

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## PO Raised

[Coca-Cola Femsa](#) | BUY | KOF US | Mkt Cap:USD20,203mn | Fernando Olvera

## Well-hydrated growth in 2024: volume and easing costs are drivers

- We adjust by 2% our 2024-25 EPS and increase our PO to P\$185/US\$109 to incorporate 4Q23 results and 2024 volume guidance.
- Reiterate Buy on KOF due to a mid-teen growth on EBITDA supported by a balanced performance between volume and pricing.
- Also, lower packaging costs will be a driver. This should favor a re-rating going forward.

[EQT Corp.](#) | BUY | EQT US | Mkt Cap:USD15,243mn | Doug Leggate

## ETRN: compelling logic, rate of change drives recognition of value. Buy

- EQT's proposed acquisition of ETRN has compelling strategic logic that reverses 2018 decision to split
- Accretion/dilution of E&P/midstream combo is gas price dependent with a lower b/even, lower WACC & a rate of change in costs
- Ex ETRN our PO moves to \$60/sh at \$4.00 HH, recognizing improving l/term break even & decline. Post ETRN close, we see upside

[Fortrea](#) | UNDERPERFORM | FTRE US | Mkt Cap:USD3,219mn | Derik De Bruin

## 4Q23 review: Divestiture focuses story, but still cautious on FY24 execution

- 4Q results & FY24 guide below Consensus; Divestiture of the bulk of Enabling services segment will help reduce leverage
- TSAs pressure margins near-term; two thirds of FY24 Adj. EBITDA to come in 2H; Mgmt. maintained 2025 margin goal of about 13%
- FTRE still a work in progress; lower ests. but raise PO to \$33 as peer group multiple has expanded

12 March 2024

Equity  
United StatesInvestor Support  
BofAS

## Today's Events: Economic Indicators

1. 6:00 NFIB Small Business Optimism
2. 8:30 Consumer Price Index (CPI) (yoy)
3. 8:30 CPI Ex Food & Energy (yoy)
4. 8:30 Consumer Price Index (mom)
5. 8:30 CPI Ex Food & Energy (mom)
6. 14:00 Monthly Budget Statement

## Table of Contents

<a href="#">US EQUITIES RESEARCH</a>	1
<a href="#">PO Raised</a>	1
<a href="#">PO Lowered</a>	2
<a href="#">Significant EPS Change</a>	3
<a href="#">Buy Reiterations</a>	3
<a href="#">Macro &amp; Strategy</a>	5

**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.**

**KBR** | BUY | KBR US | Mkt Cap:USD8,257mn | Mariana Perez Mora  
**Strength in Government and Sustainable Services; Raise PO to \$75**

- We see a strong global backdrop for KBR GS given the business's exposure to Defense and Intelligence work.
- Due to the delay in HomeSafe ramp, we expect the contract to contribute \$150mn in 2024 (vs. prior \$350mn).
- We like STS's exposure to the energy trilemma and see opps. for KBR throughout all phases of maturity of the energy market

**Oracle** | NEUTRAL | ORCL US | Mkt Cap:USD312,944mn | Brad Sills  
**Cloud growth rebounds; however growth and margin still lagging targets**

- Oracle reported solid cloud growth metrics, with OCI growth of 49% cc only decelerating slightly from 50% cc in Q2
- Cerner and challenging ERP demand environment continue to weigh on total company revenue growth
- Reiterate Neutral rating; raise PO to \$144 to reflect cloud growth and bookings

## PO Lowered

**Acadia Ph** | NEUTRAL | ACAD US | Mkt Cap:USD3,962mn | Tazeen Ahmad  
**Phase 3 evaluating pimavanserin in NSS fails to meet primary endpoint**

- The phase 3 ADVANCE-2 trial evaluating pima' in NSS failed to meet the primary endpoint (p-val=0.4825)
- ACAD noted they do not plan to conduct any additional trials with pimavanserin
- We did not provide standalone value for the program and note low expectations based on KOL feedback

**MP Materials** | BUY | MP US | Mkt Cap:USD2,732mn | Lawson Winder  
**Reduce NdPr prices but recovery near: MP driving idiosyncratic value creation**

- We reduce our PO to \$25 per share, mainly driven by lower NdPr price forecasts due to softer-than-expected demand growth.
- But, we think NdPr prices have bottomed in Q1. We remain constructive on the medium to long-term with demand set to recover.
- MP is driving value creation as it captures downstream profits through Stages II and III expansions. Reiterate Buy rating.

**ORIX** | BUY | IX US | Mkt Cap:USD26,093mn | Yuki Yaginuma  
**3Q Results: In line, wait for FY3/24 results to confirm dividend payout ratio hike**

- Progress toward full-year guidance is still behind (66% of NP guidance), but both NP and DPS guidance was unchanged
- ORIX said it is leaning toward raising DPR (and considering dividend yield in response to new NISA), but no specifics
- We see the risk in Jan-Mar of it proactively taking losses on assets in Greater China

## Significant EPS Change

[Asana](#) | BUY | ASAN US | Mkt Cap:USD4,215mn | Michael Funk

### 4Q24 Wrap: Green shoots emerging

- ASAN reported 4Q24 results that beat consensus on revenue (by 3%) and adjusted OpM (by 480bps).
- Overall and \$5k customer net revenue retention (NRR) stabilized at 100% and 105% (remaining flat Q/Q).
- ASAN introduced FY25 guidance that was in line with Street, tho we view top/bottom line guidance as conservative. Reit Buy.

[Ocular](#) | BUY | OCUL US | Mkt Cap:USD1,446mn | Tazeen Ahmad

### OCUL to host Investor Day to discuss strategic priorities in 2Q

- Phase 1 HELIOS data for Apxaxli in non-diabetic retinopathy expected in 2Q
- Phase 2 data for Paxtrava in glaucoma to be presented at ASCRS (April 5-8)
- OCUL plans to host an Investor Day in 2Q to discuss their updated corporate strategy

[Vail Resorts](#) | NEUTRAL | MTN US | Mkt Cap:USD8,529mn | Shaun Kelley

### FQ2 Review: Lowers guide as visits remain soft + Analyst Day Preview

- Vail Resorts reported FQ2 Revenue/EBITDA of \$1.00B/\$423M vs. BofA \$1.13B/\$418M
- Vail lowered full year EBITDA guidance to \$849-\$885M (-6.7%) vs. prior guidance of "the lower half" of \$912-\$968M
- From here, MTN expects improvement in given pass pre-commitments but we are concerned there could still be risk to numbers

## Buy Reiterations

### Consumer Discretionary

[Choice Hotels](#) | BUY | CHH US | Mkt Cap:USD6,332mn | Dany Asad

### Lodging

- On Monday, Choice announced the expiration of its exchange offer, effectively terminating its hostile bid for WH
- We see meaningful opportunity for accelerated capital returns from both companies
- We think investors will turn their attention to softer low-end fundamentals but valuation is supportive

[Hilton Worldwide](#) | BUY | HLT US | Mkt Cap:USD51,489mn | Shaun Kelley

### 2024 Analyst Day Preview: For the stay (and the buybacks)

- Hilton will host its first Analyst Day since 2016 in Washington DC
- Similar to last time and peers recently, we expect HLT to lay out medium term strategy and 3yr financial scenarios
- We think Hilton compounds fees at 8-10% through 2026 with \$4B of fees, nearly \$10/share of EPS and \$10B of capital return



[Service Corp.](#) | BUY | SCI US | Mkt Cap:USD11,175mn | Joanna Gajuk  
**Visitations at SCI's locations: Q1 is tracking down 4% y/y, better than Q4 avg**

- As per Placer.ai, the avg daily visitations at SCI's locations were 7% m/m in February, better than the historical trends.
- So far in Q1, visits are down 4% y/y, better than -7% y/y in 4Q23. Y/Y trends in CA better than SCI overall; 23% above 2019.
- Visitations at Rose Hills tracking worse than SCI's average; could be due to rainy weather.

## Financials

[JP Morgan Chase](#) | BUY | JPM US | Mkt Cap:USD542,345mn | Ebrahim Poonawala  
**Jamie Dimon meeting takeaways: Think different**

- Our meeting with JPMorgan Chairman and CEO Jamie Dimon highlighted the significant balance sheet and strategic optionality
- Of the banks we cover, we view JPM as best positioned when it comes to the ability to flex its competitive advantage
- Stock valuation undemanding for a best-in-class franchise at 12x P/E vs. 19x for Blackstone and 20x for S&P; maintain Buy

## Industrials

[Uber Technologies](#) | BUY | UBER US | Mkt Cap:USD159,422mn | Justin Post  
**EU Approves Platform Work Directive**

- Today, the EU approved the text of a Platform Work Directive that pushes lawmaking to EU member states.
- Adds some potential legislative uncertainty, but avoids the downside scenario of an EU-wide employee mandate.
- We expect Uber and peers to push the IC model to EU, and any driver costs increases to be offset by higher fees.

## Information Technology

[Apple Inc.](#) | BUY | AAPL US | Mkt Cap:USD2,671,043mn | Wamsi Mohan  
**iPhone has gained market share (rev and units) despite weak smartphone market**

- iPhone rev market share has consistently increased since 2019 despite declining iPhone units shipped in the last three years.
- We continue to see Apple ship more high value units over time and thereby continue to take revenue share
- In 2023, iPhone installed base reached record level of 1.2bn. Services rev grew to \$73.01 per iPhone device. Maintain Buy.

**[Int Business Machine](#) | BUY | IBM US | Mkt Cap:USD175,072mn | Wamsi****Mohan****Quick take from “View from the Top” call with CEO Arvind Krishna**

- We hosted IBM CEO Arvind Krishna as part of our View From the Top CEO call series.
- IBM is repositioned for substantial growth and improving FCF
- AI potentially similar to the internet and has the potential to unleash \$4trillion in productivity through 2030

## Macro & Strategy

**[BofA on USA](#) | US Economics****Services inflation takes a toll on retail spending**

- Total BAC card spending per HH was up 2.9% y/y in Feb. We forecast -0.1% & -0.3% for ex-auto & core control retail sales.
- Retail spending has turned softer over the last few months. Broad-based goods deflation is part of the story.
- Moreover, services inflation is weighing on retail's wallet share. The risk is that real retail spending could also weaken.

**[Liquid Insight](#) | Global Rates & Currencies Research****Misleading UK inflation, past and present, point to UKTi underperformance**

- A quirk of timing could see UK beat peers to the inflation target. But the inflation persistence problem hasn't gone away.
- We revisit pre-GFC era, when UK inflation printed lower than Euro, to remind ourselves that things were not what they seemed.
- UK needs higher real rates than others to keep inflation in check. Its poor PSNW ranking and huge Gilt call push same way.

**[The RIC Report](#) | Research Investment Committee****Tax-efficient upgrades hiding in plain sight**

- This "year of the bond" is belied by higher growth & inflation; we stay in quality stocks, Prudent Yield credit & commodities
- Tax day is coming. After \$1tn of household bond buys in '23, the bill coming due may spark a retreat to equities. Some tips:
- Own 1. ETFs > mutual funds; 2. stocks > bonds; 3. Prudent Yield > benchmarks; 4. buybacks > dividends; 5. MLPs, QDI, CEFs...

**[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall****More Comm. Services inflows; Corp. buybacks accelerate**

- Last week, clients were net buyers of US equities for a 4th week (single stock ETFs with larger inflows into the former).
- Comm. Svcs. stocks led inflows (19 straight weeks), while Health Care led outflows. Staples & Materials also saw inflows.
- Seventh largest corporate client buyback inflows in our data history (since '10); buybacks above seasonal trends.



**S&P 500 EPS Outlook | Ohsung Kwon****Entering a virtuous cycle – raising S&P 500 EPS**

- We raise our 2024 S&P 500 EPS to \$250 ( 12% YoY) from \$235 previously ( 6%). We also launch our 2025 EPS at \$275 ( 10% YoY).
- Economy remains resilient and manufacturing recovery is imminent. The next leg of growth comes from the top line.
- We also see a virtuous cycle forming from AI investments. Hyperscalers are expected to increase capex by 27% YoY in 2024.

**Emerging Insight | GEMs FI Strategy & Economics****Türkiye trip notes: Hiking cycle may be over but tightening continues**

- 1Q pessimism is likely temporary, policy tighter and data to keep improving towards summer.
- We see a 300-500bp hike as possible in April, although not our baseline yet and we believe it will depend on March inflation.
- We don't expect a sharp depreciation or inflationary tax and price adjustments following the local elections.

**US Equity Futures Watch | Chintan Kotecha****S&P 500 Futures Intraday Roll Cost Monitor**

- On Monday, 11 Mar, the ES Mar/Jun roll traded 56bps to Fed Funds. The VWAP for the quarter is 57bps
- The total notional rolled in ES contracts on 11 Mar was \$289.2bn and quarter-to-date is \$539.7bn
- Open interest implies 58.9% of e-mini contracts have rolled to Jun-24

**FX Quant Insight | Vadim Iaralov****Buying England by the GBP**

- CARS model turned defensive as global yields fell broadly last week.
- JPY gained in local Asia hours with carry trade unwinding post-NFP and into BoJ normalization.
- Bullish GBPUSD: technical matrix and options skew is bullish GBPUSD.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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