

Industrial Weekly

The Nuts and Bolts

Industry Overview

Carrier reported 4Q results, initiated FY24 outlook

Carrier Global (CARR) reported 4Q23 sales flat YoY to \$5.1bn (est. \$5.2bn), adj. EPS of \$0.53 (est. \$0.52), and FCF of \$829mn. Initiated FY24 guidance: sales of ~\$26.5bn (est. \$24.4bn) with mid-single-digit organic growth; adj. EPS of \$2.80-\$2.90 (\$2.87); and FCF of \$0.7bn.

Xylem reported 4Q results, initiated FY24 outlook

Xylem (XYL) reported 4Q23 earnings sales +41% YoY to \$2.1bn (est. \$2.1bn). Adj. EPS of \$0.99 (est. \$0.96). Initiating FY24 sales guidance of \$8.4-\$8.5bn (\$8.4bn), +3%-5% organically, and adj. EPS range of \$4.00-\$4.20 (\$4.07). FY24 EBITDA margin to be ~19.4%-19.9%, an increase of 50-100bps YoY.

Jacobs reported F'1 Q24 results, reiterated FY24 outlook

Jacobs (J) reported F'1 Q24 sales +9.5% YoY to \$4.2bn (est. \$3.8bn). EPS of \$1.37 (est. \$1.55). Reiterated its outlook for fiscal 2024 adj. EBITDA of \$1.53bn-\$1.60bn (est. \$1.57bn) and adj. EPS of \$7.70-\$8.20 (est. \$8.07), +9% and 10% at the midpoints, respectively.

Market news

For the week ended 2/8, IG and HY spreads were 5bps and 20bps tighter, respectively. The 5yr treasury, 10yr treasury, and 30yr treasury yields were all 32bps, 30bps, and 24bps wider, respectively. The S&P 500 was +1.9% on the week and +4.8% YTD.

Exhibit 3: Weekly Bond Movers 2/8/24

PENSKE 29s were 21bps tighter; NVT 33s were 4bps wider

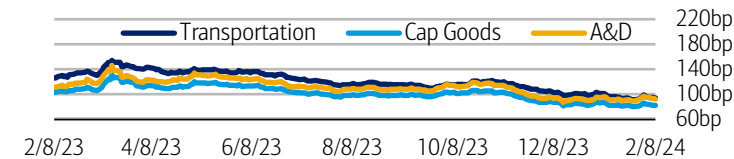
Leaders			Laggards		
Bond		Sprd Ch.	Bond		Sprd Ch.
PENSKE 3.350	11/01/29	(21)	NVT 5.650	05/15/33	+ 4
ETN 7.650	11/15/29	(13)	NSC 5.640	05/17/29	+ 4
R 4.300	06/15/27	(11)	MGCN 5.980	03/21/26	+ 4
LHX 4.400	06/15/28	(9)	CAT 6.050	08/15/36	+ 4
JBHT 3.875	03/01/26	(7)	CSX 6.000	10/01/36	+ 2

Source: Bloomberg

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Exhibit 4: Weekly Bond Movers 2/8/24

Cap Goods trade through both Transportation & A&D by 10-12bps



Source: Bloomberg

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09 February 2024

High Grade Credit
United States
Aerospace/Defense, Autos, Capital Goods, Transportation

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Exhibit 1: U.S. Mutual Fund Flows

Changes in mutual fund flows

\$ MN	Week	% Ch.	YTD	% Ch.
High Grade	+6,083	+0.3%	+28,911	+0.7%
High Yield	+216	+0.1%	+4,005	+1.1%
Bank Loans	+239	+0.3%	+615	+0.5%
EM Debt	+429	+0.1%	(2,015)	(0.3%)
Money Markets	+9,860	+0.2%	+123,998	+1.9%
Equities	(16,669)	(0.2%)	(14,832)	(0.1%)

Source: BofA Global Research, EPFR Global. Note: Week Ended 2/7/24.

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Exhibit 2: Markets Monitor (as of 2/8/24)

Macro data and indices snapshots

Market	Value	Week Δ
ICE BofA IG Index (sprd)	101	(5)
ICE BofA IG Index (yield)	5.34	+23
ICE BofA HY Index (sprd)	356	(20)
ICE BofA HY Index (yield)	7.84	+7
ICE BofA BBB Index (sprd)	125	(6)
ICE BofA BB Index (sprd)	225	(20)
ICE BofA CCC Index (yield)	13.44	+0
CDX IG 5yr (sprd)	55	(0)
CDX HY 5yr (sprd)	350	(4)
5yr Treasury (yield)	4.14	+32
10yr Treasury (yield)	4.18	+30
30yr Treasury (yield)	4.36	+24
S&P 500 (index)	4,998	1.9%
Dow Jones (index)	38,726	0.5%
Gold (\$/oz)	2,027	-1.3%
Crude Oil (WTI \$/bbl)	76.06	3.0%

Source: BofA Global Research; ICE Data Indices, LLC
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Exhibit 5: Relative Value by Sector (\$ million, unless otherwise noted)

Relative value for A&D, Industrials & Transportation sectors.

									Credit Metrics (LTM 6/30/23)					
Issuer	Mdy's / S&P / F	Outlook	Coupon	Maturity	STW	G-Sprd	Syr CDS	Revenue	Adj. EBITDA	Debt/ EBITDA	EBITDA/ Int. Exp	FCF	TEV/ 2023E EBITDA	
Aerospace & Defense														
BAE Systems (BA)/ (E)*	Baa2/BBB+/BBB+	P/S/S	3.850%	12/15/2025	60	55	31	22,516	3,204	2.1x	10.7x	2,977	11.9x	
Boeing (BA) ¹	Baa2/BBB-/BBB-	S/S/P	2.950%	2/1/2030	113	111	84	73,608	4,258	12.3x	1.7x	7,830	26.7x	
General Dynamics (GD)	A3/A-/WD	P/P/#	2.250%	6/1/2031	57	59	42	40,859	6,004	1.6x	17.1x	3,023	14.3x	
Honeywell (HON)	A2/A/A	P/S/S	1.950%	6/1/2030	56	54	26	36,147	9,234	2.3x	15.4x	4,174	13.4x	
L3Harris Technologies (LHX)	Baa2/BBB/BBB+	N/N/N	2.900%	12/15/2029	88	87	42	17,988	3,006	3.2x	8.4x	1,446	13.7x	
Lockheed Martin (LMT)	A2/A-/A-	S/S/S	1.850%	6/15/2030	60	62	26	67,393	7,909	1.8x	10.2x	6,004	12.8x	
Northrop Grumman (NOC)	Baa1/BBB+/BBB+	S/S/S	3.250%	1/15/2028	67	60	42	37,881	5,292	2.2x	10.2x	2,262	14.0x	
RTX (RTX)	Baa1/BBB+	N/N	2.250%	7/1/2030	77	75	42	70,573	12,502	3.0x	0.1x	2,846	12.8x	
Textron (TXT) ²	Baa2/BBB	S/S	2.450%	3/15/2031	93	94	42	13,162	1,450	2.2x	14.6x	954	9.9x	
1 Boeing financials exclude Boeing Capital. 2 Textron financials exclude Textron Financial. *Reports Semi-Annually														
Industrials														
ABB (ABBN)	A3/A-/WD	S/S/#	3.800%	4/3/2028	31	25	72	31,252	5,476	1.5x	33.8x	1,800	14.0x	
Aptiv (APTV)	Baa2/BBB/BBB	S/S/S	4.350%	3/15/2029	86	85	NA	19,272	2,698	2.5x	10.2x	1,015	8.8x	
AutoNation (AN)	Baa3/BBB-/BBB-	S/S/S	2.400%	8/1/2031	161	162	194	26,652	1,971	2.1x	8.5x	896	5.9x	
BorgWarner (BWA)	Baa1/BBB/BBB+	S/S/S	2.650%	7/1/2027	75	78	194	16,868	2,668	1.6x	50.3x	593	4.8x	
Caterpillar (CAT)	A2/A/A+	S/S/S	2.600%	4/9/2030	38	37	35	61,793	11,492	0.8x	23.8x	8,343	11.5x	
Cat Financial (CAT) ¹	A2/A/A+	S/S/S	1.700%	1/8/2027	19	18	42	61,793	11,492	0.8x	23.8x	8,343	11.5x	
Cummins (CMI)	A2/A	S/S	1.500%	9/1/2030	50	47	42	32,194	4,654	1.7x	13.9x	1,098	8.1x	
Mercedes-Benz (MBG) (€) ²	A2/A/Au	S/S/S	3.450%	1/6/2027	58	57	54	154,476	26,462	4.4x	89.4x	12,798	1.8x	
Deere (DE)	A2/A	P/S	3.100%	4/15/2030	54	52	42	56,404	13,346	0.7x	17.0x	9,282	9.8x	
John Deere Capital (DE) ¹	A2/A	P/S	2.450%	1/9/2030	57	56	42	56,404	13,346	0.7x	17.0x	9,282	9.8x	
Eaton (ETN)	A3/A-/WD	S/S/#	7.650%	11/15/2029	76	75	42	22,046	4,344	2.1x	25.1x	2,706	21.2x	
Ford (F) ^{2,3}	Ba1/BBB-/BBB-	S/S/S	7.450%	7/16/2031	191	192	168	160,462	15,359	1.3x	12.3x	1,300	2.9x	
Ford Credit (F) ^{1,2,3}	Ba1/BBB-/BBB-	S/S/S	4.000%	11/13/2030	184	181	194	160,462	15,359	1.3x	12.3x	1,300	2.9x	
General Electric (GE) ²	Baa1/BBB+/BBB	S/S/S	4.418%	11/15/2035	84	80	44	72,057	9,383	2.3x	7.0x	2,848	8.9x	
General Motors (GM) ^{2,3}	Baa2/BBB/BBB	S/S/S	5.000%	4/9/2027	93	95	129	156,437	20,408	0.8x	120.8x	14,568	2.9x	
GM Financial (GM) ^{1,2}	Baa2/BBB/BBB	S/S/S	2.350%	1/8/2031	133	134	171	156,437	20,408	0.8x	120.8x	14,568	2.9x	
Hubbell (HUBB)	Baa1/BBB+/A-	S/S/S	2.300%	3/15/2031	97	99	NA	5,187	1,064	1.4x	24.9x	647	16.2x	
Illinois Tool Works (ITW)	A1/A+	S/S	2.650%	11/15/2026	6	22	42	16,075	4,351	1.9x	18.4x	2,587	18.1x	
Johnson Controls (JCI)	Baa2/BBB+/WD	P/S/#	1.750%	9/15/2030	78	76	61	26,612	4,807	2.0x	17.3x	1,482	15.2x	
Lear Corp (LEA)	Baa2/BBB	S/S	3.500%	5/30/2030	125	123	NA	22,457	1,667	1.7x	14.9x	449	5.3x	
Magna (MGA)	A3/A-	S/S	2.450%	6/15/2030	86	83	83	40,491	3,258	1.8x	36.6x	(279)	5.2x	
Paccar (PCAR) ²	WR/A+	S/S	2.000%	2/4/2027	45	45	NA	30,913	4,802	0.0x	9.5x	3,025	8.6x	
Pentair (PNR)	WR/BBB-	#/S	4.500%	7/1/2029	121	120	NA	4,169	958	2.2x	8.6x	448	14.0x	
Republic Services (RSG)	Baa1/BBB+/A-	S/S/S	1.450%	2/15/2031	80	82	42	14,436	4,172	2.9x	8.9x	1,872	15.4x	
Roper Technologies (ROP)	Baa2/BBB+	S/S	2.000%	6/30/2030	87	84	NA	5,535	2,299	2.9x	13.7x	1,056	23.5x	
Waste Management (WM)	Baa1/A-/A-	P/S/S	1.500%	3/15/2031	69	70	42	20,021	5,597	2.7x	12.6x	1,506	15.7x	
1 Parent company credit metrics are used for captive industrial finance companies. 2 Caterpillar, Deere, Ford, Mercedes, GE, GM, Paccar financials exclude financial businesses. 3 FCF = Automotive operating cash flow														
Transportation														
Burlington Northern (BNI)	A3/AA-	P/S	3.250%	6/15/2027	29	32	42	25,127	10,427	2.3x	10.1x	4,319	Private	
Canadian National (CNR) (CAD)	A2/A-	S/S	2.750%	3/1/2026	34	36	42	17,425	8,889	1.9x	14.1x	4,424	14.2x	
Canadian Pacific (CP) (CAD)	Baa2/BBB+	S/S	2.050%	3/5/2030	87	85	42	13,735	6,732	3.5x	8.5x	3,013	17.5x	
CSX (CSX)	A3/BBB+	S/S	2.400%	2/15/2030	72	70	23	15,030	7,550	2.4x	9.5x	3,235	12.2x	
GATX (GATX)	Baa2/BBB	S/S	1.900%	6/1/2031	118	119	42	1,326	879	7.7x	3.8x	(868)	11.4x	
Norfolk Southern (NSC)	Baa1/BBB+	S/S	2.550%	11/1/2029	66	65	23	12,732	5,424	2.8x	7.8x	1,998	13.3x	
Penske Truck Leasing	Baa2/BBB/BBB+	S/S/S	3.350%	11/1/2029	152	151	NA	Private						
Ryder (R)	Baa2/BBB+/BBB+	S/S/P	2.850%	3/1/2027	74	75	73	11,959	2,958	2.2x	11.5x	382	4.5x	
Southwest (LUV)	Baa1/BBB/BBB+	S/S/S	5.125%	6/15/2027	83	86	91	25,135	1,955	4.1x	6.9x	(1,463)	6.2x	
Union Pacific (UNP)	A3/A-	S/S	2.400%	2/5/2030	62	60	24	24,765	11,824	2.8x	8.9x	5,471	15.0x	

Source: Company Filings, Bloomberg



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