

Howmet Aerospace Inc.

4Q23 beat on strong commercial aerospace, robust 2024 outlook

Maintain Rating: BUY | PO: 60.00 USD | Price: 58.83 USD

Commercial Aerospace revenue growth of 24% Y/Y in '23

Howmet Aerospace (NYSE: HWM) recorded adjusted EPS of \$0.57 vs. Street consensus of \$0.47 and BofAe adjusted EPS of \$0.46, including a \$0.04 benefit from special items and fewer than expected costs below the operating line. Total revenue of \$1.7bn (vs. BofAe revenue for 4Q23 of \$1.6bn), was up 14.4% Y/Y. Margins at Engine Products (23.5%) and Fastening Systems (19.2%) came in above 4Q22 levels (up 175bps and 268bps, respectively). 4Q closed with a segment operating margin of 20.4% and adjusted EBITDA margin excluding special items of 23.0%. Engine Products (+16% Y/Y) saw strong sales across all end markets. Fastening Systems (+26% Y/Y) saw strength on commercial, namely the widebody recovery and transportation. Engineered Structures (+6% Y/Y) was strong on the widebody recovery offset by softer defense aerospace. Forged Wheels (+3% Y/Y) saw an 8% volume increase Y/Y in the transportation market, offset by lower aluminum prices. FCF for the quarter was \$403mn vs. \$410mn in 4Q22. HWM also continues to focus on capital deployment, redeeming \$476mn worth of debt in 2023 and refinancing to generate annualized interest savings of \$29mn. The company also repurchased \$250mn worth of common stock and raised the dividend 25% in the year.

2024 outlook: \$7.0-7.2bn sales, \$2.10-2.20 adj. EPS

The company revealed its 2024 outlook, which projects: revenue of \$7.0-7.2bn (vs. StE \$7.07bn vs. BofAe \$7.08bn), adj. EBITDA margin of 22.9-23.2%, and adj. EPS of \$2.10-2.20 (vs. StE \$2.17 vs. BofAe \$2.10). 1Q24 outlook indicates \$1.73-1.75bn in sales, 22.8-23.1% adj. EBITDA margins, and \$0.50-0.52 adj. EPS. We note that the 2024 outlook assumes an average build rate of 34/month on the MAX family and 56/month on the A320 family. We think the results will be positively received by the market. We maintain our Buy on the medium-term outlook.

Exhibit 1: HWM 4Q23 Results

Total revenue of \$1.7bn (vs. BofAe revenue for 4Q23 of \$1.6bn), was up 14.4% Y/Y

Quick-take of results vs. Expectations:	
EPS	4Q23: \$0.57 vs. BofAe: \$0.46 vs. BBG: \$0.47 vs. 4Q22: \$0.38 (4Q23 up 49.3% Y/Y)
Revenue	4Q23: \$1,731mn vs. BofAe: \$1,643mn vs. BBG: \$1,653mn vs. 4Q22: \$1,513mn (4Q23 up 14.4% Y/Y)
Operating Margin	4Q23: 20.4% vs. BofAe: 18.9% vs. 4Q22: 19.2%
FCF	4Q23 Actual: \$403mn vs. BofAe: \$114mn vs. BBG: \$0mn vs. 4Q22: \$410mn (declined 1.7% Y/Y)
Revenue by segment	Engine Products: 4Q23: \$852mn vs. BofAe: \$761mn vs. 4Q22: \$732mn Fastening Systems: 4Q23: \$360mn vs. BofAe: \$329mn vs. 4Q22: \$285mn Engineered Structures: 4Q23: \$244mn vs. BofAe: \$314mn vs. 4Q22: \$230mn Forged Wheels: 4Q23: \$275mn vs. BofAe: \$239mn vs. 4Q22: \$266mn
EPS outlook	FY24: \$2.10-\$2.20

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

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Stock Data

Price	58.83 USD
Price Objective	60.00 USD
Date Established	13-Nov-2023
Investment Opinion	B-1-7
52-Week Range	38.17 USD - 59.42 USD
Mrkt Val (mn) / Shares Out (mn)	24,223 USD / 411.7
Free Float	94.7%
Average Daily Value (mn)	176.68 USD
BofA Ticker / Exchange	HWM / NYS
Bloomberg / Reuters	HWM US / HWM.N
ROE (2023E)	19.5%
Net Dbt to Eqty (Dec-2022A)	93.6%
ESGMeter™	High

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Timestamp: 13 February 2024 09:22AM EST

Price objective basis & risk

Howmet Aerospace Inc. (HWM)

Our price objective (PO) of \$60 for HWM is based on a relative P/FCF multiple of 1.5x, resulting in a 29.7x P/FCF multiple. We believe a 1.5x relative multiple, above the 1.1x historical average, fairly reflects the upside of the commercial recovery.

Upside risks to our PO are an accelerated commercial aero upcycle, additional wins from commercial original equipment manufacturers (OEMs) moving away from VSMPO, increased F-35 sales either domestically or internationally, and further pressure on emissions standards, thus benefitting the company's wheels business.

Downside risks are the economic backdrop results in another downturn to the commercial aero cycle that is not offset by the unmet demand of the last few years, F-35 program deliveries decline and the trucking industry sees a significant downturn.

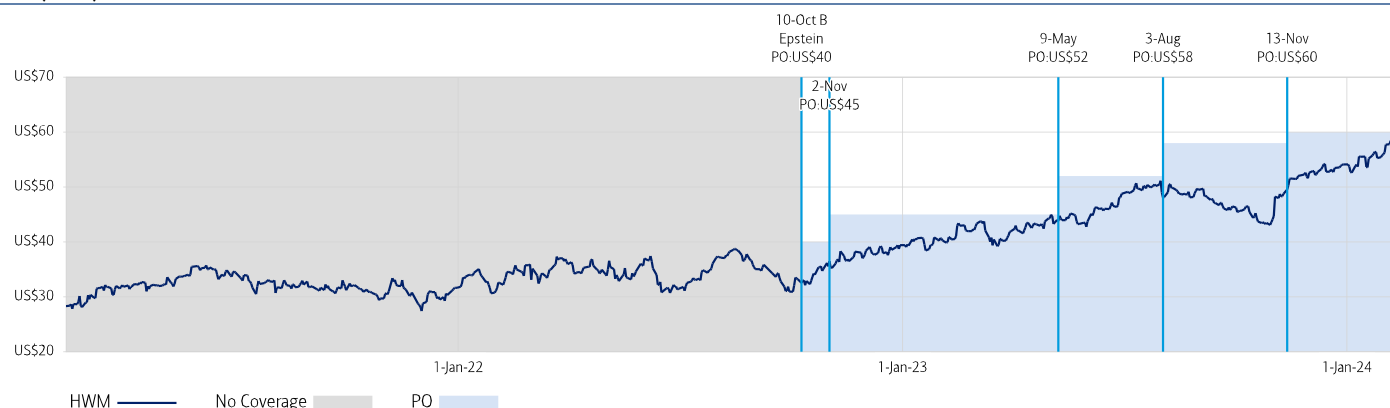
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Howmet (HWM) Price Chart



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

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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	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%

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