

TE Connectivity Ltd.

**Solid setup for 2024 with strong margins;
PO to \$155**

Reiterate Rating: BUY | PO: 155.00 USD | Price: 144.63 USD

F1Q24 results show Y/Y order growth in all segments

TEL reported F1Q24 revenue/EPS of \$3.83bn/\$1.84 vs. \$3.85bn/\$1.70 (guide) and \$3.88bn/\$1.71 (Street). Gross margin came in at a recent high of 34.6% (+370bps y/y). Adj. Operating margin increased +290bps y/y to 19.1%. Transportation margins of 20.9% (+5.1% y/y) was driven by strong performance in autos & organic growth in Asia and Europe. Overall orders increased 4% y/y (-3% q/q) with Transportation (+4% y/y, -7% q/q), CS (+3% y/y, -4% q/q), and Industrial (+3% y/y, +6% y/y). FCF was \$570mn in F1Q, setting up well for 100% FCF conversion for the fiscal year. We reiterate Buy as TEL continues to deliver solid overall growth and profitability despite macro pressures.

Expecting steady margins with OM ~19%

We model operating margins to remain steady at ~19% in F2Q and throughout FY24. TEL expects Transportation margin to stay at ~20% due to optimized factory footprint and improvements in product mix as EV volume increases. Mgmt. expects Global auto production of 21mn units per quarter with 25% of these units to be EVs in FY24. We model 20.3% (-60bps q/q) Transportation margin for F2Q. In Industrial, TEL mentioned that the incremental weakness in Industrial Equipment is due to an ongoing inventory destocking which could extend to 2H24. We model Industrial margins to be 15.2% (+10bps q/q) for F2Q. For CS, TEL now expects 200mn for its AI-related sales compared to 150mn from last quarter. The company expects to maintain high-teens margin for CS as AI continues to ramp. We currently model CS margin at 18.3% (-40bps q/q) for F2Q. Mgmt. also noted an increase in tax rate from 20% to 21% on a go-forward basis.

Guides F2Q rev +3% q/q; Schaffner acquisition

TEL guided F2Q rev/EPS to \$3.95bn/\$1.82 vs. Street est. at \$4.0bn/\$1.79. TEL returned \$600mn to its shareholders with ~\$350mn used for the acquisition of Schaffner. We model \$40mn benefit for the next 4 quarters from the Schaffner acquisition, partially offsetting the divested revenues of \$50mn from Telematics for the next 3 quarters.

Adjusting estimates, PO moves to \$155

We adjust our F24 rev/EPS estimates to \$16.1bn/\$7.54, from \$16.1bn/\$7.19. Our PO moves to \$155 (from \$145) on 20x C24E EPS of \$7.61.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.31	6.73	7.54	7.90	8.37
GAAP EPS	7.46	6.73	7.54	7.90	8.37
EPS Change (YoY)	12.1%	-7.9%	12.0%	4.8%	5.9%
Consensus EPS (Bloomberg)			7.40	8.32	9.35
DPS	2.12	2.30	2.36	2.36	2.36
Valuation (Sep)					
P/E	19.8x	21.5x	19.2x	18.3x	17.3x
GAAP P/E	19.4x	21.5x	19.2x	18.3x	17.3x
Dividend Yield	1.5%	1.6%	1.6%	1.6%	1.6%
EV / EBITDA*	13.4x	14.4x	13.3x	13.3x	12.8x
Free Cash Flow Yield*	3.8%	5.3%	5.1%	4.7%	4.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 24 January 2024 01:30PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	145.00	155.00
2024E Rev (m)	16,149.3	16,107.6
2025E Rev (m)	16,769.6	16,762.7
2026E Rev (m)	17,371.4	17,358.3
2024E EPS	7.19	7.54
2025E EPS	7.82	7.90
2024E DPS	1.92	2.36

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Stock Data

Price	144.63 USD
Price Objective	155.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	115.00 USD - 146.60 USD
Mkt Val (mn) / Shares Out (mn)	44,948 USD / 310.8
Free Float	99.8%
Average Daily Value (mn)	247.98 USD
BofA Ticker / Exchange	TEL / NYS
Bloomberg / Reuters	TEL US / TELN
ROE (2024E)	18.4%
Net Dbt to Eqty (Sep-2023A)	21.9%
ESGMeter™	High

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"](#).

CS: Communication Solutions; OM: Operating Margin; EV: Electric Vehicles; FCF: Free Cash Flow

iQprofileSM TE Connectivity Ltd.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.1%	12.7%	12.6%	11.8%	11.7%
Return on Equity	22.2%	19.1%	18.4%	16.7%	16.1%
Operating Margin	18.2%	16.7%	18.7%	18.6%	18.9%
Free Cash Flow	1,700	2,400	2,293	2,118	2,200

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.5x	1.3x	1.2x	1.2x
Asset Replacement Ratio	1.0x	0.9x	1.0x	1.2x	1.3x
Tax Rate	18.8%	19.1%	21.1%	21.0%	21.0%
Net Debt-to-Equity Ratio	28.6%	21.9%	15.6%	9.1%	3.0%
Interest Cover	44.9x	33.5x	41.8x	43.4x	45.7x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,281	16,034	16,108	16,763	17,358
% Change	9.1%	-1.5%	0.5%	4.1%	3.6%
Gross Profit	5,244	5,055	5,515	5,739	5,996
% Change	7.3%	-3.6%	9.1%	4.1%	4.5%
EBITDA	3,751	3,471	3,761	3,775	3,912
% Change	8.1%	-7.5%	8.3%	0.4%	3.6%
Net Interest & Other Income	(34)	(36)	(30)	(44)	(68)
Net Income (Adjusted)	2,381	2,137	2,352	2,433	2,544
% Change	9.8%	-10.2%	10.1%	3.4%	4.5%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,381	2,137	2,352	2,433	2,544
Depreciation & Amortization	785	794	750	651	624
Change in Working Capital	(940)	8	(251)	(172)	(145)
Deferred Taxation Charge	(147)	(77)	(1,217)	0	0
Other Adjustments, Net	389	270	1,385	0	0
Capital Expenditure	(768)	(732)	(725)	(794)	(822)
Free Cash Flow	1,700	2,400	2,293	2,118	2,200
% Change	-14.4%	41.2%	-4.4%	-7.7%	3.9%
Share / Issue Repurchase	(1,412)	(945)	(824)	(580)	(580)
Cost of Dividends Paid	(685)	(725)	(734)	(727)	(718)
Change in Debt	(558)	(591)	(1)	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,088	1,661	1,996	2,807	3,710
Trade Receivables	2,865	2,967	2,932	3,051	3,160
Other Current Assets	3,315	3,264	3,382	3,492	3,579
Property, Plant & Equipment	3,567	3,754	3,873	4,016	4,214
Other Non-Current Assets	9,947	10,066	11,776	11,776	11,776
Total Assets	20,782	21,712	23,958	25,142	26,438
Short-Term Debt	914	682	613	613	613
Other Current Liabilities	3,718	3,781	3,401	3,459	3,509
Long-Term Debt	3,292	3,529	3,585	3,585	3,585
Other Non-Current Liabilities	1,961	2,065	2,226	2,226	2,226
Total Liabilities	9,885	10,057	9,825	9,883	9,933
Total Equity	10,897	11,655	14,133	15,259	16,505
Total Equity & Liabilities	20,782	21,712	23,958	25,142	26,438

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Connectors, Passive Components & Distribution

Company Description

TEL is the world's largest maker of passive electronic components (75% of sales) led by a leading share (20-25%) in connectors (50% of sales). TEL's biggest served markets have longer cycles, such as auto (30% of sales) & telecom equipment (19% of sales). TEL also produces components for telecom & energy networks (14% of sales) that protect/connect cabling.

Investment Rationale

TEL has significant potential long-term benefit from secular growth in the automobile industry. As OEMs continue to add features to make vehicles safer, greener, and more connected, TEL should benefit from content growth. Strong cash flow, share buybacks and dividends should continue to provide valuation support.

Stock Data

Average Daily Volume 1,714,612

Quarterly Earnings Estimates

	2023	2024
Q1	1.53A	1.84E
Q2	1.65A	1.84E
Q3	1.77A	1.92E
Q4	1.78A	1.97E

Model

Exhibit 1: TEL Income Statement

We model F24 rev/eps at \$16.1bn/\$7.54

(\$ in millions except EPS)

	F2023A				F2024E				FY2022	FY2023	FY2024E	FY2025E	FY2026E
	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E					
Sales	3,841	4,160	3,998	4,035	3,831	3,963	4,104	4,209	16,281	16,034	16,108	16,763	17,358
Cost of Sales	2,654	2,876	2,699	2,750	2,507	2,612	2,702	2,771	11,037	10,979	10,593	11,024	11,362
Gross Profit	1,187	1,284	1,299	1,285	1,324	1,351	1,402	1,438	5,244	5,055	5,515	5,739	5,996
R&D	173	185	176	174	173	178	185	189	710	708	725	771	798
SG&A	392	435	431	412	428	436	451	463	1,568	1,670	1,778	1,844	1,909
Operating Earnings	622	664	692	699	731	736	766	786	2,966	2,677	3,011	3,124	3,288
Int. Income	9	12	18	21	22	12	10	10	15	60	54	40	16
Int. Exp.	(21)	(20)	(20)	(19)	(18)	(18)	(18)	(18)	(66)	(80)	(72)	(72)	(72)
Other Income	(5)	(4)	(4)	(3)	(3)	(3)	(3)	(3)	17	(16)	(12)	(12)	(12)
Pretax Earnings	605	652	686	698	732	727	755	775	2,932	2,641	2,981	3,080	3,220
Taxes	118	127	125	134	155	153	159	163	551	504	629	647	676
Rate	20%	19%	18%	19%	21%	21%	21%	21%	19%	19%	21%	21%	21%
Min Int.	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Cont Ops (Non Gaap)	487	525	561	564	577	575	596	612	2,381	2,137	2,352	2,433	2,544
Dil EPS	\$1.53	\$1.65	\$1.77	\$1.78	\$1.84	\$1.84	\$1.92	\$1.97	\$7.31	\$6.73	\$7.54	\$7.90	\$8.37
Avg Shares-Basic	317	316	315	313	311	312	311	311	323	315	311	308	304
Avg Shares-Fully Diluted	319	318	317	316	313	312	311	311	326	318	312	308	304
GAAP EPS	\$1.25	\$1.34	\$1.67	\$1.75	\$5.76	\$1.84	\$1.92	\$1.97	\$7.46	\$6.73	\$7.54	\$7.90	\$8.37
Dividend	\$0.56	\$0.56	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$2.12	\$2.30	\$2.36	\$2.36	\$2.36
Payout	45%	42%	35%	34%	10%	32%	31%	30%	29%	34%	31%	30%	28%
As % of Revenue													
Cost of Sales	69.1%	69.1%	67.5%	68.2%	65.4%	65.9%	65.8%	65.8%	67.8%	68.5%	65.8%	65.8%	65.5%
Gross Profit	30.9%	30.9%	32.5%	31.8%	34.6%	34.1%	34.2%	34.2%	32.2%	31.5%	34.2%	34.2%	34.5%
R&D	4.5%	4.4%	4.4%	4.3%	4.5%	4.5%	4.5%	4.5%	4.4%	4.4%	4.5%	4.6%	4.6%
SG&A	10.2%	10.5%	10.8%	10.2%	11.2%	11.0%	11.0%	11.0%	9.6%	10.4%	11.0%	11.0%	11.0%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Earnings	16.2%	16.0%	17.3%	17.3%	19.1%	18.6%	18.7%	18.7%	18.2%	16.7%	18.7%	18.6%	18.9%
Int. Income	0.2%	0.3%	0.5%	0.5%	0.6%	0.3%	0.2%	0.2%	0.1%	0.4%	0.3%	0.2%	0.1%
Int. Exp.	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%
Other Income	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Pretax Earnings	15.8%	15.7%	17.2%	17.3%	19.1%	18.4%	18.4%	18.4%	18.0%	16.5%	18.5%	18.4%	18.6%
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	12.7%	12.6%	14.0%	14.0%	15.1%	14.5%	14.5%	14.5%	14.6%	13.3%	14.6%	14.5%	14.7%
Year-Over-Year Growth													
Sales	1%	4%	-2%	-7%	0%	-5%	3%	4%	9%	-2%	0%	4%	4%
Cost of Sales	3%	8%	-3%	-9%	-6%	-9%	0%	1%	10%	-1%	-4%	4%	3%
Gross Profit	-3%	-4%	-2%	-5%	12%	5%	8%	12%	7%	-4%	9%	4%	4%
SG&A	12%	5%	11%	0%	9%	0%	5%	12%	4%	7%	6%	4%	4%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Operating Earnings	-13%	-10%	-9%	-8%	18%	11%	11%	12%	10%	-10%	12%	4%	5%
Int. Income	350%	200%	500%	250%	144%	0%	-44%	-52%	-12%	300%	-10%	-26%	-60%
Int. Exp.	75%	11%	11%	6%	-14%	-10%	-10%	-5%	18%	21%	-10%	0%	0%
Other Income	-225%	-180%	-200%	-175%	-40%	-25%	-25%	0%	55%	-194%	-25%	0%	0%
Pretax Earnings	-14%	-10%	-9%	-7%	21%	12%	10%	11%	10%	-10%	13%	3%	5%
Minority interest	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NA	NA	NA	NA	NA
Net Income	-16%	-11%	-7%	-7%	18%	9%	6%	9%	10%	-10%	10%	3%	5%
Basic EPS	-14%	-9%	-5%	-5%	21%	11%	8%	9%	12%	-8%	11%	5%	6%
Dil EPS	-13%	-9%	-5%	-5%	21%	11%	8%	10%	12%	-8%	12%	5%	6%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

TE Connectivity Ltd. (TEL)

Our PO of \$155 is based on 20x our C24E EPS estimate. The 20x is within the historical range of 17x to 35x. We believe a target multiple of 20x is justified as it balances risks from high exposure to the cyclical auto market and current macro headwinds from inflationary pressures and supply chain constraints, versus benefits from market outperformance from content growth and secular trends in automotive and industrials.

Downside risks to our PO are a worse-than-expected slowdown in the automotive sector and high exposure to the sector (>40% of sales), a general slowdown in the global economy from impact of COVID-19, and supply chain disruptions.

Analyst Certification

I, Wamsi Mohan, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

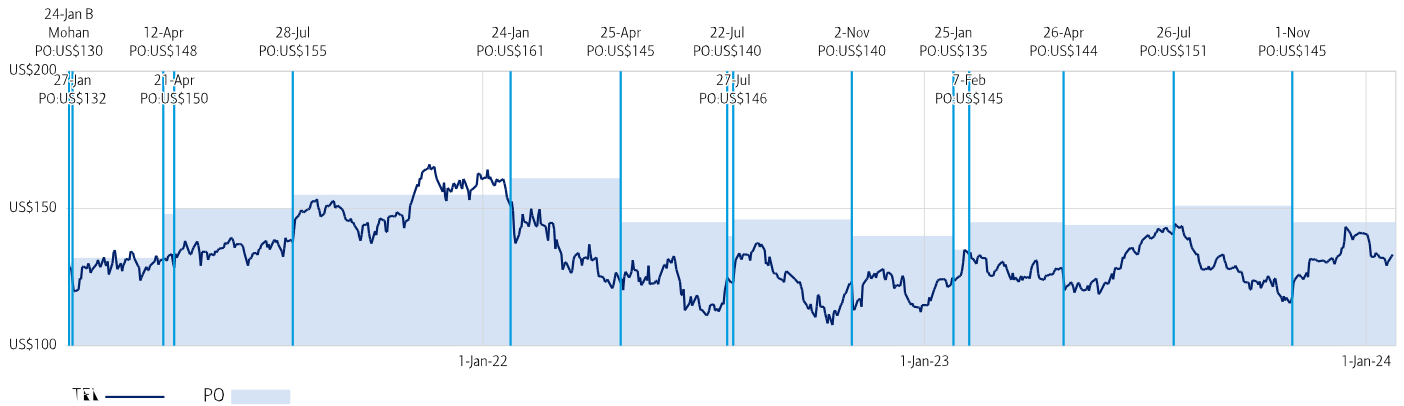
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Disclosures

Important Disclosures

TE Connectivity Ltd. (TEL) 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: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

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%

^{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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