

KBR

Adj. EPS in line with expectations; stronger than expected margins

Maintain Rating: BUY | PO: 70.00 USD | Price: 55.29 USD

4Q23 Adj. EPS of \$0.69, stronger than expected margins

KBR reported 4Q23 adj. EPS of \$0.69, largely in line with expectations (BofAe: \$0.72 vs. STe: \$0.69). While revenues missed, KBR reported stronger than expected profitability with Adj. EBITDA margins of 10.9% vs. BofAe: 10.4% vs. STe: 10.3%. Additionally, the company reported a TTM book-to-bill of 1.1x (1.1x TTM in Sustainable Technology Solutions and 1.2x TTM in Government Solutions) with strong bookings in both segments. During the quarter, KBR settled the remaining convertible notes in cash, settled the corresponding note hedge, and also entered into agreements to settle the remaining warrants in cash (resulting in a \$40mn 4Q23 loss in relation to the accretion of convertible note discount, and a \$26mn 4Q23 loss in relation to the cash settlements on warrants). No warrants remain outstanding as of the end of the quarter. Yesterday, KBR increased the quarterly dividend to \$0.15 from \$0.135 for the next scheduled distribution.

2024 outlook: Soft topline but strong profitability

Management released their initial 2024 outlook with revenues of \$7.4-\$7.7bn vs. BofAe \$7.8bn vs. STe \$7.74bn. While revenue outlook comes in slightly lower than expectations, the company is expecting stronger than expected profitability in 2024. Management is expecting Adj. EBITDA margins of 11% at the midpoint vs. BofAe 10.6% vs. STe 10.7%. The company is also expecting Adj. EPS of \$3.10-\$3.30 in 2024 vs. BofAe \$3.17 vs. STe \$3.26. We expect a balanced market reaction as softer than expected volumes are offset by strong realized and forecasted profitability. We maintain our Buy rating.

Exhibit 1: Quick take of results vs. expectations

Softer than expected revenues were offset by strong profitability

Quick-take of results vs. Expectations:

Revenue	\$1730mn vs. BofAe \$1790mn vs. BBG: \$1775mn vs: 4Q22: \$1608mn (increased 7.6% Y/Y)
Operating profit	8.5% vs. BofAe 6.3% vs. BBG: 8.2%
Adj. EBITDA margin	10.9% vs. BofAe 10.4% vs. BBG: 10.3%
Adj. EPS	\$0.69 vs. BofAe \$0.72 vs. BBG: \$0.69 vs: 4Q22: \$0.69 (increased 0.5% Y/Y)
FCF	\$63mn vs. BofAe \$47mn vs. BBG: \$0mn vs: 4Q22: \$28mn (increased 125.0% Y/Y)
Revenues by segment	Government Services: \$1328mn vs. BofAe \$1361mn vs. 4Q22: \$1256mn (increased 5.7% Y/Y). Sustainable Technology Solutions: \$402mn vs. BofAe \$429mn vs. 4Q22: \$352mn (increased 14.2% Y/Y).

Source: BofA Global Research, Bloomberg, Company filings

BofA GLOBAL RESEARCH

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Equity

Mariana Perez Mora

Research Analyst

BofAS

mariana.perez mora@bofa.com

Ronald J. Epstein

Research Analyst

BofAS

r.epstein@bofa.com

Andre Madrid

Research Analyst

BofAS

andre.madrid@bofa.com

Jordan Lyonna

Research Analyst

BofAS

jordan.lyonna@bofa.com

Samantha Stiroh

Research Analyst

BofAS

samantha.stiroh@bofa.com

Stock Data

Price	55.29 USD
Price Objective	70.00 USD
Date Established	6-Nov-2023
Investment Opinion	B-1-7
52-Week Range	49.37 USD - 65.87 USD
Mrkt Val (mn) / Shares Out (mn)	7,464 USD / 135.0
Free Float	98.9%
Average Daily Value (mn)	69.50 USD
BofA Ticker / Exchange	KBR / NYS
Bloomberg / Reuters	KBR US / KBR.N
ROE (2023E)	27.6%
Net Dbt to Eqty (Dec-2022A)	82.8%
ESGMeter™	High

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Timestamp: 20 February 2024 07:57AM EST

Price objective basis & risk

KBR (KBR)

Our PO of \$70 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on 2024 estimates. This equals a 13x EV/EBITDA multiple. We think KBR should trade slightly below the primes as strong US and int'l security demand for innovative tech and solutions, exposure to sustainable tech and funds, and solid FCF are offset by a continued lumpy award environment, labor and supply chain pressures, headline risk from political control impacting short cycle defense spending, and macroeconomic pressure on timing of sustainable technology projects.

Downside risks: cuts to the US Government budget vs. anticipated, increased competition from non-traditional players, problems integrating M&A, hiring the right personnel, containing costs, executing on fixed price contracts, sustaining reputational risk and earning future awards. On Sustainable Technologies, risks include slower than expected adoption of sustainable technologies, or higher than expected competition, and thus, lower than expected profitability.

Upside risks: better than anticipated budget allocated to innovative technologies and modernization, inexpensive and well-integrated M&A activity, unexpected capital return to shareholders in the form of dividends or share buybacks, market share gains, and better than expected margin expansion. On Sustainable Technologies, upside risks include faster than expected adoption of sustainable technologies, market share gains, and higher than expected profitability.

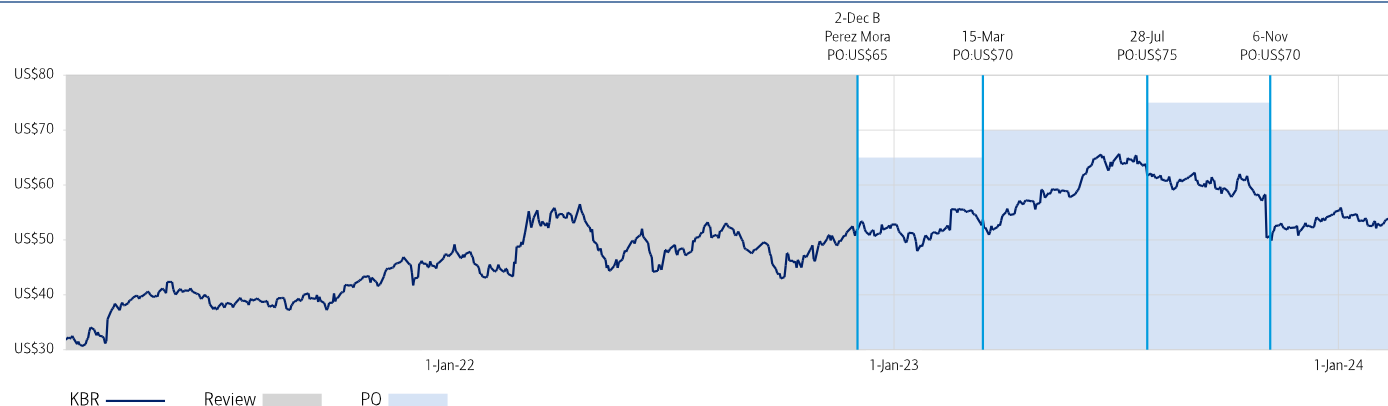
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KBR (KBR) Price Chart



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Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

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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