

Wabtec Corp.

**Momentum on backlog and cost-takeout,
Slight miss on margin; PO \$150**

Reiterate Rating: BUY | PO: 150.00 USD | Price: 135.09 USD

Targets '24 margin expansion, stronger 1H y-y on comps

Wabtec (WAB) posted 4Q23 adj. EPS of \$1.54, up 19% year-year, below our \$1.58 /Street's \$1.57 estimate. The miss vs our targets was primarily driven by below-the-line other expense of \$8 million, \$16 million below our target (\$0.07/sh worse), on non-core transactional FX revaluation, as Adj Operating Income was \$431 million, up 22% year-year, \$3 million above our target (\$0.01/sh better). WAB targets '24 EPS of \$6.50-\$6.90 (we move to \$6.75 from \$6.80), supported by revenue growth of 6% at its midpoint (\$10.05-\$10.35 billion, we are \$10.15 bil., or +5%) and margin expansion in both Freight (we target 20.4%, up 40 bps y-y) and Transit segments (we target 13.8%, up 90 bps better y-y). CFO John Olin noted that yr-yr improvement in revenue and margins will be stronger in 1H vs 2H, with slight mix headwinds on stronger yr-yr growth in equipment revenues. CEO Raphael Santana noted demand for products and solutions has created its strongest order pipeline since 2019, which is reflected in its 4Q sequential improvement in Freight/Transit backlog. WAB also expects to exit \$110 million of revenue (1 pt rev growth) in low-margin product lines in '24 (split 50-50 Freight-Transit).

Integration 2.0 savings to ramp

Revenue was \$2.53 billion, up 10% yr-yr, \$73 million above our target. Adj operating margin of 17.1%, a 180 bps improvement yr-yr, yet 40 bps worse than our target. Freight revenue was \$1.8 billion, up 8% yr-yr, \$26 million above our target. Freight adj operating income was \$347 million, up 22% yr-yr, \$21 million below our target, for an adj operating margin of 19.3%, a 230 bps improvement yr-yr, yet 150 bps worse than our target. Transit revenue was \$728 million, \$47 million above our target. Transit adj op. income was \$108 million, up 14% yr-yr, \$18 million above our target, for an adj op. margin of 14.8%, a 10 bps deterioration yr-yr, and 160 bps better than our target. Mr. Olin expects Integration 2.0 cost savings to ramp, and reiterated WAB's target for \$75 million-\$90 million run rate cost rate savings by 2025 (achieved \$22 million in 2023).

Reiterate Buy rating and \$150 PO

We reiterate Buy on WAB's shares and our \$150 PO. Our PO is based on 22.1x our 2024e EPS (from 20x), just above the top of its 15x-21x range, as we factor accelerating '25e EPS growth on backlog improvement, International flow-through, as well as our increased confidence in its ability to actualize its ramping backlog into Sales. We lower our 2024 EPS estimate 1% \$6.75, from \$6.80, but maintain our 2025 estimate of \$7.65.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.87	5.94	6.75	7.65	8.55
GAAP EPS	3.47	4.54	5.46	6.32	7.19
EPS Change (YoY)	14.1%	22.0%	13.6%	13.3%	11.8%
Consensus EPS (Bloomberg)			6.64	7.52	8.90
DPS	0.60	0.68	0.80	0.92	1.04
Valuation (Dec)					
P/E	27.7x	22.7x	20.0x	17.7x	15.8x
GAAP P/E	38.9x	29.8x	24.7x	21.4x	18.8x
Dividend Yield	0.4%	0.5%	0.6%	0.7%	0.8%
EV / EBITDA*	22.3x	17.7x	15.2x	13.8x	12.5x
Free Cash Flow Yield*	3.6%	4.2%	5.8%	6.3%	6.9%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 14 February 2024 05:12PM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	10,058.0	10,102.0
2025E Rev (m)	10,595.0	10,626.6
2026E Rev (m)	NA	11,195.0
2024E EPS	6.80	6.75
2026E EPS	NA	8.55

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Stock Data

Price	135.09 USD
Price Objective	150.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-1-7
52-Week Range	91.89 USD - 137.81 USD
Mrkt Val (mn) / Shares Out (mn)	24,397 USD / 180.6
Free Float	99.0%
Average Daily Value (mn)	140.48 USD
BofA Ticker / Exchange	WAB / NYS
Bloomberg / Reuters	WAB US / WAB.N
ROE (2024E)	11.4%
Net Dbt to Eqty (Dec-2023A)	32.8%
ESGMeter TM	Medium

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".

iQprofileSM Wabtec Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.2%	6.5%	7.2%	8.0%	8.6%
Return on Equity	8.8%	10.4%	11.4%	12.4%	13.0%
Operating Margin	12.7%	13.9%	15.1%	15.6%	16.1%
Free Cash Flow	889	1,015	1,419	1,529	1,692

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.4x	1.4x	1.4x
Asset Replacement Ratio	0.8x	0.8x	0.7x	0.6x	0.6x
Tax Rate	24.9%	25.0%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	34.1%	32.8%	31.3%	23.5%	15.3%
Interest Cover	5.7x	6.2x	6.7x	7.8x	9.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,362	9,677	10,102	10,627	11,195
% Change	6.9%	15.7%	4.4%	5.2%	5.3%
Gross Profit	2,583	2,982	3,127	3,324	3,503
% Change	6.6%	15.4%	4.9%	6.3%	5.4%
EBITDA	1,282	1,616	1,882	2,076	2,288
% Change	8.2%	26.1%	16.5%	10.3%	10.2%
Net Interest & Other Income	134	89	97	113	127
Net Income (Adjusted)	890	1,066	1,179	1,298	1,416
% Change	10.8%	19.8%	10.6%	10.0%	9.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	899	1,076	1,187	1,297	1,416
Depreciation & Amortization	479	531	657	720	788
Change in Working Capital	(109)	(97)	50	1	3
Deferred Taxation Charge	(17)	(112)	0	0	0
Other Adjustments, Net	(214)	(197)	(233)	(225)	(225)
Capital Expenditure	(149)	(186)	(241)	(264)	(289)
Free Cash Flow	889	1,015	1,419	1,529	1,692
% Change	-5.7%	14.2%	39.8%	7.7%	10.7%
Share / Issue Repurchase	(473)	(425)	(990)	(600)	(660)
Cost of Dividends Paid	(111)	(123)	(140)	(156)	(172)
Change in Debt	(30)	42	(375)	(250)	(250)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	541	620	475	938	1,488
Trade Receivables	1,519	1,684	1,892	1,986	2,093
Other Current Assets	2,267	2,551	2,538	2,558	2,578
Property, Plant & Equipment	1,429	1,485	1,003	607	168
Other Non-Current Assets	12,760	12,648	12,721	12,795	12,868
Total Assets	18,516	18,988	18,629	18,884	19,195
Short-Term Debt	251	781	781	781	781
Other Current Liabilities	3,216	3,275	3,519	3,635	3,764
Long-Term Debt	3,751	3,288	2,913	2,663	2,413
Other Non-Current Liabilities	1,151	1,120	1,120	1,120	1,120
Total Liabilities	8,369	8,464	8,333	8,199	8,078
Total Equity	10,147	10,524	10,295	10,684	11,117
Total Equity & Liabilities	18,516	18,988	18,629	18,884	19,195

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Rail Equipment

Company Description

Wabtec is one of the world's largest providers of technology-based products and services for the global freight rail and passenger transit industries. Its products are on most locomotives, freight cars, & transit cars and buses around the world. Wabtec has ops in more than 50 countries & its products are used in more than 100 countries. Nearly 60% of revs are from customers outside the U.S. Headquartered in Pittsburgh, Wabtec's roots trace back to the Westinghouse Air Brake Co., founded in 1896.

Investment Rationale

We believe its scaling International installed base, strong backlog conversion, as well as rebounding rail volumes will be more than offset the lagging effects of the tail rollout of Precision Scheduled Railroading (PSR) implementation. We are also positive on its Integration 2.0 efforts as it pulls costs from its operating model to improve its Transit margins.

Stock Data

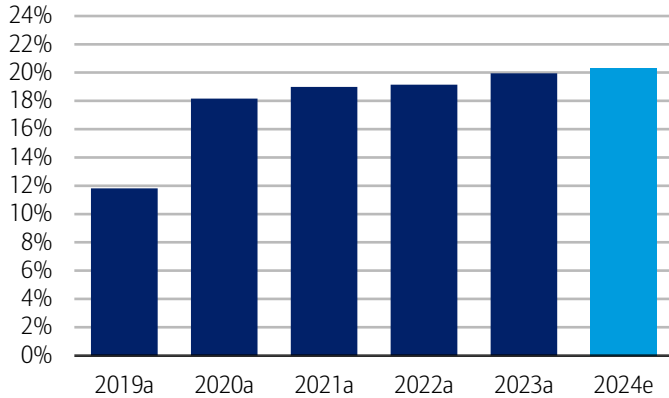
Average Daily Volume 1,039,869

Quarterly Earnings Estimates

	2023	2024
Q1	1.28A	1.47E
Q2	1.42A	1.66E
Q3	1.70A	1.78E
Q4	1.54A	1.85E

Exhibit 1: Freight adjusted operating margin

We target 2024 Freight adj. operating margin of 20.4%, a 40 bps improvement year-year

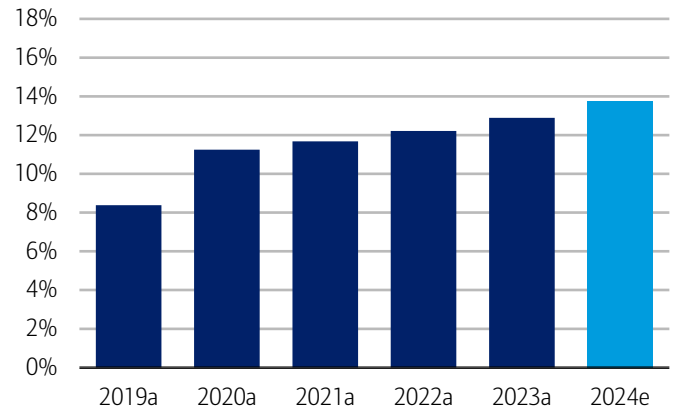


Source: BofA Global Research estimates and company reports

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Exhibit 2: Transit adjusted operating margin

We target 2024 Transit adj. operating margin of 13.8%, a 90 bps improvement year-year

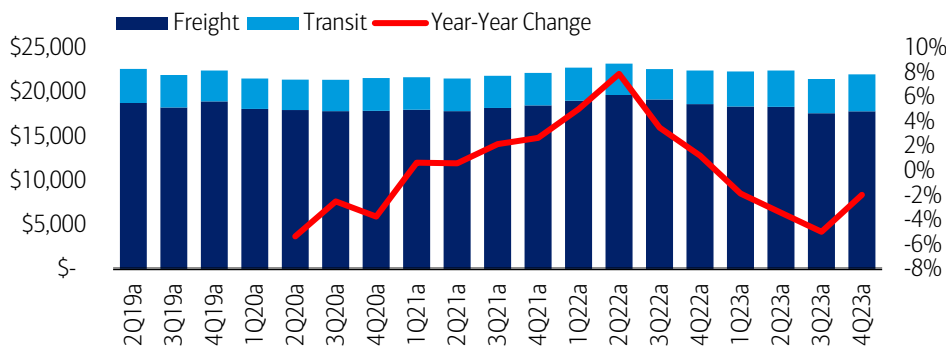


Source: BofA Global Research estimates and company reports

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Exhibit 3: Wabtec Total Backlog

Wabtec's total backlog was up 2% sequentially in 4Q23

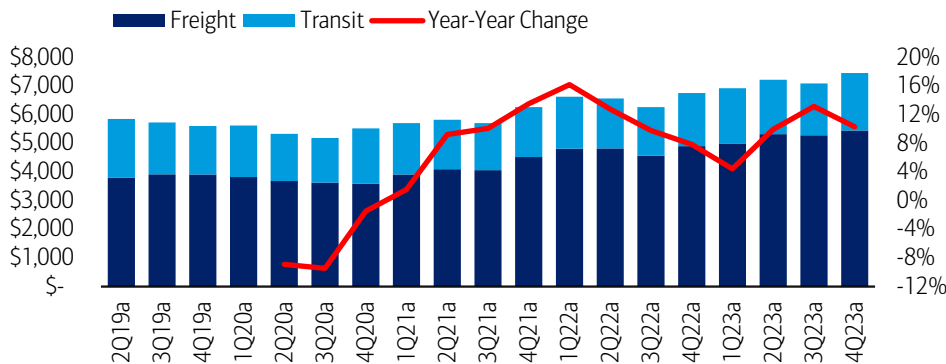


Source: BofA Global Research and company reports

BofA GLOBAL RESEARCH

Exhibit 4: Wabtec 12-month Backlog

Wabtec's 12-month backlog was up 5% sequentially in 4Q23



Source: BofA Global Research and company reports

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Price objective basis & risk

Wabtec Corp. (WAB)

Our \$150 PO is based on an 22.1x target P/E multiple on our 2024e EPS, above its 9-year historical 15x-21x range on forward earnings (which was normalized, and historically on cash EPS, though before its Feb 2019 GE-T acquisition would have been fairly similar) as we assign a premium to its target multiple given increased confidence on its actualization of backlog and International sale growth.

Downside risks to our PO are a quicker decline in rail volumes/economic activity, delayed replacement capex from the railroads, shrinking government budgets for Transit projects or increasing austerity measures, increased warranty claims on its equipment, and improved parts that delays replacement of equipment.

Upside risks to our PO are larger than expected synergy gains from its GE-T merger, a rapid rebound in rail carloadings, and accelerated rail capex spend on technology and upgrade investments from positive train control. Additionally, increased government expenditures for eco-friendly rail projects could provide upside potential.

Analyst Certification

I, Ken Hoexter, 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 - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter



iQmethodSM 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

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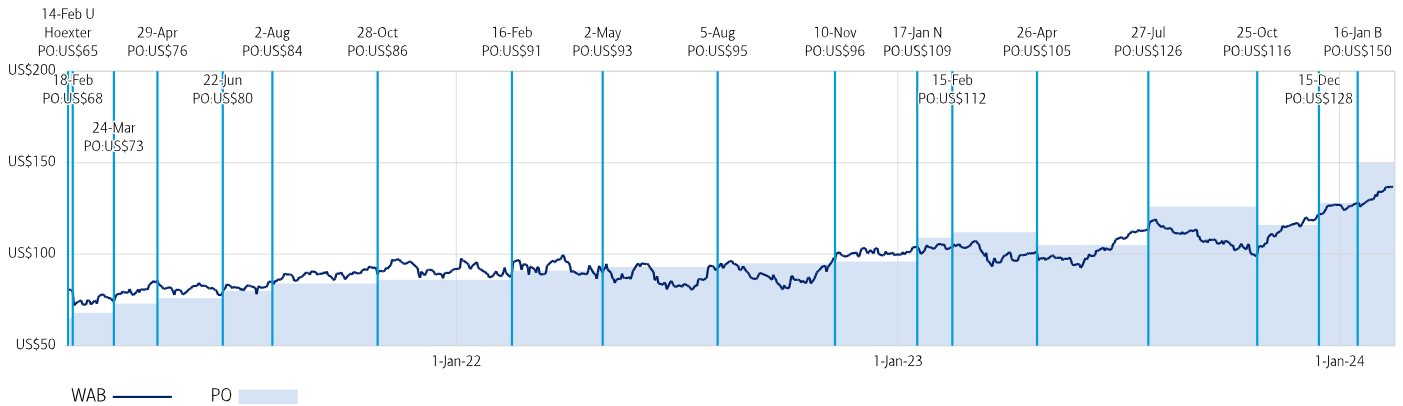
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Disclosures

Important Disclosures

Wabtec (WAB) Price Chart



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: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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