5 months of order coverage for both large and small ag (vs target of 4 months on large ag and 6 months on small ag).



Price objective basis & risk

AGCO Corp (AGCO)

AGCO: Our PO of \$132 is based on 10x 2024E EPS, near the low end of the historical range (8-17x) given caution around farm equipment demand, high exposure to Europe, and rising inventories. We do not believe the very low end of the range is appropriate given the improved profitability per unit and margin expansion through cycle.

Downside risks to our price objective are 1) grain prices rollover due to a bumper crop this Spring or renewed trade tension with China, 2) improved margins in the Americas prove unsustainable, 3) large cutback in European farm subsidies, 4) sudden strengthening of the USD, 5) short term earnings disappointment.

Upside risks are 1) substantially improved profitability in the Americas, 2) grain prices continue to rise further, 3) sustainable growth returns to the EMEA farm equipment market at a faster and more robust clip that we currently assume, 4) higher than expected precision ag growth, 5) bigger cash return to shareholders.

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
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
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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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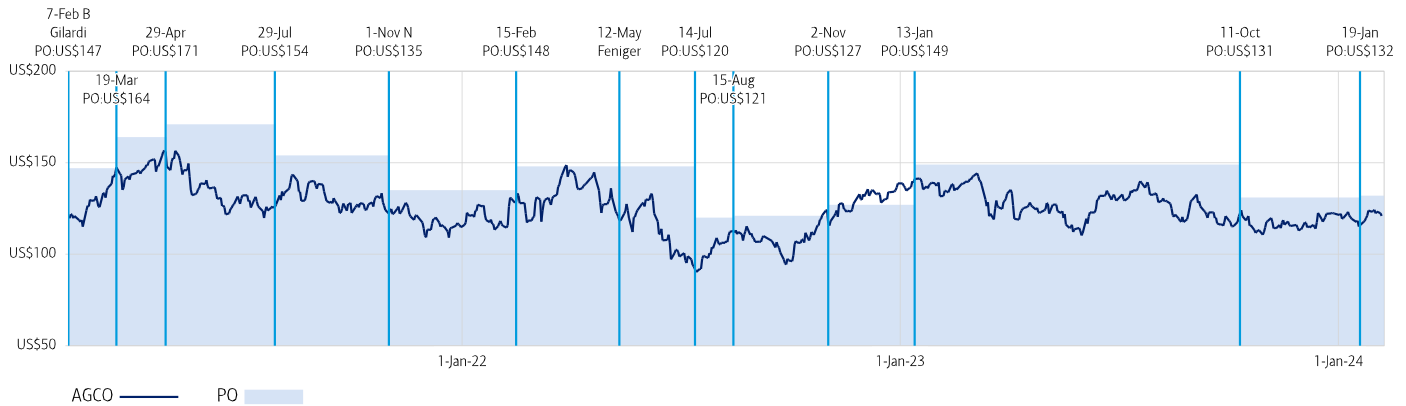
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AGCO Corp (AGCO) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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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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