

Amphenol

Expanding commercial air via CIT acquisition; Reit Buy; PO stays at \$115

Reiterate Rating: BUY | PO: 115.00 USD | Price: 102.85 USD

\$2bn all cash deal expands APH's commercial air portfolio

Today Amphenol (APH) announced a definitive agreement to acquire Carlisle Interconnect Technologies (CIT), a business of Carlisle Companies Incorporated (ticker: CSL, not covered) for \$2.025bn in cash. The transaction is expected to close by the end of C2Q24. APH noted that CIT's 2024 sales should be ~\$900mn, an adjusted EBITDA margin of ~20%, and should be EPS accretive in the first full year after closing. We estimate (Figure 1) an OM% of 12% in C2H24 then an ascending margin to 15% by the end of CY25 (slower rate vs. FCI but could be conservative). Based on that and a cost of funding the transaction at 5.0% to 5.5%, we see the transaction adding \$0.03 to APH's CY25 EPS with potential room for upside based on execution. The deal would not significantly change overall leverage for APH and we see continued room for incremental M&A as opportunities present themselves. The recent M&A has focused across a variety of segments and end-markets, which should not create meaningful execution risk. We reiterate our Buy rating on APH given strong execution, improving margins, and a period of above trend growth.

Expanding APH's commercial air end-market

We estimate that APH's annual commercial air revenues will double with the purchase of CIT by APH. More than half of the \$900mn revenue from CIT is in the commercial air end-market translating into ~\$450mn in additional commercial air revenue (Our current CY24 APH commercial air revenue estimate is \$429mn).

Industrial end-market expansion

Nearly 40% of the acquired revenues fit into APH's industrial end-market which would be a 11% increase to our already \$3.3bn estimate for CY24 industrial revenue. The Industrial end-market has seen weakness in recent quarters for APH, posting negative organic growth of -9%, -11%, and -8% y/y in C2Q23, C3Q23, and C4Q23. Much of the industrial end-market revenue from CIT is in the medical space.

Estimates unchanged until deal close, PO stays at \$115

For now, we keep our ests unchanged. PO stays at \$115 on 32x our C25E EPS of \$3.61.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.01	3.01	3.34	3.61	3.90
GAAP EPS	3.07	3.10	3.34	3.61	3.90
EPS Change (YoY)	21.9%	0%	11.0%	8.1%	8.0%
Consensus EPS (Bloomberg)			3.29	3.65	4.07
DPS	0.81	0.85	0.88	0.88	0.88
Valuation (Dec)					
P/E	34.2x	34.2x	30.8x	28.5x	26.4x
GAAP P/E	33.5x	33.2x	30.8x	28.5x	26.4x
Dividend Yield	0.8%	0.8%	0.9%	0.9%	0.9%
EV / EBITDA*	21.1x	21.1x	19.3x	17.9x	16.7x
Free Cash Flow Yield*	2.8%	3.4%	3.5%	3.4%	3.7%

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

30 January 2024

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Stock Data

Price	102.85 USD
Price Objective	115.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	72.00 USD - 103.07 USD
Mkt Val (mn) / Shares Out (mn)	61,536 USD / 598.3
Free Float	99.4%
Average Daily Value (mn)	271.20 USD
BofA Ticker / Exchange	APH / NYS
Bloomberg / Reuters	APH US / APH.N
ROE (2024E)	23.3%
Net Dbt to Eqty (Dec-2023A)	34.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 30 January 2024 03:24PM EST

iQprofileSM Amphenol

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.8%	14.9%	15.3%	15.3%	15.2%
Return on Equity	27.7%	24.1%	23.3%	22.5%	21.6%
Operating Margin	20.7%	20.7%	21.1%	21.2%	21.3%
Free Cash Flow	1,740	2,081	2,177	2,096	2,256

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.3x	1.2x	1.1x	1.1x
Asset Replacement Ratio	1.0x	0.9x	0.9x	0.9x	0.9x
Tax Rate	24.4%	24.0%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	45.2%	34.0%	18.8%	7.1%	-3.5%
Interest Cover	20.3x	18.6x	20.5x	22.0x	23.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,623	12,555	13,568	14,548	15,608
% Change	16.1%	-0.5%	8.1%	7.2%	7.3%
Gross Profit	4,028	4,084	4,455	4,776	5,124
% Change	18.4%	1.4%	9.1%	7.2%	7.3%
EBITDA	3,000	3,001	3,296	3,536	3,796
% Change	16.7%	0%	9.8%	7.3%	7.4%
Net Interest & Other Income	(119)	(110)	(98)	(98)	(98)
Net Income (Adjusted)	1,866	1,871	2,083	2,248	2,428
% Change	20.6%	0.2%	11.3%	8.0%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,866	1,871	2,083	2,248	2,428
Depreciation & Amortization	393	406	432	453	475
Change in Working Capital	(193)	150	50	(185)	(196)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58	27	0	0	0
Capital Expenditure	(384)	(373)	(388)	(420)	(451)
Free Cash Flow	1,740	2,081	2,177	2,096	2,256
% Change	53.9%	19.6%	4.6%	-3.7%	7.6%
Share / Issue Repurchase	(731)	(585)	(585)	(585)	(585)
Cost of Dividends Paid	(477)	(501)	(498)	(498)	(498)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,373	1,475	2,568	3,581	4,753
Trade Receivables	2,631	2,618	2,633	2,763	2,900
Other Current Assets	2,475	2,742	2,690	2,843	3,008
Property, Plant & Equipment	1,204	1,315	1,271	1,238	1,214
Other Non-Current Assets	7,643	8,376	8,376	8,376	8,376
Total Assets	15,326	16,526	17,537	18,801	20,252
Short-Term Debt	3	354	354	354	354
Other Current Liabilities	2,673	2,799	2,811	2,910	3,016
Long-Term Debt	4,575	3,984	3,984	3,984	3,984
Other Non-Current Liabilities	981	964	964	964	964
Total Liabilities	8,232	8,100	8,112	8,211	8,317
Total Equity	7,094	8,427	9,426	10,591	11,935
Total Equity & Liabilities	15,326	16,526	17,538	18,801	20,252

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

Company Sector

Connectors, Passive Components & Distribution

Company Description

Amphenol (APH) is the world's second-largest maker of electronic and electrical connectors. APH is the world's leader in high-performance environmental connectors (mainly for military and commercial aircraft). APH has expanded its communications offering to include interconnect products for handsets and communications infrastructure. APH is the world's second-largest producer of coaxial cable used in the cable television (CATV) industry.

Investment Rationale

Amphenol is a leader in the connector industry with a track record of consistent execution, high ROIC and operating margins (20%+) that approaches the low end of software companies despite very conservative accounting standards. We expect strong organic growth over the next few years, primarily driven by high-single to low-double-digit growth in Auto and Industrial, augmented by M&A and subsequent operating leverage.

Stock Data

Average Daily Volume 2,636,822

Quarterly Earnings Estimates

	2023	2024
Q1	0.69A	0.74E
Q2	0.72A	0.80E
Q3	0.78A	0.87E
Q4	0.82A	0.93E

M&A model math

Figure 1: CIT acquisition revenue to EPS

We model the CIT transaction to be accretive to EPS by 3 cents in CY25

(\$ in millions except EPS)	C3Q24E	C4Q24E	C1Q25E	C2Q25E	C3Q25E	C4Q25E
Revenue	225	225	225	239	239	243
Operating earnings	27	27	29	33	33	36
Interest Exp	(26)	(26)	(26)	(26)	(26)	(26)
Pretax earnings	1	1	3	7	7	10
Taxes	0	0	1	2	2	2
Rate	24%	24%	24%	24%	24%	24%
Net income	1	1	2	5	5	8
Diluted EPS	0.00	0.00	0.00	0.01	0.01	0.01

Diluted Shares Outstanding	623	623	623	623	623	623
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Source: BofA Global Research, Company Data

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Price objective basis & risk

Amphenol (APH)

Our \$115 PO for the shares of APH assumes the stock trades to 32x our C2025E EPS. A 32x multiple compares to the historical range of 17x to 29x, with the average being 21x. In our opinion, APH deserves a premium multiple relative to peers given its very conservative accounting. We think the company should continue to generate cash flow from operations (by targeting L/T incremental margins of 25% or more) on a consistent basis that it could use for further acquisitions, debt pay down, or to repurchase stock. Without completing any acquisitions, we believe debt would continue to decline as a percentage of capital.

Downside risks to achieving our PO are a slower recovery of end markets (although APH's diverse customer base and product set provides an offset), slower military spending, and slower recovery in the demand for high-end information technology. Raw materials also remain a risk as APH consumes a significant amount of gold, copper and resin.

Analyst Certification

I, Wamsi Mohan, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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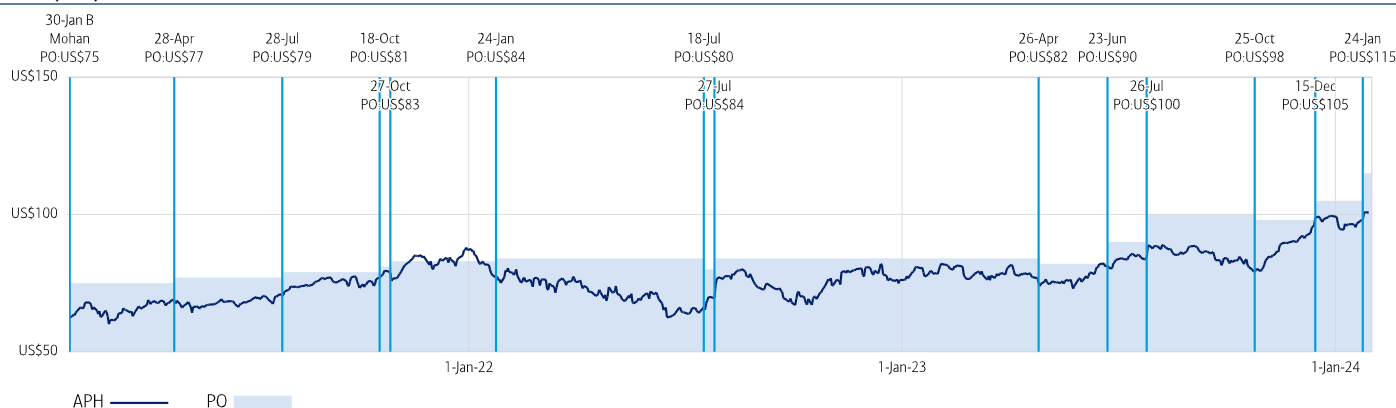
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Amphenol (APH) Price Chart



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: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

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%

^{R2} 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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