

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[Illinois Tool Works](#) | UNDERPERFORM | ITW US | Mkt Cap:USD77,150mn |

Andrew Obin

High valuation, challenged growth & margins; downgrade to Underperform

- We downgrade shares of ITW to Underperform (from Neutral) and lower our price objective to \$235, or 8% implied downside.
- We think the company is likely to miss consensus 2024 EPS. Earnings growth has lagged the peer group in 2023.
- We think 2024 will be another year of below-peer EPS growth. As a result, we see risk of multiple de-rating.

[Juniper Networks](#) | NO RATING | JNPR US | Mkt Cap:USD17,522mn | Tal

Liani

Juniper to be acquired by HPE for \$14bn; Changing to No Rating

- Juniper announced it entered a definitive agreement to be acquired by Hewlett Packard Enterprise for \$14bn. The deal values..
- ..Juniper at roughly 17x 2024E P/E vs. the stock's previous 13x multiple. We change our rating to No Rating, as the stock.
- ..is no longer trading on its own fundamentals. Investors should not rely on our prior ratings or price objective.

[Zillow C](#) | NEUTRAL | Z US | Mkt Cap:USD12,936mn | Curtis Nagle

D/G to Neutral as housing recovery priced in, commission suits a valuation overhang

- Downgrade ZG to Neutral. Stock is pricing housing recovery,affordability limits vol upside & commission suits are an overhang
- Following impressive outperformance in 2023, we see more moderate gains in 2024 as growth initiatives ramp through the year
- We raise ests slightly to factor higher real estate transactions growth and raise our PO to \$60 as our basis moves to 2025

10 January 2024

Equity

United States

Investor Support
BofAS

Today's Events: Economic Indicators

N/A

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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.

PO Raised

[Ally Financial](#) | NEUTRAL | ALLY US | Mkt Cap:USD10,292mn | Brandon Berman

Proceed with caution: 4Q23 & FY24 preview

- ALLY's liability sensitive b/s to benefit from rate cuts, improving economic outlook but credit concerns keep us cautious
- Lowered 4Qe by 45% to \$0.36 to reflect mgmt updates. Are 25% below Street but believe cons opex forecast is too low
- Reports 4Q23 EPS Jan 19 at 7:30a ET, call at 9:00a ET

[American Eagle](#) | NEUTRAL | AEO US | Mkt Cap:USD3,892mn | Christopher Nardone

Focused on driving operating leverage in '24

- We met with CFO Mike Mathias at ICR; AEO remains committed to expanding margins in F24 in a LSD sales growth environment
- AEO announced 4QTD sales (through 12/30) is up 8%, with American Eagle tracking up high single digits and Aerie up low teens
- Operating profit is now expected to be \$130mn (prev \$105-115mn); we increase our F24E EPS to \$1.58

[American Express](#) | BUY | AXP US | Mkt Cap:USD136,108mn | Mihir Bhatia
4Q preview: Soft landing narrative needs affirmation

- We think higher expectations on credit and confidence in the soft landing backdrop can lead to volatility in shares.
- 2024 guidance expected to matter most. Within the print, credit results and commentary will likely be the focus.
- We maintain a positive outlook on the sector with three Buys (AXP, COF, DFS) and two Neutrals (SYF, BFH).

[Beyond Inc](#) | NEUTRAL | BYON US | Mkt Cap:USD1,153mn | Curtis Nagle
2024 Year Ahead: Ecommerce looks like a winner with Wayfair leading the pack

- Compared to 2023, we see a more constructive setup for SMID cap internet in 24 but see risk reward given valuation vs. growth
- We favor eComm & top picks are W & SEAT. We downgrade ZG to Neutral as housing priced in & commission suits are a headwind
- Themes include AI as sales & revenue driver, potential advertising headwinds, slowing consumer spend & convertible refis

[Capital One](#) | BUY | COF US | Mkt Cap:USD50,646mn | Mihir Bhatia
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[Greenbrier Cos](#) | **UNDERPERFORM** | **GBX US** | **Mkt Cap:USD1,534mn** | **Ken Hoexter**

Org realignment sets structural change under CEO Tekorius

- On Monday, GBX announced its new geographic reporting structure (Americas and Europe) and search for a new CFO
- Increased transparency and org realignment build on "Better Together" plan, aimed to improve the business and smooth earnings
- Reit. U/P, but raise PO to \$45 (from \$40) on 12x our F24e EPS (from 10.5x) on progress as CEO Tekorius aligns cost with ops.

[Neurocrine](#) | **BUY** | **NBIX US** | **Mkt Cap:USD13,137mn** | **Tazeen Ahmad**
Takeaways from Day 2 of the SF Healthcare Conference

- We review takeaways from Day 2 of the SF healthcare conference for some of our covered companies
- See inside for detailed reviews on ACAD, BNTX, DNLI and NBIX



[Planet Fitness, Inc.](#) | BUY | PLNT US | Mkt Cap:USD6,391mn | Alexander

Perry

ICR Takeaways: Pricing strategy & new growth model should accelerate returns

- We hosted an investor meeting with PLNT management at the ICR conference.
- We believe a new pricing strategy should help accelerate unit returns.
- We believe C24 will be a transition year for unit growth & model flat y/y openings vs. C23 before returning to growth in C25.

[Scorpio Tankers](#) | NEUTRAL | STNG US | Mkt Cap:USD3,137mn | Ken

Hoexter

Fluidity issues aiding rates, we see rising rate potential; PO to \$68

- Raise 4Q23 EPS 4% to \$3.01, aligning to market rates. Panama Canal drought to lead rates higher for longer on transit limits.
- Suez fluidity intact for product tanker yet should benefit rates on tighter capacity. Strait of Hormuz a rising focus.
- PO to \$68 on 6.0x 2024e EBITDA. Maintain Neutral on strong returns offset by a rising capacity orderbook.

[Signet Jewelers](#) | NEUTRAL | SIG US | Mkt Cap:USD4,873mn | Lorraine

Hutchinson

Trends are improving but remain cautious on recovery

- Lower-price point jewelry has rebounded slightly, which could indicate sentiment among lower-income consumer is improving
- Inventory levels at independent jewelers are almost back to flat after being overstocked all year
- We are encouraged by these improving trends, but remain cautious on the sales and margin recovery in F25

PO Lowered

[McCormick](#) | BUY | MKC US | Mkt Cap:USD18,247mn | Peter Galbo
Thoughts ahead of 4Q23 earnings

- MKC is scheduled to report 4Q23 earnings on January 25th & introduce a FY24 outlook. Focus will be on Americas Consumer...
- volumes and China foodservice recovery benefit to APAC.
- As a result of the weaker US scanner data, we lower our 4Q23 and FY23 adj EPSe. Also lower FY24/25 adj EPSe. Lower PO to \$80.



Significant EPS Change

[Albertsons](#) | NO RATING | ACI US | Mkt Cap:USD13,303mn | Robert Ohmes
F3Q ahead, but see more pharmacy margin pressure in F4Q

- F3Q \$0.79 adj. EPS was well above BofA/Street. IDs of 2.9% (also ahead) benefitted from growth in pharmacy & digital.
- Raise F24E given F3Q upside & cont'd productivity gains, but see cont'd y/y EPS declines in F4Q on pharma & other headwinds.
- We remain No Rating on ACI following the pending acquisition by KR announced in October 2022.

Buy Reiterations

Consumer Discretionary

[lululemon ath](#) | BUY | LULU US | Mkt Cap:USD63,565mn | Lorraine Hutchinson

Another standout year of innovation ahead

- We hosted a meeting with Howard Tubin, IR at ICR; increase in 4Q sales guide driven by success in bottoms and second layers
- We expect another strong innovation year and think women's OTM category remains among the biggest untapped opportunities.
- Reit Buy: we expect momentum to continue and think shares deserve to trade at a premium given the consistent track record

Health Care

[Zai Lab](#) | BUY | ZLAB US | Mkt Cap:USD2,625mn | Bo (David) Li

Monthly drug sales update – Nov 2023

- The company's niraparib recorded sales of RMB67.4mn in Nov 2023, implying YoY change of 24.2%.
- The company's newly launched efgartigimod alfa recorded sales of RMB4.2mn in Nov 2023.

[Quest Diagnostics](#) | BUY | DGX US | Mkt Cap:USD15,978mn | Derik De Bruin

Takeaways from Mgmt. conference presentation: Puts & takes in 2024

- DGX presented at a conference earlier today and provided color on '24 variables while reiterating medium term guidance
- Growth in 2024 to be supported by flat-to-up pricing and full M&A pipeline, slightly offset by \$150mn drop in COVID sales
- Debt financing in 4Q is an incremental \$0.25 headwind, but DGX is working to offset with productivity and PAMA delay helps



[Charles River](#) | BUY | CRL US | Mkt Cap:USD10,250mn | Derik De Bruin

Thoughts on share weakness following investor conference comments

- CRL shares sold off sharply following an investor conference, which was surprising given that we saw no incremental negatives
- CRL doesn't typically issue business / guidance updates outside of its earnings calls and comments were consistent with 3Q23
- We maintain our Buy rating given strong competitive position and valuation, but investors may remain skeptical near-term

Utilities

[Xcel Energy](#) | BUY | XEL US | Mkt Cap:USD34,913mn | Julien Dumoulin-Smith

Long-Term Reset Still In Place for 4Q Despite Setbacks. Reit Buy

- Continue to see XEL's 2024 EPS at \$3.57, with approved rate increases driving growth; 5c equity dilution and 8c load growth
- Marshall Fire likely back in focus with late Dec filing deadline; Target and Boulder Cty high profile filers per news reports
- Still like the premium setup here; XEL growth likely to support 6-8% CAGR; PO stays \$69 on refresh, reiterate Buy

Macro & Strategy

[US Rates Watch](#) | US Rates Research

BTFP to expire on schedule

- Fed Bank Term Funding Program (BTFP) to expire on schedule; market impact should be minimal
- BTFP use has been rising over recent weeks, likely due to precautionary funding (not opportunistic use)
- Bank funding stress has declined with improved liquidity & lower rates; BTFP remains valuable tool if stress rises

[US Rates](#) | US Rates Research

10 FAQs ahead of CPI

- In this note we go through 10 frequently asked questions on inflation, inflation markets, and oil as we look ahead to CPI
- Expectations around CPI are clustered and details matter for inflation market pricing and Fed policy
- Improving fund flows and outlook for Fed UST purchases on MBS paydowns can help richen belly TIPS

Earnings Tracker | Ohsung Kwon**4Q preview: Conservatism baked in**

- Consensus 4Q EPS looks conservative. We expect a 3% beat or 6% EPS growth in 4Q, accelerating from 4% YoY in 3Q.
- Downside to bottom-up 2024E EPS is firmly consensus. Weaker guides and estimate cuts in 1Q are not reasons to sell stocks.
- We see early signs of goods recovery (50% of earnings). Analyst commentaries also suggest goldilocks for stocks.

Liquid Insight | Global Rates & Currencies Research**G10 FX correlations for 2024**

- Options market expects correlation to rise for JPY- and CHF-based pairs and fall for USD-based pairs in Q1.
- We believe 3m implied correlation for GBP-based pairs is dislocated and underprices March Budget Statement risk.
- Should CHF spot broadly weaken like consensus forecast sees, CHF realized correlation could surge above implied corr.

Emerging Insight | GEMs FI Strategy & Economics**It's all go in 2024: an election, rate cuts and new budget**

- 2024 is a busy year with the Budget in February, elections likely in May, and SARB cutting cycle likely in 2H24.
- The main risk is governing ANC losing majority, requiring help from small parties to form a coalition and stay in power.
- SARB cutting cycle likely- July 2024- 75bp in 2024, and 50bp in 2025. Dovish global outlook moderating domestic CPI help.

Coverage Update | European Research**Equity coverage placed under Extended Review**

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

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