

## Amphenol

## Amphenol.AI, more upside in 2024?

Reiterate Rating: BUY | PO: 117.00 USD | Price: 107.94 USD

## APH saw boost from AI in IT Datacom during FY23

The IT Datacom end-market surprised to the upside throughout CY23 for APH. The IT Datacom end-market significantly beat management guidance in C2Q, C3Q, and C4Q earnings with all of the upside driven by AI and management noted the importance of high-speed connectivity in these AI applications. We reiterate Buy rating on APH given strong execution, improving margins, and a period of above trend growth.

## APH CY24 IT Datacom estimates could be low

Taking a look at the Street's FY25 NVDA Data Center revenue estimate (which is APH's FY24), APH could see up to \$500mn incremental boost to IT datacom revenue. Currently, consensus CY24 IT datacom revenue for APH sits at +\$400mn y/y, ~\$100mn short of where it should be in relation to NVDA estimates plus any potential growth with the non-AI part of the business. Our updated estimate accounts for +\$436mn y/y.

## APH's high speed connectors critical to AI for many firms

APH has been involved in NVIDIA's NVLink (advanced multi-GPU communication within and between servers) since its inception. Almost every one of APH's high-speed interfaces has been or is being evaluated by NVIDIA. APH's long involvement in high-speed connectors for AI/ML with NVIDIA is why we use NVIDIA's incremental revenue gain from AI datacenters as proxy for our estimate of incremental gain by APH. APH also works with almost every other technology provider in the space. The pipeline of opportunity will be levered to more than just NVDA, we can expect APH AI related sales growth from AMD, AVGO, GOOGL, etc.

## Adjusting estimates, PO moves to \$117 from \$115

We increase our CY24 IT Datacom revenue estimate however, our estimate remains conservative and we see a path for future beats. PO moves to \$117 (was \$115) on 32x (unchanged) our C25E EPS of \$3.65 (was \$3.61).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.01	3.01	3.38	3.65	3.94
GAAP EPS	3.07	3.10	3.38	3.65	3.94
EPS Change (YoY)	21.9%	0%	12.3%	8.0%	7.9%
Consensus EPS (Bloomberg)			3.30	3.68	4.12
DPS	0.81	0.85	0.88	0.88	0.88
Valuation (Dec)					
P/E	35.9x	35.9x	31.9x	29.6x	27.4x
GAAP P/E	35.2x	34.8x	31.9x	29.6x	27.4x
Dividend Yield	0.8%	0.8%	0.8%	0.8%	0.8%
EV / EBITDA*	22.2x	22.2x	20.0x	18.7x	17.4x
Free Cash Flow Yield*	2.7%	3.2%	3.3%	3.3%	3.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

28 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	117.00
2024E Rev (m)	13,567.8	13,715.5
2025E Rev (m)	14,548.5	14,707.4
2026E Rev (m)	15,608.5	15,779.5
2024E EPS	3.34	3.38
2025E EPS	3.61	3.65
2026E EPS	3.90	3.94

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## Stock Data

Price	107.94 USD
Price Objective	117.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-1-7
52-Week Range	72.00 USD - 108.20 USD
Mrkt Val (mn) / Shares Out (mn)	64,748 USD / 599.9
Free Float	99.4%
Average Daily Value (mn)	281.46 USD
BofA Ticker / Exchange	APH / NYS
Bloomberg / Reuters	APH US / APH.N
ROE (2024E)	23.6%
Net Dbt to Eqty (Dec-2023A)	34.0%
ESGMeter™	High

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".

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Timestamp: 28 February 2024 05:00AM EST

AI: Artificial Intelligence  
GPU: Graphics processing unit

# iQprofile<sup>SM</sup> Amphenol

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.8%	14.9%	15.5%	15.4%	15.4%
Return on Equity	27.7%	24.1%	23.6%	22.6%	21.7%
Operating Margin	20.7%	20.7%	21.1%	21.2%	21.3%
Free Cash Flow	1,740	2,081	2,162	2,117	2,281

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.3x	1.2x	1.1x	1.1x
Asset Replacement Ratio	1.0x	0.9x	0.9x	0.9x	1.0x
Tax Rate	24.4%	24.0%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	45.2%	34.0%	18.9%	7.0%	-3.7%
Interest Cover	20.3x	18.6x	20.7x	22.3x	24.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,623	12,555	13,715	14,707	15,779
% Change	16.1%	-0.5%	9.2%	7.2%	7.3%
Gross Profit	4,028	4,084	4,505	4,829	5,181
% Change	18.4%	1.4%	10.3%	7.2%	7.3%
EBITDA	3,000	3,001	3,328	3,573	3,837
% Change	16.7%	0%	10.9%	7.3%	7.4%
Net Interest & Other Income	(119)	(110)	(98)	(98)	(98)
<b>Net Income (Adjusted)</b>	<b>1,866</b>	<b>1,871</b>	<b>2,107</b>	<b>2,274</b>	<b>2,456</b>
<b>% Change</b>	<b>20.6%</b>	<b>0.2%</b>	<b>12.6%</b>	<b>8.0%</b>	<b>8.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,866	1,871	2,107	2,274	2,456
Depreciation & Amortization	393	406	433	455	479
Change in Working Capital	(193)	150	13	(187)	(198)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58	27	0	0	0
Capital Expenditure	(384)	(373)	(391)	(425)	(456)
<b>Free Cash Flow</b>	<b>1,740</b>	<b>2,081</b>	<b>2,162</b>	<b>2,117</b>	<b>2,281</b>
<b>% Change</b>	<b>53.9%</b>	<b>19.6%</b>	<b>3.9%</b>	<b>-2.1%</b>	<b>7.7%</b>
Share / Issue Repurchase	(731)	(585)	(585)	(585)	(585)
Cost of Dividends Paid	(477)	(501)	(498)	(498)	(498)
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,373	1,475	2,554	3,588	4,785
Trade Receivables	2,631	2,618	2,661	2,793	2,932
Other Current Assets	2,475	2,742	2,712	2,867	3,034
Property, Plant & Equipment	1,204	1,315	1,273	1,243	1,219
Other Non-Current Assets	7,643	8,376	8,376	8,376	8,376
<b>Total Assets</b>	<b>15,326</b>	<b>16,526</b>	<b>17,576</b>	<b>18,867</b>	<b>20,347</b>
Short-Term Debt	3	354	354	354	354
Other Current Liabilities	2,673	2,799	2,826	2,925	3,033
Long-Term Debt	4,575	3,984	3,984	3,984	3,984
Other Non-Current Liabilities	981	964	964	964	964
<b>Total Liabilities</b>	<b>8,232</b>	<b>8,100</b>	<b>8,127</b>	<b>8,226</b>	<b>8,334</b>
<b>Total Equity</b>	<b>7,094</b>	<b>8,427</b>	<b>9,450</b>	<b>10,641</b>	<b>12,013</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,326</b>	<b>16,526</b>	<b>17,576</b>	<b>18,867</b>	<b>20,347</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Connectors, Passive Components & Distribution

## Company Description

Amphenol (APH) is the world's second-largest maker of electronic and electrical connectors. APH is the world's leader in high-performance environmental connectors (mainly for military and commercial aircraft). APH has expanded its communications offering to include interconnect products for handsets and communications infrastructure. APH is the world's second-largest producer of coaxial cable used in the cable television (CATV) industry.

## Investment Rationale

Amphenol is a leader in the connector industry with a track record of consistent execution, high ROIC and operating margins (20%+) that approaches the low end of software companies despite very conservative accounting standards. We expect strong organic growth over the next few years, primarily driven by high-single to low-double-digit growth in Auto and Industrial, augmented by M&A and subsequent operating leverage.

## Stock Data

Average Daily Volume 2,607,546

## Quarterly Earnings Estimates

	2023	2024
Q1	0.69A	0.75E
Q2	0.72A	0.82E
Q3	0.78A	0.88E
Q4	0.82A	0.94E

**Figure 1: APH incremental boost from AI estimates**

We model IT datacom revenue decelerating in F1Q24 (in line with guide) before seeing sequential increases throughout the rest of the year

(\$ in millions except EPS)	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E
APH IT datacom rev (BofA est)	506	537	624	662	637	683	717	728
NVDA data center rev (consensus)	4,284	10,322	14,514	18,404	20,871	22,645	24,978	27,248
APH incremental rev per qtr from AI		60	42	39	25	18	23	23
APH incremental rev per qtr		32	86	38	(25)	46	35	11
APH IT datacom (consensus)					629	668	708	721

Source: Company data, BofA Global Research

BofA GLOBAL RESEARCH



# Model

**Figure 2: APH Income Statement**

We model F24 rev at \$14bn

 (\$ in millions  
except EPS)

	1Q23A	2023E			1Q24E	2024E			2021A	2022A	2023A	2024E	2025E
		2Q23A	3Q23A	4Q23A		2Q24E	3Q24E	4Q24E					
Sales	2,974	3,054	3,199	3,328	3,107	3,341	3,553	3,714	10,876	12,623	12,555	13,715	14,707
COGS	2,031	2,062	2,151	2,227	2,103	2,245	2,384	2,478	7,475	8,595	8,471	9,211	9,878
<b>Gross profit</b>	<b>943</b>	<b>992</b>	<b>1,049</b>	<b>1,100</b>	<b>1,004</b>	<b>1,097</b>	<b>1,169</b>	<b>1,235</b>	<b>3,402</b>	<b>4,028</b>	<b>4,084</b>	<b>4,505</b>	<b>4,829</b>
SG&A	346	368	382	394	362	397	417	434	1,226	1,421	1,490	1,609	1,712
<b>Operating earnings</b>	<b>597</b>	<b>624</b>	<b>667</b>	<b>706</b>	<b>642</b>	<b>700</b>	<b>752</b>	<b>802</b>	<b>2,176</b>	<b>2,607</b>	<b>2,594</b>	<b>2,895</b>	<b>3,118</b>
Interest Exp	(36)	(35)	(34)	(35)	(35)	(35)	(35)	(35)	(116)	(129)	(140)	(140)	(140)
Other Income	4	6	9	11	11	11	11	11	(0)	10	29	42	42
<b>Pretax earnings</b>	<b>565</b>	<b>595</b>	<b>643</b>	<b>682</b>	<b>617</b>	<b>675</b>	<b>727</b>	<b>777</b>	<b>2,060</b>	<b>2,489</b>	<b>2,484</b>	<b>2,797</b>	<b>3,020</b>
Taxes	136	143	154	164	148	162	175	187	501	608	596	671	725
Rate	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Minority interest	4	5	4	5	4	5	5	5	11	15	17	19	21
<b>Net income</b>	<b>426</b>	<b>447</b>	<b>484</b>	<b>513</b>	<b>465</b>	<b>509</b>	<b>548</b>	<b>586</b>	<b>1,548</b>	<b>1,866</b>	<b>1,871</b>	<b>2,107</b>	<b>2,274</b>
<b>Diluted EPS (incl FAS123)</b>	<b>\$0.69</b>	<b>\$0.72</b>	<b>\$0.78</b>	<b>\$0.82</b>	<b>\$0.75</b>	<b>\$0.82</b>	<b>\$0.88</b>	<b>\$0.94</b>	<b>\$2.47</b>	<b>\$3.01</b>	<b>\$3.01</b>	<b>\$3.38</b>	<b>\$3.65</b>
Diluted Shares Outstanding	620	618	622	622	623	623	623	623	625	621	621	623	623
<b>GAAP EPS</b>	<b>\$0.71</b>	<b>\$0.74</b>	<b>\$0.83</b>	<b>\$0.83</b>	<b>\$0.75</b>	<b>\$0.82</b>	<b>\$0.88</b>	<b>\$0.94</b>	<b>\$2.51</b>	<b>\$3.07</b>	<b>\$3.10</b>	<b>\$3.38</b>	<b>\$3.65</b>
Dividend per shares	\$0.21	\$0.21	\$0.21	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.58	\$0.81	\$0.85	\$0.88	\$0.88
Payout	31%	29%	27%	27%	29%	27%	25%	23%	23%	27%	28%	26%	24%
<b>As % of Revenue</b>													
Cost of Sales	68.3%	67.5%	67.2%	66.9%	67.7%	67.2%	67.1%	66.7%	68.7%	68.1%	67.5%	67.2%	67.2%
Gross Profit	31.7%	32.5%	32.8%	33.1%	32.3%	32.8%	32.9%	33.3%	31.3%	31.9%	32.5%	32.8%	32.8%
SG&A	11.6%	12.0%	11.9%	11.8%	11.7%	11.9%	11.7%	11.7%	11.3%	11.3%	11.9%	11.7%	11.6%
Operating Earnings	20.1%	20.4%	20.8%	21.2%	20.7%	20.9%	21.2%	21.6%	20.0%	20.7%	20.7%	21.1%	21.2%
Int. Exp.	-1.2%	-1.1%	-1.1%	-1.1%	-1.1%	-1.0%	-1.0%	-0.9%	-1.1%	-1.0%	-1.1%	-1.0%	-1.0%
Other Income	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.0%	0.1%	0.2%	0.3%	0.3%
Pretax Earnings	19.0%	19.5%	20.1%	20.5%	19.9%	20.2%	20.5%	20.9%	18.9%	19.7%	19.8%	20.4%	20.5%
Minority interest	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Net Income	14.3%	14.6%	15.1%	15.4%	15.0%	15.2%	15.4%	15.8%	14.2%	14.8%	14.9%	15.4%	15.5%
<b>Year-Over-Year Growth</b>													
Sales	1%	-3%	-3%	3%	4%	9%	11%	12%	26%	16%	-1%	9%	7%
Cost of Sales	0%	-3%	-4%	1%	4%	9%	11%	11%	26%	15%	-1%	9%	7%
Gross Profit	2%	-1%	-1%	6%	6%	11%	11%	12%	28%	18%	1%	10%	7%
SG&A	3%	3%	4%	9%	5%	8%	9%	10%	21%	16%	5%	8%	6%
Operating Earnings	1%	-4%	-4%	5%	7%	12%	13%	14%	32%	20%	-1%	12%	8%
Int. Exp.	28%	15%	2%	-6%	-3%	0%	4%	0%	0%	11%	9%	0%	0%
Other Income	141%	143%	254%	209%	156%	88%	14%	0%	-111%	-2600%	194%	43%	0%
Pretax Earnings	0%	-4%	-3%	6%	9%	14%	13%	14%	34%	21%	0%	13%	8%
Minority interest	0%	33%	13%	34%	23%	0%	13%	11%	7%	36%	20%	11%	7%
Net Income	1%	-4%	-3%	7%	9%	14%	13%	14%	34%	21%	0%	13%	8%

Source: Company Reports, BofA Global Research Estimates

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Amphenol (APH)

Our \$117 PO for the shares of APH assumes the stock trades to 32x our C2025E EPS. A 32x multiple compares to the historical range of 17x to 29x, with the average being 21x. In our opinion, APH deserves a premium multiple relative to peers given its very conservative accounting. We think the company should continue to generate cash flow from operations (by targeting L/T incremental margins of 25% or more) on a consistent basis that it could use for further acquisitions, debt pay down, or to repurchase stock. Without completing any acquisitions, we believe debt would continue to decline as a percentage of capital.

Downside risks to achieving our PO are a slower recovery of end markets (although APH's diverse customer base and product set provides an offset), slower military spending, and slower recovery in the demand for high-end information technology. Raw materials also remain a risk as APH consumes a significant amount of gold, copper and resin.

## Analyst Certification

I, Wamsi Mohan, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

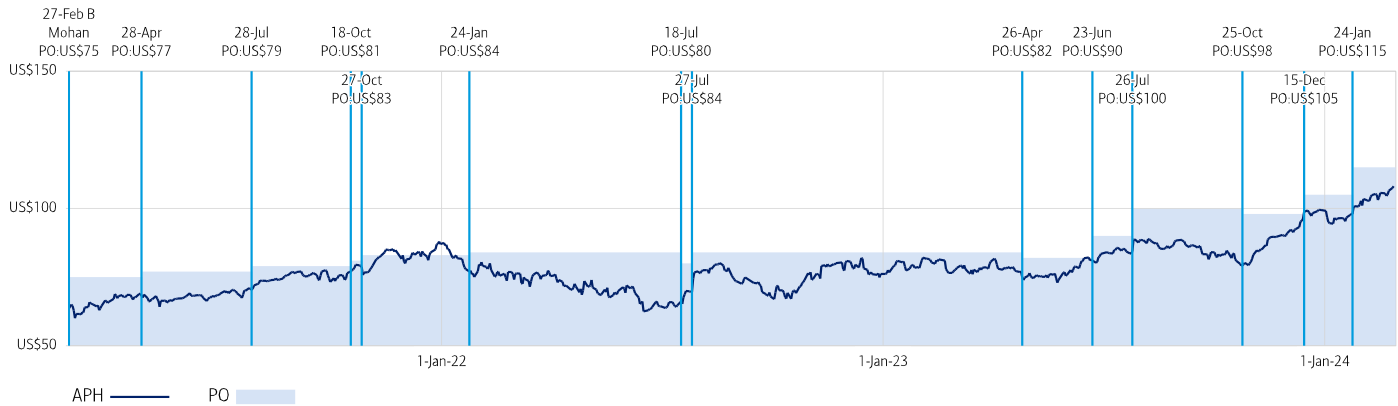
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

### 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%

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