

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Rating Changes

[CNA Financial](#) | UNDERPERFORM | CNA US | Mkt Cap:USD12,574mn | Joshua Shanker

Downgrading to Underperform following rally into 4Q23 results

- We downgrade CNA to Underperform following a strong three-month rally in the stock
- We believe commercial P&C insurance underwriting margins have peaked, adding risk to our EPS forecasts
- The company has a very high dividend yield due to special dividends but lower EPS growth than peers

[Tyson Foods](#) | NEUTRAL | TSN US | Mkt Cap:USD20,355mn | Peter Galbo
Pigs on the Wings – upgrade to Neutral

- We upgrade TSN shares to Neutral from Underperform & raise PO to \$62 post 1Q now based on 13x FY26 EPS, prior 13x CY25 EPS.
- While Beef remains a headwind (likely for some time), Chicken fundamentals & TSN's execution have seen material improvement.
- Until Beef cycle inflects, we struggle to see the case for significant incremental upside to EPS/multiple.

PO Raised

[Academy](#) | BUY | ASO US | Mkt Cap:USD4,657mn | Robert Ohmes
DKS and ASO foot & web traffic update, Raise POs

- DKS observed sales trends imply F4Q in-line with consensus while ASO card data implies upside.
- DKS & ASO foot traffic sequentially improved in F4Q according to Placer, DKS transaction growth likely supported by digital.
- We raise DKS PO to \$165 (was \$145) and ASO PO to \$75 (was \$65) as we roll forward our valuation base.

06 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.

[AECOM](#) | BUY | ACM US | Mkt Cap:USD12,544mn | Michael Feniger

Strong start out of the gate

- ACM reported a strong start: Q1 adj EPS of \$1.05 (25% YoY), EBITDA up 14% YoY on NSR growth of 7%. Reaffirms 2024 outlook.
- Bright spots: international margin of 10.6%, Americas margin hits new high on tough comp, design backlog up 9%, FCF of \$87.
- Buy: backlog down but we like the discipline/risk controls on CM. Pipeline commentary positive - look to see momentum in 2025

[Arhaus](#) | BUY | ARHS US | Mkt Cap:USD1,602mn | Jason Haas

[AutoZone](#) | NEUTRAL | AZO US | Mkt Cap:USD48,486mn | Jason Haas

[O'Reilly Auto](#) | BUY | ORLY US | Mkt Cap:USD62,453mn | Jason Haas

[Williams-Sonoma](#) | NEUTRAL | WSM US | Mkt Cap:USD12,809mn | Jason Haas

Red Sea impact: Higher shipping costs will pressure margins across Hardlines

- We see SONO, MAT, HAS, GPC, TPX, and WHR most at risk of direct impact from the Red Sea disruption.
- In addition to the aforementioned companies, we expect the majority of our hardlines coverage will be indirectly impacted.
- We expect that MCW, DRVN, PRG, UPBD, and ROL will see no to very minimal impact given their service-orientation.

[Caterpillar Inc](#) | BUY | CAT US | Mkt Cap:USD164,750mn | Michael Feniger

CAT fights off the bears: Next leg to the story requires green shoots for 2025

- Buy: CAT shares break out - margin up, inventories down, EPS holds. Too much focus on what can go wrong....what can go right?
- CAT delivering \$21 of EPS in a backdrop of high rates, low ISM, weak China - what happens when these headwinds finally turn?
- Data centers a nice little story as other markets slow yet ultimately for 2025: next upside leg requires Copper,China,Fed,ISM

[Dick's](#) | NEUTRAL | DKS US | Mkt Cap:USD13,452mn | Robert Ohmes

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[Dynatrace](#) | BUY | DT US | Mkt Cap:USD17,319mn | Koji Ikeda
4Q SMID software preview: Most positive on infra software stocks, least on XCaaS

- Expect beats in the infra software stocks w/ AI, lapping optimization headwinds, and usage to drive strength
- Less positive on XCaaS, as macro pressures could result in smaller deals and more downsales, as seen in EGHT results last wk
- Spotlight stocks - Buy rated DT, ZI, U, and Underperform rated TWLO.

[Estee Lauder](#) | NEUTRAL | EL US | Mkt Cap:USD54,311mn | Bryan Spillane
Is this it?

- EL reiterated expectations for 2H24 sales to sequentially improve as they clear inventory hurdles and lap easy comps
- New restructuring plan drives higher EPS revision for FY25-26, though steady-state consumption in key markets remains debated
- We reiterate our Neutral rating, raising our PO to \$160 from \$150, flowing through higher CY25e EPS and a 1x increase to 31x

[Expedia](#) | BUY | EXPE US | Mkt Cap:USD23,970mn | Justin Post
Expect solid 4Q, though 1Q may have added spend, still a bargain at 8x '25 FCF

- Reports 4Q on 02/08. We expect modest upside to bookings, and relatively in-line EBITDA given healthy US holiday travel.
- Risk for call is lower 1Q EBITDA on elevated mktg. spend, though we expect mgmt. to guide to double-digit full year growth.
- Expedia has one of the best EPS growth profiles in sector, with still attractive FCF valuation (8x '25). Raising PO to \$181.

[Ferrari](#) | BUY | RACE US | Mkt Cap:USD67,227mn | John Murphy

[Gentex](#) | NEUTRAL | GNTX US | Mkt Cap:USD8,195mn | John Murphy
Auto earnings midgame update – Strong execution, outlooks too conservative

- We are updating estimates for the companies 4Q:23 reporters, the first reporters have largely delivered encouraging news
- OEMs and Dealers have confidence that demand will continue to be healthy while suppliers are on their way to recover margins.
- Outlooks, especially volume assumptions, has been way too conservative and would expect upside through the course of 2024

[Palantir](#) | BUY | PLTR US | Mkt Cap:USD34,601mn | Mariana Perez Mora
Unlocking the value of AI at speed & scale - Reiterate Buy & raise PO to \$24

- We view 4Q strength as a sign of Palantir's unique position as an enabler of tangible, accessible, and operational AI.
- We see significant opportunities within the US Government as software is becoming increasingly critical to the missions.
- Additionally, PLTR shows differentiating financial strength with 33% cash margins & \$3.7bn in net cash. Raise PO to \$24.

[Shake Shack](#) | NEUTRAL | SHAK.US | Mkt Cap:USD2,990mn | Sara Senatore
Monthly restaurant spend data review through 1/28/24

- Restaurant median spend decelerates in January. QSR: Pizza accelerates, FFHR and WING decelerate.
- Coffee: SBUX and BROS decelerate. Fast Casual: CMG, PTLO, SG, SHAK slow down m/m.
- FSR decelerates, CBRL turns negative. Raise SHAK PO on changes from new management.

[Snap Inc](#) | NEUTRAL | SNAP US | Mkt Cap:USD30,040mn | Justin Post
Post layoff model update and 4Q preview: Raising EBITDA, cuts cautious for revs.

- Reports 2/6. Adjusting estimates for layoffs and peer results, which suggest better than expected ad spending in 4Q.
- For 1Q, we are slightly below Street for Rev/EBITDA. For '24, we raise EBITDA to \$518mn from \$220mn on layoff savings.
- Improving profitability, a positive but we remain Neutral given relative growth estimates & high valuation vs peers.

[Timken Company](#) | UNDERPERFORM | TKR US | Mkt Cap:USD5,824mn | Michael Feniger
Winded: 2024 outlook falls below expectations

- TKR shares fell 4.5% (vs SPX -0.3%) on the back of a weaker than expected 2024 guidance: EPS 5.80-6.20 vs consensus \$6.76.
- While the guidance disappointed (bigger organic growth decline and weaker decrements) - downside likely properly captured.
- Underperform: Renewables in penalty box (China wind deep downturn). Positive long-term story but limited catalysts near-term.

[Vaxcyte](#) | BUY | PCVX US | Mkt Cap:USD7,993mn | Jason Gerberry
Updating model post-financing, PO to \$92 and Maintain Buy on VAX-31 optionality

- We update our PCVX PO to \$92 PO to reflect recent company financing and PCV program prioritization strategy.
- Our chat w/mgmt helped frame Ph2 VAX-31 boogies on added strain covg (on top of -24) needed for 'clear' Ph3 prioritization.
- We see 60% stock upside on strong Ph2 VAX-31 immunogenicity data in 3Q which could dramatically outpace the field.



[Vertex Pharmaceutica](#) | BUY | VRTX US | Mkt Cap:USD111,769mn | Geoff

Meacham

Thoughts post the 4Q call

- Vertex had a solid 4Q with 2024 rev guidance at \$10.65B at the midpoint (8% y/y, BofA \$10.98B, cons \$10.6B)
- Vertex expects to submit regulatory applications for VX-548 and vanzacaftor in acute pain CF, respectively, by mid-2024
- We've increased our PO to \$550 (from \$540) to account for our increased confidence in Vertex's new product profile

PO Lowered

[Air Products](#) | NEUTRAL | APD US | Mkt Cap:USD48,509mn | Steve Byrne

Near-term soft patch but longer term focus remains on clean hydrogen

- Air Products' F1Q24 results missed the lower end of guidance due to slower demand in Asia and other inflationary costs
- We now expect 10% EPS growth in F2024 down from our prior 15% estimate, largely reflecting slower growth in 1H
- APD's capex budget for F24 of \$5 bn is driven largely by numerous clean hydrogen projects for mobility and industrial demand

[Aptiv PLC](#) | BUY | APTV US | Mkt Cap:USD23,320mn | John Murphy

[Group 1 Auto](#) | BUY | GPI US | Mkt Cap:USD3,800mn | John Murphy

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[Enphase Energy](#) | UNDERPERFORM | ENPH US | Mkt Cap:USD13,355mn |

Julien Dumoulin-Smith

Still channel surfing at the start of '24 – reiterate Underperform

- End market challenges keep us cautious on shares leading into 2024 - California and Europe key to watch
- Forecasting in line quarter for 4Q23 - expectations for a muted recovery in shipments keeps us below from 1Q24 guide thru '25

- Reiterate Underperform, PO to \$72 - taking down NPV of IRA benefits on lower expected US utilization

[WNS Holdings Ltd](#) | BUY | WNS US | Mkt Cap:USD2,818mn | Kunal Tayal
FY25 growth outlook appears reasonable, despite a client exit

- We update our FY25 revenue growth outlook to 8%, expecting good demand to partly offset loss of a top 5 customer.
- Suddenness of announcement makes us assume the loss is on account of changed customer priorities. Makes for intact read....
- ..on company's win rates. Adjust est / PO. Reit Buy given good environment for adoption of cost take out business services.

Significant EPS Change

[Mobileye](#) | UNDERPERFORM | MBLY US | Mkt Cap:USD21,883mn | John Murphy

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Buy Reiterations

Communication Services

[Alphabet A](#) | BUY | GOOGL US | Mkt Cap:USD1,794,254mn | Justin Post
Internet/e-Commerce

- 4Q industry update: Big-3 grew 21%E y/y, 1pt accel vs. 3Q, as optimization headwinds fade and AI-demand ramps.
- Amazon's strong backlog growth, Azure's 6pt AI growth contribution, and Google's q/q acceleration were 4Q highlights.
- Cloud industry remains a top play on AI adoption, in our view, and we expect y/y growth to accelerate in 1Q'24.

Consumer Discretionary

[Amazon.com](#) | BUY | AMZN US | Mkt Cap:USD1,732,223mn | Justin Post
Internet/e-Commerce

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Energy

[ChampionX Corp.](#) | BUY | CHX US | Mkt Cap:USD5,280mn | Saurabh Pant
PCT-led 4Q beat + Dividend and buyback boost

- 4Q Adj. EBITDA of \$198mm beat cons by 4% on strong PCT results, 4Q FCF slightly better strong cash returns to shareholders
- 1Q Revenue & Adj. EBITDA guide in-line with cons, Regular dividend 12% with share repurchase authorization now 2x to \$1.5bn
- Maintain Buy & \$34 PO on resilient growing Production portfolio at a cheap valuation

Health Care

[Royalty Pharma](#) | BUY | RPRX US | Mkt Cap:USD12,328mn | Geoff Meacham
Vanza data likely avoids worst case scenario, but some CF switch risk remains

- Vertex reported pivotal data on the vanza triple, showing non-inferiority to Trikafta in CF on the primary endpoint
- While we think switch rates to the vanza triple from Trikafta will be modest, we still see some risk to RP's CF portfolio
- That said, we think RPRX could see some positive momentum on the data, as investors can now better quantify risk to CF revs

Industrials

[Thomson Reuters](#) | BUY | TRI US | Mkt Cap:USD68,104mn | Heather Balsky
4Q23 EPS preview: well along on the path to better, faster, stronger

- TRI will report 4Q EPS on 2/8. We're focused on the 2024 sales guide, as this year's margins are generally known.
- We model \$0.91 4Q EPS, above \$0.89 Visible Alpha consensus, driven by 5.5/6.2% organic sales growth for TRI/Big 3.
- We reiterate our Buy rating given TRI's potential for sales acceleration, compounding EPS growth, and strong cash flow.

Information Technology

[Apple Inc.](#) | BUY | AAPL US | Mkt Cap:USD2,901,889mn | Wamsi Mohan
January App Store rev increased +5% y/y

- Data from SensorTower indicates that App Store revs grew about 6% y/y in F2Q24, 35 days into the qtr
- China and US remain as the two major App Store markets accounting for 57% of total App Store revenue
- We model Apple Services revenues to grow 11% y/y in F2Q24 after growing 11% (reported) in F1Q24

[Arm Holdings](#) | BUY | ARM US | Mkt Cap:USD75,119mn | Vivek Arya
US Semiconductors

- We revise our view on CY24 cloud capex to up 24% YoY (vs. 20% prior) following earnings results from Tier-1 hyperscalers
- Tier 2/3 hyperscalers, enterprises, government/nations important and underappreciated contributors to AI TAM
- We reiterate Buy on top AI pick NVDA as well as MRVL, AMD, AVGO, other beneficiaries include SNPS/CDNS, MU, ARM, semicaps



Microsoft | BUY | MSFT US | Mkt Cap:USD3,153,929mn | Brad Sills
Internet/e-Commerce

- 4Q industry update: Big-3 grew 21%E y/y, 1pt accel vs. 3Q, as optimization headwinds fade and AI-demand ramps.
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NVIDIA | BUY | NVDA US | Mkt Cap:USD1,724,980mn | Vivek Arya
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NXP Semiconductors | BUY | NXPI US | Mkt Cap:USD63,483mn | Vivek Arya
Q4 first take: Plush landing on impressive trough execution

- Q4 in line/Q1 guide down slightly, auto/industrial holding up stronger, maintain Buy and await earnings call tomorrow
- Q1 sales outlook -9% QoQ implies peak-trough decline of 9% vs peers 30-40% downcycle, highlighting operational resilience
- Key questions around soft landing outlook, n-t auto/industrial demand environment, profitability

Materials

Crown Holdings | BUY | CCK US | Mkt Cap:USD10,555mn | George Staphos
4Q Flash: Disappointing results and guide even though Americas doing ok

- CCK 4Q23 EPS of \$1.24 were < BofA \$1.40 & Street \$1.44. Segments: Americas Asia above but Europe, Signode, Other below.
- Vols 5% in NA, 2% in Brazil, but "lower vols" elsewhere. Overall, disappointing. '24 EPS \$5.80-6.20 (v. our \$6.35,...
- ...Street \$6.85) driven by weak consumer, NA aerosol equipment, perhaps steel issue, too? CCK BofA Conf, 2/28-29.

Macro & Strategy

[Mexico Watch](#) | Carlos Capistran

AMLO's 20 constitutional reform proposals

- AMLO presented 20 constitutional reform proposals to the lower house of congress on February 5. They are broad-based.
- AMLO's party doesn't have the 2/3s majority needed to pass the reforms. The proposals seem to seek to energize his base.
- If AMLO's party gets a 2/3s majority in the June election, he would have September to try to pass the reforms.

[ESG Matters - Global](#) | Panos Seretis

Sovereign ESG reaching new frontier

- Sovereign risk is top of mind for investors amidst deglobalization, reshoring and geopolitical turmoil
- Investing in improving ESG scores is also likely to dovetail with investing in improving credit stories
- In this edition, we extend our ESG country model to 65 smaller emerging markets

[BofA Securities Equity Client Flow Trends](#) | Jill Carey Hall

Record Communication Services inflows

- Largest US equity inflows in seven weeks; biggest private client inflows in over a year.
- Corporate client buybacks accelerated and were above seasonal trends for a 12th consecutive week.
- Comm. Svcs. saw largest inflow in our data history and has the longest recent buying streak. Real Estate led outflows.

[Liquid Insight](#) | Global Rates & Currencies Research

ECB balance sheet update

- We expect the Eurosystem balance sheet to fall to €6.2trn by end-2024
- We incorporate the ECB's latest guidance on QT and operational framework review
- Stay paid Apr ECB €str vs March, and in Sep24 Euribor-€str wideners

[Emerging Insight](#) | GEMs FI Strategy & Economics

Thailand – The price of rapid BEV adoption

- Thailand saw a sharp rise in the adoption of battery electric vehicles (BEVs), especially imported Chinese BEVs
- This comes at the expense of the ICE vehicles and parts industry, which is one of Thailand's key production industries
- The key challenge ahead is how to manage the transition and remain competitive as technology shifts



[FX Quant Insight](#) | Vadim Iaralov

Option skew bullish USD/MXN

- USD rallied sharply in US trading hours last week. USD weakness is delayed for later in the year.
- Investors bought MXN puts last week in SDR with skew moving for USD calls / MXN puts.
- MXN long positions may see a squeeze in line with bearish fundamentals.

Disclosures

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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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