

Fluor

Remains a 'Two steps forward, one step back' process

Reiterate Rating: NEUTRAL | PO: 41.50 USD | Price: 36.73 USD

Fluor shares pull back sharply on Q4 result and guide...

Fluor (FLR) shares fell 12.8% (vs SPX -0.6%) on the back of a Q4 results. In our view, the sharp pull back in shares is somewhat surprising yet is likely a function of a run up into Q4 on expectations of a big beat post Gordie Howe bridge news (source: Bloomberg Jan 5th), stronger indication of cash flow inflection/return profile, and an overall cleaner story entering 2024. This did not materialize: Q4 EBITDA of \$145mn (+7% YoY) broadly in line with cons, 2024 guide already brackets consensus (\$600-700mn vs cons \$660mn), & a charge on legacy project (see page 2) that suggest not 'fully out of the woods' just yet.

...yet we did see some silver linings: notably cash flow

In our view, there were silver linings with results: i) big inflection in cash from ops bringing FY23 \$212mn (vs 2022 +\$31mn, 2021 +\$25mn) – which included \$129mn in funding of legacy projects, ii) FLR expect FCF of \$350-450mn excluding cash funding for legacy projects (\$100-200mn). FLR noted that its FY24 guide includes a tax settlement of \$150-\$160mn, additional retained earnings flow from its JVs, and relatively less benefit from project claim settlements YoY (as it cleared a majority of them in 2023).

Demand remains steady: expects book bill >1x

Book-to-bill was 1.3x as of 4Q23 and FLR expects to remain above 1x in 2024. FLR expects its strong bookings momentum to continue in 2024 with opportunities across semiconductors (CHIPS Act funding picking up), life sciences, infrastructure (for e.g., TxDOT FY24 budget of \$292bn, +5% YoY), energy transition (large RD project in Canada), mining (large copper project in South America expected in 1H24) and intelligence services (>\$75bn market with several US-based opportunities). In our view, the macro environment is likely to result in some uncertainty around big projects, yet FLR is confident on the pipeline as customer capex budgets not contingent on rates.

Neutral: like to see more consistency

We update our estimates post Q4 and lower our PO to \$41.5 (\$45) based on 8.5x 2024 EV/EBITDA, as we see a slightly lower multiple warranted given legacy projects still pressuring profitability (vs prior 9.5x). We reiterate our Neutral rating – we continue to see a positive transformation story emerge at Fluor yet like to see more consistent track record (i.e., "2 steps forward, 1 step back" – weak Q123, positive Q2-Q323, weak Q423).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.82	2.73	2.77	2.93	3.11
GAAP EPS	0.73	1.48	2.37	2.55	2.72
EPS Change (YoY)	-12.8%	232.9%	1.5%	5.8%	6.1%
Consensus EPS (Bloomberg)			2.84	3.14	3.46
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	44.8x	13.5x	13.3x	12.5x	11.8x
GAAP P/E	50.3x	24.8x	15.5x	14.4x	13.5x
EV / EBITDA*	13.8x	17.4x	8.5x	7.3x	6.8x
Free Cash Flow Yield*	-0.8%	2.0%	4.4%	3.4%	7.3%

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

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Timestamp: 21 February 2024 05:30AM EST

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	41.50
2024E Rev (m)	17,104.8	17,794.1
2025E Rev (m)	18,435.4	18,890.9
2026E Rev (m)	NA	19,641.9
2024E EPS	2.86	2.77
2025E EPS	3.05	2.93
2026E EPS	NA	3.11

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Stock Data

Price	36.73 USD
Price Objective	41.50 USD
Date Established	21-Feb-2024
Investment Opinion	C-2-9
52-Week Range	25.69 USD - 43.24 USD
Mkt Val (mn) / Shares Out (mn)	5,216 USD / 142.0
Free Float	98.7%
Average Daily Value (mn)	57.35 USD
BofA Ticker / Exchange	FLR / NYS
Bloomberg / Reuters	FLR US / FLR.N
ROE (2024E)	20.9%
Net Dbt to Eqty (Dec-2023A)	-69.7%
ESGMeter TM	High

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TxDOT = Texas Department of Transportation, JV = Joint Venture, Fwd = forward, RD = Renewable Diesel

iQprofileSM Fluor

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.9%	2.7%	7.9%	7.7%	7.6%
Return on Equity	6.7%	20.2%	20.9%	18.6%	16.9%
Operating Margin	2.1%	1.3%	2.8%	3.2%	3.3%
Free Cash Flow	(44)	106	228	175	381

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	0.5x	0.7x	0.6x	0.9x
Asset Replacement Ratio	1.0x	1.4x	1.4x	1.4x	1.4x
Tax Rate	54.3%	62.9%	35.0%	40.0%	40.0%
Net Debt-to-Equity Ratio	-74.8%	-69.7%	-65.5%	-60.0%	-61.6%
Interest Cover	8.1x	1.2x	4.2x	5.0x	5.4x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	13,742	15,474	17,794	18,891	19,642
% Change	-2.6%	12.6%	15.0%	6.2%	4.0%
Gross Profit	428	537	697	798	835
% Change	3.1%	25.5%	29.8%	14.5%	4.7%
EBITDA	355	281	575	675	725
% Change	NM	-20.8%	104.7%	17.4%	7.3%
Net Interest & Other Income	(35)	(168)	(120)	(120)	(120)
Net Income (Adjusted)	119	410	471	498	529
% Change	-10.5%	244.4%	15.0%	5.8%	6.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	145	139	404	433	462
Depreciation & Amortization	73	74	74	74	74
Change in Working Capital	(46)	(114)	(150)	(232)	(55)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(141)	113	0	0	0
Capital Expenditure	(75)	(106)	(100)	(100)	(100)
Free Cash Flow	-44	106	228	175	381
% Change	12.3%	NM	115.2%	-23.2%	117.5%
Share / Issue Repurchase	0	560	0	0	0
Cost of Dividends Paid	(39)	(56)	0	0	0
Change in Debt	(45)	(322)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,624	2,588	2,766	2,891	3,222
Trade Receivables	1,109	1,137	1,307	1,387	1,507
Other Current Assets	1,311	1,338	2,252	2,486	2,584
Property, Plant & Equipment	447	458	484	510	536
Other Non-Current Assets	1,336	1,452	1,502	1,552	1,602
Total Assets	6,827	6,973	8,311	8,826	9,451
Short-Term Debt	152	0	0	0	0
Other Current Liabilities	3,064	3,163	3,879	3,911	4,039
Long-Term Debt	978	1,158	1,158	1,158	1,158
Other Non-Current Liabilities	637	600	819	869	904
Total Liabilities	4,831	4,921	5,855	5,937	6,101
Total Equity	1,996	2,052	2,456	2,888	3,351
Total Equity & Liabilities	6,827	6,973	8,311	8,826	9,451

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

Company Sector

Engineering & Construction

Company Description

Fluor (FLR) is one of the leading vertically integrated engineering and construction firms in the world, providing services to a wide range of industries (oil & gas, chemicals, mining, industrial) and to the Federal government and its agencies. Business is contract-driven and diversified by both geography and business mix.

Investment Rationale

Fluor's CEO David Constable continues to execute a transformation at FLR into a lower risk, less cyclical E&C firm. We believe initiatives are bearing fruit - balance sheet is on stronger footing, backlog is de-risked, growth areas in the portfolio (ATLS, chemicals, etc) and there is a clear, strategic direction going forward. While FLR is making progress, there is still a lack of consistency, constrained cash flow, and visibility into new projects to monitor going forward.

Stock Data

Average Daily Volume 1,561,264

Quarterly Earnings Estimates

	2023	2024
Q1	0.28A	0.46E
Q2	0.76A	0.74E
Q3	1.02A	0.82E
Q4	0.68A	0.75E

Fluor Q4 results

Margin disappoints

FLR provided FY24 guidance: revenue growth of ~15% with adj. EBITDA of \$600-\$700 (-2% to +14% YoY) and adj. EPS of \$2.50-\$2.30 (-8% to +10% YoY). However, we would note that consensus is slightly on the higher end of its guide (adj. EBITDA \$660mn, adj. EPS \$2.88). Energy Solutions margin of 1.8% in 4Q (below guide: 4-4.5%) was weighed down by a schedule extension on a large upstream legacy project (expected to complete in 1Q24) with margins of ~5% expected in FY24. Mission Solutions margin of 4.8% was also weak during the quarter (below guide: ~6%) and FLR expects a similar margin range in FY24 (~6%). Urban Solutions was a bright spot in 4Q: margin of 10.4% was above guide of ~4%, albeit is expected to step down to 3-4% in FY24 (vs 5.1% in 2023).



Price objective basis & risk

Fluor (FLR)

Our \$41.50 PO is based on approximately 8.5x EV/EBITDA 2024e, near the mid point of the historical range. We are positive on FLR's transformation & some growth areas (chemicals, semi conductors, life sciences), yet constrained cash flow (legacy projects), limited capital returns to shareholders (no dividend, share buyback support vs other engineering firms) and some capex uncertainty leaves us near the midpoint.

Downside risks to our PO are

- 1) Slower-than-expected project capex recovery.
- 2) Project execution risk associated with fixed-price EPC contracts,
- 3) Competitive dynamics & customer capex discipline constrain margin & outlook.

Upside risks are

- 1) Stronger-than-expected free cash flow generation,
- 2) Higher capital spending in the energy, chemicals and mining industries,
- 3) More consistent track record around project execution.

Analyst Certification

I, Michael Feniger, 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 - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

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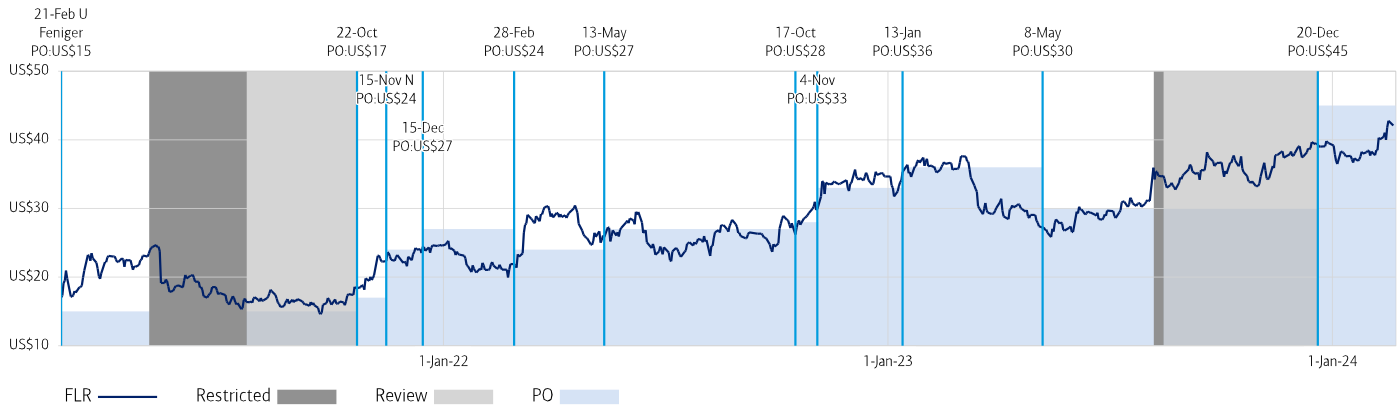
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Fluor (FLR) Price Chart



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: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

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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