

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[HEICO](#) | BUY | HEI US | Mkt Cap:USD24,833mn | Ronald J. Epstein
Why the Bears have it wrong on this aftermarket leader, Upgrade to Buy

- We see continued strength for HEI and believe the pullback is overdone.
- FSG is poised to benefit from the recovery in air traffic, and OE production delays
- HEI's Wencor acquisition increases FSG's exposure to the commercial aftermarket

[RTX](#) | NEUTRAL | RTX US | Mkt Cap:USD128,678mn | Ronald J. Epstein
Fresh start to 2024: Taming the metal powdered beast, Upgrade to Neutral

- We upgrade RTX to Neutral, mainly to reflect better-than-expected execution around servicing contaminated powder-metal discs
- RTX announced all original equipment (OE) GTF engines (including spares) are being delivered with clean full-life discs
- RTX now expects AOG to be lower than the 650 peak initially expected

PO Raised

[AGNC Investment](#) | NEUTRAL | AGNC US | Mkt Cap:USD6,749mn | Derek Hewett
Beat the Street, investment outlook improving

- Reported 4Q core EPS of \$0.59, a penny above Street ests, TBV/share was up 7.7% q/q to \$8.70 & has increased another 1-2% QTD
- Leverage declined to just 7.0x (7.9x in Q3) as liquidity remains strong
- Wide spreads provide attractive new investment opps, but we reiterate Neutral due to possible further spread widening

25 January 2024

Equity
 United States

Investor Support
 BofAS

Today's Events: Economic Indicators

1. 8:30 Initial Jobless Claims
2. 8:30 GDP (qoq saar)
3. 8:30 Personal consumption (qoq saar)
4. 8:30 GDP Price Index (qoq saar)
5. 8:30 Core PCE (qoq saar)
6. 8:30 Durable Goods Orders
7. 8:30 Durables Ex Transportation
8. 8:30 Core Capital Goods Orders
9. 8:30 Core Capital Goods Shipments
10. 8:30 Wholesale Inventories
11. 8:30 Advance Goods Trade Balance
12. 10:00New Home Sales

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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.

CSX Corporation | BUY | CSX US | Mkt Cap:USD71,703mn | Ken Hoexter
Better, stronger, faster... ONE CSX, focus on momentum, PO to \$39

- CSX posted 4Q23 EPS of \$0.45, down 8% yr-yr, above our \$0.43/Street's \$0.44, sees momentum building and profit growth in '24
- Targets low-mid-single digit revenue & volume gains in '24, COO Cory notes CSX is in early stages of refining operating plan
- Reiterate Buy, PO to \$39 (from \$38) on 19.5x our '24e EPS (from 19x), hold our '24/'25E EPS at \$2.00/\$2.25

First Bancorp PR | BUY | FBP US | Mkt Cap:USD3,484mn | Brandon Berman
Idiosyncratic opportunity at attractive valuation

- Federal aid disbursement bearing fruit NII tailwind from reinvest opportunity likely drove 140bp stock outperformance
- Est 10bp NIM benefit from asset reinvestments before benefit from deposits repricing lower. Raising '24e EPS by 2%
- At 8.3x '25e, FBP trades at 17% discount to history. EPS momentum more stable PR economy should support multiple re-rating

Int Business Machine | BUY | IBM US | Mkt Cap:USD158,819mn | Wamsi Mohan

Setting up for multi-year revenue and FCF growth, PO to \$200

- We see F24/F25 as strong revenue growth years for IBM. FCF was guided much higher than expectations
- Software revenues re-accelerate in F24 driven by benefit from Red Hat, recurring rev stream, M&A and Transaction Processing
- Reiterate Buy. PO moves to \$200 (from \$170) on 17x EV/F25 FCF

Lam Research | BUY | LRCX US | Mkt Cap:USD111,781mn | Vivek Arya
Solid execution justifies premium multiple, reiterate Buy

- Reiterate Buy and raise PO to \$970 on improved earnings stability (2x trough EPS cycle/cycle), healthy FCF generation (25%)
- Likes: Business generally stabilized, well positioned for CY24/25 leading-edge logic/NAND growths, FCF/buybacks
- Risks: Operating leverage may limit EPS growth, premium multiple though justified by FCF generation, high China exposure

Meta Platforms | BUY | META US | Mkt Cap:USD1,031,839mn | Justin Post
2024 PM level outlook

- 2024 PM Outlook: Reels monetization ramp and growing AI capabilities keep us constructive after a strong 2023.
- Potential positives: Reels & messaging monetization upside, underappreciated AI capabilities, and attractive core valuation.
- Risks: Revenue deceleration, Reels content devalues network effects, regulatory headwinds, and Chinese ad spend uncertainty.

Qualcomm | BUY | QCOM US | Mkt Cap:USD227,734mn | Tal Liani**Handset recovery could drive solid 1Q results, but a few long-term risks to note**

- QCOM is set to report 1Q earnings on Jan. 31, 2024, expecting solid results, driven by improving Android demand & inventories
- We expect Edge AI to be a key focus on the call, as a potentially significant LT growth opportunity from increased content
- We also flag a few long-term risks: declining share at Samsung, competitive risks in China as Huawei re-enters smartphone mkt

Restaurant Brands In | UNDERPERFORM | QSR US | Mkt Cap:USD24,205mn |

Sara Senatore

Penciling out the TAST acquisition

- Small change in financials, big change in philosophy. Faster remodels on TAST stores.
- But see more RBI investment needed for a broader boost.
- Higher EBITDA, not multiple, will dictate refranchising ROI.

SAP | BUY | SAP US | Mkt Cap:USD206,798mn | Frederic Boulan**Cloud acceleration and cost reset support > 20% EBIT CAGR**

- Reiterate Buy post Q4. Cloud lead indicator accelerating, expect revenue/EBIT acceleration in 2024 to drive rerating.
- Demand resilient, 2025 targets raised on cloud traction and efficiency measures. Cloud ERP growing >30%, AI upside ahead
- New forecasts: '25 revenue increased 2%, EBIT 12%, FCF 7% on restructuring, share price move reflects upgrades. PO up to E178

Seagate | BUY | STX US | Mkt Cap:USD18,653mn | Wamsi Mohan**HDD market inflecting, HAMR drives next leg of profitability, PO to \$100**

- STX F3Q rev guide of \$1.65bn came in slightly above consensus. We view HDD markets recovering with upside from HAMR
- End-markets are inflecting higher, GMs, EPS higher next peak
- Our F24 rev/EPS goes to \$6.7bn/\$0.99 from \$6.6bn/\$0.68. PO moves to \$100

ServiceNow | BUY | NOW US | Mkt Cap:USD154,974mn | Brad Sills**AI drives early wins in a strong Q4, Reiterate Buy on our top pick**

- Strong Q4 results w/ cRPO upside (2%) from broad strength across verticals & early contribution from Pro Plus AI offering.
- Maintained FY24 FCF margin outlook for 31%, despite ramping data intensive AI workloads, demonstrating scale advantage.
- Reiterate Buy on our top pick & raise PO to \$900. View ServiceNow as an AI, consolidation and cloud winner.



[W.R. Berkley](#) | BUY | WRB US | Mkt Cap:USD21,582mn | Joshua Shanker
4Q23 EPS beat vs. consensus in largely in-line quarter

- W.R. Berkley reported a 4Q23 EPS result that modestly exceeded the consensus outlook
- Net investment was far in excess of expectations, as Berkley has quickly been able to increase aggregate investment yield
- Reaching higher investment yields more quickly causes us to increase our EPS outlook for years 2024-2026

PO Lowered

[Kimberly-Clark](#) | UNDERPERFORM | KMB US | Mkt Cap:USD39,768mn | Anna Lizzul

Q4 results soft, 2024 focus on volume recovery, Reiterate Underperform

- Q4 results EPS of \$1.51 was slightly ahead of our \$1.50 but missed the Street's \$1.53 as volumes were shy of expectations.
- Gross margin of 34.9% in Q4 was below Q3's level of 35.8%, although a sequential step down was expected as pricing waned.
- We reiterate our Underperform rating and lower our PO to \$110 from \$115, reflecting a 16x multiple on our CY25e EPS of \$7.06.

[Knight-Swift](#) | BUY | KNX US | Mkt Cap:USD9,231mn | Ken Hoexter
Earnings reset is a clearing event, Focus on potential cycle upturn, PO to \$64

- Resets expectation with 1H outlook as spot market pressured 4Q earnings more than expected. USX achieves positive 4Q EBIT.
- Posted adj. 4Q EPS of \$0.09, well below our \$0.47/Street's \$0.43 due to Insurance impact & Intermodal. Sets 1H24 EPS target.
- PO to \$64 on 25.5x 2024E EPS estimate (from 22x) as earnings move past trough. Lower 2024E and 2025E EPS 19% and 4%.

[Raymond James](#) | BUY | RJF US | Mkt Cap:USD23,614mn | Mark McLaughlin
1Q24E: Mixed results, Capital markets rebound offset by lingering sorting

- RJF reported better than expected results driven by rebound in capital markets partially offset by continued NIM compression
- Lowering EPS & PO given continued client cash sorting dynamics increasing deposit costs and limiting investment reallocation
- Reiterate Buy, markets are underappreciating multiple ways to win including NIM potential and relieving AM CM headwinds

Significant EPS Change

[AT&T](#) | BUY | T US | Mkt Cap:USD119,262mn | David Barden

4Q Wrap: A stable mobile market is leading revs, EBITDA, & FCF ahead of expectations

- AT&T reported solid 4Q results on net adds, revenue, and cash flow, paving the way for sustainable wireless growth into 2024.
- T elaborated on the moving parts of its \$17-\$18bn 2024 FCF guide, including 1) 3% EBITDA growth & 2) \$2.0bn capex reduction.
- Offsetting factors to T's 2024 FCF guide include 1) \$1.5bn of higher cash taxes & 2) \$0.7bn of lower DTV cash distribution.

[Playa Hotels](#) | UNDERPERFORM | PLYA US | Mkt Cap:USD1,115mn | Shaun Kelley

ALIS and Q4 Preview: Stable trends and optimistic views

- We attended the ALIS hotel conference in Los Angeles this week
- Management teams sounded incrementally more optimistic than in prior years and relative to investors
- Supply will remain limited and should help sustain pricing, deal activity could accelerate in 2H24

[Summit Hotel Prop](#) | UNDERPERFORM | INN US | Mkt Cap:USD711mn | Dany Asad

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[United Rentals](#) | BUY | URI US | Mkt Cap:USD39,114mn | Michael Feniger
Underwhelming in some areas? Sure, but bigger picture story continues to unfold

- URI delivered a slight beat (EBITDA 1.5% ahead) & guided FY24 in line with consensus. Some areas clearly light (flow through)
- Yet rising evidence valuation warrants a new lens: FCF, capital return approach, positive rate in a 'transition year' (2024).
- To unlock next leg of URI - is 2025 up? Headwinds finally cool growth (yet still steady) so what happens when headwinds turn?



Buy Reiterations

Communication Services

[Netflix](#) | BUY | NFLX US | Mkt Cap:USD238,479mn | Jessica Reif Ehrlich
A New Tag Team

- NFLX reported very strong 4Q results including the largest 4Q net adds ever of 13.1mn (vs our 9mn est).
- We raise our CY24 rev/op. income/FCF forecasts to \$39.52bn/\$9.5bn/\$6.01bn (from \$39.51bn/\$9.2bn/\$5.33bn prev.).
- We reiterate our Buy rating and raise our price objective (PO) to \$650 (from \$585).

Consumer Discretionary

[Jack in the Box](#) | BUY | JACK US | Mkt Cap:USD2,064mn | Sara Senatore
JACK Investor Day 2024 Key Takeaways

- LT targets highlight margin, growth opportunities for JIB & DT.
- Data driven approach to SSSG (menu, value, marketing).
- Technology, G&A investments to expand RLMs / unit returns.

[Topgolf Callaway](#) | BUY | MODG US | Mkt Cap:USD2,587mn | Alexander Perry

PGA Show: Expect efficiencies & improved utilization at Topgolf, share gains in equip.

- We hosted an investor meeting with MODG management at the PGA Show in Orlando. We maintain Buy & \$18 PO.
- We see improvements in Topgolf bay utilization supporting same-venue sales & stronger margins through labor efficiencies.
- We expect growth and market share gains for golf equipment in 2024.

Consumer Staples

[Procter & Gamble](#) | BUY | PG US | Mkt Cap:USD395,668mn | Bryan Spillane
Four-tified sales, margins drive upside

- PG's delivered 2Q EPS upside as earlier than expected efficiency and commodity tailwinds benefitted gross margin
- We view the 2H24 setup favorably, with strong underlying sales in key geographies offsetting softness in China and...
- ...emerging markets, and enough gross margin flexibility to fund reinvestment. Reiterating Buy, \$175 PO.

Financials

[Ameriprise Fin.](#) | BUY | AMP US | Mkt Cap:USD39,412mn | Craig

Siegenthaler

4Q23 First Impression – Core earnings roughly in-line but organic growth softer

- AMP reported roughly in-line 4Q23 core earnings but organic growth was broadly softer
- WM NNAs missed but were still elevated due to Comerica win, \$15B flowed in 4Q23 and estimate another \$3B in 1H24
- Client cash balances stabilizing & cash sorting slowing, Client cash increased in 4Q23, mostly due to Comerica inflows

[Progressive Corp](#) | BUY | PGR US | Mkt Cap:USD104,394mn | Joshua Shanker

Outsized December 2023 premium growth: expect it to both continue and accelerate

- December 2023 EPS results were a beat across all major underwriting measures
- We expect written premium to materially accelerate in 2H24 of already strong YoY growth
- Despite strong revenue growth, our forecast assumes personal auto pricing decelerates in 2024

Health Care

[Elevance Health Inc](#) | BUY | ELV US | Mkt Cap:USD111,691mn | Kevin

Fischbeck

Fischbeck Focus: Why ELV struck a different tone on MA vs peers

- The quarter stood out as ELV beat on MLR for the year vs initial expectations, citing no pressures in MA.
- In our view, company likely saw pressures, but had priced for margin, leaving it with flattish earnings instead.
- Meanwhile, Medicaid margin outperformance helped offset it (for CNC, MOH). Exchange growth strong (for OSCR/CNC).

[ResMed](#) | BUY | RMD US | Mkt Cap:USD25,266mn | Lyanne Harrison

2Q24 result solid. RMD bullish on GLP1+CPAP combo

- Solid 2Q24 result. Rev in line. EPS beat 5%. Strong device growth offset by mask weakness. GM expanded 10bpts
- RMD bullish on GLP1 CPAP. Patient data shows increased likelihood of therapy adoption higher resupply for combo patients
- Reiterate Buy. However, SURMOUNT-OSA study readout expected Mar24, likely to cause share price volatility



[Zoetis Inc.](#) | BUY | ZTS US | Mkt Cap:USD86,448mn | Michael Ryskin**Animal Health**

- Vet clinic visit and revenue data have had a very poor start to 2024, despite broad expectations for some normalization
- Capacity constraints and consumer pressures are known headwinds, We think severe winter weather could be to blame
- We will continue to monitor the situation, but if there is no uptick in coming weeks, FY24 outlook will turn more negative

Industrials**[CACI International](#) | BUY | CACI US | Mkt Cap:USD7,574mn | Mariana Perez****Mora****Strong momentum drives up FY24 outlook**

- CACI reported adj. EPS of \$4.36, above BofAe of \$4.26, primarily driven by stronger revenues and lower than expected taxes.
- CACI reported contract awards of \$2.2bn, translating to a book-to-bill of 1.2x
- Management raised FY24 outlook on a strengthening awards environment and accelerating momentum in the backlog

Information Technology**[Amphenol](#) | BUY | APH US | Mkt Cap:USD60,226mn | Wamsi Mohan****Solid executing drives beat in 4Q, well positioned for growth in 2024, PO to \$115**

- APH reported a beat in the December qtr on rev/EPS with strong incremental margins.
- Mgmt guided below expectations in C1Q24 but has a history of conservative C1Q guidance.
- We raise our PO to \$115 (was \$105) on 32x C25 EPS of \$3.61 (was 32x C24 EPS).

Macro & Strategy

[BofA on USA](#) | US Economics**Weekly spending update through Jan 20**

- Total card spending per HH was down 3.0% y/y in the week ending Jan 20, according to BAC aggregated credit & debit card data.
- Total card spending in the South & MW was likely the most impacted by cold weather while NE spending showed some recovery y/y
- Overall, spending on discretionary services - entertainment, restaurants, lodging and airlines - was the most affected.

[FX Viewpoint](#) | Alex Cohen**USD Year Ahead: A winding road to depreciation**

- USD to depreciate in 2024, but more of an H2 story. Near-term upside risks remain and exuberant Fed pricing is moderating.
- US election a growing market theme, though USD implications are mixed and uncertainty remains. Premature to price in for now
- USD positioning mostly benign and short-term quant signals are bullish the USD. Our preferred expression is higher USD/CHF

[Global Watch](#) | Jean-Michel Saliba**A Sea of Red**

- Red Sea disruptions remain acute as US/UK strikes have not prevented more Houthi attacks.
- The main takeaway from our conference call is that the conflict is likely to remain confined to the Red Sea area.
- Shipping costs continue to rise, especially on Europe-bound routes, posing inflationary pressures if disruptions persist.

[Global Earnings Revision Ratio](#) | Nigel Tupper**Pending seasonality**

- The Global Earnings Revision Ratio fell in January which may slightly offset the positive from a rising 12-month forward EPS.
- The Ratio moderated in all regions. The Ratio is highest in Japan and a low China Ratio is weighing on Emerging Markets.
- The Ratio is highest for the global Telecom sector, and lowest for Energy and Materials.

[Liquid Insight](#) | Global Rates & Currencies Research**UST supply higher, demand concern lower**

- UST auction sizes will rise again at next week's refunding but we expect minimal market reaction, it is well expected
- UST demand improved w/ confidence in slower growth, lower inflation, & Fed cuts; it is seen from banks, pensions, funds, etc
- Term premium & UST supply concern has been lowered by improved UST demand



[World at a Glance](#) | FX Rates & Commodities Research

The wait for Fed easing

- We continue to hold our broad expectations of a moderately weaker USD against both G10 and Emerging Markets for 2024.
- In terms of core end-year forecasts, we still look for EUR-USD at 1.15 and the benchmark US10yr interest rate at 4.25%.
- Since our last monthly publications, we do have revisions for the crude oil outlook as well as short-term USD-CNY.

[Emerging Insight](#) | GEMs FI Strategy & Economics

China – Exploring new trends behind the tourism rebound

- Travel sector remains a bright spot for the Chinese economy driven by younger generations. We highlight five emerging themes.
- On the list are preference of local experience, rise of social media, the fan economy, athleisure, and accessibility.
- Domestic cities like Zibo and Harbin were the winners in 2023 while the UAE was the top overseas destination. Who's next?

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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