

Chart Industries

Recalibrating course, reinspiring comfort

Reiterate Rating: BUY | PO: 175.00 USD | Price: 146.58 USD

Inspiring some more comfort in a recalibrated '24 outlook

While GTLS missed Cons revenue/Adj. EBITDA forecast for the 3rd/2nd quarter in a row in 4Q23, its recalibrated 2024 outlook of – 1) Adj. EBITDA \$1.175-\$1.30bn is still only 5% below its prior \$1.30bn guide at the mid-point and well above pre-call Cons of \$1.126bn, & 2) FCF guide of \$575-\$625mm is unchanged & well above pre-call Cons of \$480mm. Importantly, 4Q orders remained strong at \$1.21bn and 63% of YE23 backlog of \$4.28bn is expected to be shipped in 2024, which is 57% of the low-end of 2024E revenue guide of \$4.7bn & 61% of our updated 2024E revenue of \$4.40bn. With orders staying strong YTD, we effectively allow for only ~37-38% of our 2024E revenue of \$4.40bn to come from book & ship businesses vs. ~45% in 2023E, even with zero revenue contribution from the ~\$200mm US big LNG order booked in 2Q23. Also, GTLS's margins are coming in above expectation & expected to grow nicely in 2024 on a mix of – 1) more synergies, & 2) improved mix from its higher margin RSL, Specialty Products and big LNG projects.

Our '24E EBITDA/FCF is unchanged & still below guidance

While GTLS's updated 2024E outlook is much more backlog driven than in the past (and it has a significantly <1% cancellation rate), we see risk of delays in revenue recognition in some US big LNG projects, & government subsidy/grant & interest rate sensitive end markets, like new energy, including Hydrogen. Thus, we keep our 2024E revenue roughly unchanged at \$4.40bn and Adj. EBITDA at \$1.10bn, both 6% below the low end of guide. Our 2024E FCF of \$435mm is below GTLS's \$575-\$625mm guide primarily due to our assumed lower working capital benefit (our 1Q24E FCF = -\$32.5mm / Cons = +\$8.5mm).

But a diversified and steadier GTLS still looks undervalued

GTLS has come a long way since closing the Howden acquisition with – 1) leverage ratio down to 3.35x at YE23 vs. 4.08x in 1Q23, 2) \$530mm commercial synergies vs. original Year 1/3 target of \$150/\$350mm, 3) P-F backlog +24% YoY to \$4.28bn, 4) Adj. EBITDA margin +760 bps YoY to 24.2% in 4Q23, & 5) \$181mm in cost synergy. Simultaneously, post-Howden GTLS is more diversified & less cyclical with >30% of its revenue coming from the inherently stable yet still growing aftermarket businesses. We keep our DCF-based PO at \$175 with modestly higher out-year FCF offset by higher WACC (8.5% vs. prior 8.3%) on higher risk-free rate. Reit. Buy on upside from Howden acquisition, and cheap valuation (9.3x our '25E EBITDA vs. Industrial peers at 14.9x Cons '25E EBITDA).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.30	6.64	10.13	13.15	14.48
GAAP EPS	4.30	1.27	10.16	13.15	14.48
EPS Change (YoY)	58.7%	54.4%	52.6%	29.8%	10.1%
Consensus EPS (Bloomberg)			11.72	14.98	18.83
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	34.1x	22.1x	14.5x	11.1x	10.1x
GAAP P/E	34.1x	115.4x	14.4x	11.1x	10.1x
EV / EBITDA*	35.7x	14.3x	9.6x	8.2x	7.6x
Free Cash Flow Yield*	0.1%	0.4%	6.3%	9.2%	7.5%

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

04 March 2024

Equity

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Stock Data

Price	146.58 USD
Price Objective	175.00 USD
Date Established	29-Nov-2023
Investment Opinion	C-1-9
52-Week Range	101.44 USD - 184.65 USD
Mrkt Val (mn) / Shares Out (mn)	6,921 USD / 47.2
Free Float	99.4%
Average Daily Value (mn)	116.06 USD
BofA Ticker / Exchange	GTLS / NYS
Bloomberg / Reuters	GTLS US / GTLS.N
ROE (2024E)	15.0%
Net Dbt to Eqty (Dec-2023A)	123.6%
ESGMeter TM	Medium

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FCF / DCF = Free Cash Flow / Discounted Cash Flow

WACC / P-F = Weighted Average Cost of Capital / Pro-Forma

Reit. / Cons = Reiterate / Consensus

RSL = Repair, Service & Leasing

LNG = Liquefied Natural Gas

Adj. / YTD = Adjusted / Year to date

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Timestamp: 04 March 2024 12:01AM EST

iQprofileSM Chart Industries

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	4.6%	8.6%	10.3%	11.7%	11.5%
Return on Equity	7.8%	10.2%	15.0%	16.8%	15.8%
Operating Margin	12.2%	17.9%	21.6%	23.3%	23.7%
Free Cash Flow	7	29	435	640	520

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.5x	0.6x	1.2x	1.2x	0.9x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	10.9%	6.3%	19.0%	20.0%	21.0%
Net Debt-to-Equity Ratio	-11.5%	123.6%	94.8%	65.1%	45.2%
Interest Cover	10.6x	2.1x	2.8x	3.3x	3.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,612	3,359	4,404	4,902	5,200
% Change	22.4%	108.3%	31.1%	11.3%	6.1%
Gross Profit	481	1,144	1,522	1,707	1,809
% Change	20.2%	137.8%	33.1%	12.2%	6.0%
EBITDA	296	738	1,100	1,285	1,380
% Change	8.8%	149.2%	49.1%	16.8%	7.4%
Net Interest & Other Income	(9)	(289)	(346)	(346)	(346)
Net Income (Adjusted)	167	286	477	622	686
% Change	61.3%	71.0%	66.4%	30.4%	10.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	167	283	476	621	685
Depreciation & Amortization	83	108	128	129	130
Change in Working Capital	(32)	(102)	(65)	(17)	(204)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(137)	(122)	15	16	19
Capital Expenditure	(74)	(138)	(120)	(110)	(110)
Free Cash Flow	7	29	435	640	520
% Change	NM	339.4%	NM	47.1%	-18.7%
Share / Issue Repurchase	1,062	10	0	0	0
Cost of Dividends Paid	0	(39)	(27)	(27)	(27)
Change in Debt	1,442	1,447	(453)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,605	201	155	768	1,261
Trade Receivables	278	759	878	1,017	1,057
Other Current Assets	807	1,254	1,482	1,711	1,777
Property, Plant & Equipment	430	838	829	810	790
Other Non-Current Assets	1,781	6,050	6,050	6,050	6,050
Total Assets	5,902	9,102	9,395	10,356	10,936
Short-Term Debt	257	259	259	259	259
Other Current Liabilities	825	1,608	1,890	2,241	2,144
Long-Term Debt	2,040	3,576	3,124	3,124	3,124
Other Non-Current Liabilities	96	721	720	720	720
Total Liabilities	3,218	6,163	5,992	6,342	6,246
Total Equity	2,684	2,939	3,403	4,014	4,690
Total Equity & Liabilities	5,902	9,102	9,395	10,356	10,936

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

Company Sector

Energy Commodities

Company Description

Chart Industries is a leading independent global leader in the design, engineering & manufacturing of process technologies & equipment for gas & liquid molecule handling for the Nexus of Clean - clean power, clean water, clean food, and clean industrials, regardless of molecule. Chart is a leading provider of technology, equipment & services related to LNG, hydrogen, biogas & CCS. Chart has 64 global manufacturing locations and >50 service centers in US, Asia, Australia, Europe & South America.

Investment Rationale

We have a Buy rating on the stock as we see the company as a key beneficiary of the increased focus on LNG, Hydrogen and CCS in Europe and elsewhere in the wake of the Russia/Ukraine crisis. We also see GTLS benefiting from increased penetration and network effect post the recent Howden acquisition. Our concerns on near term earnings surprise risk is adequately captured in our below guidance '24 estimates and the stock is now trading at >30% discount on '24E EBITDA versus its Industrial peers.

Stock Data

Average Daily Volume 791,767

Quarterly Earnings Estimates

	2023	2024
Q1	1.63A	1.76E
Q2	1.27A	2.41E
Q3	1.36A	2.86E
Q4	2.38A	3.10E



Price objective basis & risk

Chart Industries (GTLS)

Our PO of \$175.00 is derived from our discounted cash flow valuation, which we believe is a better method to value GTLS than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we think represents a period of generally growing FCF. After which, we then forecast a terminal growth rate of 2.125% given good growth potential from the energy transition while using a 8.5% weighted average cost of capital (WACC).

Risks to our price objective are global economic weakness, slower LNG demand growth, lower upstream capex for natural gas, changes to regulatory regime in countries where GTLS operates, geopolitical upheaval, oversupply, technical and operational issues. The company-specific risk is that increasing competition in international markets may permanently result in lower margins, returns and ultimately valuation premium.

Analyst Certification

I, Saurabh Pant, 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 - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant

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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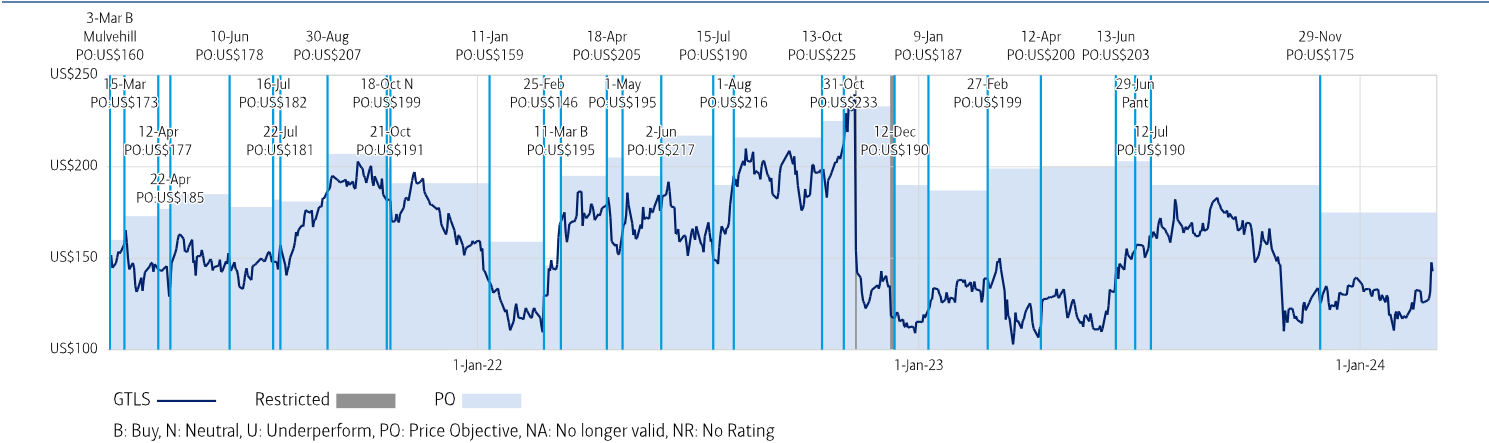
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Chart Industries (GTLS) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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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