

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[Duckhorn](#) | UNDERPERFORM | NAPA US | Mkt Cap:USD1,049mn | Peter Galbo**Wine-ding down, move to Underperform as industry slowing continues**

- Following our Dec. 2023 downgrade to Neutral we downgrade NAPA shares to Underperform to reflect further softening of the...
- premium wine segment. We lower our sales estimates in 2024-2026 by 0.5%, 2.3%, & 3.9% respectively and our target multiple...
- to 7.5x CY25 EV/EBITDA (prior 12x). This results in a new price objective of \$8 (\$11 prior).

PO Raised

[Cadence](#) | BUY | CDNS US | Mkt Cap:USD85,560mn | Vivek Arya
Structural growth on track, ignore quarterly noise, Buy, \$330 PO

- Reit Buy and raise PO to \$330 on lumpy quarterly outlook, but on-track structural/consistent 12-15% sales, 15-20% EPS growth
- Likes: GenAI platform Cerebrus ramping into CY24E, backlog now at \$6bn on consistent semis R&D pipeline, IP growth
- Risks: Q1 hardware lumpy on revenue timing, China exposure and potential restrictions, premium valuation over semis peers

[Lattice Semicond](#) | NEUTRAL | LSCC US | Mkt Cap:USD9,794mn | Blake Friedman**Product ramps ahead but inventory digestion ongoing, visibility limited**

- Slight Q4 miss, Q1 rev guide roughly 20% below Street as auto/industrial digestion weighs on estimates, Reiterate Neutral
- Likes: Unique 2H product drivers, data center positioning, free cash flow generation and buybacks
- Risks: Broad-based inventory digestion, limited visibility, rising competition

13 February 2024

Equity
United StatesInvestor Support
BofAS

Today's Events: Economic Indicators

- 6:00 NFIB Small Business Optimism
- 8:30 Consumer Price Index (yoy)
- 8:30 CPI Ex Food & Energy (yoy)
- 8:30 Consumer Price Index (mom)
- 8:30 CPI Ex Food & Energy (mom)

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QuickNotes is a list of today's Global Research activities. Please use the links to read the full Research report before making investment decisions. The reports also contain important disclosures.

[Principal](#) | NEUTRAL | PFG US | Mkt Cap:USD18,820mn | Joshua Shanker
4Q23 operating EPS beat as management guides to a higher capital return in 2024

- Principal delivered a 4Q23 op. EPS beat with all segments exceeding our forecast except for PGI.
- Fund flows remained weak in both RIS and PGI, we expect any outlook regarding flows for 2024E will be of investor interest.
- The company announced their capital return target of \$1.5-\$1.8bn in 2024E with share repurchase expectations of \$0.8-\$1.0bn.

[Progressive Corp](#) | BUY | PGR US | Mkt Cap:USD106,735mn | Joshua Shanker
January quirks as Progressive heads into January 2024 results

- Investors might want to anticipate adverse prior-year loss reserve development when assessing tomorrow's PGR earnings result
- The financials face difficult year-over-year comparables due to a shortened January 2024 vs. January 2023
- We are increasing our price objective to \$249 from \$244 previously

[Vertiv](#) | BUY | VRT US | Mkt Cap:USD23,390mn | Andrew Obin
4Q23 preview: orders, AI, and capacity in focus

- Raising our 4Q23E adj. EPS by \$0.04 to \$0.55. Raising our 2024E adj. EPS by \$0.09 to \$2.34, 32% y/y.
- We forecast 23% y/y orders growth in 4Q23 and orders growth of 14% in 2024.
- Recent data points suggest artificial intelligence is driving higher capex spending by hyperscalers and colocation firms.

[Waste Management](#) | NEUTRAL | WM US | Mkt Cap:USD75,827mn | Michael Feniger
Margin break out arrives

- WM reported a strong Q4: EBITDA of \$1.56bn (15% YoY) beat BofA by 3%. Margin positively surprised: 29.9%, up 240bps YoY.
- 2024 guide: EBITDA broadly in line with cons (\$6.275-6.425bn vs \$6.318bn). Only 30bps of margin expansion feels conservative.
- FCF still weighted down by high green capex for sustainability projects - yet elevated spending set to slow post 2024.

PO Lowered

[James Hardie](#) | UNDERPERFORM | JHX US | Mkt Cap:USD15,418mn | Shaurya Visen

Lots to pick given high expectations/share price run-up, Cut est./PO down to A\$53.35

- Reiterate Underperform on JHX with lower PO of A\$53.35. Cut FY24/FY25/FY26 NPAT by 1%/2%/3% driven by slightly lower/margin..
- ...assumptions for NA & higher SG&A. We forecast 4Q NPAT of \$175m (guide: \$165-185m) & 4Q NA volume of 771 mmsf. Our FY24/...
- ...FY25 NPAT is 4%/7% below cons. Risk-reward skewed to downside given high expectations & rich valn & share price run up.

[TransAlta Corp](#) | NEUTRAL | TAC US | Mkt Cap:USD2,172mn | Julien Dumoulin-Smith

Screens attractive but setup complicated by Alberta power market dynamics

- Maintain Neutral: yes, real upside but significant Alberta power market risks, limiting ability to outperform thru mid-term
- PO to C\$11.50: see bulk of SOTP value tied to core renewables biz at this point vs AB market exposure. Muted downside.
- Protracted backwardation in AB power possible: tweak 4Q23 ELBITDA -5% w/ avg. pool price down -62% y/y. Clarity in Spring?

Buy Reiterations

Communication Services

[ZoomInfo](#) | BUY | ZI US | Mkt Cap:USD6,472mn | Koji Ikeda

4Q23 results: Cruising down the road to a better place; Reiterate Buy, PO to \$28

- Consistent with our upgrade to Buy thesis, ZI reported better execution in 4Q. Guide incorporates healthy conservatism...
- ...creating a growth reacceleration setup for 2024. Also introduced new AI Copilot product, expected to go GA in mid-24
- Reiterate Buy, raise PO to \$28 (from \$25). Increase multiple to 30.1x EV/CY24 FCF (from 27.3x) for better execution

Consumer Discretionary

[Chipotle Mex Grill](#) | BUY | CMG US | Mkt Cap:USD71,582mn | Sara Senatore
Restaurants Industry

- W/e 2/9: Restaurants lag; SG, FWRG, CMG, SBUX lead. Chart of the week: EPS cheat sheet.
- Upcoming events include 4Q earnings reports for QSR, DNUT, SHAK, WEN and TXRH.



[Service Corp.](#) | BUY | SCI US | Mkt Cap:USD10,138mn | Joanna Gajuk
Much better pre-need Cemetery production underscores the strength of the model

- Adj EPS was 2c or 2% above consensus on 2% better EBITDA driven by better Cemetery revs partially offset by higher G&A.
- SCI narrowed its 2024 EPS guide with the midpoint unchanged at \$3.65, 1% above consensus.
- Pre-need Cemetery sales production was much better, 9% y/y. Adjusting our model. Reiterate Buy.

Energy

[Range](#) | BUY | RRC US | Mkt Cap:USD6,934mn | Doug Leggate
Updating estimates for 02/06 ops update ahead of year end results on February 22nd

- Post production and price updates, our 4Q23 adj. EPS estimate increases to \$0.56 from \$0.51 mainly on better gas realizations
- At upcoming results, watch if RRC adds modest capex in 2024 to provide flexibility into 2025 for possibly better gas prices
- We retain our Buy rating on RRC as we continue to see it as a low risk play on an improving long-term gas outlook

Financials

[Intercorp Financial](#) | BUY | IFS US | Mkt Cap:USD2,719mn | Ernesto Gabilondo
Big 4Q23 earnings beat; ready to take-off

- 4Q23 NI of S\$285mn advanced 47% QoQ and came well above our expectations and market consensus
- 4Q23 earnings beat was driven by lower provisions needed for El Niño, while strong results in subsidiaries (WM and insurance)
- We expect a positive reaction from investors to the results, while we wait for '24 guidance in tomorrow's conf. call. Buy

[RenaissanceRe](#) | BUY | RNR US | Mkt Cap:USD11,921mn | Joshua Shanker
U.S. Insurance

- Already trading at a discount, a reserve charge for EG in 4Q23 brought reinsurers to all-time relative valuation lows
- Current P/B valuations appear to ignore reinsurers compounding their BVPS at pace at least as fast as onshore counterparts
- Insecurities around loss reserve adequacy are likely to take time to overcome, even if valuations appear attractive

Industrials

[Saia Inc.](#) | BUY | SAIA US | Mkt Cap:USD14,958mn | Ken Hoexter

Transportation - Trucking

- 4Q LTL review sees price momentum post-YELL exit; XPO/SAIA set to accel capacity/narrow price/service/margin gap to ODFL
- 4Q LTL tons/day 1% y-y. Yield (LTL rev/cwt ex-fuel) up 7%, accelerating from 5.5% in 3Q23; Op ratios improve 80 bps y-y
- Yellow capacity/volume shifts toward price/service focused carriers; Focus on SAIA, XPO, ODFL

[Uber Technologies](#) | BUY | UBER US | Mkt Cap:USD142,239mn | Justin Post

Internet/e-Commerce

- Big week for gig-economy companies, with DASH, LYFT, CART reporting Uber Investor Update.
- For DASH, we are somewhat more cautious on Delivery industry growth in '24, but still like share gain potential; Buy.
- For Lyft, we expect continued upside to Mobility industry, but still see some share losses ahead, including vs. Waymo; U/P.

[XPO, Inc.](#) | BUY | XPO US | Mkt Cap:USD14,127mn | Ken Hoexter

Transportation - Trucking

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Information Technology

[Adobe](#) | BUY | ADBE US | Mkt Cap:USD278,571mn | Brad Sills

Server & Enterprise Software

- Inaugural release of our proprietary Cloud View report; a monthly usage tracker for several cloud consumption/desktop vendors
- We have found high correlations (86% on average) to key growth metrics such as product and subscription revenue/growth
- An uptick in Jan activity for both cloud consumption and desktop groups suggests a healthy rebound from a Dec decline



[Arista Networks](#) | BUY | ANET US | Mkt Cap:USD83,140mn | Tal Liani**Greater risk into 2024, but the long-term remains promising**

- With Cloud Titan up 25% YoY and Enterprise up 50.5% in 2023, both supported by elevated backlog, the visibility into 2024...
- ...is lower than in prior years, especially given the correlation of switching demand to current declines in server orders
- We favor the stock and look through these factors, mainly on the solid long-term fundamentals; reiterate Buy and \$305 PO

[Intuit](#) | BUY | INTU US | Mkt Cap:USD183,915mn | Brad Sills**Server & Enterprise Software**

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- We have found high correlations (86% on average) to key growth metrics such as product and subscription revenue/growth
- An uptick in Jan activity for both cloud consumption and desktop groups suggests a healthy rebound from a Dec decline

[Microsoft](#) | BUY | MSFT US | Mkt Cap:USD3,228,647mn | Brad Sills**Server & Enterprise Software**

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- We have found high correlations (86% on average) to key growth metrics such as product and subscription revenue/growth
- An uptick in Jan activity for both cloud consumption and desktop groups suggests a healthy rebound from a Dec decline

Real Estate**[Equinix](#) | BUY | EQIX US | Mkt Cap:USD79,799mn | David Barden****4Q23 Heads Up: EQIX to report tomorrow, 2/14 AMC; call at 5:30pm ET**

- EQIX reports 4Q23 earnings on Wednesday, February 14th AMC, with a conference call following at 5:30 p.m. ET.
- We expect EQIX mgmt. to 1) share 2024 guidance, 2) discuss the outlook for global pricing dynamics in 2024 ,...
- ...3) explain plans to expand the xScale platform, and 4) update the evolving AI-related demand landscape.

Macro & Strategy

[FX Alpha](#) | Kamal Sharma

Close GBP/CHF

- Perfect storm of strong UK data and weak CHF data encourages us to close this trade. Initial cost 0.47%. Close at 0.82% GBP
- Risk-reward compels us to close trade ahead of Jan UK CPI data and reduce some short CHF exposure - still long EUR/CHF
- Scope for GBP/CHF upside intact - relative shift in rates pricing and favourable carry backdrop. Risks: SNB cuts earlier.

[LatAm Fund Manager Survey](#) | David Beker

Less conviction on Ibov and BRL, more on selic and GDP

- BRL exp. between 4.81-5.10 (before most expected it <4.80). Significantly fewer participants expect a weaker USD in 2024.
- Two thirds already expect terminal selic at 9% or below. Cash slightly up but seemingly at neutral levels.
- Materials remains the biggest underweight. Stimulus in China is not expected to be enough to drive commodity prices higher.

[The RIC Report](#) | Research Investment Committee

Diamonds in the rough

- Investors love expensive stocks & Fed-dependent bonds despite US supercore inflation at 3.9%; risky time for a blind date.
- We show 3 catalysts that don't change fundamentals but still precede higher returns: 1. sector changes for Buy-rated stocks
- 2. additions to the S&P 500 index; 3. stock splits. Buy-rated stock screens for each theme inside.

[Global Fund Manager Survey](#) | Michael Hartnett

Magnificent Sentiment

- Most bullish FMS in 2 years, cash sharply cut to 4.2% as investors stop predicting global recession for 1st time since Apr'22
- Allocation to US stocks highest since Nov'21, to tech sector highest since Aug'20, "long Magnificent 7" extremely "crowded"
- BofA Bull & Bear Indicator at 6.8...investor positioning increasingly a headwind for risk assets



[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall**More record Communication Services inflows**

- Last week, BofA Securities clients were net sellers of US equities driven by single stocks; ETFs saw inflows.
- Most sectors saw outflows, led by Tech & Financials; Comm. Svcs. saw its 15th week of inflows.
- All ETF styles/sizes and most sectors saw inflows. Small cap ETFs have seen inflows in 21 of the 22 past weeks.

[Market Analysis Comment](#) | Stephen Suttmeier**Nothing magical about SPX 5000**

- SPX: Some time above and below 5000 prior to continuing its mid cycle cyclical and secular bull markets well beyond SPX 5000.
- A complicated YTD setup. Mixed signals for Dow Theory and A-D lines. Risk: iBoxx IG shows bearish divergence vs SPX.
- It's not all bad news. More big bases for next big movers in ETFs: XLV, XBI, IBB, IYT, RSP, SPHB, IWM and CALF.

[Emerging Insight](#) | GEMs FI Strategy & Economics**Chile – Inflation and rates convergence risks**

- Inflation was 0.7% mom in January, above the 0.4% mom Bloomberg consensus. USDCLP at a new peak.
- Very volatile inflation prints and risks ahead could lead to a more cautious BCCh on rates cuts in the future.
- Local strategy: We like long 5-year inflation breakevens and 3y2y forward rates payer.

[FX Quant Insight](#) | Vadim Iaralov**After recent USD peak**

- Option flow suggests investors have been selling OTM USD calls; time zone and rates factor also turn bearish USD.
- Should US data this week come in-line with forecast, EURUSD could grind higher as short-term USD peak may have formed.
- RV: CARS is bullish NZD vs. AUD with the largest yield pickup in NZ last week.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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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