

Aptiv PLC

High voltage margins, lower voltage growth – 4Q first take

Maintain Rating: BUY | PO: 125.00 USD | Price: 86.72 USD

4Q:23 op results good, beat below the line

APTIV reported 4Q:23 adjusted EPS of \$1.40, above our estimate of \$1.35 and Bloomberg consensus of \$1.33. Execution was solid driving in-line operating income with the beat driven by below the line items, primarily lower taxes and equity loss. Total revenue increased 6.0% YoY (+2% ex. FX/M&A and commodity movements) to \$4.92bn, below our estimate of \$5.26bn. Recall that the company faced a \$100m headwind from the UAW strike at the D3. However, customer mix and slower high voltage growth (+4%) also contributed to the lighter growth. Nonetheless, solid execution drove operating income of \$600mm (BofAe \$602mm) despite the slower top line and \$50mm headwind from the UAW strike. Adjusted operating margin of 12.2% was above our 11.4% estimate, and up 90bps YoY.

2024 outlook brackets BofA estimates

APTIV's 2024 financial outlook is encouraging. Specifically, revenue of \$21.3bn-\$21.9bn brackets BofAe \$21.5bn, adjusted operating income of \$2,475m-\$2,625m versus BofAe \$2,561bn with adjusted operating margin in the range of 11.6%-12.0% (BofAe 11.9%), and EPS of \$5.55-\$6.05 (versus BofAe \$6.00). Excluding the impact of Motional JV equity loss of \$340m (BofAe \$339) or \$1.20/share Aptiv expects EPS of \$6.75-\$7.25. Aptiv also announced that it does not intend to participate in future capital increases for the Motional JV, and it is looking for alternatives to reduce APTV interest. The outlook is based on flat global production for FY24. APTV also released its estimate for growth over market (GoM) of 6-8%, which trends lower compared to the estimate of 8-10% shown during the 2023 investor day. The slower GoM is likely due to slower high voltage growth and less favorable customer mix. On capital allocation, APTV plans to return \$750m to shareholders through share buyback initiatives over 2024. Other line items for 2024 include: FY24 tax rate of 17.5% (BofAe 14.5%), cashflow from operation of \$2.3bn and capex of \$1.05bn, which imply free cash flow of \$1.25bn (BofAe \$1.42bn).

SPS and AS&UX revenue miss, but stronger margins

Signal & Power Solutions revenue of \$3.57bn came in below BofAe of \$3.73bn, but operating margin of 12.8% was above BofAe of 12.5%. This drove adjusted operating income of \$459mm (BofAe \$467mm). Advanced Safety & User Experience revenue of \$1.36bn was below BofAe of \$1.55bn. Operating margin was at 10.4% (BofAe of 8.7%), driving AS&UX adj. operating income of \$141mm, above BofAe of \$134mm.

Maintain Buy; APTV still well positioned

APTIV's 4Q:23 results demonstrate its ability to deliver solid results despite a volatile backdrop and mix headwinds. Further, APTV remains a solid operator levered to key automotive growth trends that will benefit as production normalizes and trends higher. Therefore, we reiterate our Buy rating.

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Stock Data

Price	86.72 USD
Price Objective	125.00 USD
Date Established	28-Nov-2023
Investment Opinion	C-1-9
52-Week Range	71.01 USD - 124.88 USD
Mkt Val (mn) / Shares Out (mn)	24,593 USD / 283.6
Free Float	99.4%
Average Daily Value (mn)	233.03 USD
BofA Ticker / Exchange	APTIV / NYS
Bloomberg / Reuters	APTIV US / APTIV.N
ROE (2023E)	13.4%
Net Dbt to Eqty (Dec-2022A)	54.5%
ESGMeter™	High

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APTIV = Aptiv

GoM = Growth over market

JV = Joint Venture

SPS = Signal & Power Solutions

AS&UX = Advanced Safety & User Experience

Exhibit 2: APTV YoY and variance table versus BofAe

APTV reported 4Q:23 adjusted EPS of \$1.40 versus BofAe \$1.35

	YoY Comparison			Variance vs. BofA		
	Actual 4Q:23	Actual 4Q:22	Var YoY	Actual 4Q:23	BofA 4Q:23	Var vs BofA
Income Statement						
Net Sales	4,919	4,640	6.0%	4,919	5,260	-6.5%
Cost of Sales	3,997	3,827	4.4%	3,997	4,311	-7.3%
Gross Profit	922	813	13.4%	922	949	-2.8%
SG&A	322	290	11.0%	322	347	-7.2%
Amortization	-	-	-	-	-	-
Restructuring	-	-	-	-	-	-
Operating Income	600	523	14.7%	600	602	-0.3%
Interest expense	70	62	12.9%	70	75	-6.7%
Other expense, net	(27)	(40)	-32.5%	(27)	(25)	8.0%
Earnings before Taxes	557	501	11.2%	557	552	1.0%
Income tax expense	76	46	65.2%	76	80	-5.0%
Income before equity loss	481	455	5.7%	481	472	2.0%
Equity loss	72	77	-6.5%	72	78	-7.1%
Net Income	409	378	8.2%	409	394	3.7%
Noncontrolling interest	14	17	-17.6%	14	10	40.0%
Net income attributable to Aptiv	395	361	9.4%	395	384	2.8%
Diluted Shares	281.2	283.8	-0.9%	281.2	283.8	-0.9%
Diluted EPS	1.40	1.27	10.4%	1.40	\$1.35	3.8%
Margins						
Gross margin	18.7%	17.5%	120	18.7%	18.0%	70
SG&A	6.5%	6.3%	30	6.5%	6.6%	(10)
Operating Income	12.2%	11.3%	90	12.2%	11.4%	80
Tax Rate	13.6%	9.2%	450	13.6%	14.5%	(90)
Net Income	8.0%	7.8%	20	8.0%	7.3%	70
Segments						
Segment Revenue						
Signal and Power Solutions	3,574	3,374	5.9%	3,574	3,725	-4.1%
Advanced Safety and User Experience	1,356	1,280	5.9%	1,356	1,545	-12.2%
Eliminations and Other	(11)	(14)	-21.4%	(11)	(10)	10.0%
Net Sales	4,919	4,640	6.0%	4,919	5,260	-6.5%
Segment Income						
Signal and Power Solutions	459	446	2.9%	459	467	-1.8%
Advanced Safety and User Experience	141	77	83.1%	141	134	4.9%
Adjusted Operating Income	600	523	14.7%	600	602	-0.3%
Margins						
Signal and Power Solutions	12.8%	13.2%	(40)	12.8%	12.5%	30
Advanced Safety and User Experience	10.4%	6.0%	440	10.4%	8.7%	170
Adjusted Operating Margin	12.2%	11.3%	90	12.2%	11.4%	80

Source: Company filings, BofA Global Research Estimates

BofA GLOBAL RESEARCH

Price objective basis & risk**Aptiv PLC (APTV)**

Our PO of \$125 for APTV is based on an EV/EBITDA multiple of roughly 12x on our 2024 estimates. Our assumed valuation metrics are in line with the average historical trading

multiple, but well above the traditional automotive suppliers, which trade in ranges of 3x to 6x. We believe a valuation premium to the group is warranted, as APTV is more of a pure-play electrification / autonomy / connectivity / mobility-centric company, unencumbered by factor risks from other non-future tech businesses/products. However, we see the stock trading in line with its historical average given the hurdles on the semiconductor supply front, which are not completely resolved yet.

Downside risks: 1) sustained volatility in international markets, 2) a longer than expected decline or flatline in US/global automotive volumes, 3) a continued rise in raw material costs and semiconductors disruptions, 4) loss of key customers or suppliers, 5) inability to win new business, 6) competitive pricing pressure.

Upside risks: 1) strength in global auto production volumes, particularly in North America, 2) increased business wins as a result of Safe, Green, Connected portfolio that continue to support growth above market, 3) shareholder-friendly actions, including accretive M&A and share repurchases, support earnings and the stock.

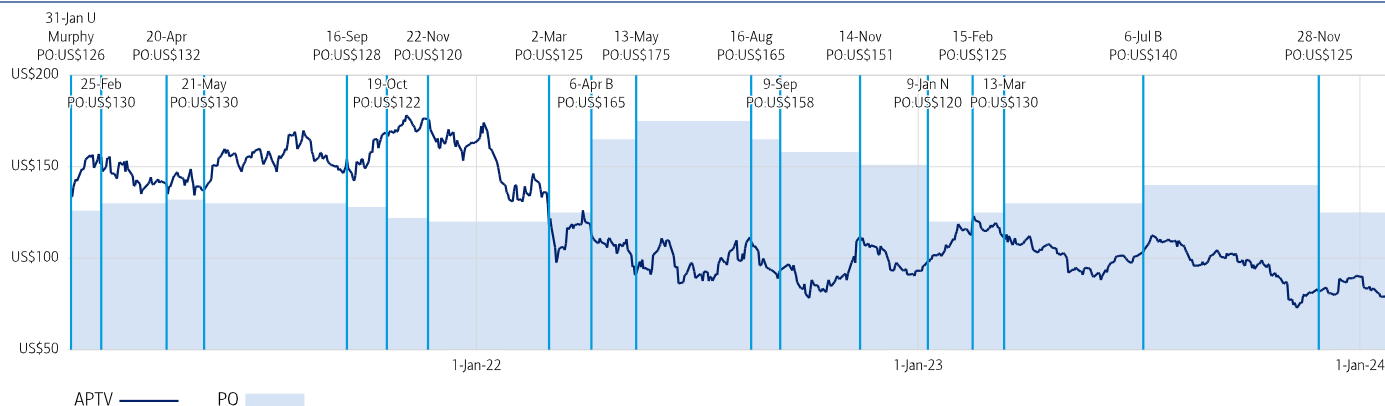
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Aptiv PLC (APTIV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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%

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