

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

PO Raised

[Armstrong World](#) | BUY | AWI US | Mkt Cap:USD5,063mn | Rafe Jadrosich**4Q23 beats; 2024 guidance ahead of consensus & back half looks conservative**

- AWI reported 4Q23 adjusted EPS ahead of our forecast. 2024 EBITDA guidance is 4% ahead of consensus at the mid-point.
- 2024 revenue growth expected to be driven by price/mix, while we believe the EBITDA margin guide is conservative.
- We reiterate our Buy rating on attractive valuation relative to other building product companies. Raise PO to \$132.

[Booking Holdings](#) | NEUTRAL | BKNG US | Mkt Cap:USD151,735mn | Justin Post**4Q preview and OTA results read-across**

- Reports on 02/22. We expect 4Q upside given competitor results, with nights possibly growing a few points above Street.
- We expect some caution in 1Q outlook given soft Jan., added S&M spend from competitors and Booking's usual 1Q conservatism.
- Strong industry position, but still expect Europe to slow in 2024. Raise PO to \$3,900 using 2025E EPS basis (vs 2024E).

[Brookdale](#) | NEUTRAL | BKD US | Mkt Cap:USD1,389mn | Joanna Gajuk**Q4 beat but Q1 guide slightly below consensus**

- Adj EBITDA was \$6m or 8% above consensus on better margins and 4% above the higher end of the guide.
- 1Q24 EBITDA guide midpoint is \$2m or 2% below consensus due to winter storms costs.
- Refinancing at higher rates, more assets sold. We raise 2024/25 EBITDA ests. Reiterate Neutral.

21 February 2024

Equity
United StatesInvestor Support
BofAS**Today's Events: Economic Indicators**

N/A

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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.

[Cracker Barrel](#) | UNDERPERFORM | CBRL US | Mkt Cap:USD1,722mn |**Katherine Griffin****CBRL 2Q EPS Preview: Pricing supports topline; margin recovery less clear**

- Expect pricing and unit growth to support topline.
- We expect higher restaurant expenses, G&A to offset favorable COGS.
- Lowering F24 EPS. Higher PO implies an absolute PE of 14x vs 12 prior.

[Diamondback](#) | NEUTRAL | FANG US | Mkt Cap:USD32,117mn | Doug**Leggate****4Q23 recap: Solid, pending Endeavor which continues to look incrementally better**

- EPS of \$4.74/sh and Cashflow ex w/c of \$1.56bn beat street estimates on lower prod taxes, as pre announced volumes baked in
- Endeavor acquisition resets FANGs investment case & allows mgmt to replicate operational track record across tier-I acreage
- We lift PO to \$182/sh as we see upside to capital and operational synergies releasing incremental value. Reiterate Neutral

[Flowserve](#) | BUY | FLS US | Mkt Cap:USD5,539mn | Andrew Obin**4Q23 earnings: operations & guide in line; FCF is a positive surprise**

- 4Q adj. EPS of \$0.68 beat our \$0.58 estimate & \$0.60 consensus. 4Q op profit came in line with our forecast and the Street.
- 2024 guide brackets our prior estimate & consensus. Backlog of \$1.04bn fell 3% q/q. The 10-K suggests flat y/y bookings in...
- ...2024. At the midpoint of sales guide, this implies 0.94x book-to-bill. We think the bookings outlook may be conservative.

[GFL Environmental](#) | NEUTRAL | GFL US | Mkt Cap:USD13,080mn | Michael**Feniger****Solid Q4, guide in line: we see a balancing act as GFL reignites growth engine in '24**

- GFL reported Q4 EBITDA of \$492mn, in line with cons. Guided 2024 EITDA of \$2.215bn, broadly in line (cons \$2.2bn). Takeaways:
- i) Pricing a bit better (offset weaker volumes). ii) While well telegraphed, 2024 expected to be big year on growth spending.
- BofA hosting CEO next week at BofA event: look for clues on portfolio transformation, visibility to FCF targets, price vs cost

[Owens & Minor](#) | UNDERPERFORM | OMI US | Mkt Cap:USD1,648mn | Allen**Lutz****Investing for future growth as cash flow resets**

- OMI exited 2023 with a clear long-term strategy and strong cash flow.
- 2024 is shaping up to be a year of investments (in both inventory and headcount), which could be a near-term earnings drag.
- These investments could drive firmer growth after 2024, but we see near-term execution risks. Reiterate Underperform.

[The Home Depot](#) | BUY | HD US | Mkt Cap:USD381,786mn | Robert Ohmes
Strategic investments & share gains should help offset macro softness; Buy

- HD reported 4Q EPS of \$2.82 on a comp decline of (3.5%), which compares to consensus of \$2.77 and (3.8%), respectively.
- Lower '24 EPS as a lower comp f'cast offsets 53rd wk benefit. Expect strategic investments to support above-market growth.
- While macro remains choppy, see HD as well positioned for cont'd share gains. We reiterate our Buy and raise our PO to \$400.

[Walmart](#) | BUY | WMT US | Mkt Cap:USD566,621mn | Robert Ohmes
Strong momentum should continue into F25; Reiterate Buy & raise PO to \$200

- Post WMT's strong F4Q, we maintain our \$7.00 F25E adj. EPS. This reflects our F25 outlook for 3-4% total sales & US comp...
- ...growth, w/ gross margins up y/y helped by digital advertising & other profit streams. We reiterate Buy & raise PO to \$200...
- ...on likely cont'd strength in grocery, share gains from higher incomes & benefits from strong omni-channel execution for WMT.

PO Lowered

[Fluor](#) | NEUTRAL | FLR US | Mkt Cap:USD5,216mn | Michael Feniger
Remains a 'Two steps forward, one step back' process

- FLR shares fell 12.8% on Q4 results that did not live up to high expectations. 2024 guidance \$600-700mn vs cons \$660mn.
- While some areas disappointed (charge on legacy project), silver lining was inflection in cash flow in Q4 (and positive 2024)
- Book to bill remains positive. Our sense is there is still concern legacy projects and look to see more consistency going fwd

[Fresenius Medical](#) | UNDERPERFORM | FMS US | Mkt Cap:USD11,973mn | Marianne Bulot
FY23 earnings call key takes & model update

- Productivity lever used in '23 & higher cost to offset price re-nego. 5-7% EPS cut on inflation & tax. PO to €29. Reiterate U/P
- Single digit closures of clinics in 2024 vs 72 in 2023 in Care Delivery. Moderate price increase expected in Care Enablement
- Vol of treatments expected at 0.5-2% but excl. potential h/wind from acute contracts exit. Vol guide is in line with peer



[Palo Alto Networks](#) | NEUTRAL | PANW US | Mkt Cap:USD109,388mn | Tal Liani

Battling off weak orders through discounting, bundling, and free offerings

- We highlight a challenging legacy firewall market; Management is aiming to offset the negative trends through bundling, but...
- ...it also results in excessive discounting and pressure on growth. Some products, like XDR, are seeing greater negative...
- ..pricing impact and we believe SASE will also face similar negative trends, which is impacting Palo Alto and the sector

[RingCentral](#) | BUY | RNG US | Mkt Cap:USD2,963mn | Michael Funk

4Q Wrap: FCF flywheel supports Buy rating

- RNG reported 4Q23 rev in line with BofA and non-GAAP OpMs 70bps above our estimate, but FY24 rev guidance was 1% light.
- Commentary suggests a stabilizing demand environment and expected share gains in UC and CC in '24, which we view positively.
- We update our ests to reflect guidance and lower our PO to \$45 (from \$55), representing EV/25ERev of 2.2x. Maintain Buy.

[SSR Mining Inc.](#) | UNDERPERFORM | SSRM US | Mkt Cap:USD938mn |

Lawson Winder

Updating post-Çöpler heap leach incident: reduce PO by 60%, maintain Underperform

- On 13-Feb SSRM announced the suspension of operations at its Çöpler mine (Türkiye) due to a large slip on the heap leach pad.
- Tragically, nine individuals remain unaccounted and the environmental permit for the operation has been revoked.
- Among other updates, we remove the Çöpler mine from our NAV and reduce our NAV-based PO to \$5/C\$6.75. Reiterate Underperform.

[Teladoc](#) | NEUTRAL | TDOC US | Mkt Cap:USD3,278mn | Allen Lutz

Margins over growth as BetterHelp shifts to neutral

- Teladoc's updated guidance for BetterHelp calls into question the long-term trajectory of that business.
- Offsetting the BetterHelp weakness is strong cost management in Integrated Care driving nice upside to FY25 EBITDA estimates.
- TDOC shares are too cheap to downgrade, but visibility into BetterHelp trends are too unclear to justify an upgrade.

Significant EPS Change

[Allegion](#) | UNDERPERFORM | ALLE US | Mkt Cap:USD12,559mn | Andrew

Obin

Strong execution, but another year of no volume growth ahead

- ALLE 4Q23 operations came slightly ahead of our forecast driven by International. A robust EPS beat was driven mainly by tax.
- Guide assumes a lack of volume recovery with pricing driving positive y/y growth.
- Allegion's '24 guidance came in above BofA and the street outlook.

CoStar | BUY | CSGP US | Mkt Cap:USD32,052mn | Heather Balsky**Taking its Residential investment spend up to 11...**

- 4Q's \$0.33 EPS beat us by 1c on higher sales and EBITDA margin
- We lower our 2024/25E EPS to \$0.58/1.03 from \$1.29/1.75 to reflect higher Residential spend
- We reiterate our Buy; We see upside to shares as Homes.com ramps and CSGP starts to track towards its 2027 targets

Keysight Tech | UNDERPERFORM | KEYS US | Mkt Cap:USD29,342mn |**David Ridley-Lane****Narrowing order declines in 1QF24**

- 1QF24 (Jan) adj. EPS of \$1.63 was \$0.05 above Street. Orders decline (12)% y/y on a core basis.
- We forecast 2QF24 orders to decline (8)% y/y on a core basis. Manufacturing and China demand remain soft.
- Lowering our FY24E adj. EPS by \$1.00 to \$6.40, down (23)% y/y. Forecast (11)% y/y revenue decline on a core basis.

NeoGenomics | NEUTRAL | NEO US | Mkt Cap:USD1,876mn | Derik De Bruin**4Q23 results and FY'24 guide ahead; LRP raised to >10%; RaDaR hearing on 3/29**

- 4Q23 sales 2% ahead and Adj. EBITDA of \$9mn better than Street's \$4mn on solid topline results and cost control
- FY24 sales guide was 4% ahead, and medium-term growth guide was raised to >10% (vs prior 7-9%); RaDaR hearing on 3/29
- We update our ests; Core biz has improved but seems priced in, and RaDaR injunction remains an overhang; Reit. Neutral

WillScot | BUY | WSC US | Mkt Cap:USD9,753mn | Sherif El-Sabbahy**Some areas to monitor but story remains intact**

- WSC struck a more cautious tone on weaker starts data. Q4 a slight beat (EBITDA 1% ahead), guided FY24 inline with consensus.
- Q1 margin will compress/storage still sluggish, but revenue/margin expected to expand QoQ through the year.
- WillScot's core growth story (Rates/VAPS/M&A) remains unchanged despite more cautious commentary. Reiterate Buy.

Buy Reiterations**Consumer Discretionary****Darden Restaurants** | BUY | DRI US | Mkt Cap:USD19,889mn | Sara Senatore**Restaurants Industry**

- For the week ended 2/16, the S&P Restaurant Index performed roughly in line with the market.
- This week's chart of the week is an EPS cheat sheet for WING, BROS, CAKE, JACK, and BLMN.
- Our restaurant valuation and KPI sheets can be found page 7.



Starbucks | BUY | SBUX US | Mkt Cap:USD105,815mn | Sara Senatore
Restaurants Industry

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Toll Brothers | BUY | TOL US | Mkt Cap:USD11,495mn | Rafe Jadrosich
F1Q24: beats on revenue and margin; Orders outperforming typical seasonality

- TOL F1Q24 beat driven by delivery ASP and gross margins. TOL full year guidance looks relatively unchanged ex-F2Q land sale.
- Call is 8:30am ET tomorrow. Key focus: 1) GM outlook implies a step down, 2) demand trend through F1Q and into February.

Financials

BNY Mellon | BUY | BK US | Mkt Cap:USD44,692mn | Ebrahim Poonawala
BofA Securities 2024 Financial Services Conference: Takeaways

- CEO Robin Vince highlighted focus on ve operating leverage, investment spend, capital flexibility, deposit differentiation
- Confident on net interest income outlook despite a range of potential interest rate backdrops, 100% in capital payout FY24
- Methodical execution combined with a strong core franchise should deliver upside surprises; maintain Buy

Citigroup | BUY | C US | Mkt Cap:USD163,672mn | Ebrahim Poonawala
BofA Securities 2024 Financial Services Conference: Takeaways

- CFO Mark Mason came across as confident that mgmt is on track to delivering on FY24 guidance, achieve medium term targets
- Fewer/late rate-cuts offer NII resiliency, mgmt has expense flex, IB trends encouraging, TTS wallet share opportunities
- Risk/reward attractive given increasing self-help, improving visibility on its 5 LOBs and revenue resiliency; Maintain Buy

KeyCorp | BUY | KEY US | Mkt Cap:USD11,859mn | Ebrahim Poonawala
BofA Securities 2024 Financial Services Conference: Takeaways

- CEO Chris Gorman sounded fairly upbeat as KEY gradually moves towards offense mode following strategic actions in 2023
- NII outlook resilient despite 0-6 rate cuts, CRE exposure contained/well-reserved, potential for investment banking upside
- While significant macro uncertainty remains, risk/reward attractive for investors looking to add regional bank exposure

Health Care

[Medtronic](#) | BUY | MDT US | Mkt Cap:USD114,151mn | Travis Steed
FQ3 takeaways: spin clarity one small step closer to FY25 EPS clarity

- FQ3 broadly in line with expectations; 4.6% organic growth; \$1.30 EPS (vs Street of \$1.26).
- Two surprises: no spin (clarity on one FY25 unknown) and US cryo down low double digits.
- FY25 clarity in 3 months with official guide; we see 3-5% EPS growth initially (but FX big unknown).

[Zai Lab](#) | BUY | ZLAB US | Mkt Cap:USD1,909mn | Bo (David) Li
Monthly drug sales update of Zai Lab – Dec 2023

- The company's niraparib/omadacycline recorded sales of RMB57.8mn/10.9mn in Dec 2023, implying YoY change of -11.4%/1281.8%.
- Given its partner announced that the study of efgartigimod on ITP did not meet the primary endpoint, we lower PO to US\$31.0.

Information Technology

[Salesforce.com](#) | BUY | CRM US | Mkt Cap:USD268,347mn | Brad Sills
Channel suggests healthy Q4 demand; Emerging as next quality GARP stock

- Channel feedback suggests deal activity and pipeline builds holding nicely from Q3 levels.
- Core Sales and Service Clouds healthy. Data Cloud interest and pipeline builds are ramping.
- Estimate solid 31% 3 yr FCF CAGR in reasonable upside case from reaccel to mid teens growth and 200-250 bps margin expansion.

Materials

[Ternium](#) | BUY | TX US | Mkt Cap:USD7,356mn | Caio Ribeiro
4Q23: EBITDA beats on higher prices

- Excluding USIM, TX delivered EBITDA of \$586mn (-16.6% q/q; 93.7% y/y) which came 2.8% above BofAe and 10.1% above BBG cons.
- The beat was mostly driven by higher realized steel prices (5.8% above our forecast).
- TX guided EBITDA to increase q/q in 1Q, given higher prices and lower cash cost/t, while volumes should be stable.



Real Estate

[Empire State Realty](#) | BUY | ESRT US | Mkt Cap:USD2,634mn | Camille Bonnel

4Q23: beats & introduces 2024 guidance above Street

- ESRT delivered strong 4Q23 results with a 18% beat vs the Street (7% vs BofAe). ESRT is on Spector's top picks.
- ESRT introduced 2024 guidance with the low end above the Street. The midpoint implies 2% Y/Y FFO/sh growth.
- We maintain our Buy rating based on ESRT's quality portfolio, upside from the Observatory and below average leverage.

[Welltower](#) | BUY | WELL US | Mkt Cap:USD48,738mn | Joshua Dennerlein
U.S. REITs

- In this report we compare key valuation metrics for the REITs and different subsectors within / outside our coverage universe
- We plan to refresh the data that follows on a weekly basis

Utilities

[Vistra](#) | BUY | VST US | Mkt Cap:USD16,501mn | Julien Dumoulin-Smith
US Utilities & Clean Tech

- NEE: 10K shows few new details as takes step towards showing clean health. No updates at all on FEC language. Modest positive
- VST receives final approval for nuclear acquisition. SO Georgia PSC Staff opposes elements of generation ownership in IRP.
- ES/AGR file in CT with 19%/12% (\$26-38/month) rate increases in May, which draws political pushback. AEE and XEL latest news.

Macro & Strategy

[Global Positioning in Stocks](#) | Nigel Tupper
Funds add US exposure

- As global equity markets continued to rally in January, long-only funds globally added to equity exposure mainly via the US.
- Funds globally added the most to US Industrials and US Consumer Discretionary, while reducing US Energy and Asia Industrials.
- In January, funds' overweight stocks outperformed underweights in the US and Europe, but underperformed in all other regions.

[US 1](#) | US 1 Committee
Removing HLT from the US 1 List

[US Economic Viewpoint](#) | US Economics**What lies beneath: underlying inflation and the confidence to cut**

- We extract estimates of underlying inflation from data on actual price changes and inflation expectations
- Underlying PCE inflation fell to 2.8% at end-2023. While encouraging, more progress is needed for the Fed to start cutting
- A forward-looking Fed might put more weight on low inflation expectations and cut sooner, but this Fed is data dependent

[Liquid Insight](#) | Global Rates & Currencies Research**The G10 FX Jigsaw Puzzle**

- Markets have appeared frustrated with the lack of follow through in G10 FX performance since the start of the year.
- FX high beta underperformance can be explained by downward revisions to growth despite backdrop. Inf/growth mix important to FX
- Like FX, macro does not move in straight lines & Q2 = more meaningful comeback vs USD. Our preferred expression is via GBP

[FX Viewpoint](#) | Vadim Iaralov**FX vol looks beyond recent US data**

- 1% USD rally and 30bp US real yield selloff this month unable to excite FX vol market; broad macro dynamic is unchanged.
- Eventual fall in 10y US real to reinvigorate USD bears, leading to a renewed downtrend breakout toward our year-end forecast.
- Negative spot-vol corr for USD means FX vol to rise on bearish USD breakouts, coinciding with rotation from carry to trend.

[ESG Matters - Global](#) | Kay Hope**2024 Jan: \$5.2bn in ESG bond fund inflows**

- Jan '24 saw \$5.2bn of inflows to ESG bond funds; 80% went to Europe and cross-region funds. Non-ESG flows were a huge \$75bn.
- W European ESG bond funds saw Jan 2024 inflows of \$2.1bn, and cross-regional funds added \$2.1bn. EM saw \$168mn in outflows.
- We expect more issuance related to biodiversity and nature in 2024, including blue bonds and debt-for-nature swaps.

[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall**Record small cap ETF inflows**

- Last week, BofA Securities clients were net buyers of US equities (single stock ETFs) after net selling the week prior.
- Communication Services stocks have seen 16 straight weeks of inflows and record inflows the last three weeks.
- Small cap ETFs saw their biggest inflows in our ETF data history (since '17), driven by private clients.



Emerging Insight | GEMs FI Strategy & Economics

Asia FX: The real risk of nominal stability

- Asia policy maker fixation on FX stability could come at the cost of unsustainable diverging FX valuations and misvaluations
- FX stability policies and valuation for INR, IDR, PHP and THB may be less sustainable and prone to depreciation
- Two key tail risks to FX stability policy are Fed not easing in June and accelerated real devaluation in CNY and disinflation

Disclosures

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|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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